

NSCC Foundations of Entrepreneurship

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About the Book

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1.1 Entrepreneurship Today

Learning Objectives

By the end of this section, you will be able to:

- Define entrepreneur and entrepreneurship
- Describe types of entrepreneurial careers and lifestyles
- Understand entrepreneurs as problem solvers
- Explain current factors driving the growth of entrepreneurship
- Compare differences in entrepreneurial opportunities around the globe

As we delve into the study of entrepreneurship, let's define what we mean by the word entrepreneur. An entrepreneur is someone who identifies and acts on an idea or problem that no one else has identified or acted on. This combination of recognizing an opportunity to bring something new to the world and acting on that opportunity is what distinguishes an entrepreneur from a small business owner. A small business owner is someone who owns or starts a business that already has an existing model, such as a restaurant, whereas an entrepreneur is someone who creates something new. This new creation can be a new process or product, a business that identifies a new or unique target market, or a combination of ideas that creates a new approach or method, for example.

In a broader sense, what people consider an entrepreneur can vary. Some scholars strictly differentiate between entrepreneurs and small business owners.¹ Others acknowledge that a small business owner may also be an entrepreneur—they are not mutually exclusive. Someone may start a venture that is not a completely new idea, but that introduces a product or service to a new region or market. Where does a franchise fall in this discussion? Again, there is not complete agreement, with some claiming that a franchisee and entrepreneur cannot be the same, and others arguing that a franchise is, indeed, an entrepreneurial venture. According to an article in *Forbes*, "In the for-profit world, an entrepreneur is someone who creates and runs a new business where one did not exist before. And, no, the McDonald's franchisee didn't create McDonald's. But he certainly created a McDonald's where there never was one before. Franchisees are entrepreneurs."² The point is that small business owners and

1. Hamid Bouchikhi. "A Constructivist Framework for Understanding Entrepreneurship Performance." *Organization Studies*. July 1, 1993. doi.org/10.1177/017084069301400405; William D. Bygrave and Charles W. Hofer. "Theorizing about Entrepreneurship." *Entrepreneurship Theory and Practice* 16, no. 2 (1991): 13–22.; Michael A. Hitt, R. Duane Ireland, S. Michael Camp, and Donald L. Sexton. *Strategic Entrepreneurship: Creating a New Mindset*. (Hoboken, NJ: Wiley-Blackwell, 2002).; Jeffry A. Timmons. *New Venture Creation: Entrepreneurship for the 21st Century*. (Irwin Press, Burr Ridge, IL: Irwin Press, 1994).
2. Paul B. Brown. "Franchisees Are Entrepreneurs (Let the Debate Begin)." *Forbes*. September 19, 2012. <https://www.forbes.com/sites/actiontrumpseverything/2012/09/19/franchisees-are-entrepreneurs-let-the-debate-begin/#55c9fb8f2bf3>

franchisees can be considered entrepreneurs. For the purposes of this course, you will learn the key principles of entrepreneurship alongside the concepts, strategies, and tools needed to succeed as a small business owner or franchisee.

Entrepreneurs have many different talents and focus on a variety of different areas, taking advantage of many opportunities for entrepreneurial ventures. An entrepreneurial venture is the creation of any business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established. For some entrepreneurs, this could be a for-profit venture; for other entrepreneurs, this could be a venture focused on social needs and take the form of a nonprofit endeavor. Entrepreneurs might take a variety of approaches to their entrepreneurial venture, such as those shown in Table 1.1.

Table 1.1	
Type of Entrepreneur	Approach to Venture
Innovators	Find new approaches, methods, or products that add value through solving a problem in a unique manner
Creators	Make something new or see a problem that other people have not noticed
Market makers	Innovate or reinvent their market from a future perspective by asking what the market could evolve into
Expanders and scalers	Seek out opportunities to expand upon previously created methods, processes, or products

In this course, you will explore these myriad avenues toward entrepreneurship.

Are You Ready?

How Do You Define Success?

What is your personal definition of success? How would you define success for your venture idea? Take time to consider these questions carefully.

- Write your answers to both questions as formal descriptions of your definition of success.
- After completing your definitions, meet with your family members or your personal support group (the important people whose support you need to achieve the defined success statement) to discuss your personal definition of success.
- After hearing their input, you might want to revise your personal success statements.

Follow through with this activity by talking to your startup team or other supporting people about your venture's success definition. This activity may help guide you in decision-making throughout your life journey and the journey of starting your venture. It will also be helpful when you and your startup team create a vision statement for your venture.

THE ENTREPRENEURIAL LIFESTYLE AND CAREER

People often have thought of entrepreneurs as corporate rebels, nonconformists, or activists. Being an entrepreneur has become synonymous with being an innovator, a change agent, or a risk taker. Regardless of job titles or descriptive characteristics, entrepreneurship has a universal appeal for how people think and engage with the world.

Choosing the path of entrepreneurship requires a willingness to take on calculated risks. The difference between risk and calculated risk is due diligence, or conducting the necessary research and investigation to make informed decisions that minimize risk. Not everyone is comfortable letting go of a steady paycheck, especially when we know that there is no long-term guarantee that the paycheck will continue into the future. In one approach to minimizing personal financial risk, some startup entrepreneurs continue with their current employment while working on the side to develop their idea into a venture that eventually will generate an income. Until the venture requires near full-time work and generates income, maintaining an outside income works well for many entrepreneurial teams.

Consider the eyeglass startup Warby Parker (Figure 1.2). Dave Gilboa and Neil Blumenthal, lead entrepreneurs for Warby Parker, were still working their normal jobs when they approached an angel investor with their idea. The angel investor asked a few questions and wasn't impressed. This investor believed that Gilboa and Blumenthal should demonstrate their solid commitment to the venture by quitting their day jobs to dedicate more time and energy to Warby Parker. Instead of following that advice, Gilboa and Blumenthal kept their day jobs while they continued to work toward building their venture, and Warby Parker eventually became highly successful. There are many paths to becoming an entrepreneur, and many paths to creating a successful venture (see Entrepreneurial Journey and Pathways). It is important to identify the path that works best in your life—and for the venture—and that supports your goals and your unique situation and visions.



Figure 1.2 (a) Co-founder and co-CEO Dave Gilboa helped push (b) Warby Parker to become a successful entrepreneurial venture. (credit (a): modification of "775208326EC00084_TechCrunch" by TechCrunch/Flickr, CC BY 2.0; credit (b): modification of "Warby Parker Aventura Mall" by Phillip Pessar/Flickr, CC BY 2.0)

Within the entrepreneurial world, the idea of a lifestyle venture has evolved to mean a business in which the founders' primary focus is the lifestyle they will attain through becoming entrepreneurs, rather than a primary interest in financial rewards through the selling of the business. Within the entrepreneurial world, harvesting is the typical exit strategy. The harvest is the point at which the investors and entrepreneurial team receive their return on creating and building the venture.

For a lifestyle venture, the entrepreneur is more likely to be a solo entrepreneur, someone who moves forward in starting a new venture without the support of a team or group of likeminded individuals who recognize the value or potential of an entrepreneurial idea that could potentially result in significant returns. A lifestyle venture is also more likely to be funded through family and friends, and more traditional methods such as a bank loan or a small business loan. This lifestyle includes greater freedom to decide areas of responsibilities, hours of contribution to the venture, and other decisions that support the desired lifestyle. An example of a startup lifestyle venture is

The Wander Girls, a company that identified the unique concerns of women traveling alone.³ The Wander Girls organizes trips and events for groups of women traveling in India. A team member organizes the trip, travels with the female tourists, and handles daily interactions and transactions.

Another example of a lifestyle venture is based on how an entrepreneur aligns values, interests, and passions to create a balance between enjoying life and earning enough money to support those passions. Roxanne Quimby had a passion for living off the grid, creating her own life in the woods of Maine, and not being restricted by the rules and regulations required when working as an employee. After becoming a parent, Quimby faced the challenges presented by her lifestyle choices and started making candles to earn enough money to support her family. Eventually, Quimby's lifestyle candle-making business expanded into the highly successful Burt's Bees Corporation, moving her lifestyle business into a career as the CEO of Burt's Bees (Figure 1.3). After selling Burt's Bees to Clorox Co., Quimby continued her passion for the north woods of Maine by donating land and money to create a wildlife sanctuary and preserve that land from development.



Figure 1.3 The Burt's Bees product line grew from an idea for a lifestyle entrepreneurial venture into a major company. (credit: "Burt's Bees" by Carol Bleistine/Flickr, CC BY 4.0)

Quimby's latest endeavors include creating a pasta company, My Pasta Art, focused on increasing employment opportunities for people in northern Maine,⁴ and building the tourist industry to encourage people to enjoy the region's beautiful habitat and scenery. Although she is highly successful from a financial perspective, money was never the motivation for her ventures. As you can see, there are many paths to finding your career in entrepreneurship, and multiple trigger points at which you might make the decision to become an entrepreneur.

Examples

What Can You Do?

How Can You Put Your Strengths to Work?

Create a list of ten strengths that you currently possess. If you need help creating your list, ask your friends or family what they believe you are good at doing. Think about what achievements you have accomplished, what compliments you have received, and what people say about you. The answers to these questions will help you identify your strengths.

3. The Wander Girls. n.d. <http://thewandergirls.com/>

4. Mary Pols. "Making Pasta's the New Focus for Roxanne Quimby." Portland Press Herald. August 13, 2017.

- Create a list of ideas that build off your strengths or are related to your strengths.
- Then analyze this list to create another list of possible businesses that you could start that relate to your strengths.

THE ENTREPRENEUR AS A PROBLEM SOLVER

What are some challenges you face in your life? Have you ever actively thought about how you could solve those problems? Or have you actively identified exactly what the problem is from an analytical perspective? We often have a tendency to jump quickly from noticing a problem to selecting a solution, with little understanding of whether we have even correctly identified the problem. Identifying the problem—and testing the potential, novelty, and feasibility of your solution—is an important part of resolving the problem. Often, when we start to explore the problem, we find that it has multiple causes. Among them are:

- The need for something to be better, faster, or easier
- The effects of changes in world on your industry, product, or service
- Market trends based on geography, demographics, or the psychology of the customers

You will learn more about identifying opportunities in Identifying Entrepreneurial Opportunity and Problem Solving and Need Recognition Techniques.

One characteristic of a savvy entrepreneur is recognizing the ability to identify a problem from an opportunity-identification perspective. We might identify feeling hungry as a problem, but an entrepreneur would identify the problem using an opportunity-identifying perspective by determining how the problem could be translated into an opportunity to create a new venture—perhaps combining the problem of feeling hungry between meals into a street kiosk or a vending machine with food choices or creating a new snack that is nutritious, satisfying, and portable. People need to eat, and they get hungry, but during a busy day with no open time or convenient food, people end up hungry. Rephrasing the problem, or need, from an opportunity viewpoint opens the search for a sustainable solution beyond the simple awareness of feeling hungry. We might solve this problem by opening a snack bar with offerings that contain essential vitamins and proteins, and is easy to transport with a long shelf life. Understanding the problem from the perspective of how to solve it for one person into how to solve it for multiple people rephrases the problem into an opportunity-identification perspective.

You might also have an interest in solving food-related problems on a larger scale. People trapped in a war-torn region may not be able to leave the safety of their shelters to find food, grow food, or barter for food, or they may not have the money to buy food. How could you reach your target market within a war-torn area? Red Cross emergency response vehicles traveled 2.5 million miles to deliver food, relief supplies, and support to communities affected by disasters during 2017.⁵ That's the equivalent of driving around the globe 103 times. Could your idea of creating a snack bar fit into a partnership with the Red Cross?

5. American Red Cross. "2017 in Review: Red Cross Delivers More Food, Relief Items, and Shelter Stays Than Last 4 Years Combined." December 18, 2017. <https://www.redcross.org/local/georgia/about-us/news-and-events/news/2017-in-Review-Red-Cross-Delivers-More-Food-Relief-Items-and-Shelter-Stays-than-Last-4-Years-Combined.html>

Although this might seem like a simple problem with a simple solution, persevering from the recognition of a problem to finding a realistic solution, then moving that solution forward into a successful venture, requires an entrepreneurial mindset. Every day, people become entrepreneurs as they identify and solve problems, or face new challenges or frustrations, and resolve them in creating products or services to address these issues.

Examples

What Can You Do?

Recognizing Problems

In your daily life, what problems do you encounter? What would make your life easier? How would you finish this sentence: “If only _____ existed, my life would be better or easier”? To spur your creativity, you might research global problems to find an area that interests you, that sparks your passion for living a fulfilling life. When identifying a problem, consider process-related problems as well as service-related problems.

For more ideas like Chloe Huang’s, visit the UNESCO Global Action Programme on Education for Sustainable Development (<https://en.unesco.org/gap>) and review other submissions that may activate your own creativity in thinking about how you want to contribute your skills and knowledge to improve our world.

- What problem have you identified?
- What can you do to resolve that problem?

FACTORS DRIVING THE GROWTH OF ENTREPRENEURSHIP

Do you know anyone who has lost their job? Or who has been rejected or mistreated at work? Or had their income reduced, or benefits removed? Research shows that 47 percent of all US employment is at risk through artificial intelligence and other technologies, although there will also be new opportunities for jobs that currently don’t exist.⁶ These types of experiences and outlooks have provided the impetus for many people to start their own businesses. When we work for someone else, we are at the mercy of their decisions and actions, but we get paid and don’t carry the full risk of their decisions. When we work for ourselves, we get to make the decisions (not that making decisions is easy). But when we have our own business, we have greater control—in exchange, we also carry the risk for all decisions we make. This control over decision-making is one reason that some people find the world of entrepreneurship attractive.

Another contributing factor to the desire to become an entrepreneur is the excitement and fun of creating something new. Many entrepreneurs are excited at the idea of moving the concept through to the materialization of the idea.

A third factor that supports the growth in entrepreneurship is the combination of retirement and longer life expectancies. Many people enjoy working. For them, retirement consists of too much open time and not enough activities or the type of engagement with the outside world that fulfilled their needs during their working lives.

6. Carl Benedikt Frey and Michael A. Osborne. “The Future of Employment: How Susceptible Are Jobs to Computerization?” *Technological Forecasting and Social Change* 114 (2013): 254–280. https://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf

Retirement also presents unique financial considerations, depending on an individual's lifetime savings and planning. The combination of having available time and a desire for continued earnings encourages some older adults to explore their own entrepreneurial opportunities.

A fourth factor driving the growth of entrepreneurship is the expanding awareness and support of entrepreneurship as a viable career choice. In much of the twentieth century, families encouraged their children to find a stable career with a large corporation. During this era, there was a certain expectation of reciprocal loyalty between the employer and the employee based on some traditional employee-employer roles in that century. The general, informal agreement was that if employees came to work every day and fulfilled their responsibilities, they would have long-term employment with that corporation. But as competition increased and new business practices evolved, this unspoken guarantee no longer held true. The model of certainty of employment gradually disappeared. As people acquired a new perspective on their careers and income, they increasingly realized that we are all responsible for our own paths. Most studies suggest that people change their careers between three and seven times.⁷ Note that this is not how often people change jobs, but how often they change their careers, moving from one industry to another, or moving from one type of work to a different type of work. The older model of stability through working hard for someone else has vanished. This awareness and acceptance have encouraged recent generations to consider creating their own futures through entrepreneurial ventures.

Just as individuals have become aware of the benefits of entrepreneurship, communities and organizations have also become aware of how entrepreneurial ventures add economic development and enhancements worth supporting, bolstering opportunities for those who decide on this path.

ENTREPRENEURSHIP AROUND THE GLOBE

In the United States, entrepreneurial opportunities abound, relatively speaking. Between 1990 and 2014, the number of campus-based entrepreneurship education programs increased from 180 to over 2,000.⁸ Comparing globally, the United States has the greatest number of entrepreneurial ventures, with Switzerland, Canada, Sweden, Denmark, and Australia following in order, according to Global Entrepreneurship Index, a global consulting firm (Figure 1.4).

7. Dawn Rosenberg McKay. "How Often Do People Change Careers?" The Balance. September 20, 2019. <https://www.thebalancecareers.com/how-often-do-people-change-careers-3969407>

8. Infographic.ly Team. "Infographic: The Growth of Entrepreneurship around the Globe." Entrepreneur Middle East. January 26, 2017. <https://www.entrepreneur.com/article/288286>

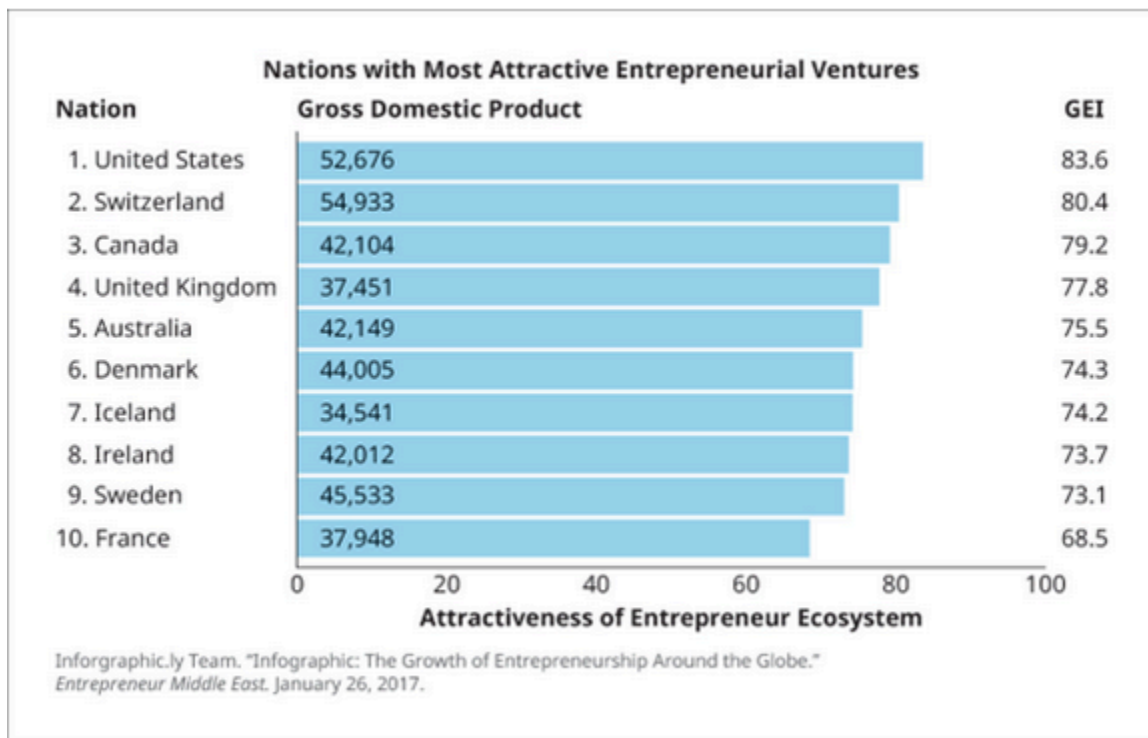


Figure 1.4 The number of entrepreneurial businesses, in millions, is shown for several countries. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Why is the United States leading with the greatest number of entrepreneurial ventures? What does it take to become an entrepreneur? In addition to having an entrepreneurial mindset (see The Entrepreneurial Mindset), entrepreneurs also need education and funding to support their new ventures.

You will learn more about funding in Entrepreneurial Finance and Accounting, but as an introduction, you should know there are three primary sources of outside funding: family and friends, angel investors, and venture capitalists. Some family members and friends are willing and able to invest money in helping the entrepreneurial team. An angel investor is someone who has available funds and an interest in supporting a new venture. They are often entrepreneurs who have successfully launched and harvested their own ventures, and who have an interest in helping other entrepreneurs in their startups, staying active in the entrepreneurial world, and a desire to receive a return on their investment in the venture. Angel investors often provide funding early in the life of a venture. As the venture grows, it typically requires more funding, at which time venture capitalists may invest in the venture. A venture capitalist (VC) is a group of people (or organizations) who pool resources to invest in entrepreneurial ventures, contributing larger sums of funds than are available through angel investors. In each funding round, investors receive an equity stake in the venture with expectations that at some point in the future, the venture will be sold, or harvested, at which time the investors will receive a return on their investment. Because they tend to be in larger groups, VCs typically have access to larger amounts of money and resources than individual angel investors. (You will also learn about other types of financing, such as bank loans and bootstrapping, in Entrepreneurial Finance and Accounting.)

In the United States, VCs contributed \$72.3 billion in 2015 for 3,916 deals, or funding rounds. In China that same year, \$49.2 billion were invested in 1,611 ventures.⁹ European VC investment totaled \$14.4 billion and 1,598 deals. Tracking these numbers over time shows steady increases in VC funding as entrepreneurial ventures have become more common (Figure 1.5).

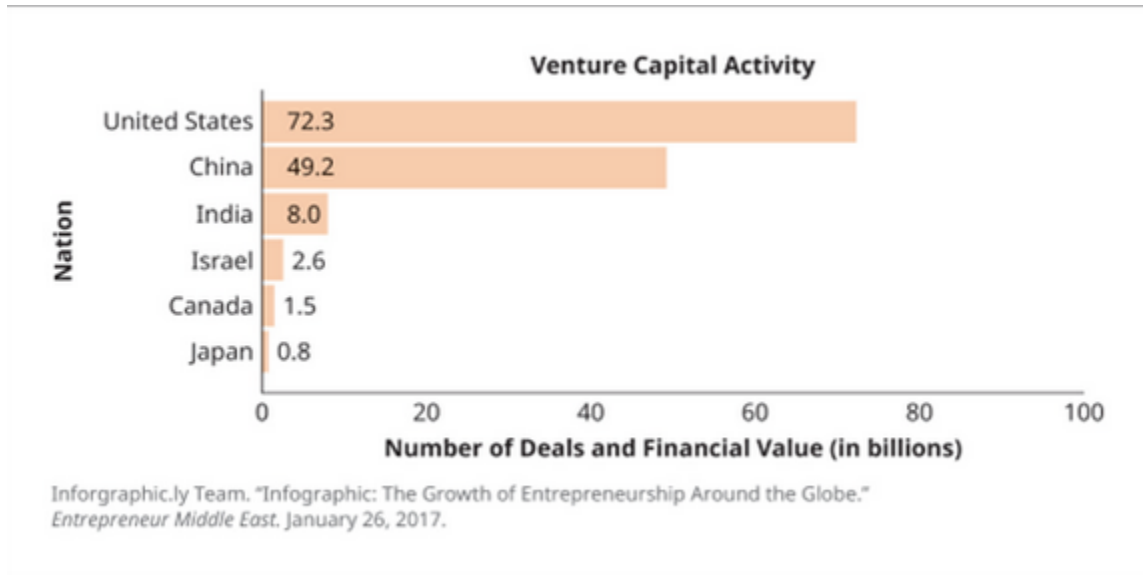


Figure 1.5 The total venture capitalist investment and number of deals for several countries are shown. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Other factors that can affect entrepreneurial opportunity include employment rates, government policies, and trade issues. For example, in the Middle Eastern kingdom of Saudi Arabia, a newer driver of entrepreneurship includes a high unemployment rate with a large percentage of the population in its prime earning years. In the past, employment was less of a concern because of dependency on state support from oil revenue. The population received monthly allotments to cover expenses from state-owned oil production. More recently, the population has become restless, with a desire to become productive and have greater control over their own resources. And the rulers recognize that oil production income is volatile and unsustainable. Today, with more future-oriented leaders, countries in the Middle East desire to encourage their citizens to consider starting their own businesses.¹⁰ The example of entrepreneurship in the United States has spread around the globe, with other countries taking an interest in developing support systems to encourage their populations to become entrepreneurs.

As noted, the United States is a world leader in entrepreneurial innovation. Perhaps because the United States is, in large part, a nation of immigrants, with people arriving from all over the world, Americans have few prescribed traditions that encourage conformity. America's longstanding traditions and reputation for individualism, ingenuity, and self-reliance have reinforced this mindset. However, the governments of other nations have discouraged their citizens from independent or innovative thinking. Some cultures emphasize political, cultural, and economic unity, and place a strong value on not being noticed, blending in, and following prescribed habits and traditions. Countries like Japan, France, Russia, China, and others continue to reflect these norms. Other countries have complex bureaucracies that prevent quick responses and place barriers to entrepreneurial activities. Parts of worldwide economic structures (banking, investments, and technology) are not accessible or even explicitly exclude some nations and the poor. Systems like this discourage people from coming forward with

9. Infographic.ly Team. "Infographic: The Growth of Entrepreneurship around the Globe." *Entrepreneur Middle East*. January 26, 2017. <https://www.entrepreneur.com/article/288286>

10. Infographic.ly Team. "Infographic: The Growth of Entrepreneurship around the Globe." *Entrepreneur Middle East*. January 26, 2017. <https://www.entrepreneur.com/article/288286>

entrepreneurial ideas because the culture and bureaucracy prevent people from finding access to information necessary for the successful advancement of an idea. In contrast, other countries are noticing the benefits of encouraging their populations to become more open-minded and creative through new ventures.

Link to Learning

Transparency International is an organization that tracks corruption, which can be an inhibitor to entrepreneurship. The Transparency International website provides information to rank 180 countries in identifying the abuse of entrusted power for private gain.¹¹

Key characteristics that encourage entrepreneurship include support for freedom to create and innovate. What conditions encourage creativity and innovation? Acceptance of failure is a key characteristic for success as an entrepreneur. Many of the great inventions in the United States resulted after dozens of failures, as when Thomas Edison eventually developed a working light bulb. Edison identified a problem: Once the sun set, working hours were restricted, as were daily activities such as reading a book or washing dishes. Edison, along with many other inventors, recognized the need for an artificial light source. Consider how complex this idea was and how many failures must have occurred before creating a product that emitted light.

Another condition that encourages entrepreneurial behavior is the ability and opportunity to connect with other people to discuss ideas, problems, challenges, and solutions. This connection with other people, in an open environment that supports the exchange of ideas, is essential for encouraging creativity and innovation.

With the advent of the Internet, people around the planet are becoming increasingly aware of geopolitical and environmental situations across the globe. As more people observe these changes and situations, more people exchange ideas. These discussions can generate new opportunities for people to discover methods for solving problems. Any one of us could be living in one country but identifying a problem in another country. Given our interests and backgrounds, we could actively choose to develop a solution for that problem. What we need, as a general approach, is an efficient and transparent way to form companies and enable constructive competition, along with continued free and fair trade.

These are just some of the areas that many nations and organizations consider as they seek to encourage a transition away from group-prescribed thinking toward uniquely individual entrepreneurial ideas. Each of us encounters life from a different perspective. Although we all might recognize the restrictions presented by the sun setting every night, only a few people might question why we couldn't change that situation by creating our own light. Similarly, someone in another country may observe our country (or vice versa) and ask why that country has a particular problem. Meanwhile, people living with that problem may have become so accustomed to it that they might not recognize the opportunity to seek solutions.

Increasing opportunities in entrepreneurial education are also driving growth. More colleges and universities are teaching entrepreneurial studies and opening entrepreneurial centers that encourage students from every discipline to become entrepreneurs.^{12,13} As the employment and entrepreneurial landscape continue to evolve,

11. Transparency International. n.d. www.transparency.org

12. National Survey of Entrepreneurship Education. n.d. www.nationalsurvey.org

13. "The Princeton Review & Entrepreneur Name the Top Undergraduate & Graduate Schools for Entrepreneurship Studies for 2020." Cision PR Network. November 12, 2019. <https://www.prnewswire.com/news-releases/the-princeton-review--entrepreneur-name-the-top-undergraduate--graduate-schools-for-entrepreneurship-studies-for-2020-300955876.html>

some institutions have started offering courses to prepare students for work in the gig economy.¹⁴ In fact, some of the best new entrepreneurial ideas come from groups of students in different majors who collaborate to create new, innovative business ideas that meet specific needs and challenges in today's world. In some cases, students from different universities around the globe are connecting to come up with business ideas to solve global problems, such as the lack of clean drinking water and the need for medical vaccination programs. Technology and global travel have made such partnerships more common and very productive.

The world of entrepreneurship opens doors for each of us to look beyond our own self-created barriers and explore opportunities around the world. Consider the creation of Starbucks, borne from the realization of how pleasant it can be to sit at a European café and drink excellent coffee. Awareness of an idea that is commonplace in one country, but new to a different country, presents the possibility of introducing that idea to another nation. In the Starbucks example, was there a problem that needed to be solved? Not necessarily, but the founder, Howard Schultz, had a desire to bring a specific quality-of-life element from one country to another, a business idea with an entrepreneurial aspect. One of the entrepreneurial aspects of creating Starbucks was the idea of mass expansion of coffee shops. Prior to Starbucks, the idea of creating a high-quality coffee drink hadn't been developed. Even more significant was the idea of expanding the business across the United States and then around the world.

Given the growth of coffee shops throughout the United States, we might not think that this idea is innovative, but before Starbucks, coffee typically was served at a diner, and it was served out of habit, rather than as the main attraction. With Starbucks, people changed their ideas about coffee and their coffee-drinking habits. Although businesses like Dunkin' Donuts served coffee, their focus was on selling donuts, not coffee. As Starbucks grew through repositioning coffee as their main product, other companies like Dunkin' Donuts and McDonalds realized the missed opportunity in not reinventing the coffee market with multiple choices of high-quality coffee. In fact, Dunkin' Donuts has changed its name to just "Dunkin," removing the emphasis on doughnuts.¹⁵

SOCIAL AND ENVIRONMENTAL ISSUES AND OPPORTUNITIES

A social entrepreneur has an interest in solving a social, environmental, or economic problem. A social entrepreneur identifies a problem with a social or community focus, a concern for quality of life, or concern for our entire planet's health (you will learn more about social entrepreneurship in The Ethical and Social Responsibilities of Entrepreneurs). One such person is Angad Daryani, a young serial inventor. Daryani left school in the ninth grade to join the Media Lab at the Massachusetts Institute of Technology (MIT), where he worked on an industrial-scale air filter to clean pollutants and carcinogens out of our planet's air. Daryani's home country of India is the world's third largest emitter of carbon dioxide, according to Global Carbon Atlas, behind China and the United States (Figure 1.6).¹⁶

14. Diane Mulcahy. "Universities Should Be Preparing Students for the Gig Economy." Harvard Business Review. October 3, 2019. <https://hbr.org/2019/10/universities-should-be-preparing-students-for-the-gig-economy>

15. Kate Taylor. "Dunkin' Donuts Is Officially Dropping the 'Donuts' from Its Name Despite Earlier Backlash." Business Insider. September 25, 2018. <https://www.businessinsider.com/dunkin-donuts-changes-name-no-donuts-2018-9>

16. "Fossil Fuel Emissions." Global Carbon Atlas. 2017. <http://www.globalcarbonatlas.org/en/CO2-emissions>



Figure 1.6 The Mumbai skyline is clouded by hazy pollution. (credit: modification of "Smog over Mumbai" by Christian Haugen/Flickr, CC BY 2.0)

Examples

WHAT CAN YOU DO?

Social Entrepreneurship

Consider a social issue that you might feel compelled to take on as a passion project. Some social issues include childhood hunger, access to clean water, access to education, or opioid abuse. Watch Johann Hari's Ted Talk on addiction to learn more.

- Do you have any ideas for creating an entrepreneurial venture around the idea of building quality relationships and communities?
- How would you balance a passion project with an entrepreneurial purpose?



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=25>

Not only is Daryani interested in solutions for air pollution, but his product will also provide financial gains and add to his personal credibility as a serial entrepreneur, or someone who starts and harvests multiple entrepreneurial ventures. Darvani describes himself as an inventor and social entrepreneur, combining his interest in improving lives through a variety of entrepreneurial ventures including products like Sharkits (a do-it-yourself-kit company that teaches children how to build technology), the SharkBot 3D Printer (an attractive, low-cost, and reliable 3D printer), and several other projects that combine technology and human needs. As each of these products advances to commercialization, the products and technology are becoming more applicable for other uses as well. For more examples of projects that Darvani is working on, take a look at his website (<http://www.angadmakes.com>), which includes videos and articles, and highlights the international recognition he has received for his innovative work.

Entrepreneur In Action

Angad Daryani

Research Angad Daryani and his technology to remove air pollution .

- What other products could this technology or methodology be used for, besides the originally intended application of improving air quality?
- What critical decisions would you anticipate that Angad will face in creating and commercializing his product?
- How would you define success for Angad or this air-cleaning company?

1.2 Entrepreneurial Vision and Goals

Learning Objectives

By the end of this section, you will be able to:

- Define an entrepreneurial vision
- Develop a vision statement

When you think of yourself as a successful entrepreneur, what types of images or feelings do you experience? Do you find yourself daydreaming about creating the next great solution to society's problems, or do you see yourself providing a solution for the next health or environmental crisis? Maybe you can imagine yourself creating something that equally balances art, function, and ingenuity.

This section is designed to help you develop your entrepreneurial vision. Vision is an important part of everyone's future, and this is especially true for entrepreneurs. Establishing your vision is the first of several steps toward making your venture a reality.

Many would-be entrepreneurs aspire to launch the next great business or organization that will change the world. Some know exactly what they want to create, whereas others figure it out as they go along. Although there is no secret to success, you do need to have some idea about what you envision for your entrepreneurial future. What do you see in your future? How do you want to contribute to the world?

ENTREPRENEURIAL VISION

Every successful entrepreneur that you encounter or read about likely started with an image or idea related to something he or she felt passionate about creating. This occurs even when the person has no idea how (or if) what they desire to accomplish or create will become a reality. An entrepreneur's vision is the start of a roadmap that will determine where he or she wants to go with their entrepreneurial efforts. Vision speaks to what the entrepreneur wants the business to look like in the future—perhaps five or ten years out. Unfortunately, many potential entrepreneurs have dreams and ideas but never develop a concrete vision. A vision statement is the picture you have for what the venture will become in the future: what it will grow into. Be aware, though, that oftentimes, the identified vision at the start of the venture changes into something different. In later chapters, we discuss how this change requires open-mindedness and a willingness to adapt. The mission statement is a formal declaration about what the venture will do, what value it will provide to the end customer, and how it will accomplish this action. In describing your mission, carefully think about the value proposition that you provide. The value proposition is a summary statement that conveys the benefits your product, service, or unique business

process/model provides to customers. This relates back to the perspective of problem solving. Not only do you need to solve the problem, but you also must provide value. We might solve a problem, but if the value proposition isn't relevant or seen as "real" by the customer, the venture will probably not be successful. Both concepts of a future vision and the mission of the venture should be formalized into statements.

In spite of your best efforts, you may have trouble putting your entrepreneurial vision on paper. This is normal, especially in the early stages of the process. You may want to start with an outline and fill in the details later. Or set aside a short time each day that you can spend on this task so you train your mind to think about the vision you are setting for yourself. If you experience a mental block, try changing your environment—go outside, try a different time of day, or go to a setting that has similarities to the business you are interested in creating. You might also consider talking with someone who has experience in the industry to give you suggestions. Or better yet, find a mentor in your chosen area of interest and keep this person apprised of your progress. Having someone to bounce ideas off is a great asset to have when imagining the possibilities of the future.

WORK IT OUT

Finding a Mentor

Mentorships can provide you with numerous benefits (Figure 1.7).



Figure 1.7 Finding a mentor can provide you with invaluable benefits. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Read the article *My Best Advice For Entrepreneurs – Find A Mentor. This Is Why And How* by Goncalo de Vasconcelos on the benefits of having a mentor, and click on the resources the author provides in the article.

Then read the article *4 Types of Mentors Every Young Entrepreneur Should Have*, by By Young Entrepreneur Council which discusses types of mentors. Notice that in this second article, the author focuses on sales, operations, business development, and entrepreneurial experience as the most significant areas that need expertise for startups.

Next, describe the areas that you would want help from a mentor for learning and developing your business idea. Then, list a few possible avenues where you could find a mentor who fits your needs. Considering the information in these articles, how would this information help you develop your statements and describe your value proposition?

An entrepreneurial vision considers what you want your venture to become, what this venture will look like, what the driving forces are, and what values and culture should surround it. Each individual entrepreneur has a unique picture of what the venture will become. For example, Kevin F. Adler wanted to help homeless people. He created Miracle Messages, a volunteer-based nonprofit organization with a goal of helping homeless people reconnect with loved ones. The vision for this organization includes building a vast network of volunteers and partnerships to stop homelessness and bring people together. This vision is about creating community, helping each other, and strengthening communities. The business model encourages homeless people to create short Miracle Messages through video, audio, or text, with messages then uploaded to social media and other methods to find that person's loved one.

WHAT CAN YOU DO?

Globalizing Miracle Messages

Go to the website www.miraclemessages.org to learn about the vision and mission of Miracle Messages. Their slogan, "Everyone is someone's somebody," conveys their culture of care and concern for all human life. As you read about this organization, consider what this organization could become in the future, with an extensive network that supports connecting volunteers to homeless people, then to loved ones, and to other organizations that support the physical relocations and resources to address the original reasons why the person became homeless. How can this organization become a global business? Consider families dislocated through wars, famine, and other disasters who want to find their loved ones. The infrastructure developed with Miracle Messages could be replicated for other populations besides homeless people in the United States. Depending on the founder's vision, Miracle Messages could continue to focus on homelessness in the United States, or the vision could expand into other geographic areas and needs.

In an entrepreneurial venture, when the vision has a shorter timeline, such as five years, it could focus on a local problem or situation, and over time evolve into a vision that is broader and includes more diverse markets or populations. Your vision should inspire the people involved in your startup to support your venture. Use your imagination to create this picture of your venture with a focus on the future of the venture. Even though entrepreneurs use their imaginations and creativity in developing this picture, they also need to understand the venture's industry, the competition, and trends that are evolving or might evolve in the future. This information helps guide the vision for the venture and define how it is uniquely different from any other business. Ideally, the vision should be insightful, bold, inspirational, and believable, and it should be developed into a formal vision statement.

The vision statement should also be clearly stated and discussed with the startup team. Although you might not have a startup team, a mentor, or a support group developed yet, to create an entrepreneurial venture, you will need support. Your support network understands that working without pay is often the normal situation at the beginning, with the potential for financial rewards coming when the venture is harvested or sold. For some entrepreneurs, knowing the vision includes the sale of the venture to another group or corporation is difficult to accept. However, that is the point at which the venture can grow to become ever more viable. Alternatively, if your vision is to be a small business owner, such as owning a franchise, then you are buying into a business plan package that has already fine-tuned the processes and decisions to support your success as the owner/manager of that business. A small business owner starts or buys into a business idea that already exists, whereas an entrepreneur is someone who seeks to create something new through either new products, services, methodologies, or combinations of ideas that create a new venture or organization.

The lead entrepreneur should share the vision statement with employees and investors, as these groups are formalized, communicating what this vision means personally and to the success of the venture. You might also need to revisit this vision as your venture grows, making changes based on your decisions and knowledge about your industry, products, and customers' needs. Even if your vision statement changes based on new information and decisions, creating an initial vision statement is a valuable step and will help guide your decisions.

Are You Ready?

A Personal Vision Statement

What do you want your life to look like ten to twenty years from now? Consider these questions:

- Where are you living?
- What are you doing for a living?
- What does your home look like?
- Who lives in your home?
- What are you doing with your life?

You could describe a typical workday and weekend day in your life as part of answering these questions. Create a vision statement that describes the answers to these questions.

CREATIVE APPROACHES TO DEVELOPING YOUR VISION

There are many definitions of and ways to express creativity (you will learn more about creativity in Creativity, Innovation, and Invention). Artists typically show their creative side in their art, musicians show their creativity through music, and writers express their creativity in writing. Others express technical creativity through cell phone innovations or new car technology. It is up to you to determine how you will express your creativity in your venture and in your professional life. In most cases, when people follow their passions, their creativity flows from that passion.

One approach to discovering your vision for your future is to begin with the end in mind. What picture of your desired future do you have in mind? How could this vision fit with the ideas you have of creating a successful venture? Notice that these questions are about both your personal future and the vision for your venture's future.

These two pictures should coexist. The vision for your personal future should allow for the necessary resources to support the venture's future, just as the venture's future will provide for your personal future. We will discuss work-life balance later in the chapter to help you identify what creates success as you describe your vision.

Another approach to developing your vision is to use a creative thinking process. This type of thinking allows people to come up with ideas that they might not have had without adopting a creative mindset. The creative thinking process (covered in more depth in Creativity, Innovation, and Invention) has four steps: preparation, incubation, illumination, and verification (Figure 1.8).

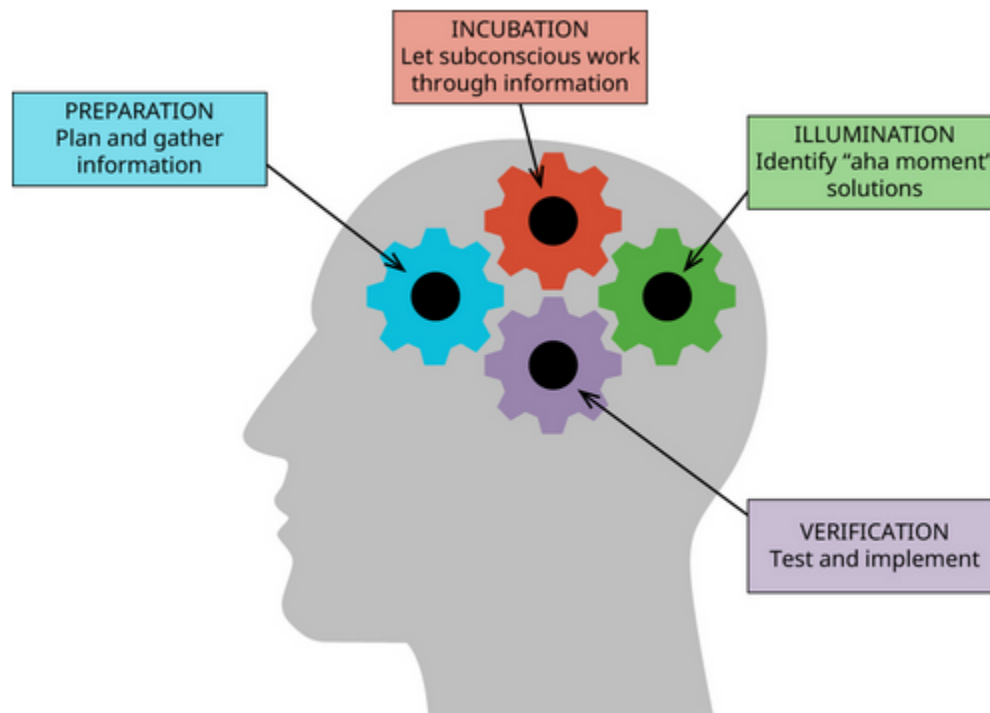


Figure 1.8 These are the four steps of the creative thinking process. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In the preparation stage, gather information and collect ideas. As part of the process of tapping into creative ideas, you can apply **divergent thinking** by generating as many ideas as possible, even when those ideas do not seem logical. Create a list of conflicting ideas, or ideas that are diverse and disparate. Preparation is the first step of the creative thinking process. The next action is to walk away from thinking about the activity: incubation. We are programming our minds to realize that the work done in preparation is an important topic for consideration. When we walk away from consciously thinking about the activity or problem, we allow our unconscious minds to continue to think about the activity, even though our conscious minds are busy doing other things. This incubation period is essential for advancing creativity. In the incubation stage, you might go for a walk, take a nap, or just continue with your daily activities. At some point, you may have a sudden inspiration or illumination—an aha! moment—that clearly addresses the activity or problem you want to solve. In this step, the answer often pops into our conscious minds, and we recognize how to proceed. The last step is verification, crafting our vision statement or message, or responding to the exercise in creative thinking. You can apply this creative thinking process to many different business situations. Once we further develop and crystallize our ideas (the Business Model Canvas discussed in Launch for Growth to Success is a good tool for this activity), we provide an opening for a creative and viable solution as we continue to think about the issue.

Design thinking, brainstorming, and mind mapping are tools that you will learn about later in the course. Although these tools may be familiar, there are specific methodologies that can optimize their success in entrepreneurial situations. Brainstorming requires that participants generate ideas around the desired topic without judgment. You can do this alone or with others, but including other people provides a greater variety of ideas, as one person's ideas might trigger another idea from someone else. Be sure to write down your thoughts so that you can return to them later. Brainstorming is different from divergent thinking, which does not require ideas to be associated with the identified topic. For example, in brainstorming on the topic of helping the homeless population, we might come up with ideas such as finding community food and housing, or providing free medical care. Using divergent thinking, we would arrive at more diverse ideas, such as filming homeless people then uploading the videos to a social media website to connect family members with the homeless person. These tools could incorporate divergent thinking in the idea-generation step, but typically, unless people are taught how to use divergent thinking, the ideas generated are more structured and constrained, and more logical. As much as we want to encourage divergent ideas, we also want to discourage any judgment around our ideas. Once we start judging our ideas, we restrict our creativity and end up with less than ideal solutions. Approach this process with some playfulness and relaxation.

Mind mapping is another popular technique for creative thinking. Here, you create an illustration on paper or a chalk board. Write down the words that come to mind then link those words together with lines in a diagram that shows how each word relates to the others. The idea is that one word can lead to another. You can discover associations that might not have been evident before you created the mind map.

You can conduct research on entrepreneurial ideas by creating surveys and asking people questions about their experiences related to your idea. For example, let's say you are considering creating a new non-messy health food that can be eaten while commuting to work. You could ask people about their experiences eating while commuting to work or ask questions about nutritional concerns or diets. Or you could find secondary data on when people eat, eating while commuting, popular diets, or other related topics. Or you could find case studies that focus on a few in-depth similar areas of interest or perform your own case studies by selecting a few peers to track their eating habits. Or you could create a prototype of your product and ask people to tell you about their experience using your product. You will learn more about research strategies in Identifying Entrepreneurial Opportunity, Problem Solving and Need Recognition Techniques, and Entrepreneurial Marketing and Sales.

Are You Ready?

Creativity through a Change in Routine

Practice your creativity skills by changing your routine. Because our brains block out many routine activities, such as our commute to work, or other repetitious habits, we often fail to notice our surroundings. Pick one day this week to experience the world through a new perspective. Change your routine in as many ways as possible. As you change your routine, pay attention to how you are experiencing the day.

- What was the experience like?
- Did you notice being more alert to your surroundings?

Consider how you can use this experience to learn how to identify new opportunities and to interact with people, situations, and objects to identify problems in a way that could be translated into an entrepreneurial venture.

ACHIEVING BALANCE

Entrepreneurship comes with many challenges because the entrepreneur must wear many hats. This is especially true if the entrepreneur is the only employee in the business. But regardless of the business model, all entrepreneurs must be able to achieve balance in their lives between their dedication to growing their entrepreneurial venture and their personal life. Developing a vision that includes different areas of your professional and personal life can help make this type of balance achievable.

How do you define balance in your life? What areas do you consider when you think about a balanced life? Having enough money to support your lifestyle might be one goal. Other areas might include physical activities or hobbies, social interactions and entertainment, satisfaction with how you earn money, your family and personal relationships, and other interests and values. Some entrepreneurs start lifestyle ventures to achieve this balance. But how do we achieve balance when our goal is to be a career entrepreneur?

A **career entrepreneur** is someone who takes on the daily management as the owner of the venture, accepting, and perhaps enjoying, the daily risks and rewards of managing and building the venture such as Roxanne Quimby. For Roxanne Quimby, growing Burt's Bees involved making difficult decisions, such as relocating from Maine to California to meet the growth needs of the company. Even though Roxanne wanted to provide employment opportunities to people in northern Maine, she knew that her business needed the right infrastructure for success, and that infrastructure wasn't available in Maine. If you choose to become a career entrepreneur, your focus may be primarily on advancing your entrepreneurial idea into a successful venture, like Roxanne did with Burt's Bees; this can come at the expense of personal life goals.

Many career entrepreneurs need support from family and friends who accept that the lead entrepreneur's attention and energy are required for the success of the venture, and many lifestyle entrepreneurs will find challenges in meeting the needs of the venture while maintaining work-life balance. Discussions with family, close connections, and the entrepreneurial team should occur in the early idea-formulation stage to gauge the support of the people whose interests might be compromised by the entrepreneur's dedication to advancing the venture.

Clearly defining your idea of success for your life, and for your venture, is an important step in achieving balance. What are your priorities? What can you do to balance the success of your new venture, the success of your own life, and the success of your family? Considering that balancing all the roles that we have in life is a frustration point for many people, can you find an opportunity to create an entrepreneurial venture?

Work It Out

Exploring What Success Means to You

What is your own definition of success? It's helpful for your entrepreneurial ventures for you to explore and define what success means for you personally and professionally.

This short Ted Talk explores what makes a person successful: Knowing how you personally define success is a worthwhile activity to help achieve balance.



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Consider these eight secrets to success as you think about work-life balance:



One or more interactive elements has been excluded from this version of the text. You can view them online here:
<https://pressbooks.nsc.ca/entrepreneurship/?p=30>

Here is another Ted Talk that offers perspective on our lives and what we consider as success:



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=30>

After reviewing these resources, think about how you would define success, and how you can use that knowledge to plan for a satisfying work-life balance.

As you explore what success means for your venture and how your definition aligns with balance between your personal life and dedication to your venture, you should consider some of the unique challenges entrepreneurs can face. For example, there might be a learning curve in unfamiliar areas of business, such as accounting or finance. Or you might face a dilemma about whether to expand a product line, or whether or where to open a new location. Entrepreneurs often mention the physical requirements of starting up a business. Physical demands can include the sheer stamina needed to clean a new space, move in, and set up shop. Depending on your business, you also might need to adjust to being on call twenty-four/seven. Here again, developing a vision of where you want to be in the future can help you plan for the challenges you will face in the early stages of your business.

Entrepreneurship can be especially draining if you are not prepared for the tasks at hand—as can be the case with any professional or personal role. Therefore, self-care and emotional awareness can play a key role in maintaining your emotional health as an entrepreneur. Taking time for yourself is very important. This could involve creating a time management calendar. Tracking how you spend your time can keep you on schedule with tasks and prevent you from expending too much on any one area of the business or your personal life in detriment to the other. Taking time away from the business is emotionally healthy and can provide important perspective that can help you make better decisions. “Leaving work at the office” is a successful strategy that many business people use to separate their personal and professional lives. If this is not possible—for example, if you work from home—setting aside family or personal time can allow for work-life balance.

Having trusted advisors and mentors for your business and personal life can also promote emotional health. When you face a decision or challenge that you have difficulty with, it is important to have someone to talk to who knows you and knows your situation. Some entrepreneurs may find themselves in their first experience of leading others, with total responsibility for the outcomes as owner of the business. Every business person should have a personal leadership improvement plan. This plan can take the form of academic classes or professional

coaching, but sometimes, it will be a personal commitment to improvement. You should identify your preferred leadership styles, as well as leadership strengths and weaknesses. It might be useful to look back on your own work experiences to identify which leadership traits you admired and which ones you didn't. As with any other business skill set, you can learn and improve these strengths in yourself. You also can hire people with complementary skills to handle the areas that you feel unsure about.

Being aware of your own strengths and weaknesses, as well as of your preferences and dislikes, will help you achieve and maintain balance in your life. Having counselors, mentors, advisors, checklists, and timelines can keep you on track and prevent any one area of your business or personal life from taking over or being neglected.

THE IMPORTANCE OF GOALS

Entrepreneurial vision imagines a future, whereas goals focus on a desired outcome. Although vision is key to creating the future that you want for yourself and your business, goals are important to help you realize the steps needed to make that vision a reality.

Read through your definitions of success and your vision statement. Now create a list of possible actions that will help you achieve success and accomplish your vision. Review your list and categorize the words and actions in terms of relevance and time frames.

SMART goals are well-structured and defined goals that are specific, measurable, achievable, realistic, and timely (Figure 1.9).

- **Specific:** Your goals should be precise rather than overly broad.
- **Measurable:** You should be able to test in some quantifiable manner whether a goal has been met, meaning that there needs to be some method to determine if the goal has been met or not.
- **Achievable:** The goal must be attainable; it cannot be so lofty that it cannot be accomplished. On the other hand, the goal should not be so easy that it can be accomplished quickly or with little effort.
- **Relevant:** The goal should be well suited for what you want to accomplish; this means that the goal should be relevant to the outcome needed.
- **Timely:** Each goal needs to have a defined deadline, the time when the goal must be accomplished. What time frame do you have for completing your goals? How does this timeline fit into your overall plan?

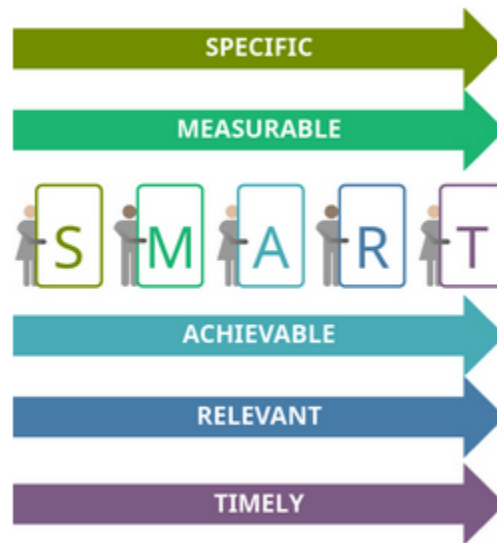


Figure 1.9 Creating SMART goals can help you realize your vision. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

For example, if your personal definition of success and your vision for your future include financial independence—with, say, a vacation home in the mountains—what goals can you define today that will lead to this outcome? You would include financial goals tracked either monthly or yearly to save a set amount of money based on your projection of how much money it will take to own these two vacation homes. You would also set goals about finding the right locations. This process is also necessary to support the success of your business venture. Setting goals is a powerful approach that leads us to the future we want for our lives.

ENTREPRENEUR IN ACTION

Roomify's Goals

Research Roomify. If you were one of the cofounders of this company, what goals would you create for this business? Should you harvest the company? Expand into other related products? Repackaging products for ease of purchasing is an excellent idea that can be translated into other areas. Can you think of a new idea based on repackaging products that is focused on the benefits of saving people time and the hassle of decision-making? Create a list of at least ten ideas based on the idea of saving people time and adding convenience to their lives. Which ideas most appeal to you?

Here is a fictional example of an entrepreneur's goals, which we can test against the SMART criteria to see if they are feasible. Soraya runs a small tutoring business in Dallas, Texas. Her target market is high school students. Soraya is currently the only employee in her sole proprietorship, but she hopes to hire more employees soon. She is excited about her business, and so far, she has done well in the four years that she has been operating it. On the advice of a friend in business school, Soraya has defined three business goals for the next year. They are:

1. Increase sales by 50 percent.
2. Open a new location.
3. Hire two employees.

In reviewing these goals using the SMART criteria, it is evident that goals one and three are specific because they are quantitative, but goal two is not. All three goals can be measured. With Soraya as the only employee, it is unlikely that she can achieve goals one and two, but goal three is achievable. And hiring more staff would increase the likelihood of achieving additional goals. All three goals are relevant to growing the business. And each goal could use more detail in terms of being timely. That is, in order to increase sales by 50 percent in the upcoming year, Soraya should have additional monthly or quarterly sales goals to meet her annual goal. Likewise, the opening of a new location requires more time-bound details, such as leasing or purchasing the location, and determining the business model for this location. Finally, hiring additional employees should have a time component as well, such as a timeline for recruiting, interviewing, selection, hiring, and training. Therefore, Soraya's goals are appropriate for her small tutoring business, but they need refining so that they meet the SMART criteria. Soraya is more likely to achieve SMART goals, and they are more likely to lead to desired business outcomes.

1.3 The Entrepreneurial Mindset

Learning Objectives

By the end of this section, you will be able to:

- Explain what it means to have an entrepreneurial mindset
- Describe what is meant by entrepreneurial spirit or passion

Entrepreneurship takes many forms (see Table 1.1), but entrepreneurs share a major trait in common: An entrepreneur is someone who identifies an opportunity and chooses to act on that opportunity. Most business ventures are innovative variations of an existing idea that has spread across communities, regions, and countries, such as starting a restaurant or opening a retail store. These business ventures are, in some ways, a lower-risk approach but nonetheless are entrepreneurial in some way. For example, Warby Parker, a profitable startup founded by four graduate students at Wharton, disrupted a major incumbent (Luxottica) by providing a more convenient (online initially), affordable, and stylish product line for a large segment of consumers. In this sense, their innovation is about creating something new, unique, or different from the mainstream. Yet they attracted an existing, and in some ways mature, sector of an established industry. In a different way, McDonalds, which is 90 percent owned by franchisees, introduced an “all day breakfast” menu in 2017 that was hugely successful; it also targeted a larger segment (in part younger consumers) and brought back consumers who had chosen other options. In summary, many entrepreneurs start a new venture by solving a problem that is significant, offering some value that other people would appreciate if the product or service were available to them. Other entrepreneurs, in contrast, start a venture by offering a “better mousetrap” in terms of a product, service, or both. In any case, it is vital that the entrepreneur understand the market and target segment well, articulate a key unmet need (“pain point”), and develop and deliver a solution that is both viable and feasible. In that aspect, many entrepreneurs mitigate risks before they launch the venture.

Being aware of your surroundings and the encounters in your life can reveal multiple opportunities for entrepreneurship. In our daily lives, we constantly find areas where improvements could be made. For example, you might ask, “What if we didn’t have to commute to work?” “What if we didn’t have to own a vehicle but still had access to one?” “What if we could relax while driving to work instead of being stressed out by traffic?” These types of questions inspired entrepreneurial ventures such as ride-sharing services like Uber, the self-driving vehicle industry,¹ and short-term bicycle access in the free bike-sharing program in Pella, Iowa (Figure 1.10).²

1. Matthew DeBord. “Waymo Could Be Worth as Much as \$75 Billion—Here’s a Brief History of the Google Car Project.” Business Insider. September 9, 2018. <https://www.businessinsider.com/google-car-project-history-2018-8>

2. Ethan Goetz. “Bike Share Program Launched Monday.” The Chronicle. July 2, 2018. https://www.pellachronicle.com/gallery/bike-share-program-launched-monday/article_950cebac-7e49-11e8-97a0-8fd615410188.html



Figure 1.10 A bike-sharing program in Pella, Iowa, allows users to access bikes at a variety of locations. (credit: "Corral of VeoRide Dockless Bike Share" by "paul.wasneski"/Flickr, Public Domain)

These ideas resulted from having an entrepreneurial mindset, an awareness and focus on identifying an opportunity through solving a problem, and a willingness to move forward to advance that idea. The entrepreneurial mindset is the lens through which the entrepreneur views the world, where everything is considered in light of the entrepreneurial business. The business is always a consideration when the entrepreneur makes a decision. In most cases, the action that the entrepreneur takes is for the benefit of the business, but sometimes, it helps the entrepreneur get ready to adopt the appropriate mindset. The mindset becomes a way of life for the entrepreneur. Entrepreneurs often are predisposed to action to achieve their goals and objectives. They are forward thinking, always planning ahead, and they are engaged in "what if" analyses. They frequently ask themselves, "What if we did this?" "What if a competitor did that?"—and consider what the business implications would be.

Most people follow habits and traditions without being aware of their surroundings or noticing the opportunities to become entrepreneurs. Because anyone can change their perspective from following established patterns to noticing the opportunities around them, anyone can become an entrepreneur. There is no restriction on age, gender, race, country of origin, or personal income. To become an entrepreneur, you need to recognize that an opportunity exists and be willing to act on it. Note, however, that the execution of the entrepreneurial mindset varies in different parts of the world. For example, in many Asian cultures, group decision-making is more common and valued as a character trait. In these regions, an entrepreneur would likely ask the advice of family members or other business associates before taking action. In contrast, individualism is highly valued in the United States and so many US entrepreneurs will decide to implement a plan for the business without consulting others.

ENTREPRENEURIAL SPIRIT AND PASSION

An entrepreneurial spirit allows entrepreneurs to carry a manner of thinking with them each day that allows them to overcome obstacles and to meet challenges with a can-do attitude. What does it mean to have an entrepreneurial spirit? For the purposes of this discussion, it could mean being passionate, purposeful, positive, bold, curious, or persistent.

The founders of Airbnb have a passion for supporting individual rights to rent out unused space. Why should the established model of hotels prevail? Why shouldn't an individual homeowner have the freedom to rent out unused space and leverage that space into an income? Airbnb has succeeded in creating more flexible and affordable options in the space of the rapidly growing "sharing" economy. At the same time, some states and municipalities have raised issues about the regulations monitoring ventures like this. While entrepreneurial spirit is partly about fighting for individual rights and freedoms, there should be a balance between economic freedom and consumer protection. The entrepreneurial spirit involves a passion for presenting an idea that is worthwhile and valuable, and a willingness to think beyond established patterns and processes, while still keeping in mind local laws and regulations, in the quest to change those established patterns, or at least to offer alternatives to those established patterns.

Passion is a critical component of the entrepreneurial process. Without it, an entrepreneur can lose the drive to run the business. Passion can keep an entrepreneur going when the outside world sends negative messages or less-than-positive feedback. For example, if you are truly passionate about starting an animal shelter because of your love of animals, you will find a way to make it happen. Your internal drive to help animals in need will spur you on to do whatever it takes to make the shelter become a reality. The same is true of other types of startups and owners with similar passions. However, passion needs to be informed by the entrepreneur's vision and mission—passion of the sake of passion is not enough. A clear mission statement—which details why the business exists and the entrepreneur's objectives for achieving that mission—will guide an entrepreneur's passion and keep the business on track. Passion, vision, and mission can reinforce each other and keep the entrepreneur on the right track with next steps for the business.

Some ideas might seem small or insignificant, but in the field of entrepreneurship, it's important to recognize that for every new startup, someone else may recognize a spin-off idea that expands upon the original idea. The opportunities for identifying new possibilities are endless. Review your work in creating spinoff ideas for Angad Darvani's projects, or Kevin F. Adler's Miracle Messages venture. Or consider possible spin-off ideas around the technology used in agriculture. Creating spin-off ideas fits well with our discussion of divergent thinking and brainstorming. Through these processes, we can discover new uses for existing technology, just as Ring did by using video technology to add security by allowing customers to see who is at the door without opening it.

AN ENTREPRENEURIAL MINDSET IN YOUR DISCIPLINE OR FIELD

Within your industry of interest or area of study, what are the challenges that create frustration? How can these be turned into opportunities? Earlier in this chapter, we discussed Evernote, a company that focuses on expanding our memories by storing and organizing information. Let's look at some other examples of entrepreneurial endeavors in specific industries to help you plan your own venture in your own industry.

In the agriculture industry, insects, weeds, weather conditions, and the challenges of harvesting crops are all ripe for entrepreneurial activities. The move toward organic produce has also affected this industry. From an entrepreneurial perspective, what products could you invent to support both organic farming and the problems of insects that damage or destroy crops? The old method was to use chemical sprays to kill the insects, but today, the

growing demand for organic foods and increased awareness of the impact of chemical sprays on our environment are changing this scenario. One new idea to solve this problem combines a vacuum cleaner with an agriculture product.

Watch this video on the creation of a crop vacuum that sucks up insects and bugs to learn more.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=33>

A bug vacuum is an example of how using divergent thinking contributed to the solution of removing bugs from crops without using chemicals. In the group activity of creating divergent ideas, this idea may not have been received well. However, in the incubation stage, the idea must have come forward as a viable solution. Entrepreneurs frequently face the challenge of pressure to conform to established habits and patterns within industries.

Often, the entrepreneurial mindset includes futuristic ideas that shake up the normal, conventional processes that are grounded in experience over time. Tried-and-tested processes and products that have a proven history of success can be a formidable obstacle to new ideas. A new idea may even appear as impossible or outlandish, perhaps even an embarrassment to the steady and predictable practices established within an industry. This can create a dilemma: Do we try something new and unproven that lacks documented research? Sometimes, we must disregard our past successes and research to be open to new possibilities for success and failure. An entrepreneurial mindset includes creativity, problem-solving skills, and a propensity to innovation.³ Open-mindedness is one characteristic that supports creativity, problem solving, and innovation. Taking the time to explore new ideas, dream, reflect, and view situations from a new perspective contribute to the entrepreneurial mindset. Some innovations can lead to disruptions within the industry, or even create a new industry.

The innovator's dilemma was presented by Clayton Christensen to explain disruptive technology, which are technologies that, once introduced, displace established patterns, processes, and systems previously accepted as normal or accepted. One example of a disruptive technology is Airbnb, a company that threatens the established hotel industry by connecting personal resources to people who desire those resources. If you have a spare bedroom that you aren't using, why not sell that space to someone who wants and needs the space?

Airbnb has become a significant threat to the established hotel industry's business model of building large hotels and renting rooms within those hotels to their customers. Airbnb has reconfigured that model, and since its 2008 launch, 150 million travelers have taken advantage of 3 million Airbnb listings in more than 191 countries. Airbnb has raised more than \$3 billion (plus a \$1 billion credit line) and is considering selling stocks to support significant expansion. The value of Airbnb is approximately \$30 billion. Compare this market value to Hilton's market capitalization of \$19 billion and Marriott's of \$35 billion. If you were the CEO of Hilton or Marriott, would you be worried? The hotel industry recognized Airbnb as a threat, and in 2016, began a campaign to create legislation to rein in Airbnb's growth and popularity. From the hotel industry's perspective, Airbnb is not playing by the same rules. This is the definition of disruptive technology, the focus on creating a new idea or process that negates or challenges established process or products.⁴

3. Emma Fleck. "Needed: Entrepreneurial Mindset." Central Penn Business Journal, 34(12), 10.

http://pageturnpro2.com.s3-website-us-east-1.amazonaws.com/Publications/201803/15/83956/PDF/131668002208352000_CPBj033018WEB.pdf

4. Katie Benner. "Inside the Hotel Industry's Plan to Combat Airbnb." New York Times. April 16, 2017. <https://www.nytimes.com/2017/04/16/technology/inside-the-hotel-industrys-plan-to-combat-airbnb.html>

Sometimes disruptive technologies result from not listening to customers. Customers don't always know what they want. Customer groups might need to be redefined by the entrepreneurial team on the basis of better models, knowing when to invest in developing lower-performance products that promise lower margins while still satisfying the need, and knowing when to pursue small markets at the expense of larger or established markets. Basically, disruptive technologies occur through identifying new and valuable processes and products.

The founders of Airbnb recognized that some people have unused resources, bedrooms, that other people need. We can apply this idea to other unused resources such as vehicles and motor homes. We see this model reproduced in short-term car rental and bike-sharing programs.

1.4 Key Terms

career entrepreneur

someone who takes on the daily management as the owner of the venture, accepting, and perhaps enjoying, the daily risks and rewards of managing and building the venture

disruptive technology

technology that once introduced, displaces established patterns, processes, and systems previously accepted as normal or accepted methods

divergent thinking

process of generating as many ideas as possible, even when those ideas do not seem logical; the list of ideas can be conflicting, diverse, and disparate

due diligence

conducting the necessary research and investigation to make informed decisions that minimize risk

entrepreneur

someone who identifies an idea that no one else has acted on or identified; small business ownership and franchising are also entrepreneurial options

entrepreneurial mindset

awareness and focus on identifying an opportunity through solving a problem, and a willingness to move forward to advance that idea

entrepreneurial venture

any business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established

entrepreneurial vision

idea of what an entrepreneur wants a venture to become, what it will look like, what the driving forces are, and what values and culture should surround it

harvest

point at which the venture is sold, at which time the investors receive a return on their investment

lifestyle venture

business whose founders' primary focus is the lifestyle they will attain through becoming entrepreneurs, rather than a primary interest in financial rewards

mission statement

statement of an organization's reason for being that defines its primary long-term goal, explains what the venture will do, what value it will provide to the end customer, and how it will accomplish that action

opportunity-identifying perspective

method for identifying a problem and determining how it could be translated into an opportunity to create a new venture

quantifiable manner

method to determine if a goal has been met or not

serial entrepreneur

entrepreneur who becomes involved in starting multiple entrepreneurial ventures

SMART goals

well-structured and defined goals that are specific, measurable, achievable, realistic and timely

social entrepreneur

entrepreneur who has an interest in solving a social, environmental, or economic problem

value proposition

summary describing the benefits (value) customers can expect from a particular product or service

vision statement

picture of what the venture will become in the future or what the venture will grow into

1.5 Unit Summary

1.1 ENTREPRENEURSHIP TODAY

An entrepreneur is someone who takes on an entrepreneurial venture to create something new that solves a problem; small business ownership and franchising are also entrepreneurial options. The venture could be for profit or not for profit, depending on the problem it intends to solve. Entrepreneurs can remain in a full-time job while pursuing their ideas on the side, in order to mitigate risk. On the opposite end of the spectrum, entrepreneurs can take on lifestyle ventures and become serial entrepreneurs. There are many factors driving the growth of entrepreneurship, including employment instability, motivation to create something new, financial factors and free time associated with retirement, and the greater acceptance of entrepreneurship as a career choice. The cultures of nations around the world affect the ability for entrepreneurs to start a venture, making the United States a leader in entrepreneurial innovation. Entrepreneurs often find inspiration in social, environmental, and economic issues.

1.2 ENTREPRENEURIAL VISION AND GOALS

Establishing an entrepreneurial vision helps you describe what you want your venture to become in the future. For most entrepreneurial ventures, the vision also includes the harvesting or selling of the venture. There are creative ways, such as brainstorming and divergent thinking, as well as investigative ways to define an entrepreneurial vision. Once you have established your vision, it is important to write goals to help you realize the steps toward making your vision a reality.

1.3 THE ENTREPRENEURIAL MINDSET

Identifying new possibilities, solving problems, and improving the quality of life on our planet are all important aspects of entrepreneurship. The entrepreneurial mindset allows an entrepreneur to view the world as full of possibilities. Entrepreneurial passion and spirit help entrepreneurs overcome obstacles to achieve their goals. Disruptive technologies involve using existing technology in new ways and can provide new opportunities as well as new challenges. Entrepreneurship is transforming some industries and potentially creating others, though many entrepreneurs create value by starting small businesses, buying franchises, or introducing new services in mature industries. The key thing to remember is that anyone can be an entrepreneur and that new technologies are making the cost of starting a new business less costly, but still risky at some level.

1.6 Review Questions

1. What factors contribute to a growing interest in entrepreneurship?
 - unemployment levels
 - low job turnover rates
 - increasing levels of creativity
 - decreasing rates of discrimination
2. Angel investors contribute to the entrepreneurial world by _____.
 - a. outpacing venture capitalists in access to startup funds
 - b. directly investing in entrepreneurial startups
 - c. holding seminars to teach people how to become an entrepreneur
 - d. forming groups of other investors to supply greater quantities of investment funds to entrepreneurs.
3. An entrepreneur is someone who _____.
 - a. creates a small business based on other existing businesses
 - b. creates a home-based business that sells products available through other retailers
 - c. creates a business around the idea of solving a problem
 - d. is highly creative
4. Roxanne Quimby of Burt's Bees is an example of an entrepreneur primarily for which of the following reasons?
 - a. She saw available resources and recognized the resources could be used to create a business.
 - b. She acted on her passions.
 - c. She solved a significant societal problem.
 - d. She had the time and energy to dedicate to starting business.
5. In the early stages of developing an entrepreneurial venture, the entrepreneur might seek funding from which group?
 - a. venture capitalists
 - b. the local bank

- c. friends and family
- d. shark tank

6. The acronym SMART for goal setting stands for _____.

- a. short-term, measurable, accurate, relevant, and timely
- b. specific, measurable, accurate, relevant, and timely
- c. specific, measurable, achievable, realistic, and time oriented
- d. specific, measurable, achievable, results, and time oriented

7. A vision statement does not include _____.

- a. a picture of the future described in words
- b. concepts and ideas that inspire and focus people's actions toward a united outcome
- c. both creative and exploratory process in creating the vision
- d. the scope of the venture

8. Which one of the following is not a quantifiable result?

- a. 5 percent annual growth in sales
- b. increase market share by 2 percent
- c. decrease collection of accounts receivable by \$5,000.00
- d. increase creativity throughout the venture

9. Which of the following is not a creativity building technique or tool?

- a. conducting a case study
- b. brainstorming activities
- c. mind map creation
- d. brain writing

10. Disruptive technologies include all but which of the following?

- a. new methods or approaches that make established methods obsolete
- b. self-booking of air travel
- c. restaurant food delivery services
- d. a change from ownership of resources to the ability to have access to resources

11. The entrepreneurial mindset includes _____.

- a. a willingness to develop ideas that are not always initially popular
- b. a willingness to wait for an idea to become popular before moving forward with that idea
- c. an ability to focus on past successes
- d. a belief in following tradition and established patterns

1.7 Discussion Questions

1. How would you explain the concept of an entrepreneurial vision to your college roommate who is a history major?
2. Identify five disruptive technologies and the industries that these technologies impact.
3. In thinking about the future, and your own experiences, what opportunities are there for disruptive technologies in one or two familiar industries? What does it mean to have an entrepreneurial mindset?
4. Discuss the basis for defining a target market. How does a focus on a target market assist with the development or adjustment of an idea?
5. Explain the importance of being self-reflective and honest before, during, and after starting an entrepreneurial journey.
6. Using the information on the steps for an entrepreneurial journey, give your own example with connections to this section's main concepts.
7. Consider the potential questions that you might ask yourself before you launch a venture. Discuss two or three questions that resonate with you and your personal experiences. Why or how do these questions influence you more than others?
8. Think about yourself within the context of the "nature or nurture," "born or made" argument. How do you feel these perspectives combine in your own potential as an entrepreneur?
9. What are the similarities and differences between the life cycle stages of a person and a venture? How can these two concepts assist you in creating a successful venture?
10. Consider the historical information on entrepreneurship and innovation. How does our current economy, which is based on technology and knowledge, support entrepreneurial activity?
11. Consider the multiple pathways to entrepreneurship. How might your own current situation reflect a potential pathway to entrepreneurship?
12. Is there a difference between a soft launch and a soft open? Why are two different terms used?
13. What are the benefits of a soft launch? What are the negatives of a soft launch?
14. Outline your background and training, and then discuss the importance of connecting your background and training with a potential entrepreneurial pathway.
15. How does creating an action plan help you become a successful entrepreneur?
16. What is the connection between an action plan and a framework? How are they different?
17. Why are more individuals pursuing nontraditional entrepreneurship opportunities?
18. What is the difference between an immigrant entrepreneur and a minority entrepreneur? What are the similarities?

1.8 Case Questions

1. On Angad Daryani's website, he says he believes "that the path humanity follows, need to be pivoted for the better." What other needs or problems do humans have? Create a list of twenty needs that would fit Angad Daryani's belief statement.
2. Research Miracle Messages. Identify Miracle Messages vision statement, mission statement, and value statements. Do not copy their statements, but rather create your own statements based on what you would create if you were the lead entrepreneur for this organization.
3. Identify five other organizations that have services or products that you would want to partner with if you were the lead entrepreneur of Miracle Messages. What value does each of these five organizations provide to Miracle Messages' vision, mission, and value? What services or products are not supported either through Miracle Messages or the five organizations you addressed? What new for-profit or nonprofit could be created as a spinoff idea from your research on Miracle Messages?
4. Review the website [Costal Tractor](#) to learn more of about this business. What spinoff ideas could you identify using this same technology or concept as the bug vacuum?
5. In reviewing Coastal Tractor's website, what evidence of an entrepreneurial mindset is present within this company's website?
6. Do you think Coastal Tractor is using a disruptive technology? Why or why not?

2.1 Overview of the Entrepreneurial Journey

Learning Objectives

By the end of this section, you will be able to:

- Explain the entrepreneurial journey to explore and discover entrepreneurship as a career choice
- Identify the steps, decisions, and actions involved in the entrepreneurial journey
- Recognize the rewards and risks of the steps in the entrepreneurial journey

SELF-EMPLOYMENT AS AN ENTREPRENEURIAL JOURNEY

When the economy and the job market are strong, the entrepreneur has a safety net that decreases the risks in creating a new venture, a startup company or organization that conducts business or is created to satisfy a need, and allows for a quick recovery if the venture is not successful. There are more new startups when there are high levels of confidence in both the venture's success and the entrepreneur's confidence in finding employment if the venture fails. People over 40 years of age account for most new startup activity, in part because of the continuing trend in which a business may choose not to hire an employee but instead hire an independent contractor, a person who provides work similar to an employee without being part of the payroll for the contracting business, and who is responsible for paying their own taxes and providing their own benefits. With previous knowledge and expertise, this group of entrepreneurs recognizes opportunities created by this move away from hiring full-time employees to more outsourcing to independent contractors.

One contributor is the gig economy, which involves using temporary and often transitional positions hired on a case-by-case basis, rather than keeping a full staff of hired employees. Advantages for the employer include a decrease in cost of benefits and loyalties to specific employees. Advantages for the hired worker or independent contractor (sometimes called a freelancer) include no long-term commitment and flexibility in accepting contracts. From an entrepreneurial perspective, the creation of websites that support the gig economy offers opportunities for independent ventures. Many people today are becoming small entrepreneurs. This process goes by a variety of names, such as the sharing economy, the gig economy, the peer economy, or the collaborative economy. Maybe it means driving for a company such as Lyft, Uber, or GrubHub, or perhaps offering services through TaskRabbit, UpWork, or LivePerson.

The projected numbers of independent contractors and on-demand workers are stated as 42 percent for small businesses by the year 2020, a growth of 8 percent from current figures.¹ And a projection of greater than 50 percent of the workforce will be independent contractors by 2027 if this trend continues at the current pace.² In the “Freelancing in America: 2019” report, the sixth annual study by UpWork and Freelancers Union, 57 million United States citizens are estimated to freelance, with income approaching 5 percent of US gross domestic product (GDP) at nearly \$1 trillion and earning a median rate of \$28.00 an hour, representing an hourly income greater than 70 percent of workers in the overall US economy.³ One report found that 94 percent of net job growth from 2005 to 2015 was in alternative work categories, with 60 percent due to independent contractors and contract company workers.⁴

According to the US Bureau of Labor Statistics, the number of self-employed Americans is growing, with 9.6 million self-employed people at the end of 2016. That number is expected to grow to 10.3 million by 2026.⁵ A more recent study by FreshBooks’ second annual “Self-Employment” report predicts that 27 million US employees will leave traditional work in favor of self-employment by 2020, tripling the current population of full-time self-employed professionals to 42 million. The main driver for this change in the workforce is a greater desire for control over one’s career with the ability to have greater control over working hours and acceptance of work.⁶⁷

Of course, self-employment is a broad category that includes small-business owners as well as entrepreneurial startups and freelance gig employees. Since 2016, there has been a downward slide in the number of employees working for self-employed businesses, which results from a variety of factors, including difficulties in finding qualified employees, qualified employees having more employment options, such as employment through the gig economy, outsourcing activities, and technology actions that decrease the need for employees, with entrepreneurial activity remaining steady.⁸

ENTREPRENEURSHIP AROUND THE WORLD

In a 2017 Business Insider article, “America Needs Immigrant Entrepreneurs,” David Jolley writes that immigrants constitute 15 percent of the US workforce and 25 percent of the country’s workforce of entrepreneurs.⁹ Forty percent of startups include at least one immigrant. Jolley’s article cites a study that identified immigrants as twice

1. David Pridham. “Entrepreneurs: Here’s Good News for 2018.” *Forbes*. 2018. <https://www.forbes.com/sites/davidpridham/2018/01/10/entrepreneurs-heres-good-news-for-2018/#660f5ebd6659>
2. UpWork and Freelancers Union. “Freelancers Predicted to Become the U.S. Workforce Majority within a Decade, with Nearly 50% of Millennial Workers Already Freelancing, annual ‘Freelancing in America’ Study Finds.” UpWork. October 17, 2017. <https://www.upwork.com/press/2017/10/17/freelancing-in-america-2017/>
3. UpWork. “Sixth Annual ‘Freelancing in America’ Study Finds That More People Than Ever See Freelancing as a Long-Term Career Path.” UpWork. October 3, 2019. <https://www.upwork.com/press/2019/10/03/freelancing-in-america-2019/>
4. David Pridham. “Entrepreneurs: Here’s Good News for 2018.” *Forbes*. 2018. <https://www.forbes.com/sites/davidpridham/2018/01/10/entrepreneurs-heres-good-news-for-2018/#660f5ebd6659>; Lawrence F. Katz and Alan B. Krueger. “The Rise and Nature of Alternative Work Arrangements in the United States, 1995–2015.” 2016. https://scholar.harvard.edu/files/katz_krueger_cws_final_nov2018.pdf.
5. Elka Torpey and Brian Roberts. “Small-Business Options: Occupational Outlook for Self-Employed Workers.” US Bureau of Labor Statistics. May 2018. <https://www.bls.gov/careeroutlook/2018/article/self-employment.htm>
6. Carly Moulton and Dave Cosgrave. “Second Annual Self-Employment Report.” FreshBooks. 2017. <https://www.freshbooks.com/wp-content/uploads/2018/04/2018selfemploymentreport.pdf>
7. OECD Data. “Self-employment Rate.” OECD.org. n.d. <https://data.oecd.org/emp/self-employment-rate.htm>.
8. Arnobio Molrelix. “The Biggest Reason the U.S. Needs Small Businesses to Thrive Has Nothing to Do with Taxes or the Economy.” *Inc.*, Dec. 20, 2018. <https://www.inc.com/arnobio-morelix/inc-entrepreneurship-index-2018-q3.html>
9. David Jolley. “America Needs Immigrant Entrepreneurs.” *Business Insider*. September 5, 2017. <https://www.businessinsider.com/america-needs-immigrant-entrepreneurs-2017-9>

as likely to start a business as people born in the United States. In 2016, 40.2 percent of Fortune 500 companies were founded by at least one immigrant or a child of immigrant parents. Dinah Brin, writing for Forbes, stated in a 2018 article that immigrants form 25 percent of new US businesses and that new immigrant-owned firms generated 4 to 5 million jobs.¹⁰

These statistics and other findings have prompted countries such as Canada to revise their immigration policies to attract more entrepreneurial-minded immigrants. A World Bank report from May 2018 ranked the United States 53rd out of 190 countries for ease in starting a business, with higher scores representing greater ease.¹¹ The same report ranks the United States eighth for ease of doing business. The difference in these rankings indicates that once a business is established, factors such as regulations, permits, access to credit, and infrastructure support the business owner's ability to continue the business, but actually starting the business is more challenging. For any given country, ease in starting a business and the country's interest in supporting entrepreneurial activity are crucial in both attracting entrepreneurial people and supporting their ability to open a business. Imposing restrictive regulations and processes on new ventures significantly decreases the number of new ventures.

According to a 2018/2019 report, the highest rate of entrepreneurial activity worldwide in 2018 was in Angola at 41 percent.¹² Angola's low-income economy meant fewer employment opportunities, creating pressures to find other ways to earn an income. Guatemala and Chile reported 28 percent and 25 percent of entrepreneurial activity, respectively, with medium- and high-income economies. These percentages are quite high, considering that these economies offer employment opportunities in existing companies. In terms of innovation, India at 47 percent, and Luxembourg and Chile at 48 percent each, take the lead in offering new products and services not previously available. This entrepreneurial activity reflects the ease of starting a business. The Netherlands, Poland, and Sweden were reported as the easiest countries in which to start a new business, in part because many people in those countries view entrepreneurship as an attractive lifestyle. As you can see, both economic opportunities and a country's specific support for entrepreneurial behavior contribute to the number of people who enter entrepreneurial activities.

From a gender perspective, there are currently over 11 million woman-owned businesses in the United States. This number includes both small business owners and entrepreneurs. Thirty years ago, there were only 4 million woman-owned businesses.¹³ The number of woman-owned businesses has increased 45 percent between 2007 and 2016, five times faster than the national average, with 78 percent of new women-owned businesses started by women of color.

STARTING YOUR ENTREPRENEURIAL JOURNEY

How do you fit into this entrepreneurial journey? This chapter will help you to explore and discover your potential for entrepreneurship as a career choice. Think of this exploration and discovery experience as a way to map out a strategy to reach your goals or dreams. Let's imagine that your dream vacation is a hiking trip to Glacier National Park in the US state of Montana. Just as hikers have different levels of experience, so do entrepreneurs. Just as your plan for a wilderness hike would involve many stages, your entrepreneurial journey involves multiple levels

10. Dinah Wisenberg Brin. "Immigrants Form 25% of New U.S. Businesses, Driving Entrepreneurship in 'Gateway' States." Forbes. July 31, 2018. <https://www.forbes.com/sites/dinahwisenberg/2018/07/31/immigrant-entrepreneurs-form-25-of-new-u-s-business-researchers/#10ee8099713b>
11. "Ease of Doing Business Rankings." Doing Business. May 2019. <http://www.doingbusiness.org/en/rankings>
12. Niels Bosma and Donna Kelley. "Global Entrepreneurship Monitor 2018/2019 Global Report." GEM Consortium. January 21, 2019. <https://www.gemconsortium.org/report/50213>
13. Gary Stockton. "Statistics and Obstacles Facing Women Entrepreneurs." Experian. January 29, 2018. <http://www.experian.com/blogs/small-business-matters/2018/01/29/statistics-and-obstacles-facing-women-entrepreneurs/>

of self-discovery, exploration, experiences, and accomplishments on your way to success. For our purposes, the term entrepreneurial venture means any type of new business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established. For each story of entrepreneurial success that is shared—such as that of Facebook or Airbnb—there are even more lesser-known entrepreneurial success stories such as Zipline, a company that delivers medical supplies in Rwanda and Ghana by drone. These entrepreneurs faced the same dilemmas in pursuing their passion, or opportunities, which led them to their entrepreneurial destiny. They courageously stepped out of their comfort zones to explore the possibilities that lie ahead. What is the difference between entrepreneurs and you? The main difference is taking that first step. Many people have ideas that fit into the definition of an entrepreneurial idea but never take that first step. Just as the Chinese philosopher Lao Tzu suggests, every journey begins with a single step.

Exercise – Taking the First Step

Go to Fire Nation's website on taking the first step to learn more. Changing your mindset (your perception of yourself and your life situation) and encountering trigger events (significant external situations) can nudge you into taking the first step toward being an entrepreneur.

- Is there a venture you've always thought you should start but never did?
- Think about what factors are stopping you. Consider your mindset and how you might change your mindset so that your venture could become a reality.
- What are some possible trigger events that could make the difference between starting your venture and waiting to start your venture?

Opening your future to the possibility of starting your own venture brings new and exciting experiences (Figure 2.2). Every entrepreneur moves through several steps in considering the entrepreneurial journey. Once you understand this journey, the steps will help you define your path toward creating and starting your new venture. Each step of this process offers another level of understanding that prepares you for long-term success. How will you achieve this success? By taking one step at a time, exploring and learning, considering new ideas and expectations, and applying these experiences to achieve your personal outcome. Think of the entrepreneurial journey as a guide to knowing what is in store for you as you start your new venture.



Figure 2.2 For some, preparing for an entrepreneurial journey may seem like going on a river-rafting adventure that combines beautiful scenery with some exciting, but perhaps frightening, challenges. (credit: "Hands Up" by Jeramey Jannene/Flickr, CC BY 2.0)

One benefit of outlining a step-by-step process is the opportunity to explore different paths or behaviors that may lead to an entrepreneurial venture. Think again of your dream visit to Glacier National Park. How would you get there? What equipment would you need? What kinds of experiences would you expect to have? Think of the Glacier National Park journey as your entrepreneurial journey, a metaphor intended to help you as you create your career as an entrepreneur.

What makes someone ready or willing to choose entrepreneurship over becoming an employee of an established business or a small business owner? It takes confidence, courage, determination, resilience, and some know-how to select entrepreneurship as a career as well as the recognition of the opportunity. An entrepreneur is defined as someone who not only recognizes an opportunity but who also is willing to act on that opportunity. Both actions are required. We might identify an opportunity, but many people do not act on the idea. Confidence, courage, and willingness are necessary to take that first step, as well as remembering the following:

You are unique. Even if two similar people attempted to launch identical ventures, the results would likely not be the same. This is because each one of us has different ideas, approaches, available resources, and comfort levels, all of which influence the venture's development and eventual success.

Although there are no hard and fast rules or theories of the best way to launch into entrepreneurship, we can gain wisdom from the lessons learned by experienced entrepreneurs.

Selecting an entrepreneurial career requires honesty, reflection, and a tendency to be action oriented. You will need to recognize your own strengths, limitations, and commitment as part of that honesty. Reflection is required for self-growth—seeking improvements in your own skills, interactions, and decision making—and commitment is required to maintain consistency in your willingness to make the new venture a top priority in your life. You will also need to understand that you cannot accomplish everything by yourself, and you may need to ask for help. It helps to be curious, open, and able to take calculated risks and to be resourceful and resilient when faced with challenges or obstacles.

Exercise – Entrepreneurial Potential Self-Assessment

Take this quick Entrepreneurial Potential Self-Assessment to assess your potential to become an entrepreneur. After completing this self-assessment, what new information did you learn about yourself? Do you think your answers will change as you acquire more life experiences and education? Why or why not?

Exercise – Optimizing Interest Areas

- What are three areas that interest you? These could be hobbies, work activities, or entertainment activities.
- How would someone else describe your skills and interests, or what you are known for?

Answering these questions provides insights into your strengths and interests.

- Next, what is one area that you are passionate about?
- What strengths could you bring to this passion to build your own business?

Keep an open mind in looking for an opportunity that fits your strengths and interests.

- If you decide to explore entrepreneurship, what would be your first step?
- What are your initial thoughts about being an entrepreneur?
- What would you review or search to find more information on your idea or area of interest?
- With whom would you first question or discuss this idea? Why?

THE ENTREPRENEURIAL JOURNEY AS A TRIP

The entrepreneurial journey is your exploration to discover if entrepreneurship is right for you. Every entrepreneurial journey is unique; no two individuals will experience it in the same way. Along the way, you will find opportunities and risks coupled with challenges and rewards. It's useful to think about the entrepreneurial journey as an exciting trip or other adventure. Most of the preparations and steps involved with planning a trip are like those for starting a venture. Just as you would plan and prepare for a trip—starting with inspiration and leading up to finally traveling on the trip—you might follow similar steps to launch a venture. And just as you would prepare for any challenges that you might encounter on a trip—bad weather, lost luggage, or detours—so

you should consider potential obstacles or barriers along your entrepreneurial journey (Figure 2.3). Think of these difficulties as opportunities to learn more about the entrepreneurial process—and about yourself and how you manage challenges.



Figure 2.3 The entrepreneurial journey might also include potential obstacles and barriers that travelers on this path must overcome. (credit: "Flickr – The U.S. Army – Camp Taji obstacle course" by The U.S. Army/Wikimedia Commons, Public Domain)

Developing a venture can be an exciting and active experience. It is also a lot of hard work, which can be equally rewarding and enjoyable. Here we present the entrepreneurial journey as seven specific steps, or experiences, which you will encounter along the road to becoming an entrepreneur. You'll find more information about the entrepreneurial journey in other chapters in this book.

- Step 1: Inspiration – What is your motivation for becoming an entrepreneur?
- Step 2: Preparation – Do you have what it takes to be an entrepreneur?
- Step 3: Assessment – What is the idea you plan to offer through your venture?
- Step 4: Exploring Resources – What resources and characteristics do you need to make this venture work?
- Step 5: Business Plan – What type of business structure and business model will your venture have?
- Step 6: Navigation – In what direction will you take your venture? Where will you go for guidance?
- Step 7: Launch – When and how will you launch your venture?

As you work through each step of the entrepreneurial journey you should prepare for significant aspects of this experience. You will meet with rewards and challenges, the consequences that result from the decisions made at various points along your journey. To visualize the steps of the entrepreneurial journey, imagine your possible hiking trip to Glacier National Park (Table 2.1). Just as hikers have different levels of experience, so do entrepreneurs. Compare the following aspects of preparing for a hike with aspects of your entrepreneurial journey.

HIKING AND ENTREPRENEURIAL JOURNEY METAPHOR

Type of Hiker	Mountain Hiking Skill Level	Entrepreneurial Journey Equivalent
Walker	Basic or limited hiking experience	New or limited entrepreneurial exposure Never started a venture
Climber	Moderate hiking experience Special skills for adventure, difficult terrain	Some entrepreneurial knowledge or experience Exposure to entrepreneurship (family or friend in business)
Mountaineer	Experienced hiker with technical skills for climbing hills and mountains	Experienced entrepreneur Attempted or launched a venture (solo or with partner)

STEP 1: INSPIRATION

When you think of being an entrepreneur, what is the inspiration for your venture? Just as you might have an inspiration for a hiking trip to Glacier National Park, you will have an inspiration behind the decision to become an entrepreneur. When you're planning a trip to a new and exciting place, one thing you might do is to imagine what you will experience along the journey and on arriving at your destination (Figure 2.4). This portion of the entrepreneurial journey includes imagining yourself as an entrepreneur or as part of an entrepreneurial team. For this stage, you need a creative, open, and innovative state of mind, also known as an entrepreneurial mindset, which is discussed in more detail in *The Entrepreneurial Mindset and Creativity, Innovation, and Invention*. Dream big about your potential future and opportunities (Figure 2.5).



Figure 2.4 The journey to entrepreneurship is as important as reaching your destination. (credit: "raise challenge landscape mountain" by "mohamed_hassan"/Pixabay, CC0)

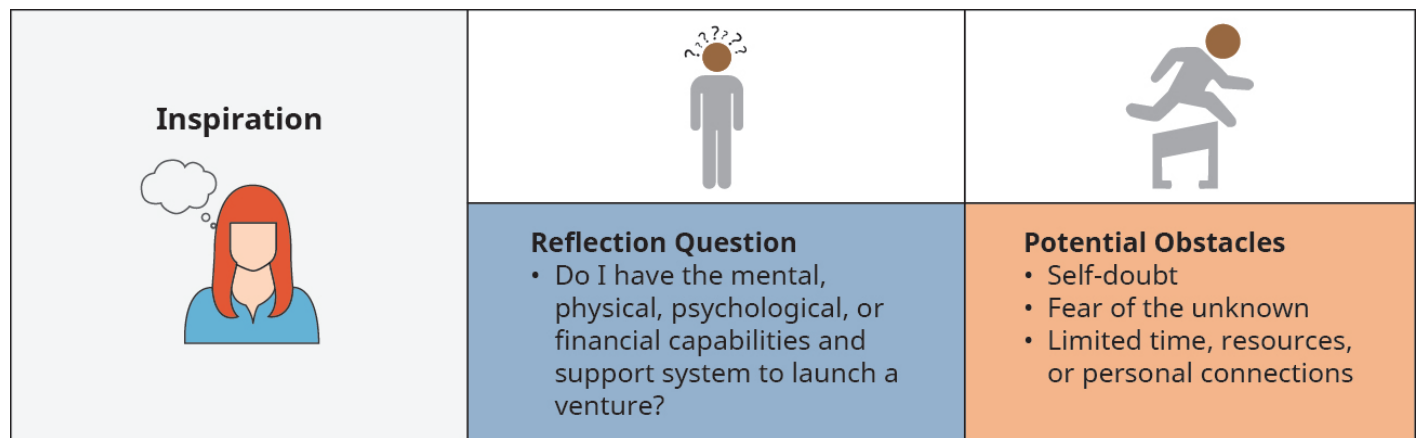


Figure 2.5 When inspired to start an entrepreneurial venture, one questions whether they can do it and identifies obstacles that might present challenges. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

STEP 2: PREPARATION

Just as when you are preparing for a trip, you need a plan (Figure 2.6) to move forward on your entrepreneurial journey. Before your dream hiking trip, you might gather information about Glacier National Park from a trusted source, such as a good friend with travel experience, or you might conduct online research. Your friend's feedback could be just the motivation you need to try this experience yourself. Or you might use your research to determine if the trip is possible. You will need to look at maps, either online or on paper. Either way, you might also consider travel and accommodation options, such as booking a flight and finding a place to stay. You might want to create benchmarks to align your journey with your available resources, such as the amount of time and the amount of money you have to spend on the trip. Benchmarking is a method of tracking target expectations with actionable results by comparing one's own company's performance with an industry average, a leader within the industry, or a market segment. Benchmarking can help design the trip to meet incremental goals and timelines. From both a travel plan and an entrepreneurial perspective, although benchmarking is used as a control mechanism, we know that situations can arise that require an alteration in the plan, causing the benchmarked items to also need adjustments.



Figure 2.6 It is important to plan out your entrepreneurial journey, as you would plan out a trip. (credit: "#conservationlands15 Social Media Takeover, August 15th, Santa Rosa and San Jacinto National Monument in California" by Bureau of Land Management/Flickr, CC BY 2.0)

Link to Learning

Which type of benchmarking will help you the most in beginning your entrepreneurial journey? Visit the American Society for Quality's resource page on benchmarking for help.

To plan for an entrepreneurial journey, you should first conduct some preliminary research regarding your venture idea. Your research must be honest and objective if it is to give you a clear picture of the venture. Next, you might organize and prioritize your research and thoughts. For instance, you might see an idea like yours online or on television, and feel disappointed that someone stole your great idea or beat you to the punch. This is a common occurrence in entrepreneurship, but it should not discourage you. Instead, use that knowledge and energy to find an overlooked or different aspect of your original idea. The difference might even be the focus on a different target market, a specific group of consumers for whom you envision developing a product or service. Further, it is critical to maintain a fluid focus upon expanding the scope of a product or service to uniquely differentiate provisions of benefits apart from existing benefits or those offered by competitors. A focus on a different target market is exactly how the Jitterbug smartphone was created, because it targeted senior citizens. The Jitterbug smartphone offers a larger screen, larger buttons, and simpler features that make it easier for older people to make quick calls or send texts.

Preparation also includes opening space in your life to the time and energy commitment needed to support your new venture. Are the important people in your life willing to support the interest and passion you will need to dedicate the time, energy, and other resources to this new venture? Review the questions shown in (Figure 2.7) to consider your answers to these questions.




<p>Preparation</p> 	 <p>Reflection Questions</p> <ul style="list-style-type: none"> • What do I want to accomplish now and in the future? • What will I offer, create, or change that might have an impact on the world? • Is there a better way to solve a problem or address an issue? • What are the conditions of my target market or environment? 	 <p>Potential Obstacles</p> <ul style="list-style-type: none"> • Lack of ideas or inspiration • Idea or venture already exists • Unrealistic expectations for the “perfect” or “right” solution • Fear of risks • Being too practical or too logical
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Figure 2.7 In preparing for your venture, you need to ask what you want to accomplish, what you want to offer, and who you want to target. You also need to consider what potential obstacles might present challenges. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

STEP 3: ASSESSMENT

Now that you have decided where to go for your trip and have gathered information to prepare for it, the next action is to create and set your schedule. This action is simple but critical, because it involves connecting and coordinating information and resources that fit your lifestyle and needs. For example, you might schedule an early-morning Uber or Lyft to the airport and electronic delivery of your plane tickets to your smartphone. For the entrepreneurial journey, this phase might also include recognizing appropriate relationships and gathering needed resources. For many entrepreneurs, the opportunity to receive guidance from trusted advisors or mentors may provide valuable insights on how to manage the process. This step allows for reflection on your idea and intentions. After you’ve done your researching and gathering knowledge about your idea through the preparation step, is the idea still viable? Is the idea still interesting to you? With a better understanding of the industry, your idea, and your own interests that you gained in Step 2, is this idea something that you still want to explore?




<p>Assessment</p> 	 <p>Reflection Questions</p> <ul style="list-style-type: none"> • Where will I find partners, customers, location(s), or other key resources? • Who can help me achieve my goal(s) and maintain a healthy business operational status? 	 <p>Potential Obstacles</p> <ul style="list-style-type: none"> • Limited connections • Partners without skills and resources that match your needs or goals • Limited education or experience
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Figure 2.8 Assessing relationships and resources allows for reflection on your idea and intentions. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

STEP 4: EXPLORING RESOURCES

Regardless of where you might travel, you could not complete your trip without adequate resources such as available financing. There are many ways you might fund a hiking trip: savings, loan, pay-as-you-go, sponsorship (family or friends), or any combination of these options, to name a few. No matter how you finance your trip, it might help to have a balance of available credit and cash on hand to support your day-to-day expenses and any extracurricular activities or even unforeseen emergencies. As discussed in Entrepreneurial Finance and Accounting, the US Small Business Administration (SBA) provides funding opportunities.

This scenario is mirrored in the entrepreneurial journey. Just as you wouldn't begin a trip without adequate resources, including access to cash, you wouldn't begin your entrepreneurial journey without the necessary resources, including cash. The options between funding a trip and funding a new venture are similar, but they have different names. For example, on a trip, you might use the cash you have on hand, from savings or a personal loan. For an entrepreneurial journey, you might address cash management—management of cash inflows and outflows to support cash needs of the venture—to include bootstrapping, a funding strategy that seeks to optimize use of personal funds and other creative strategies (such as bartering) to minimize cash outflows. (See Entrepreneurial Finance and Accounting for more information on bootstrapping.) Bootstrapping includes ideas like leasing instead of purchasing, borrowing resources, or trading unneeded resources for needed ones. Another example of cash management includes a business model that offers subscriptions rather than a payment received for an item purchased. Subscriptions provide the entrepreneur with cash up front, with the buyer receiving benefits throughout the year. Consider the example of Amazon. Amazon offers Prime with a yearly subscription service, as well as Subscribe & Save, Amazon Instant Video, Amazon Mom, and Amazon Web Services, all based on a subscription business model.

According to Entrepreneur.com, other potential subscription-based models include services or products geared to older consumers, with 8,000 people turning sixty-five every day. A similar idea offers services to college students. Both ideas would offer family members a subscription that sends monthly gifts or products to either the elderly person or college student. We also see this model offered to pet owners who pay a monthly subscription to receive treats and toys for the family dog. Looking back at Amazon, we see the company offering the ease of repeat purchases for frequently used products such as vitamins and air filters.

ENTREPRENEUR IN ACTION

Prospurly

Prospurly is a subscription-based company that uses Cratejoy’s subscription platform to sell small-batch artisanal products for bath, body, and home, marketing a natural lifestyle focused on the happiness of living a simple and appreciated life. Conduct your own research on Prospurly and other subscription-based businesses. Read the article, “How I Built a Subscription Business That’s Made over 50k in 6 Months,” on Cratejoy for more information about this company and Prospurly’s move from ideation to profitability.

Other ideas for finding funding include applying for grant funding.

The idea of exploring resources includes many other options besides how to fund a new venture. In a trial run, you would offer your product or service for sale within a limited market on a test basis to evaluate what additional resources are needed to support the success of the venture (Figure 2.9). Examples of places where a trial run fits well, depending on your product, include farmers markets, in-home sales, or through friends and family. The idea is to track the feedback you receive about your product or service. How do people react to the price, the quality of the product, the packaging? You can experiment by selecting one variable to adjust—changing the price, the packaging, the sales pitch, the presentation, or the quantity—to track reactions and make improvements based on this feedback. You may then decide to adjust other variables to gather more information, as well as considering what other resources are needed for the success of the new venture.




<div><p>Trial Run</p></div>	<div></div>	<div></div>
	<div><p>Reflection Questions</p><ul style="list-style-type: none">• How can I afford to achieve my goal and maintain my financial status once I get there?</div>	<div><p>Potential Obstacles</p><ul style="list-style-type: none">• Limited or little access to appropriate or adequate capital• Limited or few connections to obtain capital• Limited negotiation experience or knowledge</div>

Figure 2.9 During a trial run, you can use a limited market to test your product or service. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

STEP 5: BUSINESS PLAN

The ability to travel and visit new locations is a privilege and a great opportunity to gain exposure to new experiences and opportunities. In addition to the work involved in preparing for a trip, the act and process of traveling involves constant decision making to achieve your desired goals and outcomes. For instance, should you travel to one location in Glacier National Park and explore that area in depth? Or should you attempt to visit as many areas of the park as possible with your given resources and abilities?

The challenge at this step of your entrepreneurial journey is to remain focused on managing your resources to meet your goals and outcomes as you write your business plan for your new venture. You will need to focus on the skills, experience, and resources necessary for your venture, and the management and decision making required to ensure success and adjust your plan based on changes and new information. Just as you might find a location in Glacier National Park where you want to stay for a couple of nights, a deviation from your original business plan (discussed in Business Model and Plan) will also require adjustments and changes based on new information and insights.

Be honest with yourself by running a reality check about your ability to manage a venture, especially from a personal-capacity perspective. For example, if you start a business, will it be a part-time or full-time venture? Will you start while in school? Or will you wait until after graduation? The timing of opening the venture can be the difference between success and failure. Consider the difference between hiking in Glacier National Park in the middle of winter, when the daytime temperature is thirteen degrees below zero, and hiking in the middle of summer, when the daytime temperature is seventy-nine degrees. The timing of your visit to the park is an important part of your enjoyment and success in reaching your destination. In planning for your trip, you would pay attention to your departure time to ensure enjoyment and success in your adventure. Similarly, as part of your business plan, you would also research the best time to open your venture.

Finally, during your travels, getting lost, overwhelmed, or sidetracked is always possible. If you get lost when traveling, you might refer to social navigation apps such as Google Maps, Waze, or HERE WeGo, to find turn-by-turn directions and information. Or you might refer to a weblink, a printed map, or a local expert or guide familiar with the area. The business plan is your map. You should identify decision points and milestones, significant key accomplishments, in your plan. Milestones could include points such as hitting your breakeven point, the point at which income from operations results in exactly enough revenue to cover costs. If the financial projections in your business plan are unattainable, what is your next move within the plan? If you don't reach the milestones identified in your business plan, what alternative choices can you make to redirect your venture? The business plan, in its first draft, should inform you whether your venture has a chance at success. If there are negative areas, what can you change? Building this plan before starting the business provides you with knowledge and insights about your idea. Make any necessary changes to the plan to strengthen the possibility of success. Then when you open the venture, track whether the reality of the venture aligns with your business plan's projections and expectations. The business plan functions as both a road map to help you see where you are going next in building your venture and as a checklist to track whether you are on course or need to make adjustments. When entrepreneurs get off track, they can check out self-help websites, speak with a business coach or counselor, or contact local agencies or organizations, including those affiliated with the federal SBA. Organizations that offer free (or low-cost) small business counseling, mentoring, and training, include:

- SCORE (Service Corps of Retired Executives)
- Small Business Development Center (SBDC)
- Women's Business Center (WBC)

- US Export Assistance Center
- Veterans Business Outreach Center (VBOC)
- Other organizations include locally organized support such as pop-up entrepreneurial schools like PopUp Business School.

These and other resources will be discussed in more depth in Building Networks and Foundations. Look at the review questions and the discussion questions at the end of this section to prepare for creating your business plan.

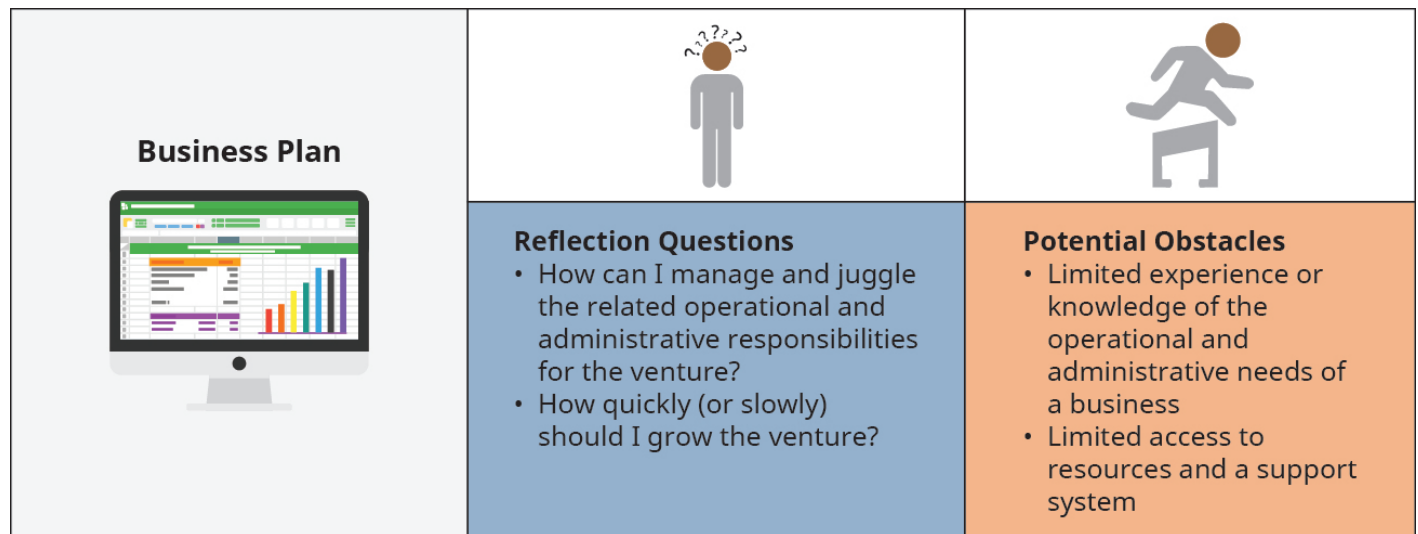


Figure 2.10 Writing a business plan before launching a venture can give you important insights into your idea and can help you modify your business before launch to give it a better chance of success. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

STEP 6: NAVIGATION

Once you've completed your trip, reflect on the experiences you had. No matter how well you feel you have planned, there is no way you can prepare for all of the potential challenges, changes, and obstacles that may occur: missed or changed flights, poor weather, an unexpected illness, a trail or road closed for repairs, or sudden good fortune. What parts of the trip went well? If you ran into a problem, how did you handle it? Was the problem something you could have anticipated and planned for? Or was it unexpected? What did you learn from the experience? If you were planning a trip to another national park, what would you do differently in your planning stage? Just as seasoned travelers adjust to their circumstances and learn from their experiences, so should you, as an entrepreneur, learn to adjust by meeting and managing challenges head on.

After completing your business plan, you will probably need to adjust your plan (Figure 2.11). You might decide that you will not have enough resources to survive the time until your venture reaches the breakeven point, or you might determine that the location you selected is no longer available. There are multiple variables that require further exploration and research.

By nurturing an entrepreneurial mindset, you will be better prepared when opportunities, challenges, or obstacles surface. Although you won't be able to predict or plan for every potential scenario along the entrepreneurial journey, an entrepreneurial mindset helps you to be resourceful when opportunities, challenges, or disappointments occur. By unpacking, or by taking an inventory of your available resources, you can also get a

better picture of what you may need to unload, retain, or discard, or even if a new direction is the best course of action. On your entrepreneurial journey, evaluating the experience or situation is a perfect opportunity for you to determine how realistic, overambitious, or shortsighted your dreams and goals for your venture may be. This chapter will explore your vision for your future and your venture. Does your vision include a level of flexibility when you discover new information that supports exploring a new area?

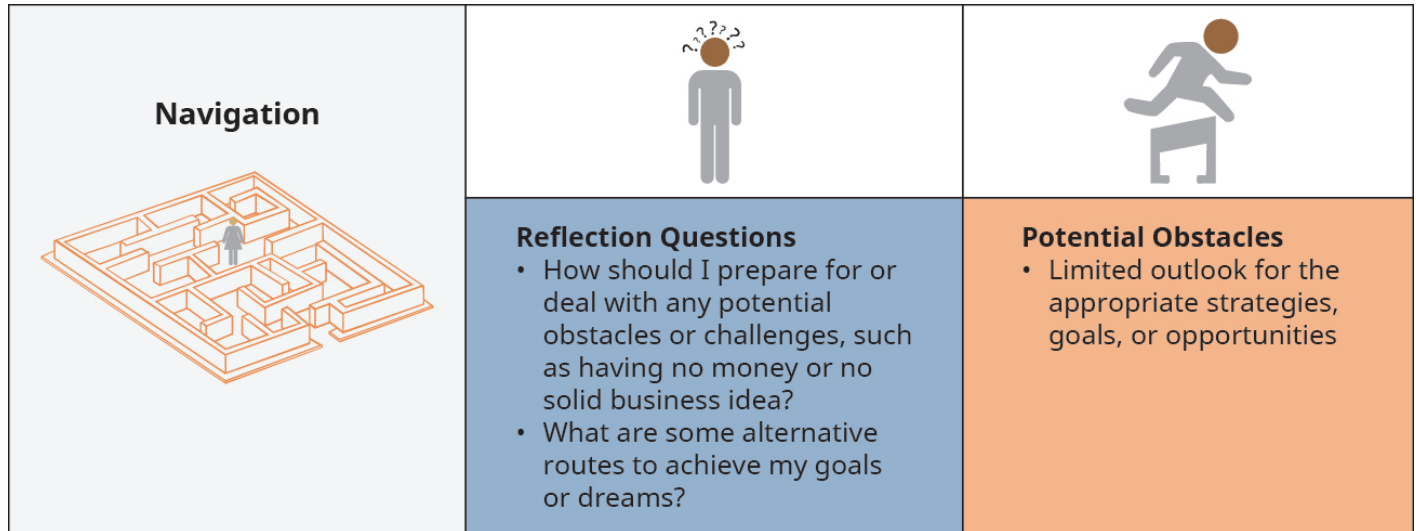


Figure 2.11 Navigation involves being prepared for and making changes when faced with obstacles. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

STEP 7: LAUNCH

The actual launch is the exciting event when you open your business. By this point, you have made improvements to your product through feedback received in your trial run; you've identified the value or benefits provided by your product; you've identified your target market; and you've identified the location of your launch, whether it is a geographical location or an Internet location.

Inc. magazine provides an analysis of the best locations to launch a new venture, with Austin, Texas, taking the lead (see "Surge Cities: These Are the 50 Best Places in America for Starting a Business," in Suggested Resources). Consider your target market and the resources necessary to support your venture when choosing the location for your launch. Advice from within the entrepreneurial world suggests that sometimes the launch should take place "under the radar," meaning in a location where you can make mistakes, fine-tune your business model and offerings, and even become successful without competitors noticing that you have created a disruption within the industry.

Even as you are launching your venture, many variables will require your attention, just as we covered in Step 7. Navigating through these variables as your venture grows requires constant attention as new potential opportunities arise.

ENTREPRENEUR IN ACTION

Sixto Cancel and Think of Us

Sixto Cancel successfully faced the harsh challenges of aging out of the foster-care system without adult support or guidance. He imagined a better foster-care system for young people then cofounded the firm Think of Us. Think of Us is a platform that helps young people in foster care build their own personalized digital advisory board of supportive adults who act as a virtual life-coaching group. The adults guide the young people through the foster-care system and ensure that they are able to become independent when they leave the system at age eighteen. For more information about this venture, visit www.thinkof-us.org.

2.2 The Process of Becoming an Entrepreneur

Learning Objectives

By the end of this section, you will be able to:

- Describe the evolution of entrepreneurship through American historical periods
- Understand the nine stages of the entrepreneurial life cycle

Scholars of business and entrepreneurship have long debated how people become entrepreneurs. Are entrepreneurs born or made? That is, are some people born with the natural skills, talent, and temperament to pursue entrepreneurship? Or can you develop entrepreneurship skills through training, education, and experience? These questions reflect the classic debates known as “nature versus nurture” or “born versus made,” which attempt to explain the determinants of a person’s personality and character.

This debate has been around for centuries. In classical Greece, Plato supported the nature argument, whereas Aristotle believed in the nurture perspective. During the eighteenth-century Enlightenment period, Immanuel Kant (1724–1824; supported the supremacy of human reason) and John Locke (1632–1704; opposed authoritarianism) argued their views. Kant firmly believed that obedience was the expected and desired behavior, whereas Locke believed in allowing some degree of freedom and creativity. The focus of the aspects of this argument changed when late-nineteenth-century psychologists sought to understand how individuals obtain knowledge, and as modern psychologists concentrated on additional factors such as intelligence, personality, and mental illness.

Scott Shane, a professor of entrepreneurial studies at Case Western Reserve University, codirected a study using identical twins and fraternal twins as the research subjects. Shane determined that entrepreneurs are about 40 percent born and 60 percent made, meaning that nature—that is, an individual’s DNA—is responsible for 40 percent of entrepreneurial behaviors, whereas nurture is responsible for about 60 percent of entrepreneurial behaviors.¹ Although “nature versus nurture” and “born versus made” are parallel arguments, researchers and experienced entrepreneurs suggest a combined viewpoint. You can unite your natural talents and abilities with training and development to achieve a well-rounded entrepreneurial experience and outcome. Once you determine that entrepreneurship is in your future, the next action is to establish a process to follow, such as identifying useful reading materials, attending classes or workshops, finding a mentor, or learning by doing through simulations or firsthand experiences. Firsthand experiences occur throughout our days and lives as we gain relevant experiences and as we develop a mindset to seek out opportunity-recognition behaviors. Completing coursework, such as reading this textbook, and reviewing the suggested resources provided within this textbook are actions that can support your knowledge and awareness of entrepreneurship as a valid option for your future.

1. I. Mount, “Nature vs. Nurture,” *Fortune Small Business* 19, no. 10 (2009): 25.

Exercise – Entrepreneurial Personality Test

Review Bill Wagner's article "What's Your Entrepreneurial Personality Type?" in Entrepreneur .

Then, go to The Entrepreneur Next Door at www.entrepreneur.com/nextdoor to take the Entrepreneurial Personality Test to find your personality type.

- Think about your results. Are you a generalist or a specialist?
- Once you know this information, what other entrepreneurial personality types do you fit into?
- How can you use this information in your pursuits as an entrepreneur?
- What does this information tell you about selecting members of your startup team?

HISTORICAL PERSPECTIVE

The evolution of entrepreneurship in the United States has spanned centuries. Entrepreneurs have responded to and innovated within the political and economic conditions of their times. The United States' economic and industrial spirit has inspired generations of entrepreneurial Americans. Understanding this history might help you appreciate the importance of entrepreneurship as you consider your own entrepreneurial journey.

During the late 1700s, the Pembina Band of Chippewa lived along the Red River of the North, which flows through North Dakota and Minnesota, and into Canada. European explorers established trading posts in this region and bargained with the Pembina and others for pemmican, a buffalo or fish jerky created by tribes for survival during harsh winters when food was scarce. The Pembina pemmican was exported internationally through trading with French, Canadian, British, and other explorers.² The Pembina solved a problem of food scarcity, then leveraged the product to trade for other products they needed that were available through the trading posts.

In the late 1880s, Madam C. J. Walker, an African American hair-care entrepreneur, developed and marketed her products across the United States (Figure 2.12), hiring sales agents and founding the Madam C. J. Walker Hair Culturists Union of America and the National Negro Cosmetics Manufacturers Association in 1917.³ She started her company with a philosophy of "hair culture," which quickly became popular and eventually led to steady employment for African American women. Another African American, Charles Drew, established the national blood bank in the late 1930s, just before World War II gave rise to the need for quick access to blood.⁴ He researched transfusion medicine and saw a need that he wanted to fulfill. Drew applied the ideas from his doctoral thesis to create the blood bank and continued to innovate, developing mobile blood donation stations.

2. "Summary of North Dakota History – Fur Trade." State Historical Society of North Dakota, Red River Fur Traders. n.d. <https://www.history.nd.gov/ndhistory/furtrade.html>

3. "Madam C. J. Walker's 'Wonderful Hair Grower.'" National Museum of African American History and Culture, Smithsonian Institution. <https://nmaahc.si.edu/blog-post/madam-cj-walker%E2%80%99s-%E2%80%9Cwonderful-hair-grower>

4. "The Color of Blood." National Museum of African American History and Culture, Smithsonian Institution. <https://nmaahc.si.edu/blog-post/color-blood>



Figure 2.12 Madam C. J. Walker developed her own hair care line, which is still sold today. (credit: Collection of the Smithsonian National Museum of African American History and Culture, Gift from Dawn Simon Spears and Alvin Spears, Sr.)

COLONIAL AND EARLY AMERICA: 1607–1776

The earliest concept of an “entrepreneur” can be traced to this era, from the French *entreprendre*, which translates as “to do something” or “to undertake.”⁵ Jean-Baptiste Say (1767–1832), a French philosopher, economist, and businessman, supported lifting restraints to encourage business growth, a highly liberal view in the late 1700s. “The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield,” is a concept attributed to Say, as is the word *entrepreneur*.⁶

Entrepreneurial-minded persons included merchants, landowners, manufacturers in textile-related trades, shipbuilders, explorers, merchants, and world market traders.⁷ The first immigrants to the British colonies took advantage of several key inventions developed before this era, such as printing, double-entry bookkeeping, and improvements in ship design and navigational instruments. The first North American patent was granted in 1641 by the Massachusetts General Court to Samuel Winslow for a new process for making salt. The entrepreneurial spirit of the early colonists helped shape an economic landscape that lasted for generations. Some notable pioneering inventors and entrepreneurs are shown in Table 2.2 and (Figure 2.13).

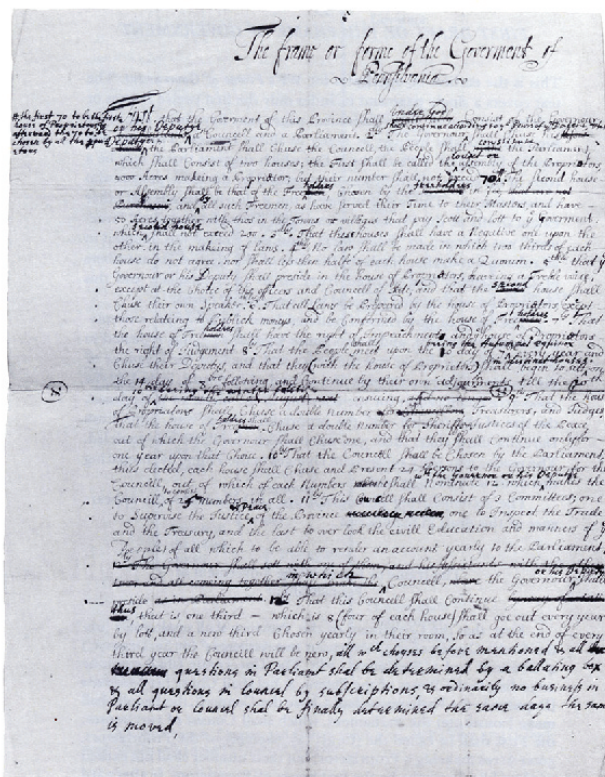
5. Russell S. Sobel. “Entrepreneurship.” Library of Economics and Liberty. 2008. <http://www.econlib.org/library/Enc/Entrepreneurship.html>

6. Tim Hindle. “Entrepreneurship.” The Economist. April 27, 2009. Adapted from Tim Hindle, The Economist Guide to Management Ideas and Gurus, Profile Books.

7. J. McAllister. “Colonial America, 1607–1776.” Economic History Review. 42, no. 2 (1989): 245–59. https://www.jstor.org/stable/2596204?seq=1#page_scan_tab_contents

NOTABLE EARLY US INVENTORS AND ENTREPRENEURS

Inventor or Entrepreneur	Contribution(s)	Significance
Pierre-Esprit Radisson (1640–1710), French explorer	Founded Hudson's Bay trading company	Offered bartering of furs for textiles and guns
William Penn (1644–1718), colonist	Founded Commonwealth of Pennsylvania as a sanctuary for Quakers	Early social entrepreneur
Sybilla Masters (1676–1720), inventor	Invented method to clean and refine corn grown by early settlers	Patent for a process for cleaning and milling corn (1715)
Thomas Hancock (1703–1764), merchant	Founded trading house that furnished multiple goods	Sought alternative funding sources to finance business interests
Benjamin Franklin (1706–1790), inventor, publisher, statesman	Established printing franchises and an infrastructure for his apprentices to launch in other colonies	Epitome of an inventor and serial entrepreneur



(a)



(b)

Figure 2.13 (a) William Penn founded the Commonwealth of Pennsylvania as a sanctuary for persecuted Quakers. This colony could be considered an early form of social entrepreneurship. Shown is his first draft of *The Frame of Government in Pennsylvania*. (b) As one of the country's founders, Benjamin Franklin contributed to the Declaration of Independence. His accomplishments as a printer, writer, postmaster, diplomat, and scientist (he contributed to the understanding of electricity) epitomize serial entrepreneurship. In this painting by Charles Mills, a young Ben Franklin is seen operating a printing press. (credit (a): modification of "William Penn – The First Draft of the Frame of Government – c1681" by University of Pennsylvania/Wikimedia Commons, Public Domain; credit (b): modification of "Franklin the printer" by Library of Congress/Wikimedia Commons, Public Domain)

As entrepreneurship flourished in the American colonies, the economic structure also began to emerge. The prevailing view of economics was associated with the stockpiling of gold and silver. Colonists perceived imports as a reduction of metal wealth—gold and silver money—and felt that exports channeled these metals back to the colonies. To categorize the economic mindset of the time, the Scottish philosopher and economist Adam Smith

(1723–1790) wrote *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). This influential treatise outlined the concepts of free trade and economic expansion through capitalism, a system in which individuals, people, and companies have the freedom to make decisions and own property as well as benefit from their own efforts, with government playing a secondary role in oversight. This book confirmed Smith as the “father of economics” and modern free trade. Among the most significant concepts that Smith proposed were the “invisible hand” theory of supply and demand in the marketplace; the use of the GDP to measure a country’s level of production and commerce; and the self-interest concept, whereby individuals inadvertently help others as they pursue their own goals.⁸ The ability to gain personally from entrepreneurial activities is a key factor in supporting entrepreneurial behavior. Smith’s concepts continue to influence modern economics and entrepreneurial activity.

THE FIRST INDUSTRIAL REVOLUTION: 1776–1865

As the colonies expanded, so did opportunities and interest in property ownership, manufacturing, inventions, and innovations. An innovation is any new idea, process, or product, or a change to an existing product or process. The understanding and acceptance of innovation developed around 1730, when the economist Richard Cantillon identified the first academic meaning and characteristics of “entrepreneurship” as the “willingness to bear the personal financial risk of a business venture.”⁹ The First Industrial Revolution was notable for the explosion of inventive activities by the “great inventors,” who pursued entrepreneurial opportunities to meet market needs, demands, and economic incentives.¹⁰

An important thing to keep in mind is that dates of inventions don’t necessarily reflect specific launch dates. Development of these inventions may have been ongoing for years or decades before they were considered market-viable products.

A plethora of inventors and their inventions transformed several industries and economic classes across the growing nation. During this era, the country benefited from inventions that created, expanded, or revolutionized industry and increased wealth and expansion. These revolutionary inventors included Eli Whitney (cotton gin, 1794), Elias Howe (sewing machine, 1845), and Samuel Morse (telegraph, 1830s–1840s) (Figure 2.14). Many other people contributed to these and other inventions.

8. “About Adam Smith.” Adam Smith Institute. n.d. <https://www.adamsmith.org/about-adam-smith/>

9. Russel S. Sobel. “Entrepreneurship.” The Library of Economics and Liberty. n.d. <http://www.econlib.org/library/Enc/Entrepreneurship.html>

10. B. Zorina Khan and Kenneth L. Sokoloff. “‘Schemes of Practical Utility’: Entrepreneurship and Innovation among ‘Great Inventors’ in the United States, 1790–1865.” *Journal of Economic History*. 53, no. 2 (289–307) doi: 10.1017/S0022050700012924

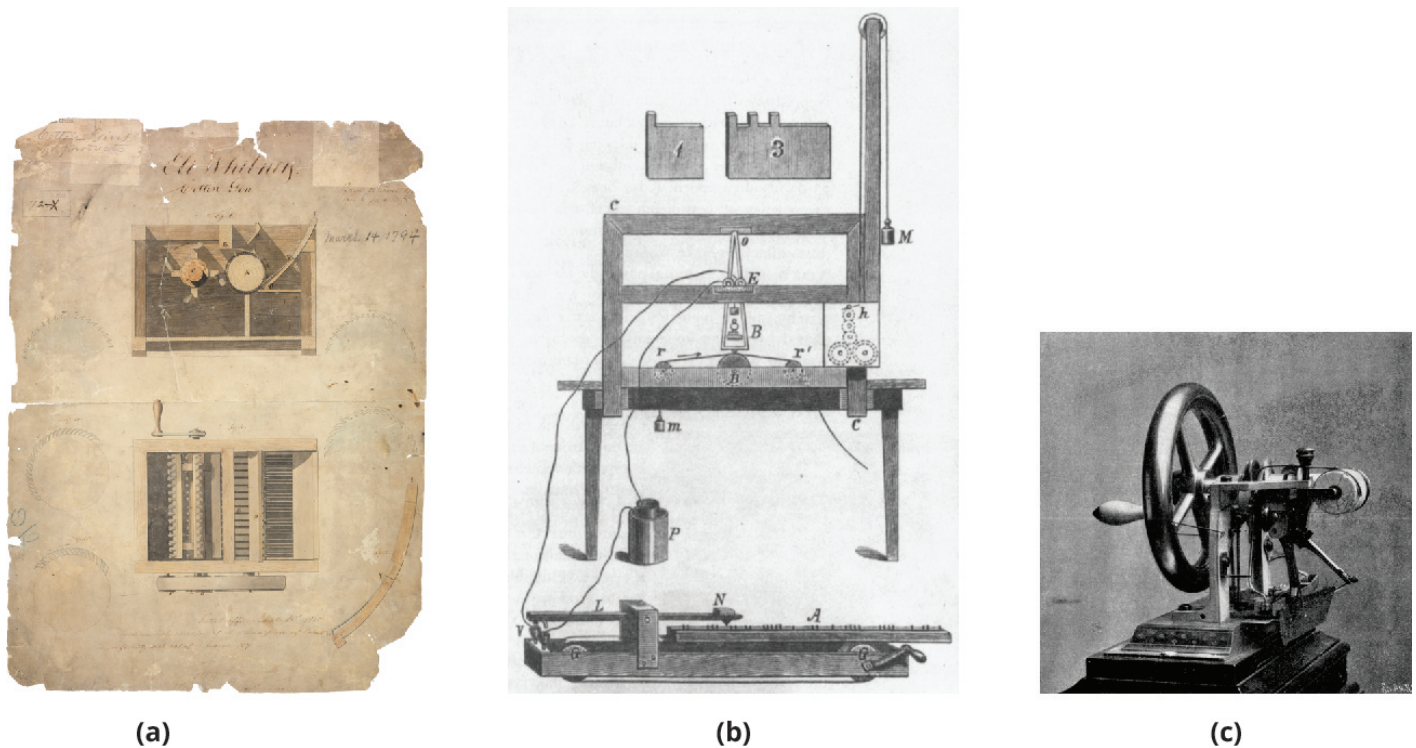


Figure 2.14 Inventions abounded during the First Industrial Revolution. (a) A US patent was granted to Eli Whitney in 1794 for the cotton gin. (b) This sketch shows Samuel Morse's telegraph. (c) Elias Howe invented the sewing machine. (credit (a): modification of "Patent for Cotton Gin (1794)" by "Gamaliel"/Wikimedia Commons, Public Domain; credit (b): modification of "Morse telegraph" by Unknown/Wikimedia Commons, Public Domain; credit (c): modification of "Elias Howe Sewing Machine 1846" by Unknown/Wikimedia Commons, Public Domain)

Although he was not an inventor but an industrialist, Andrew Carnegie provides an interesting example. A manufacturer who focused on the value of innovations and how to implement them, Carnegie adopted newly developed techniques to improve steel production. He also was among the first to implement vertical integration, the strategy of gaining control over suppliers of raw materials and distributors of finished products to expand or control the relevant supply chain. He developed a reliable network of suppliers and distributors to support his steel factories. Carnegie also was one of the first magnates to practice philanthropy. He gave away much of his immense fortune to support community and public library systems, concert halls, museums, and scientific research.¹¹

These entrepreneurial pioneers, and many others like them, sought ways to earn a return on investment on an invention and to protect themselves legally through the patent process. A patent is a legal grant of protection for an inventor over the rights, usage, and commercialization of an invention for a set time period.¹² An early US patent was issued in 1790 to Samuel Hopkins for his process of making potash as a fertilizer ingredient.¹³

11. Susan Stamberg. "How Andrew Carnegie Turned His Fortune into a Library Legacy." Morning Edition. August 1, 2013. <https://www.npr.org/2013/08/01/207272849/how-andrew-carnegie-turned-his-fortune-into-a-library-legacy>

12. Shontavia Johnson. "With Patents or Without, Black Inventors Reshaped American History." Smithsonian. February 16, 2017. <https://www.smithsonianmag.com/innovation/with-patents-or-without-black-inventors-reshaped-american-industry-180962201/>

13. U.S. Patent and Trademark Office. "First U.S. Patent Issued Today in 1790." USPTO Press Release #01-33. July 31, 2001. <https://www.uspto.gov/about-us/news-updates/first-us-patent-issued-today-1790>

The innovations of women, African Americans (enslaved or free persons), and other marginalized groups were crucial during this era. As we saw earlier, Sybilla Masters invented a method for grinding corn. She received a patent from the English king in 1715. But because women were not allowed to file for patents or even to own property at that time, the patent was filed in her husband's name.¹⁴ Although the invention of the cotton gin is attributed to Eli Whitney, as we have seen, it may have been based on a design by enslaved African Americans. Social and legal discrimination could limit or conceal the identities of actual inventors, especially if they were women or slaves.¹⁵ Most patent applicants and awardees were White men. One exception was Mary Dixon Kies, who in 1809 became the first woman awarded a patent for her process of weaving straw with silk or thread. This was a key innovation for the hat industry, due to an embargo on European goods.¹⁶ Likewise, many enslaved people were extremely innovative, but laws and prejudice prevented them from filing independently for patents. Because enslaved people had no rights, many sought patent submissions under their owners' names but received no recognition or compensation for their efforts.¹⁷ It was not until 1820 that an African American, Thomas Jennings, was granted a patent for a process called "dry scouring" for cleaning fabric.¹⁸ As the successes and failures of inventors and innovations expanded, so did the consumer demand for better-performing products and services. This led to the Second Industrial Revolution.

THE SECOND INDUSTRIAL REVOLUTION: 1865–1920

Although the First Industrial Revolution had a broad scope and a transformative impact, the Second Industrial Revolution helped shape consumer demand for the latest inventions and innovations developed by small and large businesses. The breakthroughs of this era brought applicable innovations in many fields, from chemistry to engineering to medicine.¹⁹

The nineteenth-century economists Jean-Baptiste Say and John Stuart Mill (1806–1873) refined and popularized Cantillon's definition of an entrepreneur to capture the spirit of their era. Their definition of "entrepreneur" describes someone who creates value by effectively managing resources for better productivity, and someone who is a financial risk taker.²⁰

After the US Civil War and into the 1870s, many industries flourished with improvements in production organization (petroleum refinery storage, mass production) and technological systems (electricity and the telephone). Additional inventions included improvements in steel production, chemical dyes, transportation (diesel and gasoline engines, the airplane), assembly-line production, agriculture and food-processing

14. "Sybilla Righton Masters." New Jersey Women's History. <http://www.njwomenshistory.org/discover/biographies/sybilla-righton-masters/>
15. Shontavia Johnson. "With Patents or Without, Black Inventors Reshaped American History." Smithsonian. February 16, 2017. <https://www.smithsonianmag.com/innovation/with-patents-or-without-black-inventors-reshaped-american-industry-180962201/>
16. US Patent and Trademark Office. "USPTO Recognizes Inventive Women during Women's History Month." USPTO Press Release #02-16. March 1, 2002. <https://www.uspto.gov/about-us/news-updates/uspto-recognizes-inventive-women-during-womens-history-month>
17. Shontavia Johnson. "With Patents or Without, Black Inventors Reshaped American History." Smithsonian. February 16, 2017. <https://www.smithsonianmag.com/innovation/with-patents-or-without-black-inventors-reshaped-american-industry-180962201/>
18. Alex Camarota. "National Inventors Hall of Fame Inducts Next Class of Innovators." Inventors Eye. US Patent and Trademark Office. May 2015. <https://www.uspto.gov/inventors/independent/eye/201506/index.jsp>
19. Joel Mokyr. "The Second Industrial Revolution, 1870–1914." Semantic Scholar. 1998. <https://pdfs.semanticscholar.org/769c/a06c2ea1ab122e0e2a37099be00e3c11dd52.pdf>
20. Russell S. Sobel. "Entrepreneurship." The Library of Economics and Liberty. n.d. <http://www.econlib.org/library/Enc/Entrepreneurship.html>

improvements (refrigeration), textiles, and the typewriter (Figure 2.15).²¹ As entrepreneurial activity, economic prosperity, and productivity demands increased, entrepreneurs and their inventions were highly regarded and sought after, contributing to the belief that the United States was a land of opportunity.

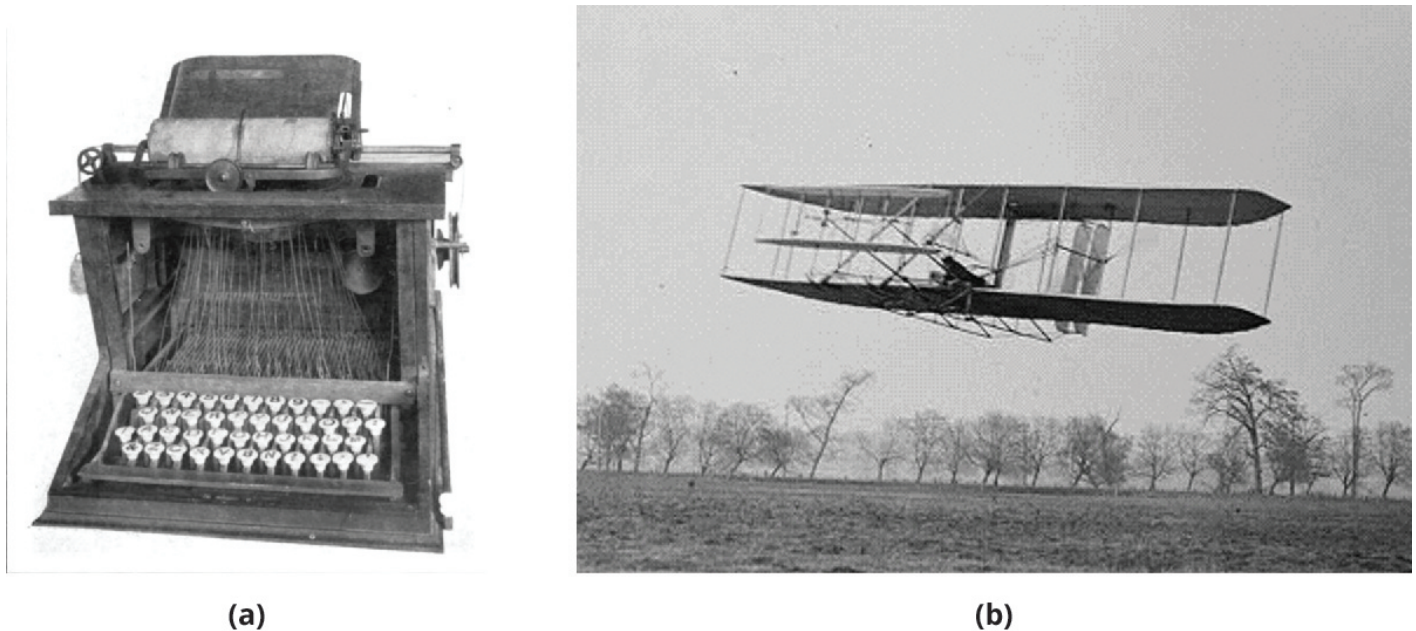


Figure 2.15 (a) The first commercially successful typewriter was produced by Christopher Latham Sholes and Carlos S. Glidden; this is their 1873 prototype model. (b) The Wright brothers are among the best-known pioneers of early flight. In this photo, Orville flies over their air field in 1904. (credit (a): modification of “Sholes typewriter” by George Iles/Wikimedia Commons, Public Domain; credit (b): modification of “1904WrightFlyer” by “DonFB”/Wikimedia Commons, Public Domain)

INTERWAR AND POSTWAR AMERICA: 1920–1975

When World War I began, the US economy was in a recession, with Europeans purchasing US materials for the war. When the United States entered World War I in 1917, an economic boom ensued. Unemployment declined from 7.9 percent in 1914 to 1.4 percent in 1918 as the United States produced goods and equipment necessary to support the war efforts of the nation and its allies.²² From an entrepreneurial perspective, World War I contributed to military-related advancements, communication equipment, and improvements in production processes. The American economic landscape began to shift during this era from small independent companies to big corporations. The smaller businesses in the previous era either dissolved or were absorbed by larger corporations. As the stock market crash of October 1929 and the Great Depression of the 1930s struck worldwide, innovation slowed. Consumer confidence waned as economic confidence and production declined, and unemployment rose.

[Link to Learning](#)

21. Russell S. Sobel. “Entrepreneurship.” The Library of Economics and Liberty. n.d. <http://www.econlib.org/library/Enc/Entrepreneurship.html>

22. Carlos Lozada. “The Economics of World War I.” National Bureau of Economics Digest. January 2005. <https://www.nber.org/digest/jan05/w10580.html>

Visit the History site on the Great Depression or PBS's American Experience article on the Great Depression to understand the background and circumstances that led to the stock market crash of 1929, the Great Depression, and how the United States rebounded during this period.

After World War II ended in 1945, American society shifted from reliance on the traditional entrepreneur as a resource to reliance on large organizations that offered stability and job security. Corporations continued to buy up small firms to standardize innovative, large-scale mass production of goods, services, and jobs. The idea of being an entrepreneur gave way to the idea of the “corporate man” with job security and health benefits offered by big employers. Although entrepreneurship did not totally vanish, its growth slowed tremendously compared with previous years and shifted to corporate entrepreneurship, whereby large corporations funded the development of new ideas, opportunities, or ventures through formal research and development processes that focused on the corporations’ own strategies and goals. Figure 2.16 lists some of the corporations that emerged during this period.

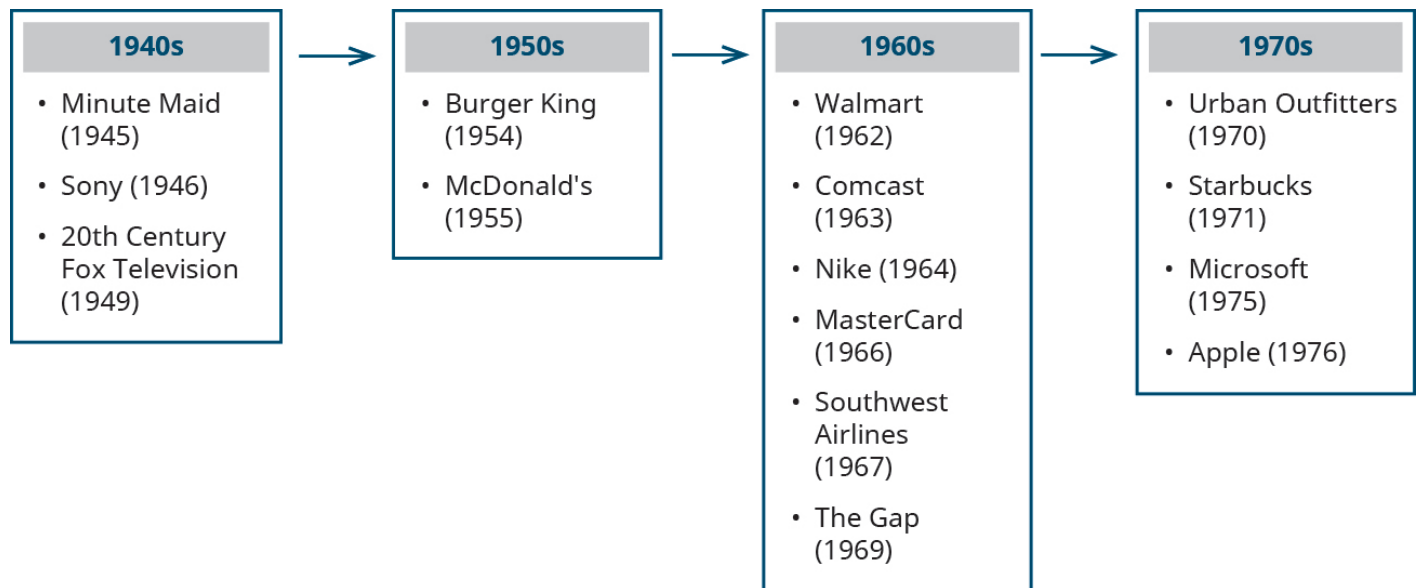


Figure 2.16 Many important corporations developed in the decades after World War I. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

As economic views and confidence in how the United States might regain economic prosperity shifted, so did the scholarly meaning of entrepreneurship. One scholar and economist, Joseph Schumpeter (1883–1950), introduced theories and terminology that continue to influence modern entrepreneurial concepts and practices. He originated two critical phrases: entrepreneurial spirit, which is associated with those individuals who are productive self-starters and make things happen, and creative destruction, which he defined as the “process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.”²³ Schumpeter’s theory that innovation would destroy established corporations to create new ones was not a popularly held or shared view at the time. The thought leaders of this era had different approaches to addressing the rise of corporations as part of the entrepreneurial fabric of the United States. Schumpeter theorized that corporations were better positioned than individuals to support the kinds of research and development that would result in innovations and have economic impact.²⁴ To complement this view, he also proposed the concept that corporate support of entrepreneurs’ visions would result in a sustainable “capitalistic financial system” to support and expand on the free-market system espoused by

23. “Joseph Schumpeter.” New World Encyclopedia. http://www.newworldencyclopedia.org/entry/Joseph_Schumpeter

24. “Joseph Schumpeter.” New World Encyclopedia. http://www.newworldencyclopedia.org/entry/Joseph_Schumpeter

Adam Smith.²⁵ In contrast, the sociologist and journalist William Whyte (1917–1999) argued that entrepreneurial culture had changed because “American business life had abandoned the old virtues of self-reliance and entrepreneurship in favor of a bureaucratic ‘social ethic’ of loyalty, security and ‘belongingness.’”²⁶

Finally, it is critical to note that the growth of corporations and opportunities expanded beyond the borders of the United States. Corporations faced novel global experiences that supported Schumpeter’s creative destruction theory, as other countries presented new dynamics to address. The annually created Global Entrepreneurship Monitor (GEM) report is a scholarly examination that examines how a group of nineteen countries benefited from venture-capital investments and the factors affecting those investments for entrepreneurial activity. This study addressed the question of entrepreneurial opportunities, entrepreneurial capacity, and entrepreneurial motivation as parts of the engagement within all industries and the direct correlation between venture-capital investment and high-growth startups.²⁷ The GEM report is created annually with timely and relevant information related to entrepreneurship and is available at this website: <https://www.gemconsortium.org/>. This cultural shift in the American entrepreneurial spirit generated new interest in the training and education of workers, ushering in the knowledge economy.

THE KNOWLEDGE ECONOMY: 1975 TO TODAY

In the mid-1970s, the promises of corporate life began to lose their appeal to entrepreneurial-minded individuals. One change was established corporations’ shift in focus on innovations from research and development departments to internal entrepreneurial activities by intrapreneurs. An intrapreneur is an employee who acts as an entrepreneur within an organization, rather than going solo. Intrapreneurs contribute entrepreneurial ideas, products, and services, using corporate work time and resources, but on a much less formal basis than past corporate contributions to innovation. Quickly evolving advances in technology have touched every industry, and people with tech know-how have become champions. Firms dominating the technological landscape include Apple, Microsoft, 3M, Alphabet (the parent company of Google), IBM, and Oracle. In today’s David-versus-Goliath culture, these companies once were small startups, but now they command seemingly endless resources. New opportunities have arisen in the world of technology for those willing and able to compete with these giants. All companies, large and small, are interested in a more informed and educated workforce with specialized or advanced degrees in entrepreneurship and business administration. The new entrepreneurs are prepared to develop and lead firms that can become startup superstars. Viewed through our current lens, companies like Apple, Microsoft, Google, and others have become the new Goliaths, but in their startup days, these companies were the disruptors that fought to create new industries or reshape previously established ones.

THE ENTREPRENEURIAL PROCESS

Your approach to the entrepreneurial process, or the set of decisions and actions that you might follow (as in Figure 2.17) as a guide to developing or adjusting your venture, is fluid, not static. This is because your personal interests, background, experiences, resources, and connections are unique to you—but those areas may change over time. For instance, you and a friend might take an art class together for fun and both discover a hidden talent and eye for creating handcrafted jewelry that everyone loves. One day over lunch, you share some of your frustrations with your friend about an interest in potentially selling your unique creations to a local art gallery.

25. “Joseph Schumpeter.” New World Encyclopedia. http://www.newworldencyclopedia.org/entry/Joseph_Schumpeter

26. William Whyte. *The Organization Man*. New York: Simon and Schuster, 1956.

27. William D. Bygrave, Pamela Lopez-Garcia, and Paul D. Reynolds. “The Global Entrepreneurship Monitor (GEM) Model for Economic Growth: A Study of Venture Capital in 19 Nations.” 2001. https://www.researchgate.net/publication/242407165_THE_GLOBAL_ENTREPRENEURSHIP_MONITOR_GEM_MODEL_FOR_ECONOMIC_GROWTH_A_STUDY_OF_VENTURE_CAPITAL_IN_19_NATIONS

Despite your research, you have few clues about where to start or how to get your art shown in a gallery. During your conversation, you are surprised to learn that your friend has already sold several pieces by following a mentor's advice. Through several referrals, she figured out that her best option was to create a presence on Etsy, an artisan-focused website for e-commerce, electronic transactions, particularly over the Internet, for the exchange of goods and services. Even though you both started at the same place with similar goals, your results differed because you followed different entrepreneurial pathways. In this case, your friend decided to enter the entrepreneurial process at a different stage than you did. This type of scenario occurs every day and clarifies why ventures differ: The decisions of the entrepreneur or the entrepreneurial team are the heart and success of the venture. Why the entrepreneur is the most crucial resource for a venture will be discussed in more detail in later chapters.



Figure 2.17 Your entrepreneurial process may involve changing directions many times. (credit: modification of "this way or that" by Robert Couse-Baker/Flickr, CC BY 2.0)

If you decide to take the leap into entrepreneurship, you should follow a certain process before you launch your venture. What is that process? As we discussed previously in the steps of the entrepreneurial journey, you need to think through your goals, prepare and follow an action plan, make sound decisions and adjustments along the way, and persevere through challenges and crises to ensure a successful journey. If that sounds like you have some work to do, you are correct. However, if you follow or recognize the stages in the journey and keep track of the related elements, it could be the most satisfying work of your career. Many people find the entrepreneurial journey fulfilling, in part because they get to define their own paths. The plan to graduate, then find a career working hard to help a company or organization reach its goals, are even more satisfying when you can work for yourself to create your own path and purpose in the world.

Before you create your path, a key action in the entrepreneurial process is developing your entrepreneurial mindset. Recall that an entrepreneurial mindset is about being open, self-reflective, and honest about what you are willing to do and capable of doing to achieve success. For instance, are you comfortable with making sacrifices like spending an evening doing research instead of hanging out with friends or family?

THE ENTREPRENEURIAL PROCESS: VENTURE LIFE CYCLE AND PRODUCT LIFE CYCLE

In general, the entrepreneurial process includes several key stages or some variation of these stages. Keep in mind that these stages do not always follow a sequential pattern, as circumstances and opportunities change. One popular method of understanding and connecting to this entrepreneurial process is to think of your new venture as similar to the human life cycle, the major stages that humans pass through in their life development, and the different growth processes in between.

As we can see in Figure 2.18 and Figure 2.19, the startup stage is similar to the birth of an infant. During the startup stage, or the birth of the idea, the venture requires resources to support the startup as the entrepreneur develops the idea, creates the prototype, and builds the infrastructure to support production. During the startup stage, cash supports building the venture. Meanwhile, the startup is seldom ready to generate sales. Planning for this situation, knowing that cash is needed but not replenished through sales, is an important consideration.

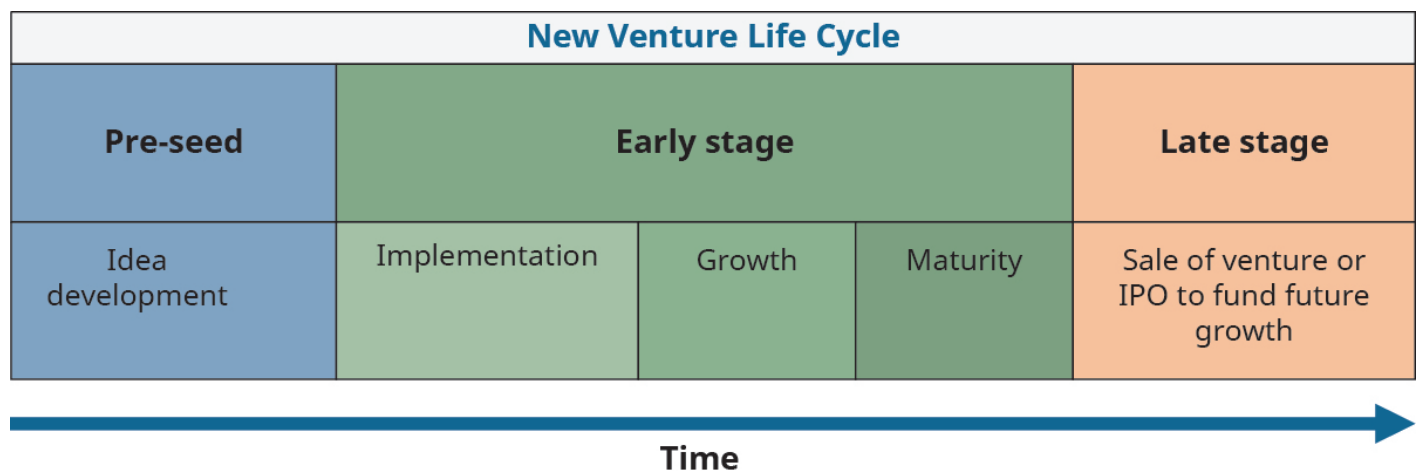


Figure 2.18 This image displays the phases that a new venture moves through as the idea is developed then created as a prototype. The prototype is then perfected in preparation for stage 4, when sales are generated. Stage 4 leads to the start of the growth stage, shown in Figure 2.19. Growth occurs through an increase in sales of the product. At this point, in the product life cycle, adding features or enhancements to the product will encourage increasing sales. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

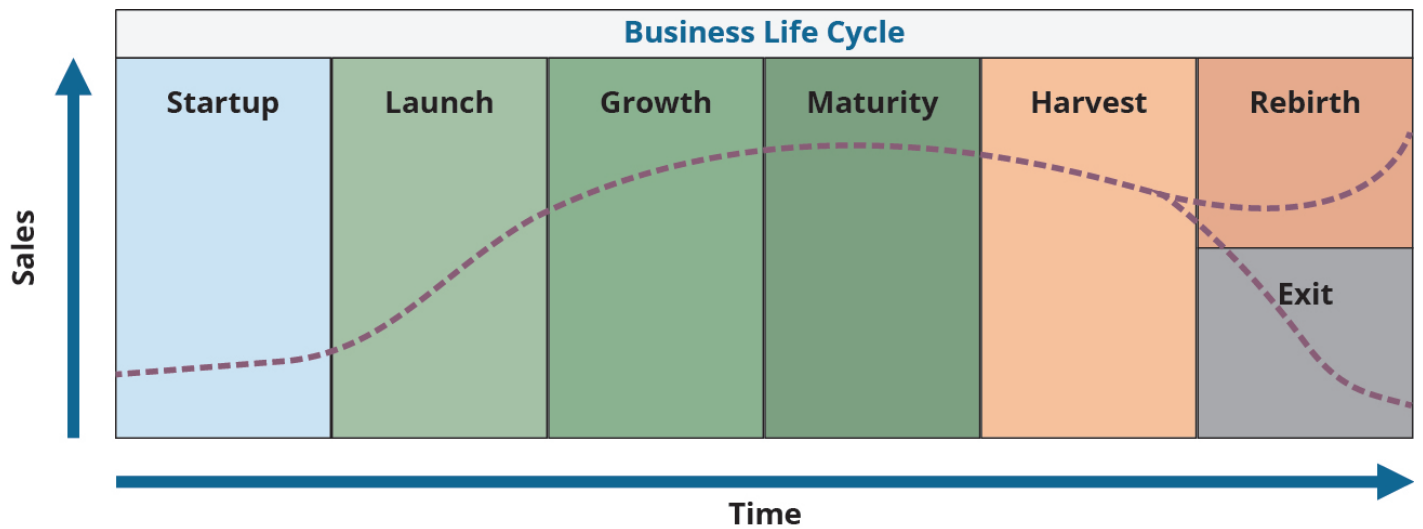


Figure 2.19 This image demonstrates the phases a business moves through from origination through the death of the business. The yellow line represents sales, or success of the business's products. We see the most sales dollars in the growth and maturity phases. At this point, the owner or entrepreneurial team must make decisions for the rebirth of the business, at which time the business returns to the growth phase. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Just as a child grows rapidly in their early years, often a business venture experiences quick growth as the product or service becomes commercialized and experiences strong demand, reflected through increasing sales and stronger knowledge and access to the target market. Again, this stage requires resources to support growth. The difference between this stage and the startup stage is cash is generated through sales activity. In some entrepreneurial ventures, however, the growth stage is about building the venture, rather than generating sales. For ventures like YouTube, the growth stage entails increasing the inventory of videos as well as an increase in people accessing the videos.

Just as humans achieve maturity during their life cycle, the business might reach a point where growth slows and perhaps moves into a decline stage. In our human experience, we can take actions to improve or lengthen the maturity stage of our lives through better life choices, such as nutritious eating habits and exercise, to increase longevity and delay decline. We can also extend the maturity of the business and even move into a rebirth and a new growth phase through insightful decisions, such as adding new features to the product or service, or offering the product or service to a new target market. The goal in our lives, and in this analogy, is continued growth and success. Products can be altered or enhanced to extend the product's life cycle, which also extends the life cycle of the venture.

Examples of avoiding the decline and death of a business fit well into the concept of product life cycle and are prevalent in technology-related products such as the television, the personal computer, and the cell phone. For example, black-and-white televisions underwent a growth stage after World War II. Color televisions were introduced in the 1950s. As technology improved, television manufacturers have repeatedly moved through the life cycle and avoided declines in sales with new features and adaptations with options such as plasma, LED, and smart technology. An example of a product that started and then quickly declined into the death stage of the business is the eight-track player, a music player available between the mid-1960s to the early 1980s. The eight-track player replaced the reel-to-reel tape recorder as a more accessible product for installation in moving vehicles, from cars to Lear jets, to offer individual music purchased by the vehicle owner for listening while

traveling. Even as the eight-track player was becoming popular, moving from the introductory stage into the growth stage of the product life cycle, the compact cassette was being developed. In the early 1980s, the compact cassette format replaced the eight-track player, abruptly ending the product life cycle of the eight-track player.

Some products lend themselves more easily than others to managing the life cycle. The goal is to manage the product for continuous growth, whereas other products, such as the eight-track player, are based on technology that quickly becomes obsolete when a better option becomes available. Other examples of products with short life cycles are categorized as fads, like the hula hoop and pet rocks—fads from the past that were reintroduced to a new generation of consumers and that moved quickly through the product life cycle into the last stage—the death of the product with sales either nonexistent or so few that the product becomes a novelty item.

The life cycles of the venture and of the product are two different concepts but are closely related. The venture will need different resources during each stage of the cycle to support the growth and success of the venture. Knowing what stage of the life cycle the product is in assists in decision making. For example, a decrease in sales triggers the need to enhance the product's value to extend and continue strong levels of growth. From the venture's perspective, managing the product life cycle also supports the continued success of the venture.

A successful venture avoids decline or death with the potential to prepare for either the sale of the venture or a public offering of stock, known as an initial public offering (IPO), which gives the company access to significant funds for future growth. Two entrepreneurial IPOs in May 2019 were Zoom and Uber. Zoom is a company that offers video conferencing, web conferencing, webinars, and cross-platform access. Uber is a ride-sharing company. Both entrepreneurial ventures used IPOs to support their future plans for growth.

Think about some of the friends you've known since childhood compared with those you've met in recent years. Suppose you plan to work on a project together and want to figure out who should handle which parts of the work. You might learn some information about a newer friend's past experiences through conversations, observations, or other collaborations. Even so, it would not be possible—or necessary—to learn everything about their childhood and how they learned a specific set of skills or acquired certain connections. You would just start your interaction and work with your friend from the current time. The same is the case for a venture. You might start a venture from the idea-generation stage or from infancy as part of the pre-launch stage. Or you might join the process after someone else has already completed the early stages of the business—for example, by purchasing an existing business or entering into a partnership. You might not have been around when the business was launched, but you can continue with the development of the business from the present moment. Just as each stage of human experience involves different concerns and milestones, the same holds true for your venture. The venture is your responsibility to manage during each stage of the development process.

Figure 2.20 provides an overview of each stage and the associated decisions that you might consider or encounter for the entrepreneurial process.

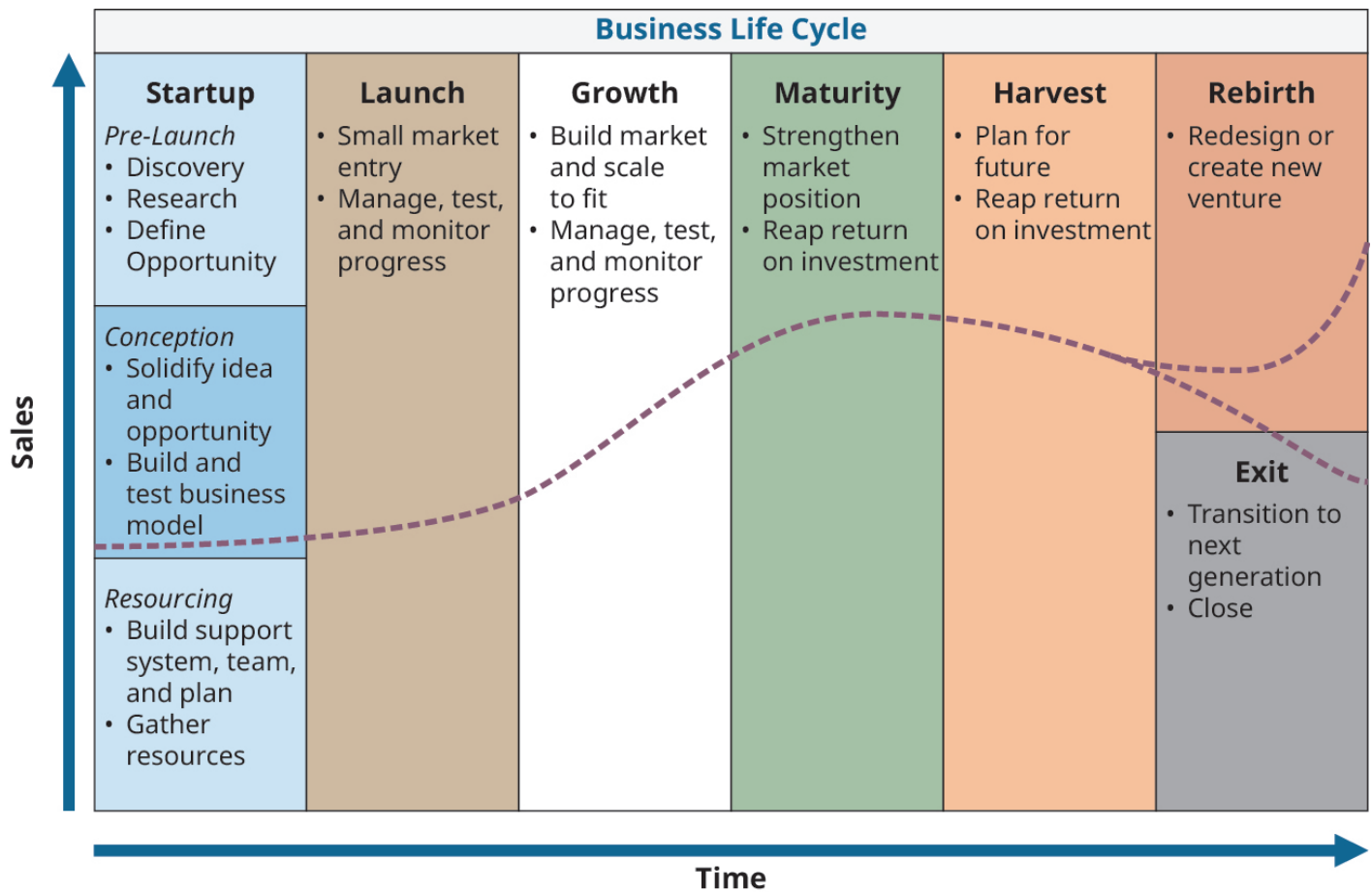


Figure 2.20 The life cycle of a venture roughly parallels the life cycle of a person through different stages that span pre-birth through infancy, youth, maturity, retirement, and then an end or a restart. However, unlike in the human life cycle, the venture stages do not have to be static or sequential. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

STAGE 1: STARTUP

In stage 1, startup activities are related to your perceptions about a potential idea, how you develop your idea, and how you might recognize appropriate opportunities. At this stage, the crucial activity is defining the opportunity to develop your concept into a realizable business venture with a strong potential for success. In this stage, you work on developing the idea more thoroughly to determine whether it fits your current and future circumstances and goals. You will also work through exercises to distinguish ideas from viable opportunities. Each of these actions is addressed in greater detail in future chapters. The goal of this section is to introduce concepts for a greater understanding of these stages.

Key actions or exercises in this stage include:

- Idea development
- Opportunity recognition
- Identification of a market opportunity
- Research and due diligence, or conducting the necessary research and investigation to make informed decisions that minimize risk, such as ensuring you are not duplicating an idea that already exists

STAGE 2: DEVELOPMENT

Now that you have confidence in your idea, it is time to develop a structure to determine what type of venture will work best for the idea. In Stage 2, you might select a business model (discussed further in Business Model and Plan) and pull together a team (discussed in Building Networks and Foundations) to make your dream venture a reality. The business model identifies how a business will build revenue, deliver value, and receive compensation for that value. Some examples of business models include monthly subscriptions, pre-sale orders, kiosk sales, and other choices. Entrepreneurial decisions in the development stage include many options to consider, including bootstrapping, starting out with limited funds, receiving venture funding from external sources, licensing to receive royalties on a per-item basis, purchasing another business, inheriting a business, franchising either through the purchase of a franchise or building your company with the goal of eventually creating your own franchise, creating a virtual web-based company, using mobile apps that support your business or connect with other businesses, founding a social venture to support a cause, consulting, or freelancing. Choosing among these options or creating your own unique approach to supporting the success of your business will change your results and success level.

Key activities in this stage include:

- Formulation or refinement of your concept
- Design of business model, plan, goals, launch team, and operational structure
- Creation of prototype product to fit market (sample or model for customer feedback)
- Further research and due diligence, as needed

STAGE 3: RESOURCING

Using knowledge you gained in the first two stages, in the resource stage, you will evaluate the necessary resources to support your new venture. Resources include financial support; support and selection of a manufacturing location or facility (if you are producing a physical product); personnel talents, knowledge, and skills; possible political and community support; and family support, because the new venture will require time commitments that will cut into time with your family. Fundamentals of Resource Planning discusses obtaining resources in more detail.

The key activities in this stage include:

- Gathering pertinent resources, such as human and financial capital, investors, facilities, equipment, and transportation
- Establishing connections, networks, and logistics
- Further research and due diligence, as needed

STAGE 4: MARKET ENTRY

Market entry—the launch of your venture—is often undertaken in a soft launch, or soft open, within a limited market to minimize exposure to unforeseen challenges. As an entrepreneur, you are presenting your new venture to a specific market to see how well it is received and supported. You might make last-minute adjustments at this

stage, but the crucial part is to see how the market reacts to your venture. This is an excellent time to scrutinize all aspects of your business for solutions to unexpected problems and improvements in efficiencies, and to track customer reactions to your venture.

One of your most important responsibilities at this point is managing your cash flow, or the money coming into and going out of a business, as cash is essential for the success of the venture. In the early stages of the venture, you will need large amounts of cash to fund the operational activities, because your sales are not yet guaranteed. Production costs, payroll, supplies, inventory, lease payments, and marketing: All of these expenditures involve cash outflows from your venture as part of the startup costs. A successful business needs available cash as well as customers for its products and services, or it will not survive. Key activities at this stage include:

Assessing management structure and needs, adjusting as necessary

- Managing cash flow
- Launching the entity
- Monitoring progress
- Further research and due diligence, as needed

STAGE 5: GROWTH

The growth stage includes making decisions that support the future growth of your venture. In the growth stage, your decisions reflect the scalability of your venture. There is a big difference between a small-scale venture and a venture that must handle significant levels of sales. At this point, your organizational structure needs an update. You might need new functional levels, such as a finance department, or a human resources department, or perhaps an assistant manager. Other considerations include the size of your facilities. Is the current size, or capacity, appropriate for the growth of the venture? Other questions relate to the appropriateness of your suppliers or inventory providers. Are quality and delivery time meeting your needs? Is the payment system appropriate for your venture? In this stage, you should also monitor the growth of your venture and make appropriate adjustments. For instance, if your venture is not growing as expected, then you might go back to your business plan and see what adjustments you can make. Key actions in this stage include:

- Managing the venture
- Making key adjustments, as needed
- Further research and due diligence, as needed

STAGE 6: MATURITY

In the maturity stage, your venture has moved into the maintenance phase of the business life cycle. Entrepreneurs monitor how a venture is growing and developing according to the business plan, and its projections and expectations. Is your venture growing faster or slower than you expected? What milestones has it reached? What changes are needed to continue the success of the venture? How can you address those changes? Are you still able to maintain or meet the needs of the venture?

Depending on your situation, you still will need to take action to support the venture. Even if the venture is operating efficiently and in a predictable manner, external changes could compel you to change your venture, for example, by making improvements to the product or service, finding new target markets, adopting new technologies, or bundling features or offerings to add value to the product.

One of the key points to understand at this stage is that ventures can, and often do, fail. Entrepreneurship is about taking calculated risks to achieve a reward. Sometimes your venture may not turn out how you planned. Keeping an open mind and learning from experience presents new opportunities for either changes to the existing venture or even a new venture. Consider these examples of early entrepreneurial failures by people who later went on to achieve great success:

- Bill Gates's early Traf-O-Data company failed because the product did not work
- Walt Disney was told he lacked creativity and was fired from a newspaper job
- Steve Jobs was once fired by his own company, Apple
- Milton Hershey started three candy companies before he founded the successful Hersey Company

Key actions of this stage include:

- Strengthening market position
- Awareness and willingness to change
- Reaping return on investment (ROI)

STAGE 7: HARVEST

At some point, your company may outgrow your dreams, ambitions, or interests. At this stage, you are harvesting or collecting the most return on your investment while planning how to retire or make a transition away from this venture. Many entrepreneurs enjoy the excitement of starting and building a venture but are less interested in the routine aspects of managing a company. In the field of entrepreneurship, the entrepreneurial team creates a venture with the goal of harvesting that venture. Harvesting is the stage when all your hard work and ingenuity are rewarded through a sizable return on the invested money, time, and talents of the startup team, including any investors. During this stage, the entrepreneurial team looks for the best buyer for the venture to achieve both a return on investment and a match for the continued success of the venture. Key actions in this stage include:

- Identifying what the entrepreneurial team, and investors, want out of the venture, their ROI
- Planning for your future: What's next on your entrepreneurial journey?

STAGE 8: EXIT

The exit stage is the point at which your venture either has fulfilled its purpose as a harvested success that is passed along to the next generation of business owners or has not met your needs and goals. These two situations give rise to vastly different scenarios. In the harvesting of the venture, you might receive a sizable cash payment, or a combination of cash payment and a minority share of stock in the venture's buyout. In an exit that reflects the closing of the venture, your option is most likely liquidation of assets, which you would sell to pay off any remaining creditors and investors. In both harvesting and liquidation, the challenge for you as an entrepreneur

can be to accept the emotional withdrawal from a venture that has consumed your thoughts, time, and energy. The time has come for you to step out of the picture and allow the venture to be cared for by a new “parent” or to close the venture completely. Key actions in this stage include:

- Exit strategy and plan
- Transition to the next generation of owners

STAGE 9: REBIRTH

For some entrepreneurs, the excitement of creating a new venture supersedes the financial gain from harvesting a successful venture. The thrill of transforming an idea into a realizable opportunity and then creating a thriving venture is difficult to find elsewhere. In the rebirth phase, the entrepreneur decides to seek out another new venture to begin the process all over again. As an experienced entrepreneur, you can create a new type of venture or develop a new spin-off of your original venture idea. At this point, you have become a serial entrepreneur, an entrepreneur who becomes involved in starting multiple entrepreneurial ventures. Key actions in this stage include:

- Redesigning or creating a new venture
- Bringing in a new entrepreneurial team or the team from the previous venture.

Exercise

Visit the [Man Crates](#) to learn about this entrepreneurial venture.

- Who is their clientele?
- Does this company sell an experience, a product, or both?
- What life cycle stage is this business in now?
- Applying your assessment of the company's life cycle stage, pretend that you are the CEO of the company. What recommendations do you have for the company's continued success and growth?

2.3 Entrepreneurial Pathways

Learning Objectives

By the end of this section, you will be able to:

- Understand how venture opportunities present different pathways to entrepreneurship
- Describe methods for finding your personal path to entrepreneurship

When you think of which career pathway (as in Figure 2.21) to follow, you might not think of being an entrepreneur in the same way that you would think of being a nurse, an attorney, or an engineer—but you should. Entrepreneurship offers you the chance to express your creativity and business acumen and to control your destiny. Conversely, if you were to earn an engineering degree, your employment options could involve working for an engineering company. Your job would be relatively secure and structured, with a paycheck and some perks. Or you could leverage your engineering degree into an entrepreneurial venture.

The entrepreneurial journey includes multiple experiences and decisions that will help you reach your entrepreneurial goals. For example, some individuals inherit a family business. If your choice career proves not so ideal or available as planned, entrepreneurship may be an attractive option. However, a growing number of people intentionally choose business ownership as a vehicle for fulfilling their career goals and interests. If you reach this crossroads in selecting your ideal vocation, how do you successfully navigate the entrepreneurial pathway as a career option? Your entrepreneurial journey might travel several paths, each presenting obstacles, twists, and turns before you reach your destination. Many of today's entrepreneurs have followed different pathways—sometimes conventional, sometimes not—that have led to the creation of various business structures matched to each entrepreneur's spirit. These businesses include established or adapted business models that met a need, solved a problem, or developed a social solution.

Regardless of the type of entrepreneurial venture you may choose, many pathways can take you to your goal. Venture types differ in their missions and visions. Their purposes range from earning income (for profit) to meeting a community need through tax-exempt status (nonprofit) to solving a social or environmental problem (social enterprise) to combinations of these types (hybrid). Business Structure Options: Legal, Tax, and Risk Issues examines each type in depth.



Figure 2.21 There are many different pathways you can take on your entrepreneurial journey. (credit: "Explorer" by Sakeeb Sabakka/Flickr, CC BY 2.0)

For many established businesses, the pathway is not always as clear as the entrepreneurial process suggests. This is because entrepreneurs are opportunists, leaders, and initiators: They take calculated risks to create or adapt something to solve a problem or create a response for potential financial gain or intrinsic value. The reality is that these situations or opportunities do not always occur in a logical sequence or order. Instead, entrepreneurial-focused individuals might encounter opportunities, offers, or options that spark a new venture.

OPPORTUNITIES AND OPTIONS

If you are ready to launch a venture, you will find numerous situational opportunities to pursue your interests. A situational opportunity is one that becomes available, depending on factors such as where you work, your family obligations, your idea or invention, your unique creative expression, or a recent career search or job change. The evolution of entrepreneurship, your own receptiveness to entrepreneurial thinking, and many existing and emerging platforms make this possible.

As you plan your venture, you should consider opportunities in these areas:

- **On the Job.** Some workplaces offer intrapreneurial opportunities, or ventures created within the company, for entrepreneurial-minded individuals. The firm 3M, for example, has historically nurtured employee creativity and promoted innovative opportunities for employees. This environment inspired an employee project that resulted in the invention of Post-it notes. Even if a company does not support venture creation, there is also the possibility of taking the entrepreneurial idea out of the company to create your own venture.
- **Family Obligations.** You might work in a family-owned business or take over after family members retire

or transfer ownership to other family members.

- **Franchises.** You might purchase an existing franchise, a license granted to an entrepreneur to operate under the franchise's name.
- **Web-Based Venture.** You might launch a product venture through Etsy, Shopify, or another e-commerce web site.
- **Work for Hire, or Independent Contractor.** You might launch a consulting business or work as an independent contractor to gain clients, experience, and income on a flexible schedule.
- **Unemployment.** Being underemployed or unemployed might make entrepreneurship a pathway to economic freedom.
- **Purchase.** You might purchase an existing business from a retiree, your current company, or a family that owns a business. As a business owner's life situations change, due to aging or new interests, the business becomes available for new ownership. Working for a company can offer the option of buying out the current owner to become the new owner. Purchasing an existing company provides historical financial data and decisions that support future successes. If you are employed by the company, you have the opportunity of learning details about how the business is managed, an advantage that could support your success in purchasing and managing the company.
- **Frustration.** You might encounter a currently existing product or situation that needs improvement or a solution, and decide to tackle the situation yourself.
- **Serendipity.** This is a situation in which various pieces come together to support the creation of a new company or product. The Entrepreneur in Action: Gordon Moore and Fairchild Semiconductor box describes how Gordon Moore (creator of Moore's Law on the exponential growth of a single silicon chip doubling every year) was working for Shockley Semiconductor in 1956. At that time, he had little-to-no knowledge of semiconductors. However, he quickly learned about semiconductors by applying his PhD in chemistry and physics from Caltech to the semiconductor industry. After one year of employment, Moore and seven other employees left to form Fairchild Semiconductor, financed by Sherman Fairchild. During his eleven-year employment with Fairchild Semiconductor, Moore published a paper describing what we now know as Moore's Law. His next move was based on recognizing the importance of the microprocessor in transforming the computer and related industries. After frustrations with Fairchild's lack of support for this new direction, Moore, along with a colleague from Fairchild Semiconductor, Robert Noyce, formed Intel, the second largest semiconductor chip manufacturing company in the world.

ENTREPRENEUR IN ACTION

Gordon Moore and Fairchild Semiconductor

Sometimes the path to entrepreneurship doesn't occur as you might plan or think. Consider the story of Gordon Moore, a cofounder of Fairchild Semiconductor: "Like many other scientists and engineers who have ended up founding companies, I didn't leave Caltech as an entrepreneur. I had no training in business; after my sophomore year in college, I didn't take any courses outside of chemistry, math, and physics. My career as an entrepreneur happened quite by accident. There is such a thing as a natural-born entrepreneur....But the accidental entrepreneur like me has to fall into the opportunity or be pushed into it. Most of what I learned as an entrepreneur was by trial and error, but I think a lot of this really could have been learned more efficiently."¹

1. Gordon E. Moore. "The Accidental Entrepreneur." Engineering & Science. Summer 1994. <http://calteches.library.caltech.edu/3777/1/Moore.pdf>

The combination of diversity in educational background and skills, the serendipity of being in the right place at the right time, and facing frustrations with the current situation can combine into recognizing an entrepreneurial opportunity. For Gordon Moore, learning about semiconductors, and creating the company Intel, was the furthest idea of what he pictured for his future. The serendipity of his experiences, knowledge, and intelligence combined to support the creation of Intel. Gordon Moore is reported to have a net worth as of October 2019 of \$10.6 billion.

One core concern of entrepreneurship is how you will fund your venture and where you will find the necessary resources. Although some businesses require significant startup funding, it might surprise you to learn that many ventures have been launched by entrepreneurs who used their own capital, labor, connections, or other resources to start—an approach known as bootstrapping. Some savvy bootstrapping strategies include launching a venture part-time while maintaining a full-time job, using personal savings, bartering for services and materials, and securing pre-orders. Some entrepreneurs seek financial support for their venture through funding from angel investors, venture capitalists, or traditional loans or debt. The advantages and disadvantages of these approaches are covered in Entrepreneurial Finance and Accounting, along with an in-depth discussion of bootstrapping.

FINDING YOUR ENTREPRENEURIAL PATH

The process and pathways to entrepreneurship can be overwhelming. With so many choices and decisions involved, entrepreneurial choices can seem intimidating, and the route you follow may sometimes produce some anxiety. Before you get consumed with the technical aspects of launching a venture, it is important to start with the most important foundation: finding your personal path to entrepreneurship.

YOUR PERSONAL PATH THROUGH SELF-REFLECTION

Your decision to launch a venture should not be taken lightly. Entrepreneurship requires a lot of energy, decision-making skills, tenacity, resourcefulness, and flexibility. As you consider entrepreneurship as a career, you should complete some self-reflection to figure out how, why, and when entrepreneurship may be the right professional path for you. For example, if your personality is introverted—that is, you often find it most energizing to be alone—you might consider a venture that capitalizes on that scenario. It might be helpful to study or meet other entrepreneurs with a venture you find interesting.

Example – Startup Ideas

Visit Medium.com to check out this “Top 10 Business Ideas for Startups” article and then review the startup ideas for introverted personality types at Small Business Trends.²³ Review the lists of ideas. Next create a list of five or more of your own startup ideas. Often, we gain new insights by reading through other ideas. Your idea might be a spin-off of an original ideas. Or the information you gain could trigger a brand-new idea.

2. Vikas Agarwal. “Top 10 Business Ideas for Startups,” Medium. August 25, 2016. <https://medium.com/search?q=top%2010%20business%20ideas%20for%20startups>

3. Annie Pilon. “50 Business Ideas for Introverts.” Small Business Trends. October 4, 2016. <https://smallbiztrends.com/2016/09/business-ideas-for-introverts.html>.

YOUR PERSONAL PATH THROUGH RESEARCH AND EXPERIMENTS

A key step to finding your personal pathway to entrepreneurship is to conduct research and try out roles related to your desired venture. Researching the potential industry or entrepreneurial options available to you will provide some level of comfort and validate your decisions about what you might do next. One concrete way to do this is to “shadow” a professional in your desired field. This means arranging to be an observer during a standard workday to see firsthand what is involved in running that type of business. You may also be able to secure some experience by serving as an apprentice, intern, or lab assistant, or as an independent contractor or freelancer, an individual who contracts to offer professional services or tasks for a negotiated fee. Informational interviews—whether informal chats with new or established business owners at a trade show or networking event, or a formal question session—can also provide insight.

YOUR PERSONAL PATH THROUGH A SOFT LAUNCH

One sure pathway to entrepreneurship is to jump in with both feet and experience the process by launching a venture. Although this may seem like a big leap or you may feel you are not ready, remember that entrepreneurship is an experiential discipline that can be understood fully only through hands-on experiences. Launching a venture for a limited time frame or audience to gain experience, insights, and feedback about the target market or consumer—a process known as a soft launch (or soft open)—will provide valuable feedback on how to meet the consumer’s needs or improve on your product to ensure success. You might explore a soft launch by creating a sketch or sample of what you plan to offer and asking friends and potential customers what they think, or by creating a website or app prototype to share with a limited number of people to see if it works as planned (sometimes called a beta test) and get feedback.

2.4 Frameworks to Inform Your Entrepreneurial Path

Learning Objectives

By the end of this section, you will be able to:

- Identify common frameworks used to shape an entrepreneurial venture
- Compare how some frameworks better fit certain venture types
- Define an action plan and identify tools available for creating an action plan
- Describe some common types of entrepreneurs

In designing a venture that is sustainable or capable of being self-funded, it is helpful to use specific tools to manage information. One such tool is a framework—a structure or outlined process that can be used to accomplish entrepreneurial goals through problem solving, idea generation and validation, and brainstorming.

SELECTING A FRAMEWORK

You can choose any of several popular frameworks to help with the design and integration of your business experience and entrepreneurial thinking. The most widely used frameworks that have been developed as integrative tools to support entrepreneurial thinking include:

Business Model Canvas (BMC) offers a simple, one-page tool used to design an innovative business model that can be presented to key stakeholders (Figure 2.22). The business model canvas is discussed more fully in Business Model and Plan.

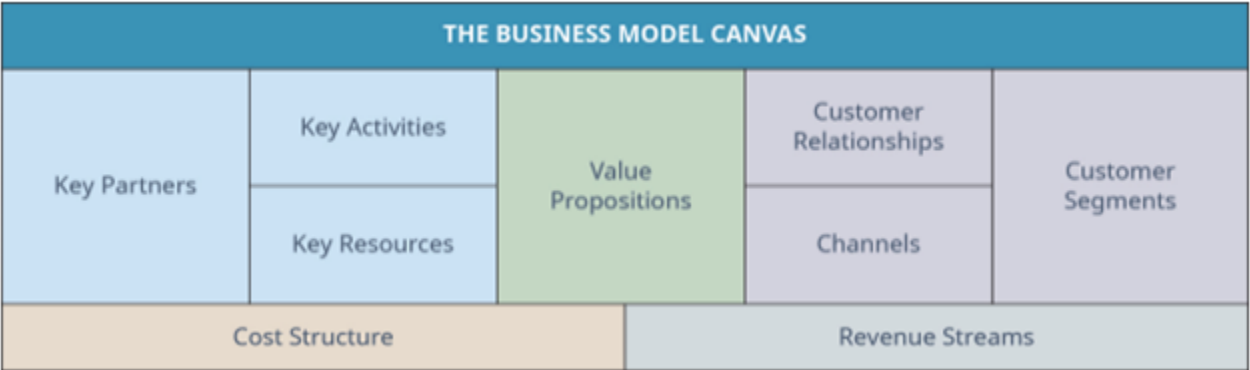


Figure 2.22 Here is an example of a Business Model Canvas with a framework to identify key components of the venture. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Lean Strategy Canvas is a spinoff of the BMC that introduces a potential customer feedback loop for continuous product or idea improvement to meet the market’s needs (Figure 2.23). The lean strategy canvas is discussed more fully in Launch for Growth to Success.

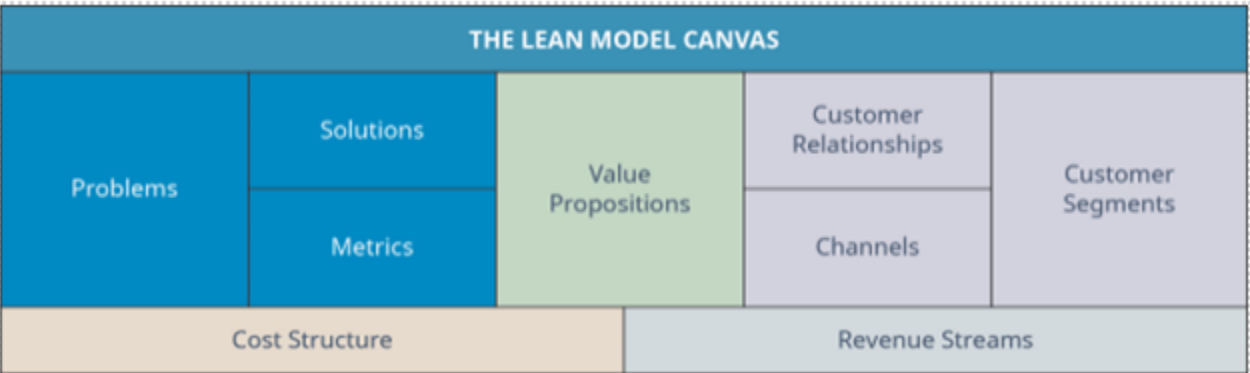


Figure 2.23 Here is an example of Lean Strategy Canvas, a framework to assist in developing the business model, and competitive advantage and related areas aligning the product and market for the venture. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Design Thinking Process supports a systematic, logical approach for addressing and solving problems with multiple solutions (Figure 2.24). Design thinking was first applied in relation to STEM fields—science, technology, engineering, and mathematics. Due to the success of this process, design thinking has become popular in many other areas.

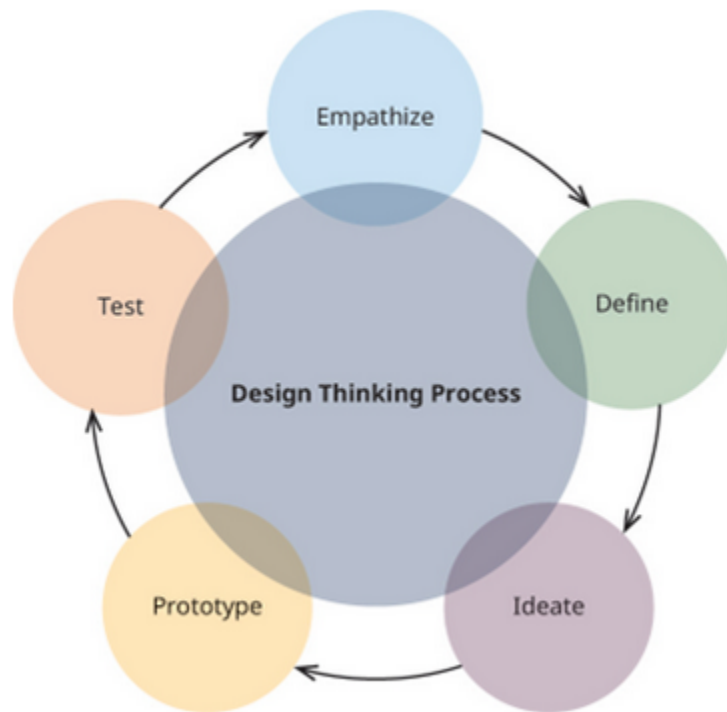


Figure 2.24 The design thinking process is a systematic approach for solving problems. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Design thinking approaches problem solving or the creation of a new venture from the perspective of the customer. For example, Amazon provides easy-to-open packages after observing the challenges customers had in opening the delivered products. Design thinking is covered in greater detail in Problem Solving and Need Recognition Techniques with applications to starting an entrepreneurial venture, product design, and improvements to existing products.

Four Lenses Strategic Framework is used for the development of social enterprises; assesses four strategic areas (stakeholder engagement, resource mobilization, knowledge development, and culture management) to address a social problem and provide sustainable social impact (Figure 2.25).

The typical application of each framework is shown in Table 2.3. The process of selecting the most appropriate framework for your entrepreneurial interests might help you understand how to develop your idea. We recommend that you try all four frameworks before selecting one. Even though each framework is identified for a general class of venture, each one provides a different perspective for developing your venture.

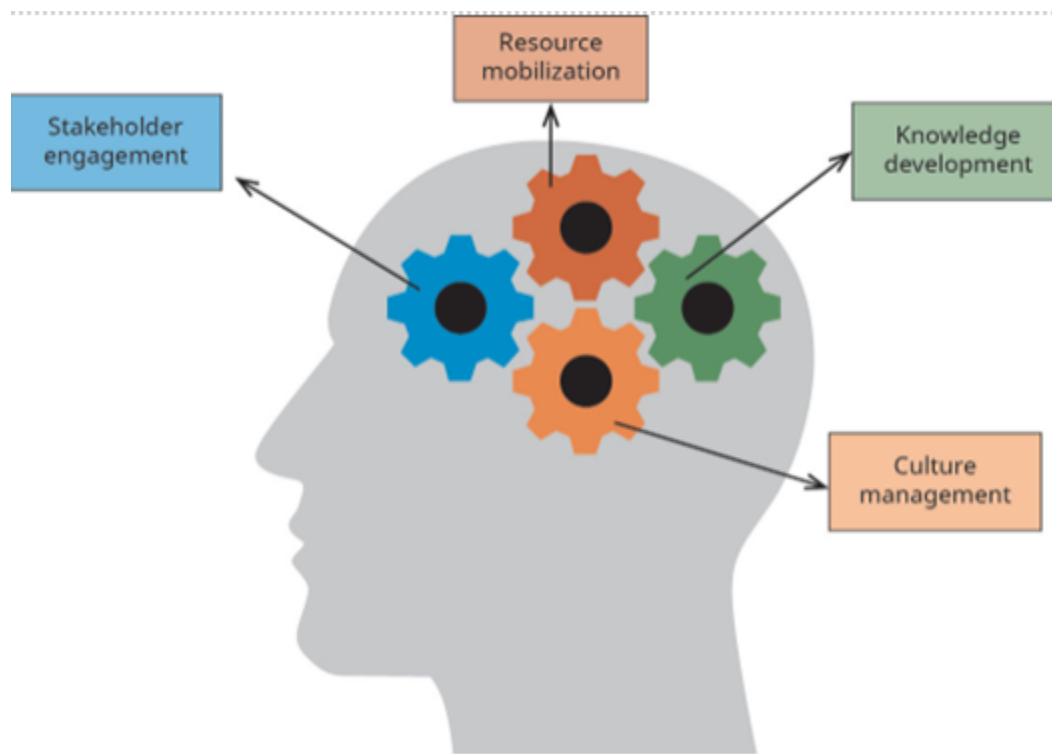


Figure 2.25 The Four Lenses Strategic Framework involves stakeholder engagement, culture management, resource mobilization/application, and knowledge development, and can provide synergies and insights in building compatible and aligned actions. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

FRAMEWORKS

Framework	Description	Typical Use
Business Model Canvas	A one-page tool that maps out nine basic building blocks that are necessary for a successful business model	Helps prepare a sustainable business model
Lean Startup	Outlines a quick feedback loop through customer input	Used for fast-paced industries and quick idea validation
Design Thinking Process	Outlines a systematic, results-oriented process to address and solve problems	Used for the development of STEM fields with expansion into entrepreneurial ventures, products, and processes; applicable to all areas
Four Lenses Strategic Framework	A practitioner-driven model that considers four perspectives to support and develop a client-focused ecosystem	Used for the development of social ventures

APPLYING THE FRAMEWORK THROUGH AN ACTION PLAN

At some point during your venture development process, it becomes critical to capture your thoughts and intentions in a meaningful and productive way. Creating a customized action plan—an organized, step-by-step outline or guide that pulls together the ideas, thoughts, and key steps necessary to help set the stage for entrepreneurial success—at an early stage will make the entrepreneurial process much smoother and potentially more successful in the long run. Applying an appropriate framework will provide you with a visible, tangible, strong foundation for your future venture. In completing the framework, you should identify gaps as well as ideas for further development, then add both to your action plan. Just as you can choose from several types of frameworks,

you can apply any of a variety of action plans. This section introduces some widely used action-planning tools but is not exhaustive. These selected action plans are presented as a way to jumpstart your thinking for the venture creation process.

ACTION PLANS

You may have heard stories about potential entrepreneurs who hesitated to start a venture, largely out of fear of creating a business plan. Historically, business plan creation has required significant amounts of time, resources, and research. Although business plans are still enormously valuable, some useful business-plan-like tools have emerged: These are essentially variations on the development, content, and structure of a traditional business plan or one of its components. One other concern about business plans is how entrepreneurs use them once they are completed. In many cases, when the venture is launched, the entrepreneurial team discovers that the business plan does not reflect the realities that the team faces. A wide range of variables can often negate the value of the business plan. The true benefit of completing the business plan is that it forces the entrepreneurial team to think through their decisions as reflected in the plan. Even if the venture and the business plan change, the process of creating the business plan encourages critical thinking and improved decisions. In real time, you will need to make changes to your business plan and your venture. Throughout the venture's life span, you should continue your background research and projections to adapt the business plan.

Unlike with the business plan, the purpose of an action plan is to pull together the ideas, thoughts, and actions necessary to help you set the stage for entrepreneurial success. Consider what kind of action plan you need to prepare a holiday meal. We have a vision of the end result—friends and family gathered together to share a delicious, festive meal. We will need to select the right location for the holiday meal, identify the guests to invite, and create a financial budget for the related costs of the holiday meal. Then we would need to create our action plan—similar to a business plan—to identify what actions are necessary to support the event. In our action plan, we would include inviting guests to the event, drawing up a menu and a grocery list, designing a timeline to ensure that all the dishes of the holiday meal are completed in the correct sequence: We want all the food to be ready at the right time. Our action plan would also include the clean-up process and any after-dinner activities that we want at our event. As you can see, both the business plan and the action plan are necessary for success.

Once you select a framework and an action plan, you have the basic tools and information you need to outline the path of your venture. The framework offers a big picture of what you want to create and the resources required for that goal, whereas the action plan provides you with concrete actions for starting along your entrepreneurial path and, later, for supporting the business plan.

Action plans can also result from using the tools listed in Table 2.4. These tools can help you visualize the process necessary to reach your end goal by clarifying the necessary actions. They are also tangible guidelines for innovating, exploring, and creating solutions to entrepreneurial problems or opportunities. You might also use your action plan to get “unstuck” during any challenging phase of the entrepreneurial process. One word of caution regarding these tools: You need to use them to get results. So be sure you are realistic about your interests, abilities, and availability when you create your plans. For example, wireframing is a technique for webpage design used early in the development process in which content, layout, and functionality are identified prior to the actual creation of the webpage. Coincidentally, this is another application of design thinking through the focus on the end user's interaction with the website. As you can see from this example, searching for popular tools used within specific industries will provide you with support in building your framework. Table 2.4 provides a few examples of action planning tools that are used to delve into the specific topic.

Table 2.4

Tool	Description	Use
Vision or Dream Board	A visual tool to present the ideal situation that you are working towards achieving	Wireframing
Storyboard	A scene-by-scene visual of the activity process from start to finish	Downloading method (IDEO)
Mind map	A visual tool that assists with categorizing brainstorming types of ideas	Brainstorming
Hypothesis	A proposition or statement as a basis for further testing or investigating	Interviewing
Logic Map	Visual representation of relationships between various components or variables	Questionnaires

The action plan support tools presented in Table 2.4 are a sample list of representative tools that are useful in motivating, inspiring, identifying, and clarifying needed actions. This list is not exhaustive; if you have something that works for you, then use it. Several apps are also available to help you capture ideas to create action plans, as shown in the Suggested Resources. The idea is to find and use a visual or tangible tool that inspires you to get focused, organized, and committed to taking the actions necessary to turn your entrepreneurial dream into a reality. Let’s say you know that you want to start a venture that helps people recover after some type of disaster. You could use one of these action plan support tools, such as a mind map, to help you brainstorm possible needs resulting from a disaster in a city (Figure 2.26). You can categorize the ideas to help people and animals, or to repair the city’s infrastructure. After completing the mind map, you would then consider which areas fit your interests, passions, and skills. From this point, you could identify the type of venture you want to create and the necessary actions to move forward with your idea. Using these types of tools assists in identifying actions that need to be addressed in your action plan.



Figure 2.26 From this mind map of disasters that occur and actions to take, we could focus on one action area that matches our interests, passions and skills. After selecting an area of interest, we could create another mind map focused on our area of interest to identify solution sets. Next, we could apply one of the frameworks listed in Table 2.3. From there we could create an action plan of actions needed to become more informed about the idea or solutions. As you can see, an action plan fits into multiple areas. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

TYPES OF ENTREPRENEURS

Recall from The Entrepreneurial Perspective that for some people, the entrepreneurial pathway is clear cut and logical. For example, a career in a biomedical lab may involve research and clinical trials that lead to patent applications for a product to sell in the marketplace, leading to a new venture. Others experience the entrepreneurial pathway through nontraditional methods, as when an unexpected opportunity arises. As the global marketplace continues to evolve, new entrepreneurial opportunities will open for individuals who are open to opportunities that build on creativity and innovation.

Traditional entrepreneurs were perceived as individuals who did not fit in a typical organizational structure or as people who had the brains, creativity, imagination, and money to launch out on their own. However, this perception is changing with increasing support to reduce barriers to enable access to entrepreneurship for all demographic groups. According to a 2018 Capitol Hill discussion on women, minorities, and entrepreneurship, the current entrepreneurial demographics show that only 12 percent of US innovators are women and that US-born minorities accounted for 8 percent, with African Americans making up only one-half of 1 percent of this

group.¹ According to a National Academies of Sciences report, as cited in the same Capitol Hill discussion, women- and minority-owned small businesses received less than 16 percent of all Small Business Innovation Research (SBIR) program awards. Even though women account for 51 percent of the US population and own 29 percent of businesses, they received only 6 percent of SBIR awards.

Also cited at the Capitol Hill briefing, a 2015 report by the US Department of Commerce showed that women-owned small businesses have a 21 percent lower rate of winning federal contracts. One result from this Capitol Hill briefing was the passage of the Promoting Women in Entrepreneurship Act to require the National Science Foundation to encourage entrepreneurial programs to recruit and support women in commercial activities rather than purely laboratory-based activities. Some of the challenges identified in this discussion for groups other than the traditional entrepreneurs described include life choices such as childbearing, access to funding, and lack of support and follow-through to support women and minorities in their interests related to potential entrepreneurial activities.

Other findings drawn from the Census Bureau data and reported by the Kauffman Foundation found that over 70 percent of Asian, Hispanic, and African American entrepreneurs relied on personal and family savings as their main source of startup capital. Women also face challenges in funding, receiving just 2.2 percent of venture capital funding in 2018.² A bill called the Support Startup Businesses Act, reintroduced in the US Senate in 2019, would address these challenges by increasing overall funding to help startups, creating more flexibility in funding, and expanding services for startups.³ The panelists ended the Capitol Hill discussion by noting that “bro culture” has proliferated at the expense of women- and minority-based entrepreneurial ideas. Cultural barriers, including historical disenfranchisement of women, minorities, and immigrants, arise from biases, with one speaker noting that investors ask more difficult and probing questions of male entrepreneurs but pose more skeptical questions to women.

Today, opportunities have expanded for businesses and organizations that respond to current challenges, which may include trying to improve a negative situation or finding a need in a positive situation, with an increasing awareness of the benefits provided through entrepreneurial activities. As more global, cultural, and economic issues and opportunities arise, more individuals will explore entrepreneurship as a response to these challenges. For example, noting the challenges that women and minorities face in starting a new venture, Alan Donegan and his team train people on how to turn their entrepreneurial visions into a reality through his PopUp Business School. The point is that opportunities should be available to everyone, as long as we keep an open mind when considering how change contributes to new venture creation.

WHAT CAN YOU DO?

Barriers to Funding

Given this list of cultural factors and economic factors, what can you do to assist in solving the challenges related to biases? Consider how Alan Donegan’s responded to the need to educate people on how to start their own business. He created a company to address this need. You may also consider reading statistical information such as census data and news reports to identify unique target markets and potential needs that could result in a new venture.

1. Information Technology & Innovation Foundation. “Promoting diversity in entrepreneurship.” 2018. <https://itif.org/events/2018/03/07/promoting-diversity-entrepreneurship>
2. Emma Hinchliffe. “Funding for Female Founders Stalled at 2.2% of VC Dollars in 2018. Fortune. January 28, 2019. <https://fortune.com/2019/01/28/funding-female-founders-2018/>
3. Jason Rittenberg. “Startup Act Reintroduced Innovation Support.” State Science & Technology Institute (SSTI). January 31, 2019. <https://ssti.org/blog/startup-act-reintroduced-would-expand-federal-innovation-support>

The Kauffman Foundation reports these issues, summarized in Table 2.5.

Potential Barriers to Entrepreneurial Funding⁴

Table 2.5

Potential Barrier	Challenges
Geographical barriers	Close to 80 percent of about \$21.1 billion in venture-capital funding in the first quarter of 2018 was disbursed in five regional clusters—San Francisco (North Bay Area), Silicon Valley (South Bay Area), New England, New York City metro, and LA/ Orange County—with slightly more than 44 percent in the North and South Bay Areas.
Gender bias	Women are substantially less likely to start businesses than men. In 1996, the rate of new entrepreneurs for women was 260 per 100,000 people, compared to 380 per 100,000 for men. In 2017, the rate of new entrepreneurs for women was 270 per 100,000, compared to 400 per 100,000 for men. This reflects new entrepreneurs, regardless of incorporation or employer status.
Racial and ethnic bias	The landscape of entrepreneurship in the United States is marked by significant differences across racial and ethnic groups. Minority-owned firms are found to face significant barriers to capital. For example, minority-owned firms are disproportionately denied when they need and apply for additional credit. One study compared sources of finance and found that new businesses owned by Black people start with almost three times less in terms of overall capital than new businesses owned by White people, and that this gap does not close as firms mature.
Lack of initial wealth	Low-income individuals without initial (pre-existing) wealth also face significant barriers to capital. Research on liquidity constraints showed that the top ninety-fifth percentile of wealthy individuals in the United States is more likely to start businesses than other income groups, and that personal and household wealth are important drivers of entry. Research at the neighborhood level found that in New York City, the richer third of neighborhoods had more than twice the rate of self-employment than the poorest third. A higher household net worth of a founder is linked to larger amounts of external funding received, even after accounting for human capital, venture characteristics, and demand for funds.
Shift in the banking industry	Large banks have become larger, while there are fewer small and medium-size banks. Larger banks survived the Great Recession with balance sheets restored, while small banks—the ones more likely to lend to entrepreneurs—were limited by both economic conditions and new regulatory barriers.
Information asymmetry	The persistence of information asymmetry in capital markets between the supply of capital (investors) and the demand for capital (entrepreneurs) gives rise to barriers faced by entrepreneurs. Entrepreneurs face a larger challenge than established businesses in accessing capital because established businesses can leverage their longer track records and existing relationships.

Questions

- What challenges do you face in these areas?
- What steps might you take to help mediate those challenges?

As the traditional view of entrepreneurship evolves, different types of entrepreneurship are emerging and are worth noting as you contemplate your entrepreneurial journey. The types presented here are among the most common today, each with its own unique opportunities and challenges.

- **College Entrepreneur:** As the cost of higher education continues to rise, more college students are seeking ways to reduce reliance on tuition loans by launching a venture. The college entrepreneur might launch an enterprise while attending or after graduating from college. Entrepreneurship courses might require a student to create and launch a venture as part of the curriculum, and this can turn into an actual earnings opportunity.
- **Corporate Intrapreneur:** If you work for a progressive company that seeks innovative solutions for growth and opportunities, you can become an intrapreneur by organizing the necessary resources to pursue a venture of organizational interest.
- **Franchise Entrepreneur:** Since a franchise grants a license to an entrepreneur to trade under the franchise's name, a franchise entrepreneur gains a head start in an industry by launching the franchise.
- **Immigrant Entrepreneur:** With increasing global unrest, more immigrants are traveling to new countries.

4. Ewing Marion Kauffman Foundation. Access to Capital for Entrepreneurs: Removing Barriers. April 2019.

https://www.kauffman.org/-/media/kauffman_org/entrepreneurship-landing-page/capital-access/capitalreport_042519.pdf

In the United States, ethnic communities of immigrants welcome their compatriots and assist them in becoming independent through entrepreneurship. These communities pool together the necessary resources to support the new immigrant until the business is self-sustaining.

- **Internet Entrepreneur:** As access to technology and its related platforms increases, so do opportunities for Internet-based businesses. Internet entrepreneurs utilize social media platforms, smartphones and tablets, applications (apps), and any other form of accessible technology as their product or venture. The critical structure for these ventures is the inclusion of an e-commerce or online payment processing capability.
- **Woman or Minority Entrepreneur:** Women have a unique perspective and potential to capitalize on new or already existing niches in many entrepreneurial fields. Many cultural groups, such as Haitians, Cubans, or Jamaicans, also have unique marketplace skills and demands.
- **Part-time Entrepreneur:** In response to economic downturns, underemployment, and unemployment, more individuals are supplementing income through part-time activities, casually referred to as “side hustles.” These individuals may launch businesses through multilevel marketing firms, such as Avon, Mary Kay, Stella & Dot, and others. This category may also include self-employed freelancers. Examples include writers, graphic designers, artists, web developers, and massage therapists.
- **Social Entrepreneur:** Some entrepreneurs are driven to offer innovative solutions to existing and emerging social problems, such as poverty, hunger, human trafficking, and environmental degradation. Most social enterprises are structured as nonprofit entities. However, increased interest in for-profit entities that marry business and social goals has given rise to a subcategory that has emerged known as a B-corp (see Business Structures Options: Legal, Tax, and Risk Issues), or benefits corporation. The B-corp designation is a voluntary certification that is managed by the nonprofit group B Lab to ensure that corporations adhere to specific guidelines, rules, and accountability.

2.5 Key Terms

action plan

organized, step-by-step outline or guide that pulls together the ideas, thoughts, and key steps necessary to help set the stage for entrepreneurial success

benchmarking

comparing one's own company's performance with an industry average, a leader within the industry, or a market segment

bootstrapping

funding strategy that seeks to optimize use of personal funds and other creative strategies (such as bartering) to minimize cash outflows

breakeven point

level of operations that results in exactly enough revenue to cover costs

business model

plan for how venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture's offerings are made and distributed to the end users; and the how income will be generated through this process

capitalism

system in which individuals, people, and companies have the freedom to make decisions and own property as well as benefit from their own efforts, with government playing a secondary role in oversight

cash flow

money collected by the business through revenue and funding versus money disbursed by the business through expenses

cash management

management of cash inflows and outflows to support cash needs of the venture

corporate entrepreneurship

development of new ideas, opportunities, or ventures through formal research and development processes that focused on the corporation's strategy and goals

creative destruction

theory developed by Joseph Schumpeter stating that entrepreneurial innovation is the disruptive force that creates and sustains economic growth, though in the process, it destroys established companies and disrupts employment

due diligence

conducting the necessary research and investigation to make informed decisions that minimize risk

e-commerce

electronic transactions, particularly over the Internet, for the exchange of goods and services

entrepreneurial journey

your exploration to discover if entrepreneurship is right for you

entrepreneurial process

set of decisions or actions that can be outlined and followed as a guide to developing or adjusting a venture

entrepreneurial spirit

describes a quality of those individuals who are productive self-starters focused on making changes happen

entrepreneurial venture

any business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established

framework

structure or outlined process that can be used to accomplish entrepreneurial goals through problem solving, idea generation and validation, and brainstorming

franchising

form of licensing that allows the business (franchisor) to share its business model to expand through various distributors (franchisees) for a fee

independent contractor

(also, freelancer) people or businesses that provide work similar to an employee without being part of the payroll for the contracting business, and who pay their own taxes and pay for their own benefits

innovation

new idea, process, or product, or a change to an existing product or process

intrapreneur

employee who acts as an entrepreneur within an organization, rather than going solo

milestone

significant decision point or significant accomplishment

patent

legal grant of protection for an inventor over the rights, usage, and commercialization of an invention for a set time period

serial entrepreneur

entrepreneur who becomes involved in starting multiple entrepreneurial ventures

situational opportunity

one that becomes available, depending on factors such as where you work, your family obligations, your idea or invention, your unique creative expression, or a recent career search or job change

soft launch

(also, soft open) launching a venture for a limited time frame or audience to gain experience, insights, and feedback about the target market or consumer

target market

specific group of consumers for which a company seeks to provide a good or service

venture

startup company or organization that conducts business or is created to satisfy a need

vertical integration

strategy of gaining control over suppliers of raw materials and distributors of finished products to expand or control the relevant supply chain

2.6 Unit Summary

2.1 OVERVIEW OF THE ENTREPRENEURIAL JOURNEY

As you prepare for your journey into entrepreneurship, it is critical to consider the multiple aspects associated with preparing for, experiencing, and completing a journey unique to you. The key is an honest and introspective assessment of how you can make a journey that brings your desired outcomes and results. The seven steps outlined in this section will provide you with a perspective of what you might encounter on your entrepreneurial venture.

2.2 THE PROCESS OF BECOMING AN ENTREPRENEUR

The entrepreneurial process provides a flexible guideline for launching a venture with an individualized approach. This process should be a fluid, not static, exercise that adjusts to market needs and demands until you achieve an appropriate fit to reap the rewards of your investment. The material in this section will be covered in greater depth as you progress through the rest of the chapters. For now, gaining a perspective on the entire process provides you with a background understanding of what an entrepreneurial venture involves, from ideation through creating the venture to harvesting the venture with the potential to begin the process all over again with a new idea.

2.3 ENTREPRENEURIAL PATHWAYS

Your pathway to entrepreneurship might arise out of necessity, opportunity, or a combination of situations. Being open to the idea of becoming an entrepreneur provides you with the potential to identify a unique opportunity that fits your interests and goals. Entrepreneurs learn to recognize when an opportunity presents itself and how and when it fits with their goals and dreams.

2.4 FRAMEWORKS TO INFORM YOUR ENTREPRENEURIAL PATH

You can connect your background, training, and discipline with your entrepreneurial pathway by using frameworks that capture your developmental activities. To achieve your goals, you need some type of plan that outlines the steps you need to take to reach them. Just as there are many types of ventures, there are many versions and types of plans and tools that can assist you in developing the plan that best fits you. As more global issues and opportunities continue to arise, many different types of entrepreneurs have emerged, offering innovative solutions. The diversity of entrepreneurial types provides unique niches for opportunities that might not fit the mainstream or traditional route to entrepreneurial success.

2.7 Review Questions

1. Why is interest in entrepreneurship growing among those entering or re-entering the workforce?
2. What is an entrepreneurial mindset?
3. What does the phrase “entrepreneurial venture” refer to?
4. What does the process of “cash management” entail for a business?
5. Why is the entrepreneurial process considered a fluid process rather than a rigid step-by-step guide?
6. What does the term “creative destruction” mean?
7. What is the difference between a corporate entrepreneur and an intrapreneur?
8. What are situational opportunities?
9. What does an entrepreneurial journey entail?
10. Under which circumstances might a person choose to bootstrap a venture?
11. What is an independent contractor?
12. What does the term “framework” mean in terms entrepreneurship?
13. What is an action plan? How is it different from a framework?
14. Why are action plans useful in the development or improvement of a venture?
15. What are the characteristics associated with traditional entrepreneurship?
16. What are some biases that minorities and women face in acquiring funding?

2.8 Discussion Questions

1. Discuss the basis for defining a target market. How does a focus on a target market assist with the development or adjustment of an idea?
2. Explain the importance of being self-reflective and honest before, during, and after starting an entrepreneurial journey.
3. Using the information on the steps for an entrepreneurial journey, give your own example with connections to this section's main concepts.
4. Consider the potential questions that you might ask yourself before you launch a venture. Discuss two or three questions that resonate with you and your personal experiences. Why or how do these questions influence you more than others?
5. Think about yourself within the context of the "nature or nurture," "born or made" argument. How do you feel these perspectives combine in your own potential as an entrepreneur?
6. What are the similarities and differences between the life cycle stages of a person and a venture? How can these two concepts assist you in creating a successful venture?
7. Consider the historical information on entrepreneurship and innovation. How does our current economy, which is based on technology and knowledge, support entrepreneurial activity?
8. Consider the multiple pathways to entrepreneurship. How might your own current situation reflect a potential pathway to entrepreneurship?
9. Is there a difference between a soft launch and a soft open? Why are two different terms used?
10. What are the benefits of a soft launch? What are the negatives of a soft launch?
11. Outline your background and training, and then discuss the importance of connecting your background and training with a potential entrepreneurial pathway.
12. How does creating an action plan help you become a successful entrepreneur?
13. What is the connection between an action plan and a framework? How are they different?
14. Why are more individuals pursuing nontraditional entrepreneurship opportunities?
15. What is the difference between an immigrant entrepreneur and a minority entrepreneur? What are the similarities?

2.9 Case Questions

1. Review the story of Sixto Cancel and his journey to developing the social venture Think of Us.
 - a. Consider Sixto's entrepreneurial journey and the development of Think of Us. What types of challenges or obstacles do you think he had to overcome to complete his journey?
 - b. Discuss some of the advantages and disadvantages related to Sixto Cancel's background and his experiences in developing an organization and board.
 - c. Consider how Sixto Cancel developed his organization. Discuss how he followed or skipped any steps of an entrepreneurial journey.
2. Explore the websites of Cratejoy and Prosperly, which are discussed in Entrepreneurship in Action: Prosperly. How did these venture founders follow the entrepreneurial journey?
3. After researching Man Crates, explain how Man Crates has followed the model in Figure 2.20?
4. What additional ideas can you think of for starting your own business, using Man Crates as a source of inspiration?
5. Go back to the Work It Out: Startup Ideas Feature Box. Select either an idea that you've created or an idea listed on either of the websites. Where could you go to gain more information about this idea? This might mean finding a business where you could shadow someone, or perhaps an internship, or research conducted in some other manner.
6. Return to the Work It Out: Startup Ideas Feature Box and revisit the links to business ideas, using the same idea that you identified in question 1. What are five other businesses that could be spinoff ideas from your one new idea?
7. Refer to the case questions in Entrepreneurial Pathways. Select one of the framework tools discussed in this section and apply that framework to your idea.
8. Why did you select this framework over another framework?
9. By applying the framework to your idea, what new information did you learn and what information is lacking, or needs further development?

3.1 Entrepreneurial Opportunity

Learning Objectives

By the end of this section, you will be able to:

- Define entrepreneurial opportunity
- Discuss Joseph Schumpeter's theories of opportunity
- Identify key drivers of opportunity

Aspiring entrepreneurs can come up with ideas all day long, but not every idea is necessarily a good idea. For an idea to be worth pursuing, we must first determine whether the idea translates into an entrepreneurial opportunity. Entrepreneurial opportunity is the point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service. In the field of entrepreneurship, specific criteria need to be met to move from an idea into an opportunity. It begins with developing the right mindset—a mindset where the aspiring entrepreneur sharpens their senses to consumer needs and wants, and conducts research to determine whether the idea can become a successful new venture.

In some cases, opportunities are found through a deliberate search, especially when developing new technologies. In other instances, opportunities emerge serendipitously, through chance. But in most cases, an entrepreneurial opportunity comes about from recognizing a problem and making a deliberate attempt to solve that problem. The problem may be difficult and complex, such as landing a person on Mars, or it may be a much less complicated problem such as making a less expensive and more comfortable mattress, as companies like Casper and Purple did.

THEORIES OF OPPORTUNITY

In the twentieth century, economist Joseph Schumpeter, as shown in Figure 3.2, stated that entrepreneurs create value “by exploiting a new invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry” or similar means.¹

1. Joseph Schumpeter. *Capitalism, Socialism, and Democracy*, 3rd ed. (New York: Harper Torchbooks, Harper and Row Publishers, 1950), 132–134.

According to Schumpeter, entrepreneurial innovation is the disruptive force that creates and sustains economic growth, though in the process, it can also destroy established companies, reshape industries, and disrupt employment. He termed this force creative destruction. Schumpeter described business processes, including the concept of downsizing, as designed to increase company efficiency. The dynamics of businesses advances the economy and improves our lifestyle, but the changes (sometimes through technology) can make other industries or products obsolete. For instance, Schumpeter provided the example of the railroad changing the way companies could ship agricultural products quickly across the country by rail and using ice “cold cars,” while at the same time, destroying the old way of life for many ranchers who wrangled cattle from one location to their intended commercial destination.



Figure 3.2 Schumpeter believed that entrepreneurs create value in an economy. (credit: Joseph Alois Schumpeter, ca. 1910: HUGB S276.90 p (2), olvwork369436. Harvard University Archives)

Today, we might think of the displacement of taxi drivers by ride-sharing services such as Uber and Lyft as a modern-day example of this concept. To own and operate a New York City cab, for instance, one must buy what is called a taxi medallion, which is basically the right to own and operate a cab. Drivers take out loans to buy these medallions, which cost hundreds of thousands of dollars. But now, ride-sharing services have eaten in to the taxi industry, all but destroying the value of the medallions, and the ability of taxi drivers to make the same money they were before the popular services existed. This change has left many taxi drivers in financial ruin.² Schumpeter argued that this cyclic destruction and creation was natural in a capitalist system, and that the entrepreneur was a prime mover of economic growth. To him, the goal was to progress, and progression starts with finding new ideas. He identified these methods for finding new business opportunities:

1. Develop a new market for an existing product.
2. Find a new supply of resources that would enable the entrepreneur to produce the product for less money.
3. Use existing technology to produce an old product in a new way.
4. Use an existing technology to produce a new product.
5. Finally, use new technology to produce a new product.

We can understand theories of opportunity as related to supply or demand, or as approaches to innovations in the use of technology. The first situation is a demand opportunity, whereas the remaining situations are supply situations. The final three incorporate technological innovations. Supply and demand are economic terms relating to the production of goods.

Supply is the amount of a product or service produced. Demand is the consumer or user desire for the outputs, the products, or services produced. We can use the ideas from Schumpeter to identify new opportunities. Our focus is on identifying where the current or future supply and the current or future demand are not being met or are not aligned, or where technological innovation can solve a problem.

2. Winnie Hu. “Taxi Medallions, Once a Safe Investment, Now Drag Owners Into Debt.” The New York Times. September 10, 2017. <https://www.nytimes.com/2017/09/10/nyregion/new-york-taxi-medallions-uber.html>

More recent research has expanded on the concept of technological entrepreneurial opportunities, identifying several areas: creating new technology, utilizing technology that has not yet been exploited, identifying and adapting technology to satisfy the needs of a new market, or applying technology to create a new venture.³

Regardless of which of Schumpeter's paths entrepreneurs pursue, before investing time and money, the business landscape requires a thorough investigation to see whether there is an entrepreneurial opportunity. Remember, entrepreneurial opportunity is the point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service. "Feasibility" in this definition includes identifying a sizable target market interested in the product or service that has sufficient profitability for the venture's financial success.

ENTREPRENEUR IN ACTION

Chester Carlson

Chester Carlson, a physicist, inventor, and patent attorney, spent ten years searching for a company to develop and manufacture a new photographic machine for office use to make copies faster and for less money. Carlson went on to found the XEROX Corporation, the company that made the first photocopy machines. Can you imagine a school or office today without a photocopy machine? The companies that Carlson approached with his invention missed the opportunity to invest. For Carlson, it was the beginning of a technology product development company that has been granted more than 50,000 patents worldwide.

Today, Xerox continues to innovate. Visit the innovation section of its website and consider how one of the inventions it's developing now could spur creative destruction in an industry, according to Schumpeter's theory.

IDENTIFYING OPPORTUNITY

A good place to begin your entrepreneurial quest is to read as much as you can, especially with new technology developments, even outside the field you work in. Remember that as technologies start to emerge, we often do not yet understand their commercial potential. For example, microwave technology was first applied in radars to track military submarines. But, thanks to a curious man named Percy Spencer and the accidental melting of a peanut bar in his pocket one day while tinkering with the technology, the microwave was born. It would take a few decades for it to be produced at a price the mass market could afford.⁴

Think of drones, too. When they were invented, the multiple uses for this technology were not yet identified. Now, drone technology is being used by real estate firms, package delivery services, agriculture, underwater search and scientific research, security, surveillance, and more. Being tuned in to new experiences and information can lead to identifying opportunities. Entrepreneur Fred Smith found a system to solve the problem of overnight package delivery in founding Federal Express.⁵ As a college student, he wrote a paper for an economics class where he discussed his business idea. He earned only a C on his paper, by the way. He received his bachelor's degree in 1966 and went on to found Federal Express a few years later, which, in 2019, generated almost \$70

3. Jamalia Behrooz, Reza MohammadKazemi, Jahangir Yadollahi Farsi, and Ali Mobini Dehkordi. "Theories of Opportunity Creation and Effective Entrepreneurial Actions in Opportunity Creation Context." *Decision Science Letters* 7, no. 4 (2018): 443–454.

4. Matt Blitz. "The Amazing True Story of How the Microwave Was Invented by Accident." *Popular Mechanics*. February 24, 2016. <https://www.popularmechanics.com/technology/gadgets/a19567/how-the-microwave-was-invented-by-accident/>

5. "Success Story – Fred Smith | Federal Express." *Daily10Minutes*. n.d. <http://www.dailytenminutes.com/2017/09/success-story-fred-smith-federal-express.html>

billion in revenue.⁶ Prior to starting Federal Express, Smith was in the US Marine Corps serving in Vietnam where he observed the military's logistics systems.⁷ This is where he honed his interest in shipping products while in the military. Many entrepreneurs start their business after working for someone else and seeing a better way to operate that business, and then start their own competing business.

Note that entrepreneurs need to be careful about starting competing businesses. See *Telling Your Entrepreneurial Story* and *Pitching the Idea* and *Business Structure Options: Legal, Tax, and Risk Issues* for information on noncompete clauses and agreements. Indeed, some entrepreneurs, like Smith, conduct research as an idea percolates, paying attention to new experiences and information to further advance their idea into an entrepreneurial opportunity. However, they must ensure that the existing product, service, or business process is not covered by any active and protected intellectual property (patent, trademark, copyright, or trade secret), as discussed in *Creativity, Innovation, and Invention* and *Fundamentals of Resource Planning*.

Identifying consumer needs may be as simple as listening to customer comments such as "I wish my virtual orders could be delivered more quickly." or "I can never seem to find a comfortable pillow that helps me sleep better." You can also observe customer behavior to gather new ideas. If you are already in business, customer feedback can be a simple form of market research.

When purchasing an existing business or franchise, the process is a bit different. The first step will usually be searching for a business that suits your experience, personal preferences, and interests. You will still want to conduct research to understand the industry, the local market, and the business itself. Then, you will begin to examine all available company financial data. If purchasing a franchise, you may want to contact other franchise owners and discuss their experience in working with the franchisor.

ENTREPRENEUR IN ACTION

How Spanx Founder Developed Resilience and Persistence⁹

Another entrepreneur, Sara Blakely (Figure 3.3), admits that for the seven years she spent selling fax machines in the 1990s, many times, she became so frightened of approaching sales prospects that she would burst into tears and then have to drive around the block to collect herself before she could complete the next sales call.

6. "FedEx Corp. Reports Fourth Quarter and Full-Year Earnings." Federal Express. June 25, 2019. <http://investors.fedex.com/news-and-events/investor-news/news-release-details/2019/FedEx-Corp-Reports-Fourth-Quarter-and-Full-Year-Earnings/default.aspx>

7. Vance H. Trimble. *Inventing FedEx: The Cruel Ordeal* (2012). Vance Trimble. *Overnight Success: Federal Express and Frederick Smith, Its Renegade Creator* (1993).



(a)



(b)

Figure 3.3 (a) Spanx, a new product that was created to solve an everyday problem, was invented by (b) Entrepreneur Sara Blakely (far right). (credit (a): "Spanx" by Mike Mozart/Flickr, CC BY 2.0; credit (b): "Ed Bastian and Sara Blakely at the Fast Company Innovation Festival" by Nan Palmero/Flickr, CC B 2.0)

One day in 1998, she was putting on pants and looked in the mirror and did not like how she looked. So, Blakely came up with the idea to wear a pair of control-top pantyhose underneath—but she cut the feet out. Blakely liked the look and comfort of the footless hose and decided to patent her own body-shaping footless version. Just a few years later, Blakely founded her company, Spanx, Incorporated, which since has gone on to launch more than 200 styles of body-shaping garments. This is another case of an entrepreneurial company born out of a simple way to solve an everyday problem.

Blakely is also a master of resilience, which is a quality of many successful entrepreneurs. When she was sixteen years old, right around the time her parents separated, she witnessed a good friend get hit and killed by a car. Her father gave her a set of motivational tapes to listen to: *How to Be a No-Limit Person* by Wayne Dyer. She found the tapes so helpful that she memorized all of them and still gives copies of the tapes as gifts.

As a child, her father encouraged his children to respect the valuable lessons we can learn through failure. Obviously, it helped Blakely at a young age develop persistence and determination. That persistence and determination helped her develop a business idea into a billion-dollar enterprise.

Questions

- Was Blakely's idea a demand or a supply idea?
- What industry information would Blakely need as she was researching this idea?

When researching supply and demand, you should also consider political factors. For example, changes in tax laws can inform decisions. One example is a tax credit that encourages alternative energy use, such as electric or hybrid vehicles. For 2019, the IRS tax credit is between \$2,500 and \$7,500 per new electric vehicle, with a concurrent phase-out of the plug-in electric vehicle tax credit. Changes in the tax code can therefore influence buyer behavior

or the demand for vehicles. Another example is the Residential Energy Efficient Property Credit of up to \$4,000 for solar electronic appliances such as solar water heaters and solar panels and for small wind turbines, through the end of 2021.⁸ Tax incentives do not usually last more than a few years (the tax subsidy for corn farmers to produce ethanol, an ingredient in automotive fuels, is a notable exception due to heavy lobbying by the farming industry), so it is important that entrepreneurs do not rely on these incentives as a permanent “pillar” of their value proposition and business model.

Let’s say you have an interest in machinery and art. Taking these two areas of interest, and knowing about this tax credit, you recognize that you have the talents to create artistic backyard wind turbines to create energy for a homeowner. Of course, you will still need to determine whether this is merely an idea, or if the conditions are in place to move forward in translating this idea into an entrepreneurial opportunity.

DRIVERS OF OPPORTUNITY

Some recent drivers for change in the entrepreneurial space include new funding options, technological advancements, globalization, and industry-specific economics.

- Increased access to capital through social media sources like crowdsourcing (see the chapter on Problem Solving and Need Recognition Techniques for a more detailed discussion of crowdsourcing) is having a significant impact on entrepreneurship in that it enables underserved people and communities—such as women, veterans, African Americans, and Native Americans, who otherwise might not be able to start and own a business—to become entrepreneurs.
- Technological advancements continue to provide new opportunities, ranging from drones to artificial intelligence, advancements in medical care, and access to learning about new technology. For example, drone technology is being used to map and photograph real estate, deliver products to customers, and provide aerial security and many other services. Cell phones have spawned many new business opportunities for a wide range of cell phone accessories and related products, ranging from cell phone cases to apps that help make our cell phones faster for business and personal use.
- Increased globalization drives entrepreneurship by allowing importing and exporting to flourish. Globalization also helps spread ideas for new products and services to a world market instead of a local or regional market. Combined with the Internet and computer technology, even small businesses can compete and sell their products around the globe.
- Economic factors could include a strong economy that fuels other businesses. For example, growth in the housing market fuels growth for many housing-related products and services, ranging from interior decorating to landscaping as well as furniture, appliances, and moving services.

David Pridham, CEO of the patent advisory board and transaction firm Dominion Harbor Group in Dallas, cites six reasons that current conditions are excellent for startups:

1. Venture capital investment, which you will learn more about in Entrepreneurial Finance and Accounting, has surged to the highest level ever, totaling \$148 billion in 2018.
2. The concern over patent protection is improving with better trade protection of intellectual property rights.
3. Artificial intelligence could be a tremendous opportunity based on a McKinsey report projection,

8. “Tax Credits for Energy Efficient Home Improvements.” EFile.com. January 24, 2019. <https://www.efile.com/tax-credit/energy-credit/>

estimating artificial intelligence to become a \$13 trillion industry by 2025.

4. The explosive growth in freelance workers has been a boon to startups and small businesses.
5. Another hot sector is technology-driven advancements such as self-driving vehicles.
6. Intellectual property now accounts for 38.2 percent of our total Gross Domestic Product (GDP) in the United States. That totals \$6 trillion per year, more than any other nation's GDP except for China.⁹

In addition, Silicon Valley Bank (SVB) Financial Group surveyed new startup businesses in 2017 and found that 95 percent indicated they believe that business conditions will be the same or better. In addition, 83 percent plan to increase their workforce, and 24 percent found fundraising not to be a challenge.¹⁰ These numbers represent the highest levels of optimism among entrepreneurs over the most recent five-year period.

Some other economic indicators favor entrepreneurship. According to the 2019 Goldman Sachs Economic Outlook, consumer confidence is up, business confidence is up, interest rates remain reasonable and steady, more people are working, and wages are higher.¹¹ When the economy is strong, there are generally more opportunities available and more potential customers with money to purchase your products and services; but of course, there are no guarantees.

Link to Learning

There are debates about so-called kill zones—markets that the tech giants like Facebook and Amazon control through aggressive anticompetitive tactics. Some argue that these zones have frightened off investors and stifled competition. But others maintain that investment in young tech startups is as strong as ever and that the creative effects of big tech companies outweigh their destructive forces.

Read this article on how tech giants make it difficult for startups from *The Economist* and then this blog post refuting the idea that tech giants kill startups from *The American Enterprise Institute* and see what you think about the issue.

9. David Pridham. "Entrepreneurs: Here's Good News for 2018." *Forbes*. January 10, 2018. <https://www.forbes.com/sites/davidpridham/2018/01/10/entrepreneurs-heres-good-news-for-2018/#18f02aef6659>

10. Silicon Valley Bank. 2019 Startup Outlook Report. 2019. <https://www.svb.com/startup-outlook-report-2019>

11. Goldman Sachs. 2019 Outlook: The Home Stretch. US Economics Analyst. November 18, 2018. <https://www.goldmansachs.com/insights/pages/outlook-2019/us-outlook/report.pdf>

3.2 Researching Potential Business Opportunities

Learning Objectives

By the end of this section, you will be able to:

- Describe opportunity screening
- Identify common sources of research data
- Explain how to research and verify business opportunities
- Identify industry and consumer sources of opportunities

In order to discover how reasonable your business idea is, you need to research many aspects of the concept. Opportunity screening is the process by which entrepreneurs evaluate innovative product ideas, strategies, and marketing trends. Focusing on the viability of financial resources, the skills of the entrepreneurial team, and the competition, this screening helps determine the potential for success in pursuing the idea and can help refine planning.

COMMON SOURCES OF RESEARCH DATA

As you embark on researching whether your idea is viable, a good place to start is with the sources recommended by the US Small Business Administration. These include US Census data (<https://www.census.gov/academy>), which provides insight into the population in your market area, such as the metropolitan statistical area data, as well as statistics on the economy and trade. For most entrepreneurs, research will also include asking potential customers, specifically your target customers, questions about products they like and don't like, how a product or service could be improved, how the customer buying experience could be improved, and even where customers might go to purchase products and services instead of your business.

Small business marketers can use several no-cost or low-cost methods, including surveys, questionnaires, focus groups, and in-depth interviews. Of course, you do not need to be an expert in these areas. Business assistance is available to you from the Small Business Administration, the Service Corps of Retired Executives (SCORE), and your local Small Business Development Center. You may also have a local college or university business department that provides assistance to local area businesses.

Link to Learning

The Small Business Administration website and SCORE website are rich resources of information for entrepreneurs.

You will likely begin with secondary research—that is, data that are already available through some published source. There may be articles, research reports, or reliable Internet sources where you can research information about your industry, products, and customers. If you have the funds, you can also purchase research reports from firms that specialize in gathering research on certain topics or products. Secondary research has the advantage of being quickly available. However, secondary research often is not specific enough to provide all the details you need to know about your idea.

For example, secondary research (this is research that has been developed from primary sources that is almost as useful as primary, direct research) might report how often consumers purchase shampoo, where they purchase shampoo, and what brands of shampoo they purchase. But if you want to understand the details of how people shampoo—for example, whether they shampoo then repeat, use a separate conditioner, or use a combination shampoo/conditioner product—then you would want to conduct primary research. Primary research is needed when secondary research does not address the questions you want to explore while investigating your business idea.

Primary research gathers data that do not yet exist. The information is specific to the business, product, or consumer. It takes time and money to obtain primary data. Some of the methods used to gather primary research data include developing a survey questionnaire, using secret shoppers, or using focus groups. Survey questionnaires can be simple, such as a customer comment card included on a receipt, or extensive, including dozens of detailed questions. Secret shoppers can be used by hiring a shopping service or using friends, family members, and even your customers. One local small business owner gave a friend gift certificates that could be used at his ice cream business in exchange for the friend reporting back on product quality, service, and other key issues.

RESEARCHING AND VERIFYING THE ENTREPRENEURIAL OPPORTUNITY

Whether you start your own business, buy an existing business, or purchase a franchise, researching the industry, your target market, and examining the economic and funding options are all part of performing due diligence. Due diligence is the process of taking reasonable steps to verify that your decisions are based on well-researched and accurate information. It means thoroughly researching potential pursuits, asking detailed questions, and verifying information.

Different industries have different meanings for due diligence. For example, in the legal industry, due diligence involves understanding the terms of a transaction and contract. In business finance, due diligence refers to raising capital or the work involved in merger and acquisition transactions. In the entrepreneurship field, research is necessary to verify whether the idea is really an opportunity, considering the entire process of starting the venture and funding the venture.

One of the more common questions entrepreneurs must ask is whether now is a good time to start a business. This question of timing is addressed in the investigation to determine whether the idea is merely interesting or fits the criteria of being an entrepreneurial opportunity.

An idea can move to a recognized opportunity when the following criteria are met. Figure 3.4 shows these three factors:

- Significant market demand
- Significant market structure and size
- Significant margins and resources to support the venture's success

Significant market demand means that the idea has value by providing a solution to a problem that the target market is willing to purchase. This value can result from a new product or service that fills an unmet need, a lower price, improved benefits, or greater financial or emotional value. This value can also result from capitalizing on “nonconsumption.” For example, in the 1980s, the Disney Corporation realized that it was losing an opportunity to entice visitors to come to their theme parks from 9 p.m. to 9 a.m. when they were closed. So the company started having “school nights” when schools and students could use the parks at a discount.

Significant market structure and size involve growth potential and drivers of demand for the product or service. Barriers to entry are manageable, meaning that entering the industry or creating a new industry is not exceptionally difficult. If the industry already exists, there must be room within the industry for your venture to gain market share by providing a value that creates a competitive advantage.

Significant margins and resources involve the potential for achieving profit margins at a high-enough level that the work of starting the venture (including the entrepreneur’s time and energy) is worth the risks involved. If the operating costs are too high and the profit margin is too low, it is important to analyze whether the idea is truly feasible. Significant margins also include the capital requirements—how much money is needed to start the venture—as well as the technical requirements, the complexity of the distribution system, and similar resources.

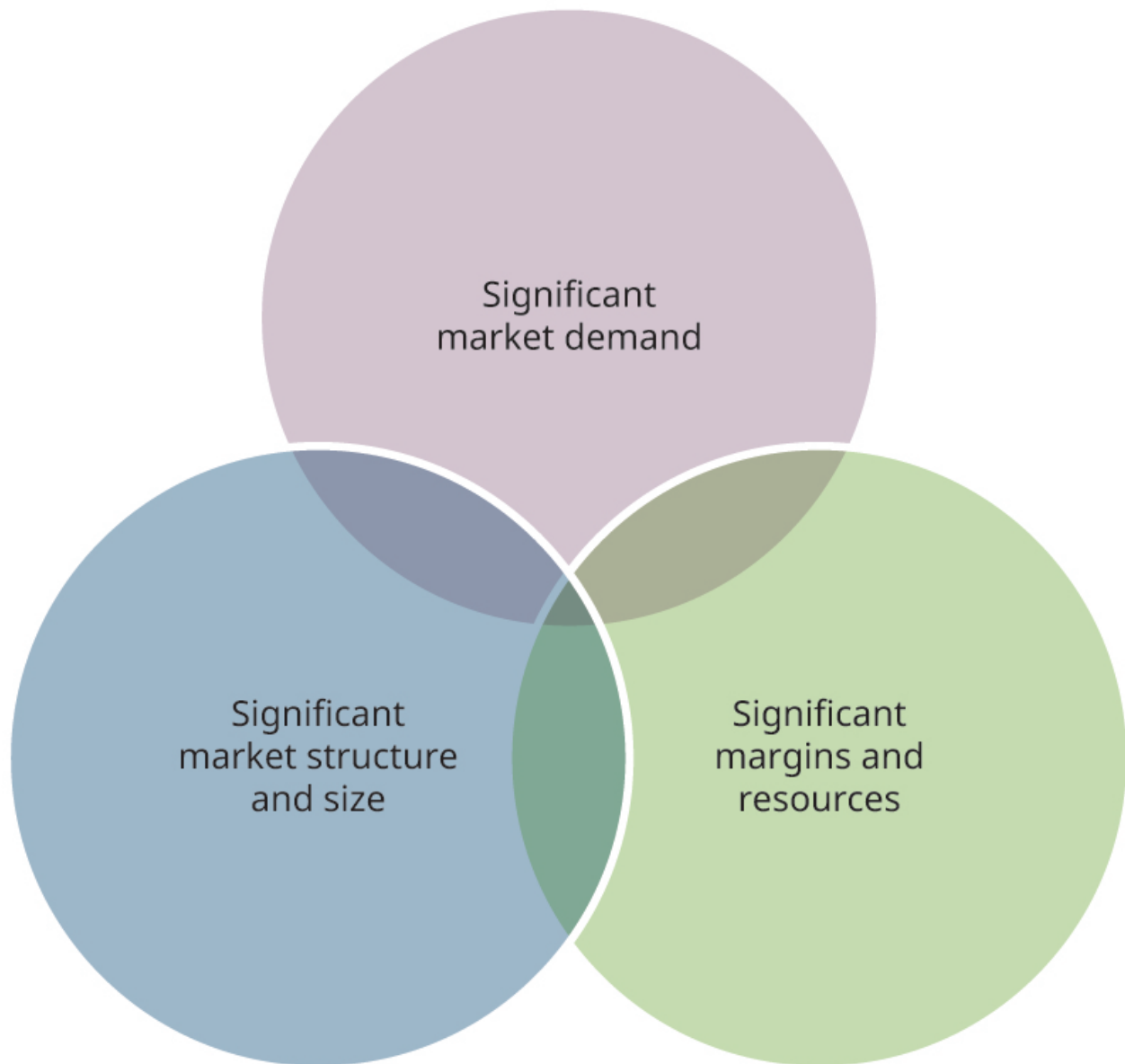


Figure 3.4 When these criteria are met, an idea is recognized as an opportunity. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Determining whether an idea has significant market demand, significant market structure and size, and significant margins and resources to support the venture's success represents the most basic concerns when screening a business idea as an entrepreneurial opportunity.

Keep in mind that these three criteria are based partially on creating a for-profit venture. If your entrepreneurial venture is focused on solving a societal problem, you want to know that the identified problem is realistic and that there is a need for solving it. In a for-profit venture, significant market structure and margins relate to the expectation that the venture will have significant sales with significant profit margins to sustain and grow.

Example – YouTube

There are also examples of profitable entrepreneurial ventures, like YouTube, that did not have any sales, but there was still an expectation that harvesting or selling YouTube would result in a significant profit for the entrepreneurial team. You can read more about Google's purchase of YouTube:

A Decade Ago, Google Bought YouTube — and It Was the Best Tech Deal Ever by Victor Luckerson published on The Ringer.

After confirming that a business idea is an entrepreneurial opportunity, the entrepreneur should ask more detailed questions in the next phase of screening the business. Here are some examples:

- Would other people value your product or service?
- Does your product or service solve a significant problem?
- Is the market for the product definable/specific?
- Does the market have unique needs or expectations that align with your entrepreneurial opportunity?
- Is the timing right to start the venture?
- Are there infrastructure or supporting resources that need to be commercialized or created prior to your launch of the venture?
- What resources are needed to start the venture?
- What is the competitive advantage your venture offers within the industry and is this competitive advantage sustainable?
- What is the timeline between starting the venture and the first sale?
- How long before the venture becomes profitable and do you have the resources to support this timeline?

A good starting point in your opportunity screening research is to begin learning about the demographics of the market you are targeting (your target market). Demographics are statistical factors of a population, such as race, age, and gender.

The government collects census data demographics,¹ which can provide a snapshot of the population in your city or town. Census data include the total population, a breakdown of the population by age, gender, race, and income, and some other useful data.

Link to Learning

Statistics Canada and your local chamber of commerce can help you learn more about the demographics of your target market or region.

For example, if you were considering opening a new ice cream store with unique flavors preferred by children, census data could tell you the number of children living in the area, the ratio of boys to girls, their ages, and the general income levels of the families in town. The census data would help you determine the size of the market and potential target market, local market growth, income levels, and key demographics that might fit the potential customer profile. Of course, there is other information you might want to collect, such as the percentage of the population that had lactose intolerance. If you found that a significant portion of your market was lactose

1. United States Census Bureau. <https://www.census.gov/>

intolerant, this could be your identified opportunity: You could create a lactose-free ice cream store or expand with a variety of lactose-free flavors. The census data also help identify where to locate your entrepreneurial venture. For example, if your lactose-free ice cream was expensive because of the necessary ingredients, you would not want to open your store in a low-income area.

There is a vast amount of data and information available through the Internet that can support your success in making informed decisions as you explore the feasibility of opening a successful venture. Or you can purchase more detailed consumer data through providers such as Claritas Research, which gathers information on demographics, consumer lifestyles, attitudes, and behaviors (<https://claritas360.claritas.com/mybestsegments/?ID=70>). For many small business startups that cannot afford sophisticated research data, the entrepreneur will probably have to rely on census data along with information that the local economic development council is able to provide.

Exercise – T-Shirt Startup

Create your own t-shirt line to target your classmates.

- What would be the theme?
- How much would you charge?
- Where would you sell the shirts?
- What are the expected sales of the business?
- What are the resources needed to get started?

After analyzing demographic data, the entrepreneur can then develop and conduct some basic research, which could range from observing customers to shopping at potential competitors. Entrepreneurs can also uncover business opportunities by asking questions of, and listening to, their customers, if they are working within the industry or looking for new entrepreneurial opportunities with a similar target market. Sometimes an easy and inexpensive customer survey can uncover problems and opportunities. Entrepreneurs can also gather information using their social media accounts and customer sales records.

For example, imagine a men's clothing store in Denver that maintained a detailed customer database that they used primarily to order the colors and sizes their customers were most likely to purchase. A marketing consultant begins researching customer data and finds a number of former customers who had not shopped at the store for a year or more. The consultant uncovers some lapses in service that had cost the store thousands of dollars in sales. Store management, working with the information from the consultant, develops a direct marketing campaign that helps bring back former customers and adds new customers, resulting in a substantial sales increase.

The lesson here is that research is important at all stages of the business—before you start your business and consistently thereafter. Markets change as new people move in or out of an area, styles and preferences change over time, and new technology can radically impact what customers want to buy. We all know of businesses like Blockbuster or Xerox that ignored evolving technology, to the detriment of their success. Constantly tracking changes in the external environment and competitive arena is an ongoing activity that supports the continued success of the venture.

A popular tool for market analysis is a product from Claritas Research called Potential Rating Index for Zip Markets (PRIZM), which characterizes census data according to certain lifestyle traits, even down to the neighborhood level. As an example, let's see how PRIZM can help us better understand the consumer market of a small town in Massachusetts. Oxford, Massachusetts (zip code 01540), has a population of 11,653, with slightly more half being female; a median income of \$70,444; and a median age of 42.3 years. PRIZM data give us a better understanding of consumers than census data do in Oxford by examining the five dominant lifestyle segments from within PRIZM's sixty-six segments. The PRIZM segments are based on socioeconomic rank determined by characteristics such as income, education, occupation, and home value. A thorough analysis of available data could suggest the most likely products and sources consumers in this zip code market would likely purchase.

Entrepreneurs might also obtain data from economic development agencies, the local chamber of commerce, the state small business development center, or industry associations. Of course, lots of data can be found with a good search on your computer. Your university reference librarian can tell you what resources they have available and which resources would best fit your research question(s) and area of focus for your idea.

ENTREPRENEUR IN ACTION

Elon Musk's SpaceX

There have been many instances in which products have been promised but fail in their implementation. Space travel—think Elon Musk's venture SpaceX (Figure 3.5)—is an example of a bold concept that is still in the feasibility phase. Is it even possible to send humans to Mars? This is an extreme but interesting example for considering product feasibility.

Another application of the SpaceX technology is to develop satellite-based Internet access that can provide service to billions of people who do not already have Internet service.² However, the project will require new satellite networks, and it may take twenty years to fully develop.

- What short-term and long-term considerations are necessary in the project?
- As the concept will take twenty years of satellite development, how can technological changes be incorporated into the development of the idea?
- Given the description of an entrepreneurial opportunity, does this idea fit that definition?

2. Aaron Pressman. "Elon Musk's SpaceX May Fuel \$1 Trillion Space Business Boom." *Fortune*. October 12, 2017. <http://fortune.com/2017/10/12/elon-musk-spacex-morgan-stanley/>



Figure 3.5 SpaceX operations are centered in these headquarters. Credit: "Iridium-4 Mission (25557986177)" by Official SpaceX Photos/Wikimedia Commons, CC0 1.0

What should you do if your idea does not fit these criteria—significant market demand, market structure and size, and margins and resources—and your passion to develop the idea into an opportunity and new venture is still strong? This is also part of the entrepreneurial process. You, as the lead entrepreneur, are charged with the task of identifying the obstacles to turning your idea into an opportunity and what actions are necessary to overcome these. This could mean adjusting the idea, adding new features, or even removing some features. Adding new features should focus on increasing the value or benefit offered by the product or service, or creating a tighter alignment with the needs of the target market. Removing features could decrease the production costs or even the complexity in using the product.

As part of your research to verify whether your idea is truly an entrepreneurial opportunity, researching your state's laws and regulations is essential. Conduct an Internet search for your state's business regulations applicable to your business. You will need to comply with these laws, as well as purchase any licenses and permits necessary for your business. You should also check with your local or county government for additional local regulations, including zoning and signage laws. Remember that laws vary by state, so what is legal in one state may not be legal in another, or there might be stricter regulations. For emerging industries, the regulations and laws can fluctuate as industries evolve. This is especially true for emerging industries such as the sale and distribution of medical marijuana.

ARE YOU READY?

Getting a License or Permit to Start a Business

When starting a business, be sure that you have all the required licenses and permits, keeping in mind that you may need licenses from federal, state, county, and local government agencies. You can start with the SBA website. Another helpful resource is Fundera, an online financial resource that provides information about obtaining business licenses in all fifty states and links to essential government organizations for each state. And try nav.com as well.

States regulate a larger number of business activities than the federal government. Business activities that are regulated locally include auctions, construction, dry cleaning, farming, plumbing, restaurants, retail, and vending.

- Select a business in a regulated industry and research what would be needed to start the venture in a specific locale.

Many estimates indicate that half of all new businesses will no longer exist within the first five years, but good research can help you avoid your business becoming a statistic.³ On the surface, this fact can be daunting. However, there are many reasons why a business no longer exists that can reflect a positive outcome, such as the sale of a business or a merger with another business. Another example is when an entrepreneur intentionally starts a venture knowing that there is a short-term timeline for success, with the expectation that new technology will replace the gap that the venture originally filled. Most entrepreneurs are not big risk-takers but understand that there are no guarantees in starting a new business venture. Instead, entrepreneurs tend to take calculated business risks based on the best research they can gather. At some point, however, the entrepreneur recognizes that despite all the good research they have gathered, they still need to take a leap of faith when starting their new venture.

WHY SMALL BUSINESSES FAIL

Why do half or more of new small businesses no longer exist after the first five years? In many cases, it is failure of the business. The Small Business Institute at Thomas College in Maine has cited factors in Table 3.1 as the most common reasons for small business failures. Many business development agencies have compiled similar lists.

Table 3.1 Understanding some of the factors that lead to business failure can help you be aware of those as you research your idea and opportunity.

3. US Small Business Administration Office of Advocacy. Frequently Asked Questions about Small Business. August 2018. <https://www.sba.gov/sites/default/files/advocacy/Frequently-Asked-Questions-Small-Business-2018.pdf>

Table 3.1 10 Reasons Small Businesses Fail

Reason	Description
Low sales	Entrepreneurs may have overestimated sales, assuming they could take sales away from established competitors.
Lack of experience	Running a business is hard, and a new business can be especially challenging, as it is difficult to prepare adequately for the unexpected.
Insufficient capital	When calculating how much money you will need to start your new business venture, be sure to account for the time it will take before your business breaks even and be sure also to allow for some contingency funds for when the unexpected happens.
Poor location	For some types of businesses, location is critical. Of course, location may be less important for a home-based business and not at all important for an Internet business.
Poor inventory management	Too much inventory results in the business becoming cash-strapped and unable to buy advertising or other important goods and services.
Overinvestment in fixed assets	Especially when starting a business, it is usually less expensive to lease or purchase used equipment, thereby saving cash for meeting operational expenses.
Poor credit arrangement management	Start your venture small and limit the amount of money you need to borrow. Work with your banker from the beginning by sharing your business plan and vision for the business with the banker and, most important, show that you are proactive in planning for when you will need to borrow money.
Personal use of business funds	The owner should pay him/herself a minimal salary and not dip into business funds. If the business has done well, the owner will earn additional funds at the end of the year.
Unexpected growth	Surprisingly, some businesses fail because the business owner cannot manage growth. Growing a new venture, especially if the growth is at a higher rate than expected, can create surprising challenges. For example, if creating a product, you need to consider the capacity of the factory where you are producing the product. If you are at 100 percent capacity and your orders increase, you will need to think about what actions can support this increase in demand. If you cannot meet the demand, you will have unhappy customers and negative publicity that will reflect negatively on your leadership and managerial skills. Your lack of planning for this surge in sales may open opportunities for someone else to start a competing business.
Competition	Many small business owners underestimate their competition. Remember, if there is money to be made, there will be competition! Larger competitors can beat you every day of the week on price, so find another way to challenge competitors.

Questions

- Given the preceding reasons for small business failure, what can be done to head off such failure?
- Why is it necessary to assemble a team of professional advisors to address financial, personnel, legal, accounting, and other business issues?
- Why is it vital to identify suppliers and personnel to be able to provide a product or service?
- What factors are important when considering whether a product should be manufactured internally or outsourced to a third party?

Let us analyze, as an example, opportunity recognition displayed by a company called Sweet Beginnings. Eddie Griffin, Kevin Greenwood, and Tiffany Chen were all residents of Chicago who were seeking jobs and a fresh start on life after serving time in prison. They wanted a chance to rebuild their lives and the ability to support themselves financially. Unfortunately, the odds were against them in their North Lawndale community: There was a 40 percent unemployment rate, 57 percent of residents had criminal histories, the average annual income was only \$25,000, and the area was known for drugs, sex workers, and gangs. Statistically, they were destined to return to the criminal justice system.

But fate intervened in the form of Brenda Palms Barber, who knew all of these statistics. Palms Barber was the Executive Director of the North Lawndale Employment Network (LEN). When employers refused to hire Griffin, Greenwood, and Chen, whom she had coached, she researched what it would take to open various businesses, including a temp agency, a landscaping company, and a delivery service, with the intent to offer employment to

LEN clients. A recommendation from a board member's connection led her to consider, of all things, raising bees. It was not until she learned that the ins and outs of the apiary profession are passed on by word of mouth that she felt it was ideal for her clients who often faced learning challenges due to limited academic experience.

In 2005, Palms Barber founded Sweet Beginnings, a social enterprise that employs former inmates and teaches them job skills by running an apiary business directly in the heart of North Lawndale. The Sweet Beginnings brand, Bee Love (shown in Figure 3.6), sells honey and honey-infused skincare products in airports, hotels, and supermarkets, including Whole Foods. Palms Barber recognized that the skills her potential employees learned in the streets were transferrable to running and managing the business.⁴⁵⁶



Figure 3.6 Bee Love products are part of a social entrepreneurship venture. Founder Palms Barber researched the opportunity carefully and has found success. (credit: "Bee Love" by Alisha McCarthy/Flickr, CC BY 4.0)

Palms Barber also realized that a product gap existed between customer needs and products offered. She identified the niche market of customers who wanted all-natural skin care products and liked the idea of purchasing them from a social enterprise. Bee Love positioned itself for success as an appealing, high-end natural product to environmentally conscious consumers willing to pay a premium for it.

Palms Barber recognized an opportunity when she identified the societal problem of employment for people who had experienced incarceration. In seeking solutions to this problem, she encountered roadblocks from employers' resistance to hiring ex-prison inmates. She then researched other possible solutions including business startups. The idea of raising bees at first seemed an unusual solution to the problem of employment for her unique clients. In her due diligence, she identified a gap between customer preferences for all-natural skin care products and currently available offerings. Combining these ideas resulted in the opening of Bee Love. The fits between the clientele of ex-inmates, apiary, and skin care products supported the opening of this unique venture. Exploring the gaps was part of the process of finding the right solution and realizing that the idea of starting a business to support ex-inmates was an actual opportunity worth developing into a new venture.

4. "Sweet Beginnings." North Lawndale Employment Network. n.d. <https://www.nlen.org/sweetbeginnings>

5. BeeLove. www.beelovebuzz.com

6. Leigh Buchanan. "Finding Jobs for Ex-Offenders." Inc. May 2011. <https://www.inc.com/magazine/20110501/social-entrepreneurs-finding-jobs-for-ex-offenders.html>

INDUSTRY SOURCES OF OPPORTUNITY

Your research process should include learning everything you can about the industry you plan to enter. This will help you to identify opportunities. An excellent source for industry information is the business reference section of your college library. Industry averages are available in reference books and can also be found at Dun & Bradstreet/Hoovers (<http://www.hoovers.com/industry-analysis.html>). The industry analysis contains important information including a brief description of the industry and its characteristics, the competitive landscape, along with products, operations, and technology.

Industry sources reveal knowledge about a specific industry from the perspective of identifying unmet needs or areas for improvement within that industry. For example, Airbnb reshaped the hotel industry by connecting travelers with property owners, so that the travelers could rent the property when the owner was not using it. As Airbnb has grown, the company has made improvements to their offerings in meeting the needs of the traveler's demand based on property location and in categorizing the supply (the homeowner's property) for increased efficiency, meeting the needs of both the property owner and the traveler. Researching specific industries from supply and demand perspectives, and noticing unused supplies, as we saw in the Airbnb example, also applies to other industries, such as a sandwich shop. What happens to the unsold bread at the end of the day when there is an excess supply? For Stacy Madison and her pita sandwich food cart, unsold bread presented an opportunity to create pita chips by turning an oversupply into sliced and seasoned pita chips.⁷

Almost every industry is worth investigating from the perspective of identifying unused resources or extra resources that could be restructured for what are known as a shared economy or a gig economy. A shared economy considers that there are times when an asset is not in use. This down time when the asset is not in use provides an opening for someone else to use that asset, like Airbnb. Other companies, like Uber, Lyft, DoorDash, and Postmates, support the gig economy in aligning a person's choices for when they want to work with the flow of the work demand. A gig economy is an open or fluid market system with temporary positions made up of independent short-term workers. In these examples, we can see the alignment of supply and demand. The entrepreneurial opportunity happens in providing a platform to assist in connecting the supply and demand.

The tech sector, for example, is continually adapting to change. Items such as 3D printers and mobile devices are making the technology landscape expand. As new products come to market, the need for applications and increased efficiency abound. Several other industries are experiencing growth, including health care and nutrition. According to Global Market Insights (2019), the clinical nutrition market will exceed \$87,530.7 million dollars by 2025.⁸ This same source reported that this industry was valued at over \$10,562.7 million in 2018, a significant increase over the previous seven years. Drivers in this industry include sedentary lifestyles and related health issues, such as obesity. The result of these societal changes is an increase in clinical nutrition products and home healthcare services. According to business management author, professor, and corporate consultant, Peter Drucker, entrepreneurs excel at finding and developing potential business opportunities created by social, technological, and cultural changes.

7. "Stacy's Pita Chips: Stacy Madison." How I Built This with Guy Raz. National Public Radio (NPR). May 27, 2019. <https://www.npr.org/2019/05/24/726755480/stacys-pita-chips-stacy-madison>

8. Global Market Insights. "The Clinical Nutrition Market to Surpass \$87,530.7 Million by 2025: Global Market Insights, Inc." Cision PR Newswire. March 5, 2019. <https://www.prnewswire.com/news-releases/the-clinical-nutrition-market-to-surpass-87-530-7-million-by-2025-global-market-insights-inc-300806622.html>

CONSUMER SOURCES OF OPPORTUNITY

Consumer sources of opportunities relate to changes in our society, such as new habits or behaviors brought about by exposure to new information. For example, most people feel the pressure related to having less free or unrestricted time. Figure 3.7 tracks the average number of hours worked by country per worker per year.

AVERAGE ANNUAL HOURS WORKED	
Country	Annual Hours
Mexico	2,246
South Korea	2,113
Greece	2,042
Chile	1,988
Russia	1,978
Turkey	1,832
United States	1,779
Italy	1,725
Japan	1,719
Canada	1,691
Spain	1,676
United Kingdom	1,674
Australia	1,665
France	1,482
Germany	1,371
Source: Niall McCarthy. "Who Works the Most Hours Every Year?" <i>Forbes</i> . January 8, 2018. Based on information from Statista and data from The Organization for Economic Co-Operation and Development (OECD).	

Figure 3.7 This graph compares average annual hours worked by country. It does not distinguish between full-time and part-time employment. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The International Labour Organization and Bureau of Labor Statistics report that most people in the United States work more than forty hours per week, work significantly more hours per year than workers in many other countries, and are vastly more productive than they were half a century ago.⁹

Another consideration is tracking where our time is spent during commuting. The average commute time in major cities in the United States is twenty-six minutes, ranging from thirty-eight minutes in New York City to the shortest commute time of twenty minutes in Buffalo, New York.¹⁰ When we add in commute times, work hours, and other required activities like sleeping and eating, we find that people struggle to find time for relaxation and personal activities. This large trend leads to recognizing that our working population in the United States and other countries would value novel approaches to completing tasks and making life simpler. For instance, several businesses have looked at making life easier and saving the consumer time, such as Amazon's One-Click-Checkout, grocery delivery, and product recommendations. Other examples include mobile businesses like pet grooming that come to your home, or diaper delivery services that pick up used diapers, wash and dry them, and return clean diapers to your home. Understanding consumer needs and problems opens the possibility of creating a business that addresses those needs or problems.

Another consumer trend is the demand for affordable housing. One solution involves offering more affordable "tiny homes" that make home ownership more accessible (Figure 3.8).¹¹ As one entrepreneurial opportunity materializes into a new product, spin-off ideas may also arise. The tiny home concept attracted the attention of groups that assist homeless veterans. The Veterans Community Project in Kansas City, has developed a community of forty-nine tiny homes for homeless veterans and the project is so successful that more than 500 cities around the country are building tiny home housing projects for veterans there.¹²

9. G.E. Miller. "The US Is the Most Overworked Developed Nation in the World." 20SomethingFinance. January 2, 2018. <https://20somethingfinance.com/american-hours-worked-productivity-vacation/>

10. Jeff Desjardins. "Visualizing the Average Commute Time in US States and Cities." Visual Capitalist. April 1, 2018. <https://www.visualcapitalist.com/average-commute-u-s-states-cities/>

11. Linda Federico-O'Murchu. "Tiny Houses: A Big Idea to End Homelessness." NBC News. February 26, 2014. <https://www.nbcnews.com/business/real-estate/tiny-houses-big-idea-end-homelessness-n39316>

12. Lauren Stewart. "Community Is Building Tiny Homes for Homeless Veterans in 500 Different Cities." Do You Remember? 2018. <https://doyouremember.com/87151/community-builds-tiny-homes-for-homeless-veterans>



Figure 3.8 These tiny homes cost as little as \$10,000 to build and come complete with one or two bedrooms, a small kitchen, and bath. (credit: photo provided by Veterans Community Project)

ENTREPRENEUR IN ACTION

Vestergaard

Vestergaard has a mission to prevent diseases, especially for vulnerable populations around the world, and to contribute to a healthier and more sustainable planet through good actions.

LifeStraw is a product that Vestergaard launched in 2005, making water safe to drink in areas where clean water is not readily available and redefining beliefs around safe drinking water. LifeStraw uses a combination of a hollow fiber membrane, a filtration process, and in some products, a second filtration process to remove chemicals like chlorine, lead, and pesticides.

Questions

- Apply the concepts of supply and demand in describing LifeStraw from the perspective of an entrepreneurial opportunity.
- What are three drivers that support the creation of LifeStraw?

3.3 Competitive Analysis

Learning Objectives

By the end of this section, you will be able to:

- Understand the elements of a competitive analysis
- Describe tools you can use to refine and focus your planning (three circles, SWOT, PEST)
- Recognize social media's role in saving time and money on research
- Understand how a business model helps determine the feasibility of an opportunity

Conducting a competitive analysis helps you focus your idea and identify your unique selling proposition and competitive advantage.

COMPETITIVE ANALYSIS

A competitive analysis should provide the entrepreneur with information about how competitors market their business and ways to penetrate the market by entry through product or service gaps in areas that your competitors do not serve or do not serve well. More importantly, competitive analysis helps the entrepreneur develop a competitive edge that will help create a sustainable revenue stream. For example, a big company like Walmart primarily competes on price. Small companies typically cannot compete on price, since the internal efficiencies and volume sales available to large corporations like Walmart are not available to small companies, but they may be able to compete successfully against Walmart on some other important variable such as better service, better-quality products, or unique buying experiences.

When preparing the competitive analysis, be sure to identify your competitors by product line or service segment. For an entrepreneur, this activity can be difficult when the industry does not yet exist. In the case of Bee Love, Palms Barber didn't have direct competitors, but she did have related competitors of traditional skin care products. Her unique idea of all-natural, honey-based skin care products created a new market. The competitive analysis might need to focus on substitute products rather than direct competitors. There are two main tools used in analysis of competitors: a competitive analysis grid and the "three circles" approach.

COMPETITIVE ANALYSIS GRID

The competitive analysis grid should identify your competitors and include an assessment of the key characteristics of the competitive landscape in your industry, including competitive strengths and weaknesses and key success factors. Table 3.2 provides an example of what a competitive analysis might look like for a bicycle shop in a tourist locale.

Table 3.2 This competitive analysis grid captures some of the main aspects of competitors within a given market.

Key Characteristics	Sid's Cycle	City Cycle	SpokeMasters	Target
Strengths	Product knowledge, Repair service	Repair service	High quality, Top brands	Price, hours (open seven days per week and online)
Weaknesses	Limited selection	Poor customer service	Pricing, no entry-level products	Low-end quality, no repair facilities
Product Quality Level	Low-middle	Middle-high	High-end	Entry-level
Price Point	Middle	Middle-high	High price	Lowest price
Location of the business	Suburban strip-mall on busy highway	Outskirts of town on route 280	Downtown side street	Branson Mall
Promotion	Weekly ad in local newspaper, some radio and Internet/social media	Advertising in local paper during season, Internet/social media	Sponsors major bike race in area, Internet, social media	Advertises online and in Sunday newspaper (seasonally), Internet

As you complete an analysis for your venture's competitors, identify what contributes to the competitor's success. In other words, why do people purchase from the company? Some possible reasons include no nearby competitors, lower prices than competitors, a wider variety of products, offering services not offered elsewhere, or branding and marketing that appeals to the target market. Your analysis should inform you of a combination of key success factors within the industry (what it takes to be successful in the industry) and of what your competitors are not offering that is valued by your target market.

Another frequently used tool is a SWOT analysis (strengths, weaknesses, opportunities, and threats), which focuses on analyzing your venture's potential and builds on the knowledge gained from the competitive analysis grid and the three circles. You will need to identify the strengths your venture will need to support the competitive advantage identified through the competitive analysis tools. The weaknesses can be identified based on your current and foreseeable expectations. For a new venture, the opportunities and threats sections are based on current factors in the external environment that come from your research. In this context, opportunities are facts, changes, or situations within the external environment that could be favorably leveraged for the venture's success.

WORK IT OUT

Using SWOT Analysis to Evaluate Entrepreneurial Opportunity



Figure 3.9 A SWOT analysis can be used to identify the strengths, weaknesses, opportunities, and threats of a potential entrepreneurial opportunity. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

- One way to evaluate a business idea is to prepare a SWOT analysis (Figure 3.9). Note that strengths and weaknesses are internal to the entrepreneur, while opportunities and threats are external factors. Strengths are capabilities and advantages of the entrepreneur, including education, experience, and personal or professional contacts. Weaknesses are disadvantages of the entrepreneur, which could include lack of knowledge or experience. Opportunities are positive events that the entrepreneur can develop to their benefit. This could include development of new technologies, changes in consumer tastes and preferences, market growth, and new laws and regulations. Threats can be anything that could potentially harm the business or prevent the business from becoming successful such as competition, negative changes in economic conditions, and new laws or regulations.

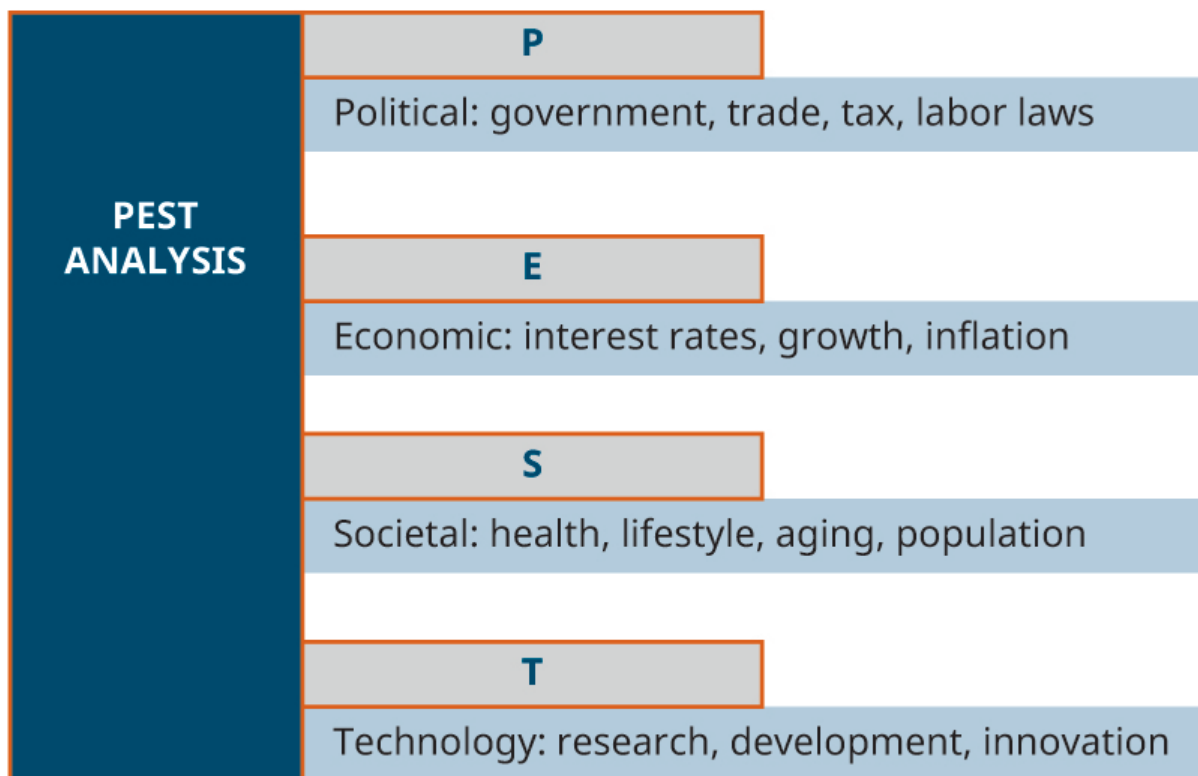
Questions

- If you were starting a new business venture, what strengths would you be able to leverage to help your business be successful?
- Provide some examples of personal or professional weaknesses an entrepreneur might face when starting a new business.
- Discuss three occurring events such as new laws and regulations, changes in consumer tastes and preferences, or developing new technologies that could provide business opportunity for a new business

venture.

PEST ANALYSIS

Another tool that can be used to analyze opportunities and threats section is called PEST analysis (political, economic, societal, technology). In this analysis, we identify issues in each of these categories. Figure 3.10 shows an example of the topics that could be placed in a PEST analysis. The chapter on Fundamentals of Resource Planning discusses this tool as it relates to resource procurement.



*Figure 3.10 A PEST analysis can help identify opportunities and threats that can be used in a SWOT analysis.
(attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

Each of these categories should be completed with relevant facts related to your entrepreneurial opportunity. After completing this analysis, you then determine if these facts, or factors, would be placed in the opportunity section or the threat section of the SWOT.

THREE CIRCLES TOOL

Another tool that can be used in competitive analysis is the three circles tool (Figure 3.11). The goal is to identify competitors' strengths and competitive advantages with any overlaps among competitors. Then, you would identify values or features not offered by competitors. This gap in value or offered services helps to identify your unique selling proposition and thereby your competitive advantage.

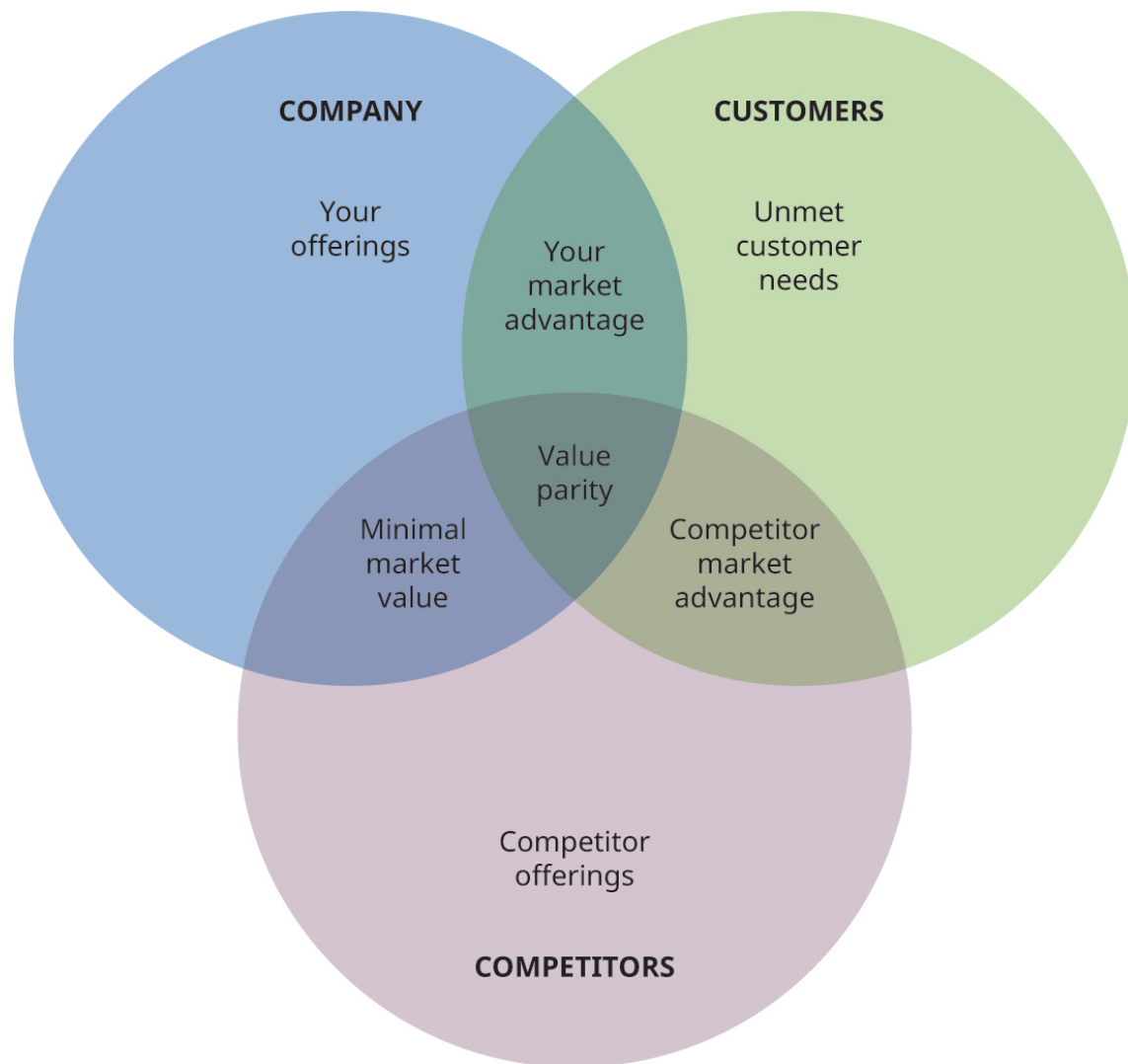


Figure 3.11 The three circles competitive analysis helps to identify where there is overlap and where there may be a gap in the market that a new venture could fill. The overlaps identify points of parity, the areas where competitors offer the same value with the important identification of the areas of unmet customer needs and how unique your competitive advantage is within the industry. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The unique selling proposition is important to the marketing plan and is often used as a slogan. It should also align with the value communicated by the product or company brand. These concepts are different from your venture's competitive advantage; the competitive advantage describes your venture's unique benefit, which supports growth of the venture, whereas the unique selling proposition describes the product or service itself, rather than the venture. Although these concepts are different, there should be alignment between the concepts.

For example, Amazon has a competitive advantage in its virtual presence, knowledge of the market, knowledge and application of technology, and knowledge of the industry. Through these competitive advantages, Amazon offers unique combinations of benefits to their customers, such as one-click checkout and algorithm-based recommendations using data mining to track an individual customer's preferences. Amazon's unique selling proposition becomes making the purchase as easy and as accurate as possible, whereas their competitive advantage lies in their ability to foresee future advances and act on those predictions, even to the point of shaping the industry.

The competitive advantage results from the analysis of the strengths and unique aspects of a venture, an analysis of the industry, including competitor's advantages, customer needs, and what the venture provides within this competitive landscape. The unique selling proposition should support the competitive advantage, just as the competitive advantage needs to support the unique selling proposition.

SOCIAL MEDIA'S ROLE IN RESEARCH

For almost all new business ventures, two key issues related to research are time and money. Large-scale research projects can take months or longer, and cost a significant amount of money. Social media can offer some opportunities to overcome these concerns. Ray Nelson, writing for Social Media Today, reports several ways that social media can provide speedy, low-cost market research: tracking trends in real-time, helping the entrepreneur "learn the language" of their potential customers, discovering unnoticed trends by engaging consumers, and performing market research using a very cost-efficient means.¹ If the entrepreneur can perform social media research on their own, the cost will primarily be in terms of time. But the time it will take to conduct research through social media platforms such as Facebook or Twitter is usually well spent. This research should include learning the unique selling proposition of competitors, understanding their competitive advantage, and identifying what the customer values, which can be rather difficult. For example, before Amazon recognized that people are busy, were we aware that we wanted faster check-out processes for making purchases? Or were we aware that we wanted the package delivered to our home to be easier to unwrap? And yet, if we asked Amazon shoppers what they value in shopping at Amazon, we will receive answers that support an easier and faster process.

Another technique would be to read through customer reviews on Amazon (or another company related to your entrepreneurial venture) to find out what customers like and don't like about existing products and brands. You can also develop your own surveys on an app like SurveyMonkey and send them to customers and prospective customers. This usually works when sent to persons who have a strong interest in the product or issue rather than randomly sending out surveys.

BUSINESS MODELS AND FEASIBILITY

Part of the analysis in determining if your idea is an actual entrepreneurial opportunity is identifying a feasible business model. A business model is a plan for how the venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture's offerings are made and distributed to the end users; and how income will be generated through this process. Basically, a business model describes how a venture will create a profit by describing each of these actions. The business model at this stage is composed of four components: the offering, customers, infrastructure, and financial viability (Figure 3.12). A fuller version of the business model is covered in Business Model and Plan.

1. Ray Nelson. "How to Use Social Media for Market Research." Social Media Today. March 19, 2013.
<https://www.socialmediatoday.com/content/how-use-social-media-market-research>

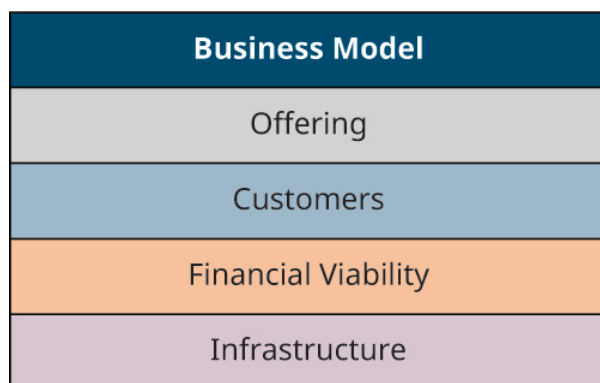


Figure 3.12 A business model has four components: the offering, customers, infrastructure, and financial viability. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The offering refers to the product or service you will be selling, the value proposition, and how you will reach and communicate with your target customers. The customer value proposition includes a detailed description of the products and services you will offer to customers, and what benefits (value) the customer will derive from using your product or service. The customer benefit could be the ability to do something more easily, more quickly, or at a lower cost than customers could before. The benefit could also solve a problem no one else has solved.

Exercise – Writing a Customer Value Proposition

It is helpful to write out your customer value proposition. Then you have a draft to review and tweak as your ideas develop. Here is a general structure you can follow:²

- Start with a headline-style statement that describes how your offering benefits the customer.
- Provide a few sentences or a brief paragraph that explains the offering in more detail. Be sure to make clear what the offering is, who the customer is, and why you are offering it.
- Consider including a bulleted list or checklist highlighting 3–5 features of the product or benefits the customer will receive.
- If possible, add a graphic that engages interest or reinforces the idea.

Customers are the people you will be serving, including potential customers from one or more market segments, or subsections of the market categorized by similar interests or needs. Products seldom appeal to everyone, so the entrepreneur needs to determine, through high-level segmentation and targeting analysis, which segments of the market would make the most sense for the business, and the market environment and dynamics. Some products might appeal to market segments based on age or income, whereas other products might appeal to customers based on their lifestyle. A sign of a potential market opportunity is when a certain market is experiencing rapid growth. This could be a city with a fast-growing population, or it could be a style or consumer trend that is really taking off. The chapter on Entrepreneurial Marketing and Sales goes into more detail about these topics.

2. Modified from Lindsay Kolowich. "How to Write a Great Value Proposition [Infographic]." HubSpot/Marketing. June 5, 2018. <https://blog.hubspot.com/marketing/write-value-proposition>

Infrastructure refers to all the resources the entrepreneur will need to launch and sustain the business venture. These include people, products, facilities, technology, suppliers, partners, and finances, all of which the entrepreneur must have to fulfill the customer value proposition.

Financial viability relates to the long-term financial sustainability of an organization to fulfill its mission. This goes back to our definition of an entrepreneurial opportunity. Knowing that the venture solves a sizable and significant problem that the target market is willing to purchase is a key piece in determining financial viability. This category also addresses how the venture will create profits.

For example, would a subscription-based business model fit the target market and venture's success? Currently, we see a significant growth in startups offering subscription services. What are the benefits to this sales method? For the venture, this model increases upfront cash to support the growth of the venture, especially when customers pay a year in advance for products that will be delivered over the subsequent twelve months. Receiving the payment prior to completing the sales provides the venture with operating cash to support current and future growth. The benefit to the customer in this situation is fewer transactions. The customer knows that the payment covers the next twelve months' worth of benefits (the received product or service) with no further purchases until the subscription runs out.

Another choice involves deciding whether to have a physical location, a virtual location, or both. Financial viability means exploring the benefits and drawbacks of various methods in creating your business model.

WORK IT OUT

Researching Target Markets with Census Data

Practice conducting research by going to Statistics Canada Census Data and two other sources to identify a specific target market for a product that interests you. Include the target market's:

- Disposable income. You might ask whether the target market has sufficient disposable income to purchase this product.
- Demographics
- Psychographics (the combination of buying personality behaviours and demographics)
- How you as the entrepreneur could reach this target market.

When you have a business idea that you have been researching and find that there is a large enough market that has a need that your idea meets, that this target market has the willingness and ability to satisfy the need through purchasing the provided solution, that you have access to the necessary resources to build an infrastructure for your business, that you have the right mix of products and services with a sound value proposition, and that you can secure funding, you have a real opportunity. This chapter has introduced you to all of these concepts. Further chapters delve into them in more depth.

3.4 Key Terms

business model

plan for how venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture's offerings are made and distributed to the end users; and the how income will be generated through this process

competitive advantage

describes your venture's unique benefits that poise it for growth

creative destruction

theory developed by Joseph Schumpeter stating that entrepreneurial innovation is the disruptive force that creates and sustains economic growth, though in the process, it destroys established companies and disrupts employment

customers

people the business will be serving, including potential customers from one or more market segments

demand

need or desire for the outputs, the product or services

demographics

statistical factors of a population or group, such as information about age, gender, income, race, or ethnicity

entrepreneurial opportunity

point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service and meets the following conditions: significant market demand, significant market structure and size, significant margins, and resources to support the venture's success

financial viability

long-term financial sustainability of an organization to fulfill its mission

gig economy

market system in which independent contractors fill a variety of positions

infrastructure

all resources the entrepreneur will need in order to launch and sustain a business venture

offering

actual product or service, its value proposition, and how you will reach and communicate with your target customers

opportunity screening

process used to evaluate innovative product ideas, strategies, and marketing trends, focusing on financial resources, skills of the entrepreneurial team, and competition

primary research

research that involves gathering new data

secondary research

research that uses existing data

shared economy

economy in which some assets are not in use, which may present an entrepreneurial opportunity

supply

amount of a product or service produced

SWOT analysis

strategic analytical tool used to help a potential venture or existing company identify its strengths, weaknesses, opportunities, and threats related to business competition

unique selling proposition

marketer's rationale as to why a product or service is different/better than the competitor's products

3.5 Unit Summary

ENTREPRENEURIAL OPPORTUNITY

Entrepreneurial opportunity exists when consumer demand meets the feasibility of bringing the product or service to market. Joseph Schumpeter, an early scholar of entrepreneurship, identified creative destruction—when innovation is disruptive and creates potential entrepreneurial opportunities. Schumpeter's focus on economics led him to categorize potential opportunities based on supply, demand, or changes in how technology is used.

Burgeoning entrepreneurs should be engaged with industries of interest to remain informed and aware of opportunities to research. Additionally, they should be attentive to drivers of opportunity, such as emerging funding options, technological advancements, and economic factors.

RESEARCHING POTENTIAL BUSINESS OPPORTUNITIES

Researching the viability of your entrepreneurial idea will help you determine whether the venture is currently worth pursuing. Use primary and secondary research to determine whether there is adequate demand, market structure and size, and the needed margins and resources to launch and sustain the enterprise. Entrepreneurs researching options should also be aware of industry and consumer sources of opportunities.

COMPETITIVE ANALYSIS

A competitive analysis helps determine the viability of your idea by considering how feasible it is within a specific competitive landscape. Tools such as a competitive analysis grid, a SWOT analysis, a PEST analysis, and the three circles approach can help you further examine issues and refine your plans.

3.6 Review Questions

1. What is entrepreneurial opportunity?
2. What are five methods through which an entrepreneur can create new economic opportunities, according to Joseph Schumpeter?
3. What are some factors that might indicate it is a good time to start a business?
4. When should an entrepreneur explore opportunities?
5. What should a potential entrepreneur research before starting a business?
6. What kind of information is available in census data and how might that data be useful?
7. Compare and contrast supply-based opportunities and demand-based opportunities.
8. How can using a PEST analysis contribute to discovering new patterns of trends for recognizing entrepreneurial opportunities?
9. What is a SWOT analysis and how is it useful?
10. What is a unique selling proposition?
11. What is a business model?

3.7 Discussion Questions

1. Explain the difference between an idea and an entrepreneurial opportunity. Why is it important to recognize if your idea is truly an entrepreneurial opportunity or only an idea?
2. Is now a good time to start a business? Why or why not?
3. If you were thinking about starting a clothing store for teens and young women in your hometown, what census information do you think would be useful to you?
4. What new patterns or behaviors have you noticed within your society or the country's society?
5. What unused resources are present in your own life that could be translated into a shared economy idea for a new venture?
6. What spin-off ideas can you think of that support a gig economy? For example, what services or products might gig employees value or gig employers value?
7. What are some of the reasons for business failures? If you were starting a business, what are some actions you could take to increase your potential for success?
8. Many entrepreneurs like Chris Johnson, who invented the ramen noodle cooker and Palms Barber had ordinary problems they were trying to solve. What are some examples of ordinary problems you could solve if you could invent a product?
How do social enterprises like Bee Love help the community? What problem was Palms Barber trying to solve? What problems did the company end up solving?

3.8 Case Questions

1. Mandy Tillman was a high school student who lived in a rural area of Oklahoma. Mandy was only fourteen years old but wanted to make some extra money for her family's trip to the Grand Canyon the following summer. While shopping with her parents, she noticed there was only one place in town to buy flats with flowers and vegetables for spring planting, and there was not much of a selection. Mandy made a note of the various types of plants and flowers the store sold and how much they sold for. When Mandy got home from shopping with her parents, she went online to see how much the seeds and equipment would cost. Her parents liked the idea of Mandy earning some money of her own to spend on vacation and made a large area in the basement available for her to start her plants.
 - a. What else should Mandy know about this business before getting started?
 - b. What else do you think Mandy needs to start this business?
 - c. Do you see any potential problems with this business idea?
 - d. What are some ways Mandy can sell her plants?
 - e. Is this a business idea or an entrepreneurial opportunity?

2. Research the eyeglass company Warby Parker.
 - a. What is Warby Parker's business model?
 - b. What is the value proposition offered by Warby Parker?
 - c. Describe Warby Parker's target market? What resources did you use to identify their target market?
 - d. If Warby Parker did not exist and you decided that you wanted to open a direct to consumer eyeglass company, what would be the top five factors you would research to determine if your idea was truly an entrepreneurial opportunity?
 - a. If you were launching a company to help back packers trek through the wilderness, what products would you provide and what would be their unique selling propositions?
 - b. What benefit would you build into your website that would attract backpackers to your website? Consider how you would distinguish your website from competitor websites.
 - c. Using PEST around your knowledge of backpacking and interest in starting a business related to backpacking, identify one fact for each of the PEST categories that could be useful in identifying new information or patterns to support this business.

- d. How would you change your business model based on your answers to the previous question?

4.1 Problem Solving to Find Entrepreneurial Solutions

Learning Objectives

By the end of this section, you will be able to:

- Define problem solving in the context of entrepreneurship
- Describe and compare the adaptive model and the innovative model of problem solving
- Identify the skills entrepreneurs need for effective problem solving
- Identify types of problem solvers

As you've learned, entrepreneurs often visualize an opportunity gap, a gap between what exists and what could exist, as Hirabayashi and Lidey did with Shine. Entrepreneurial problem solving is the process of using innovation and creative solutions to close that gap by resolving societal, business, or technological problems. Sometimes, personal problems can lead to entrepreneurial opportunities if validated in the market. The entrepreneur visualizes the prospect of filling the gap with an innovative solution that might entail the revision of a product or the creation of an entirely new product. In any case, the entrepreneur approaches the problem-solving process in various ways. This chapter is more about problem solving as it pertains to the entrepreneur's thought process and approach rather than on problem solving in the sense of opportunity recognition and filling those gaps with new products.

For example, as we read in Identifying Entrepreneurial Opportunity, Sara Blakely (as shown in Figure 4.2) saw a need for body contouring and smoothing undergarments one day in the late 1990s when she was getting dressed for a party and couldn't find what she needed to give her a silhouette she'd be pleased with in a pair of slacks. She saw a problem: a market need. But her problem-solving efforts are what drove her to turn her solution (Spanx undergarments) into a viable product. Those efforts came from her self-admitted can-do attitude: "It's really important to be resourceful and scrappy—a glass half-full mindset."¹ Her efforts at creating a new undergarment met resistance with hosiery executives, most of whom were male and out of touch with their female consumers. The hosiery owner who decided to help Blakely initially passed on the idea until running it by his daughters and realizing she was on to something. That something became Spanx, and today, Blakely is a successful entrepreneur.²

1. Helen Lock. "I Put My Butt on the Line: How Spanx Took Over the World." The Guardian. July 11, 2016.

<https://www.theguardian.com/small-business-network/2016/jul/11/put-butt-on-the-line-how-spanx-world>

2. Gary Keller. "Business Success Series, Part 1: Sara Blakely-Spanx." The One Thing. n.d. <https://www.the1thing.com/blog/the-one-thing/business-success-series-part-1-sara-blakely-spanx/>



Figure 4.2 Sara Blakely (right) participates in a discussion at the 2018 Fast Company Innovation Festival. (credit: "Ed Bastian and Sara Blakely at the Fast Company Innovation Festival" by "Nan Palmero"/Flickr, CC BY 2.0)

Before getting into the heart of this chapter, we need to make a distinction: Decision making is different from problem solving. A decision is needed to continue or smooth a process affecting the operation of a firm. It can be intuitive or might require research and a long period of consideration. Problem solving, however, is more direct. It entails the solution of some problem where a gap exists between a current state and a desired state. Entrepreneurs are problem solvers who offer solutions using creativity or innovative ventures that exploit opportunities. This chapter focuses on different approaches to problem solving and need recognition that help potential entrepreneurs come up with ideas and refine those ideas.

TWO PROBLEM SOLVING MODELS: ADAPTIVE AND INNOVATIVE

There are two prominent established problem-solving models: adaptive and innovative. A renowned British psychologist, Michael Kirton, developed the Kirton Adaption-Innovation (KAI) Inventory to measure an individual's style of problem solving.³ Problem-solving preferences are dependent on the personality characteristics of originality, conformity, and efficiency, according to Kirton. The KAI inventory identifies an individual's problem-solving approach by measuring agreement with statements that align with characteristics, such as the ability to produce many novel ideas, to follow rules and get along in groups, and to systematically orient daily behavior. The results categorize an individual as an innovator or an adaptor. Innovators are highly original, do not like to conform, and value efficiency less than adaptors.

The first and more conservative approach an entrepreneur may use to solve problems is the adaptive model. The adaptive model seeks solutions for problems in ways that are tested and known to be effective. An adaptive model accepts the problem definition and is concerned with resolving problems rather than finding them. This approach seeks greater efficiency while aiming at continuity and stability. The second and more creative

3. "Characteristics of Adaptors and Innovators." Kirton KAI Inventory Tool. n.d. http://pubs.acs.org/subscribe/archive/ci/31/i11/html/11hipple_box3.ci.html

approach is the innovative model of entrepreneurial problem solving, which uses techniques that are unknown to the market and that bring advantage to an organization. An innovative problem-solving style challenges the problem definition, discovers problems and avenues for their solutions, and questions existing assumptions—in a nutshell, it does things differently. It uses outside-the-box thinking and searches for novel solutions. Novelty is a shared trait of creative entrepreneurship, and it's why entrepreneurs gravitate toward this method of problem solving. According to Dr. Shaun M. Powell, a senior lecturer at the University of Wollongong, Australia: "Creative entrepreneurs are notable for a distinctive management style that is based on intuition, informality and rapid decision making, whereas the more conventional thinking styles are not in accord with the unique attributes of creative entrepreneurs."⁴ This way of problem solving doesn't alter an existing product. It is the creation of something entirely new.

For example, healthcare facilities have long been known as a source of methicillin-resistant *Staphylococcus aureus* (MRSA), a deadly infection that can have long-term effects on patients. Vital Vio, led by Colleen Costello, has developed white light technology that effectively disinfects healthcare facilities by targeting a molecule specific to bacteria. The light, safe to humans, can burn constantly to kill regenerative bacteria. An adaptive problem-solving model would seek to minimize harm of MRSA within a hospital—to respond to it—whereas the Vital Vio is an entirely new technique that seeks to eliminate it. Adaptive solutions to MRSA include established processes and protocols for prevention, such as having doctors, nurses, and other healthcare providers clean their hands with soap and water, or an alcohol-based hand rub before and after patient care, testing patients to see if they have MRSA on their skin, cleaning hospital rooms and medical equipment, and washing and drying clothes and bed linens in the warmest recommended temperatures.⁵

Link to Learning

Visit Inc. Magazine for support and advice for up-and-coming startups to learn more. Examples of how "Dorm Room" entrepreneurs spot and pursue opportunities are shared along with tips and advice for making your startup a success.

PROBLEM-SOLVING SKILLS

While identifying problems is a necessary part of the origin of the entrepreneurial process, managing problems is an entirely different aspect once a venture is off the ground and running. An entrepreneur does not have the luxury of avoiding problems and is often responsible for all problem solving in a startup or other form of business. There are certain skills that entrepreneurs possess that make them particularly good problem solvers. Let's examine each skill (shown in Figure 4.3) .

4. Shaun Powell. "The Management and Consumption of Organisational Creativity." *Journal of Consumer Marketing* 25, no. 3 (2008): 158–166.
5. N.C Healthcare-Associated Infections Prevention Program. Healthcare-Associated Infections in North Carolina: 2014 Annual Report, Healthcare Consumer Version. April 2015. https://epi.dph.ncdhhs.gov/cd/hai/figures/hai_apr2015_consumers_annual.pdf



*Figure 4.3 These are a few of the skills that entrepreneurs possess that aid in solving problems.
(attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

CRITICAL THINKING

Critical thinking is the complex analysis of a problem or issue with the goal of solving the problem or making a decision. The entrepreneur analyzes and peels away the layers of a problem to find the core of an issue facing a business. The entrepreneur focuses on the heart of the problem and responds reasonably and openly to suggestions for solving it. Critical thinking is not only important for developing entrepreneurial ideas: it is a sought-after asset in education and employment. Entrepreneur Rebecca Kantar dropped out of Harvard in 2015 to found the tech startup Imbellus, which aims to replace standardized college admissions tests like the SAT with interactive scenarios that test critical-thinking skills. Many standardized tests may include multiple choice questions asking for the answer to a straightforward knowledge question or math problem. Kantar seeks to create tests that are more concerned with the analytic ability and reasoning that goes into the process of solving the problem. Imbellus says it aims to test “how people think,” not just what they know. The platform, which has not yet launched, will use simulations for its user assessments.⁶

6. Romesh Ratnesar. “What If Instead of Taking the SAT You Got to Play a Video Game?” Bloomberg BusinessWeek. March 19, 2019. <https://www.bloomberg.com/news/features/2019-03-19/a-harvard-dropout-s-plan-to-fix-college-admissions-with-video-games>

Link to Learning

Read more about problem solving and EnterpriseWorks/Vita's story at Harvard Business Review.

COMMUNICATION

Communication skills, the ability to communicate messages effectively to an intended recipient, are the skills entrepreneurs use to pool resources for the purposes of investigating solutions leading to innovative problem solving and competitive advantage. Good communication allows for the free association of ideas between entrepreneurs and businesses. It can illustrate a problem area or a shared vision, and seeks stakeholder buy-in from various constituencies. Networking and communication within an industry allow the entrepreneur to recognize the position of an enterprise in the market and work toward verbalizing solutions that move an organization beyond its current state. By “verbalizing,” we mean communication from and with the company/entity. Internal communications include company emails, newsletters, presentations, and reports that can set strategic goals and objectives, and report on what has been accomplished and what goals and objectives remain, so that employees within an organization are knowledgeable and can work on solving problems that remain within the organization. External communications could include press releases, blogs and websites, social media, public speeches, and presentations that explain the company's solutions to problems. They could also be investor pitches complete with business plans and financial projections.

Ideation exercises, such as brainstorming sessions, are good communication tools that entrepreneurs can use to generate solutions to problems. Another such tool is a hackathon—an event, usually hosted by a tech company or organization, which brings together programmers and workers with other degrees of specialization within the company, community, or organization to collaborate on a project over a short period of time. These can last from twenty-four hours to a few days over a weekend. A hackathon can be an internal company-wide initiative or an external event that brings community participants together. A business model canvas can be used internally or externally to identify problems and work toward creating a viable solution.

Networking is an important manifestation of useful communication. What better method is there of presenting one's concept, gaining funding and buy-in, and marketing for the startup than through building a network of individuals willing to support your venture? A network may consist of potential employees, customers, board members, outside advisors, investors, or champions (people who just love your product) with no direct vested interest. Social networks consist of weak ties and strong ties. Sociologist Mark Granovetter studied such networks back in the 1970s, and his findings still apply today, even if we include social media networks in the definition too. Weak ties facilitate flow of information and community organization, he said, whereas strong ties represent strong connections among close friends, family members, and supportive coworkers.⁷ Strong ties require more work to maintain than weak ties (as illustrated by the strong lines and weak dotted lines in Figure 4.4) and in a business context, they don't lead to many new opportunities. Weak ties, in contrast, do open doors in that they act as bridges to other weak ties within functional areas or departments that you might not have had access to directly or through strong ties.⁸

7. Mark Granovetter. “The Strength of Weak Ties.” *American Journal of Sociology* 5 (1973): 1360–1380.

8. Jacob Morgan. “Why Every Employee Should Be Building Weak Ties at Work.” *Forbes*. March 11, 2014.
<https://www.forbes.com/sites/jacobmorgan/2014/03/11/every-employee-weak-ties-work/#277851063168>



Figure 4.4 Networking results in connecting individuals who otherwise might not have met and who may be able to help each other solve problems. (credit: "social media connections networking" by "GDJ"/Pixabay, CC0)

In fact, many young entrepreneurs, including tech entrepreneur Oliver Isaacs, realize college is a great place to begin building teams. Isaacs is the founder of viral opinion network Amirite.com, which is widely credited as the place where Internet memes started and online slang got a foothold.⁹ Amirite.com consists of a large network of pages and partnerships on Facebook and Instagram that reach 15 million users each month. Isaacs recommends using your alumni network to build a team and customer base for your own venture because you never know if you're talking to a future employee or partner.

Sharing of ideas and resources is highly valued in the entrepreneurial process. Communication is a vital skill in problem solving because the ability to identify and articulate the problem (define the problem space) is necessary to adequately address a problem. A problem can be too vague or broad or narrow. Thus, communicating the problem is important, as is conveying the solution.

DECISIVENESS

Decisiveness is as it sounds: the ability to make a quick, effective decision, not letting too much time go by in the process. Entrepreneurs must be productive, even in the face of risk. They often rely on intuition as well as on hard facts in making a choice. They ask what problem needs to be solved, think about solutions, and then consider the means necessary to implement an idea. And the decisions must be informed with research.

9. John White. "Top UK Influencer Oliver Isaacs Reveals What It Takes to Go Viral." Inc. August 6, 2017. <https://www.inc.com/john-white/top-uk-influencer-oliver-isaacs-reveals-what-it-ta.html>

For example, as explained in Adam Grant's book *The Originals*, the co-founders of Warby Parker, a venture-backed startup focused on the eyewear industry, started their company while they were graduate students. At the time they knew little about the industry, but after conducting some detailed research, they learned that the industry was dominated by one major player—Luxottica. They used this information and other data to refine their strategy and business model (focusing mainly on value, quality, and convenience via an online channel). By the time they decided to launch the business, they had thought through the key details, and they attained rapid early success. Today Warby Parker has over 100 retail stores in the US, is profitable, and is valued at almost \$2 billion.

Decisiveness is the catapult to progress. Amazon founder Jeff Bezos preaches the importance of decisiveness throughout his organization. Bezos believes that decisiveness can even lead to innovation. Bezos advocates for making decisions after obtaining 70 percent of the information you need to do so: "Being wrong may be less costly than you think, whereas being slow is going to be expensive for sure," Bezos wrote in a 2017 annual letter to stockholders.¹⁰

Link to Learning

Read this LinkedIn blog post on decisiveness to learn more.
The 3 Big Reasons People Aren't Decisive – And How to Overcome Them by Paul Petrone

ABILITY TO ANALYZE DATA

Data analysis is the process of analyzing data and modeling it into a structure that leads to innovative conclusions. Identifying Entrepreneurial Opportunity covered much of the sources of data that entrepreneurs might seek. But it is one thing to amass information and statistics. It is another to make sense of that data, to use it to fill a market need or forecast a trend to come. Successful founders know how to pose questions about and make meaning out of information. And if they can't do that themselves, they know how to bring in experts who can.

In addition to public sources of broad data, a business can collect data on customers when they interact with the company on social media or when they visit the company website, especially if they complete a credit card transaction. They can collect their own specific data on their own customers, including location, name, activity, and how they got to the website. Analyzing these data will give the entrepreneur a better idea about the interested audience's demographic.

In entrepreneurship, analyzing data can help with opportunity recognition, creation, and assessment by analyzing data in a variety of ways. Entrepreneurs can explore and leverage different data sources to identify and compare "attractive" opportunities, since such analyses can describe what has happened, why it happened, and how likely it is to happen again in the future. In business in general, analytics is used to help managers/entrepreneurs gain improved insight about their business operations/emerging ventures and make better, fact-based decisions.

Analytics can be descriptive, predictive, or prescriptive. Descriptive analytics involves understanding what has happened and what is happening; predictive analytics uses data from past performance to estimate future performance; and prescriptive analytics uses the results of descriptive and predictive analytics to make decisions. Data analysis can be applied to manage customer relations, inform financial and marketing activities, make pricing

10. Erik Larson. "How Jeff Bezos Uses Faster Better Decisions to Keep Amazon Innovating." *Forbes*. September 24, 2018. <https://www.forbes.com/sites/eriklarson/2018/09/24/how-jeff-bezos-uses-faster-better-decisions-to-keep-amazon-innovating/#492c351b7a65>

decisions, manage the supply chain, and plan for human resource needs, among other functions of a venture. In addition to statistical analysis, quantitative methods, and computer models to aid decision-making, companies are also increasingly using artificial intelligence algorithms to analyze data and make quick decisions.

UNDERSTANDING OF BUSINESS AND INDUSTRY

Entrepreneurs need sound understanding of markets and industries. Often times, they are already working in a large organization when they see growth opportunities or inefficiencies in a market. The employee gains a deep understanding of the industry at hand. If the employee considers a possible solution for a problem, this solution might become the basis for a new business.

For example, consider a marketing agency that used traditional marketing for thirty years. This agency had an established clientele. An executive in the organization began studying social media analytics and social media. The executive approached the owner of the business to change processes and begin serving clients through social media, but the owner refused. Clients within the agency began to clamor for exposure on social media. The marketing executive investigated the possibility of building an agency in her locale servicing clients who wish to utilize social media. The marketing executive left the organization and started her own agency (providing, of course, that this is in compliance with any noncompete clauses in her contract). Her competitive advantage was familiarity with both traditional and social media venues. Later, the original agency started floundering because it did not offer social media advertising. Our intrepid executive purchased the agency to gain the clientele and serve those wishing to move away from traditional marketing.

A similar experience occurred for entrepreneur Katie Witkin. After working in traditional marketing roles, the University of Wisconsin-Madison graduate, pictured in Figure 4.5, left agency life behind four years out of college to cofound her own company, AGW Group. In 2009, Witkin had been interning at a music marketing agency that didn't have a social media department. She knew, both from her time at college and from observing industry trends, that social media was changing the way companies connected with customers. For her own venture, she expanded the focus to all supporting brands to manage all things digital. Today, the cultural and marketing communications agency has fifteen employees and big-name clients ranging from HBO to Red Bull.¹¹

11. Stephanie Schomer. "How Getting Laid Off Empowered This Entrepreneur to Start Her Own Award-Winning Marketing Agency." Entrepreneur. January 15, 2019. <https://www.entrepreneur.com/article/326212>



Figure 4.5 Pictured is AGW Group cofounder Katie Witkin. (credit: photo provided by AGW Group)

RESOURCEFULNESS

Resourcefulness is the ability to discover clever solutions to obstacles. Sherrie Campbell, a psychologist, author, and frequent contributor to Entrepreneur magazine on business topics, put it this way:

“There is not a more useful or important trait to possess than resourcefulness in the pursuit of success. Resourcefulness is a mindset, and is especially relevant when the goals you have set are difficult to achieve or you cannot envision a clear path to get to where you desire to go. With a resourcefulness mindset you are driven to find a way. An attitude of resourcefulness inspires out-of-the-box thinking, the generation of new ideas, and the ability to visualize all the possible ways to achieve what you desire. Resourcefulness turns you into a scrappy, inventive and enterprising entrepreneur. It places you a cut above the rest.”¹²

Entrepreneurs start thinking about a business venture or startup by talking to people and procuring experts to help create, fund, and begin a business. Entrepreneurs are risk takers, passionate about new endeavors. If they don’t have a college degree or a great deal of business experience, they understand there are many resources available to support them in the endeavor, such as the Service Corps of Retired Executives (SCORE) and the Small Business Administration (SBA). There are many sources available to fund the business with little or no debt and options. The entrepreneur follows a vision and researches opportunities to move toward a dream.

For example, in the late 1990s, Bill McBean and his business partner Billy Sterett had an opportunity to buy an underperforming auto dealership that would make their company the dominant one in the market. Neither wanting to take cash from other ventures nor wanting to borrow more money and tie themselves to more debt, the entrepreneurs were resourceful by finding another path forward to obtaining the money necessary for

12. Sherrie Campbell. “6 Characteristics of Resourceful People That Bring Them Success.” Entrepreneur. March 10, 2016. <https://www.entrepreneur.com/article/272171>

the acquisition they both coveted. They changed banks and renegotiated their banking payback requirements, lowering their interest payments, reducing fees, and lowering their monthly payments, ultimately freeing up a significant amount of cash that allowed them to buy the new company.¹³

TYPES OF PROBLEM SOLVERS

Entrepreneurs have an insatiable appetite for problem solving. This drive motivates them to find a resolution when a gap in a product or service occurs. They recognize opportunities and take advantage of them. There are several types of entrepreneurial problem solvers, including self-regulators, theorists, and petitioners.

SELF-REGULATING PROBLEM SOLVERS

Self-regulating problem solvers are autonomous and work on their own without external influence. They have the ability to see a problem, visualize a possible solution to the problem, and seek to devise a solution, as Figure 4.6 illustrates. The solution may be a risk, but a self-regulating problem solver will recognize, evaluate, and mitigate the risk. For example, an entrepreneur has programmed a computerized process for a client, but in testing it, finds the program continually falls into a loop, meaning it gets stuck in a cycle and doesn't progress. Rather than wait for the client to find the problem, the entrepreneur searches the code for the error causing the loop, immediately edits it, and delivers the corrected program to the customer. There is immediate analysis, immediate correction, and immediate implementation. The self-regulating problem solvers' biggest competitive advantage is the speed with which they recognize and provide solutions to problems.

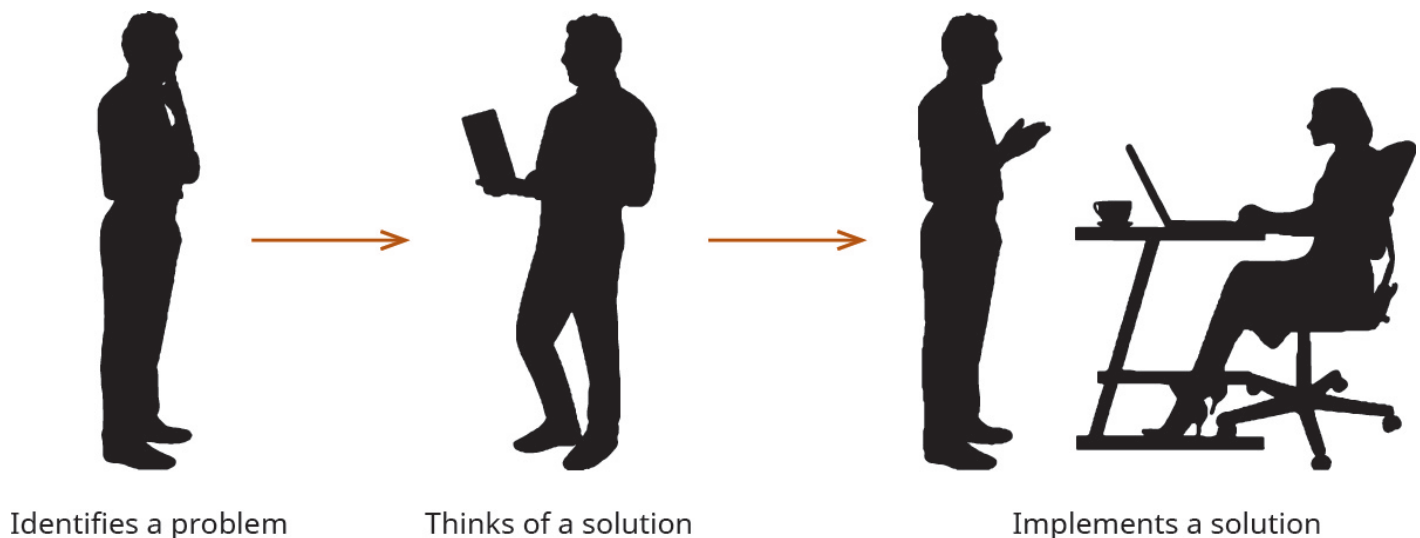


Figure 4.6 A self-regulating problem solver identifies a problem, thinks of solution, and then implements the solution. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

THEORIST PROBLEM SOLVERS

Theorist problem solvers see a problem and begin to consider a path toward solving the problem using a theory. Theorist problem solvers are process oriented and systematic. While managers may start with a problem and focus on an outcome with little consideration of a means to an end, entrepreneurs may see a problem and begin

13. "Resourcefulness Is More Important Than Resources." The Ecommerce Mindset: How Successful Store Owners Think. n.d. <https://www.oberlo.com/ebooks/mindset/resourceful-entrepreneur>

to build a path with what is known, a theory, toward an outcome. That is, the entrepreneur proceeds through the steps to solve the problem and then builds on the successes, rejects the failures, and works toward the outcome by experimenting and building on known results. At this point, the problem solver may not know the outcome, but a solution will arise as experiments toward a solution occur. Figure 4.7 shows this process.

For example, if we consider Marie Curie as an entrepreneur, Curie worked toward the isolation of an element. As different approaches to isolating the element failed, Curie recorded the failures and attempted other possible solutions. Curie's failed theories eventually revealed the outcome for the isolation of radium. Like Curie, theorists use considered analysis, considered corrective action, and a considered implementation process. When time is of the essence, entrepreneurs should understand continual experimentation slows the problem-solving process.

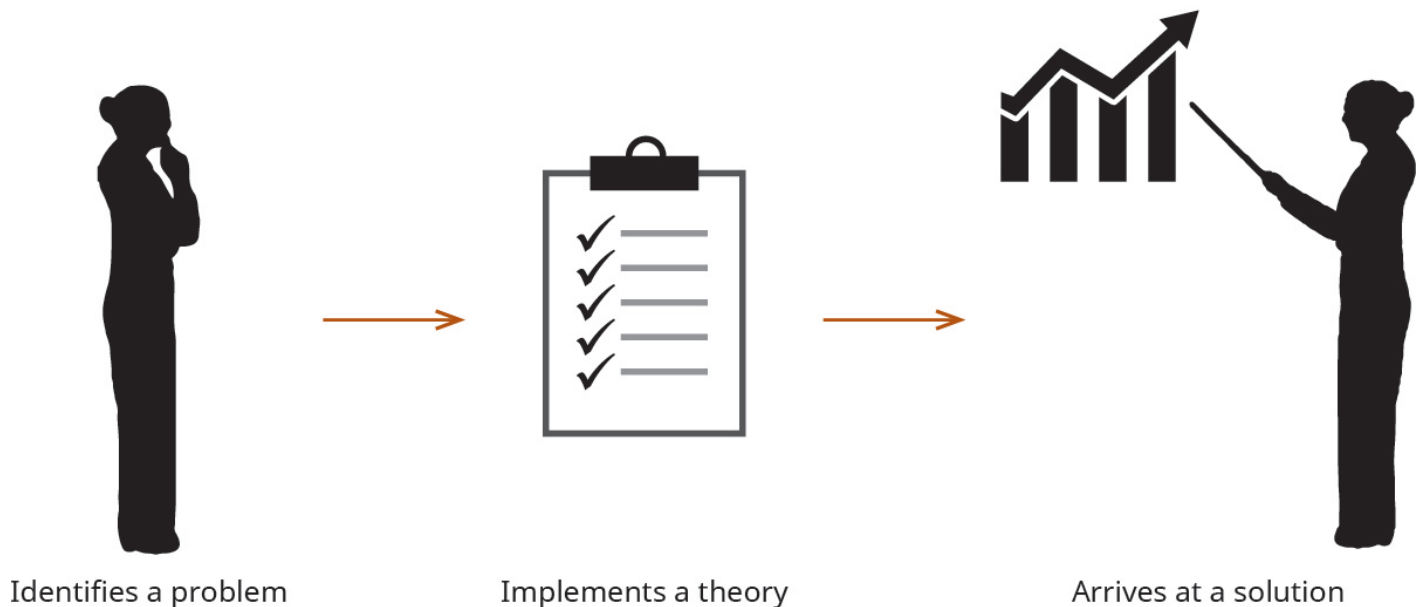


Figure 4.7 A theorist problem solver identifies a problem; implements a theory, sometimes repeatedly; and eventually arrives at a solution. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

PETITIONER PROBLEM SOLVERS

Petitioner problem solvers (Figure 4.8) see a problem and ask others for solution ideas. This entrepreneur likes to consult a person who has “been there and done that.” The petitioner might also prefer to solve the problem in a team environment. Petitioning the entrepreneurial team for input ensures that the entrepreneur is on a consensus-driven path. This type of problem solving takes the longest to complete because the entrepreneur must engage in a democratic process that allows all members on the team to have input. The process involves exploration of alternatives for the ultimate solution. In organizational decision-making, for example, comprehensiveness is a measure of the extent a firm attempts to be inclusive or exhaustive in its decision-making. Comprehensiveness can be gauged by the number of scheduled meetings, the process by which information is sought, the process by which input is obtained from external sources, the number of employees involved, the use of specialized consultants and the functional expertise of the people involved, the years of historical data review, and the assignment of primary responsibility, among other factors. Comprehensive decision-making would be an example of a petitioner problem-solving style, as it seeks input from a vast number of team members.

A charette—a meeting to resolve conflicts and identify solutions—is another example that employs a petitioner problem-solving approach. Often times, a developer of a new project might hold a community charette to aid in the design of a project, hoping to gain approval from elected officials. In the building example, this could consist of the developer and his team of architects, project designers, and people with expertise in the project working alongside community members, business executives, elected officials, or representatives like staff members or citizen-appointed boards like a planning board. Such an activity is representative of a petitioner problem-solving approach, as opposed to a developer representative designing the project with no input from anyone else.

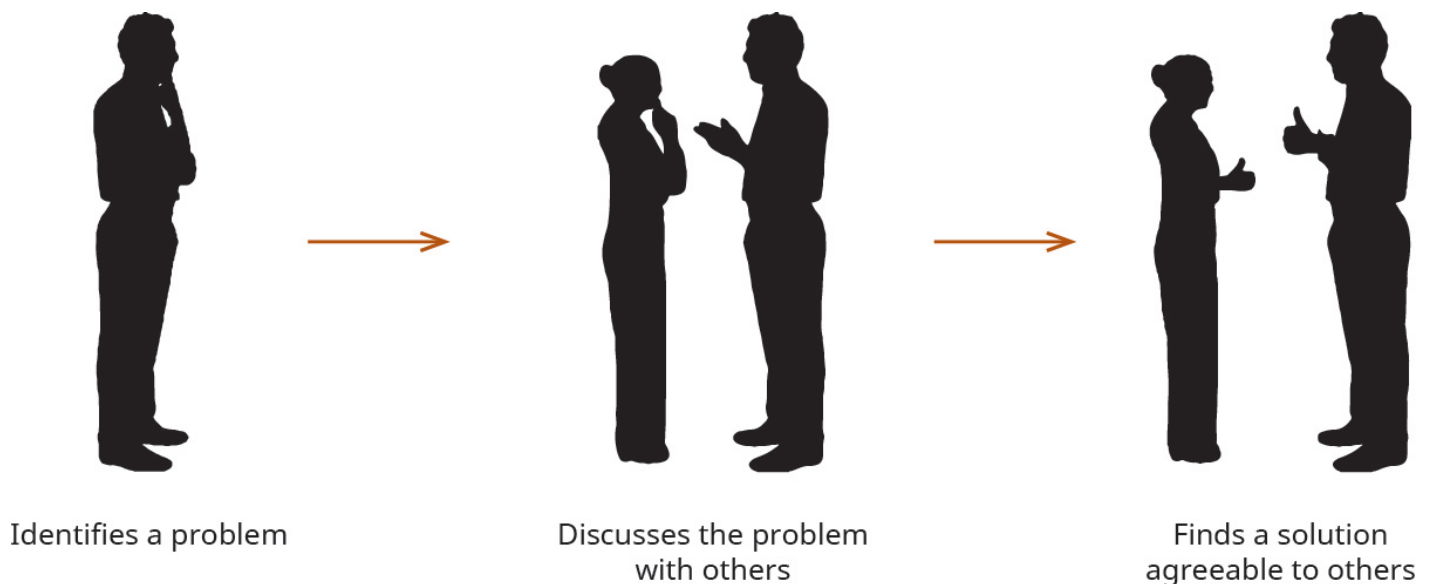


Figure 4.8 A petitioner problem solver identifies a problem, discusses it with others, and arrives at solution agreeable to others.
(attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In summary, there is no right or wrong style of problem solving; each problem solver must rely on the instincts that best drive innovation. Further, they must remember that not all problem-solving methods work in every situation. They must be willing to adapt their own preference to the situation to maximize efficiency and ensure they find an effective solution. Attempting to force a problem-solving style may prevent an organization from finding the best solution. While general entrepreneurial problem-solving skills such as critical thinking, decisiveness, communication, and the ability to analyze data will likely be used on a regular basis in your life and entrepreneurial journey, other problem-solving skills and the approach you take will depend on the problem as it arises.

There are a number of resources online that can help analyze your problem-solving abilities. Mindtools.com is one such resource. These are useful to learn your general problem-solving tendencies before being called upon to apply them in a real-world setting. One of the problem-solving techniques available from mindtools.com offers that problems can be addressed from six different perspectives. Called CATWOE, the approach is an acronym for Customers, Actors (people within the organization), Transformative, Worldwide, Owner, and Environment (organizational).

[Link to Learning](#)

Learn more about the CATWOE technique for problem solving.

CHAPTER CREDIT

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4.2 Creative Problem-Solving Process

Learning Objectives

By the end of this section, you will be able to:

- Describe the five steps in the creative problem-solving process
- Identify and describe common creative problem-solving tools

Creativity can be an important trait of an entrepreneur. Here, we will look in more depth at creativity's role in problem solving. Let's first formally define creativity as the development of original ideas to solve an issue. The intent of being an entrepreneur is to break away from practical norms and use imagination to embrace quick and effective solutions to an existing problem, usually outside the corporate environment.

THE STEPS OF THE CREATIVE PROBLEM-SOLVING PROCESS

Training oneself to think like an entrepreneur means learning the steps to evaluating a challenge: clarify, ideate, develop, implement, and evaluate.



Figure 4.9 The process of creativity is not random; it is a specific and logical process that includes evaluation. The entrepreneur repeats the creative process until reaching a successful solution. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

STEP 1: CLARIFY

To clarify is the critical step of recognizing the existence of a gap between the current state and a desired state. This can also be thought of as having need awareness, which occurs when the entrepreneur notes a gap between societal or customer needs and actual circumstances. Clarifying the problem by speaking with clients and developing a detailed description of the problem brings the specifics of a problem to light. Failure to identify the specifics of a problem leaves the entrepreneur with the impossible task of solving a ghost problem, a problem that is fully unknown or unseen. To establish and maintain credibility, an entrepreneur must clarify the problem by focusing on solving the problem itself, rather than solving a symptom of the problem.

For example, a farm could have polluted water, but it would not be enough to solve the problem only on that farm. Clarifying would involve identifying the source of the pollution to adequately tackle the problem. After gaining an understanding of a problem, the entrepreneur should begin to formulate plans for eliminating the gap. A fishbone diagram, as shown in Figure 4.10, is a tool that can be used to identify the causes of such a problem.

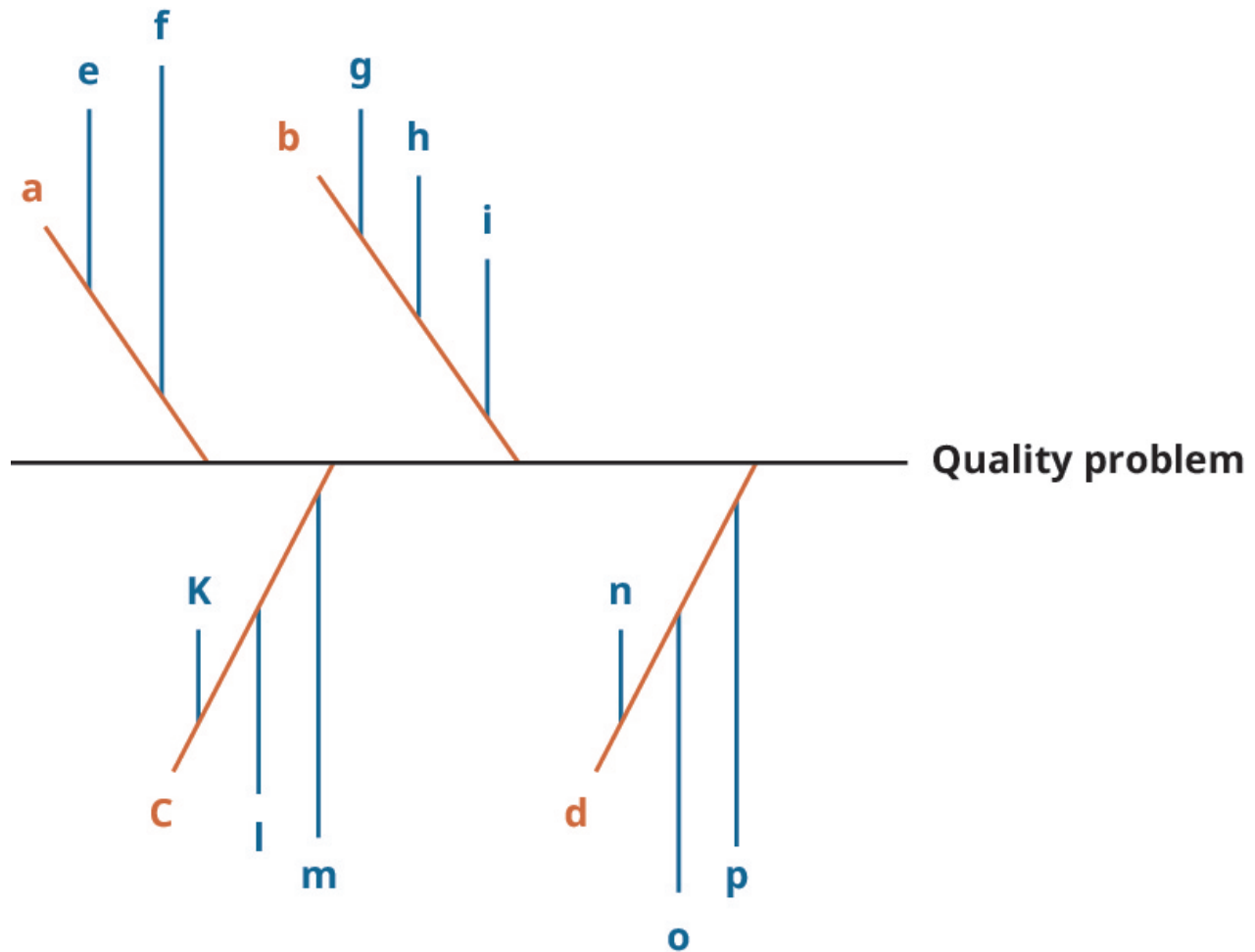


Figure 4.10 A quality problem has main causes—here designated as *a*, *b*, *c*, and *d*. Within these main causes, there are several causes that might need to be addressed to solve the quality problem. The goal of a fishbone diagram is to find the root causes of the quality problem. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In the case of our water pollution example, a fishbone diagram exploring the issue might reveal the items shown in Figure 4.11.

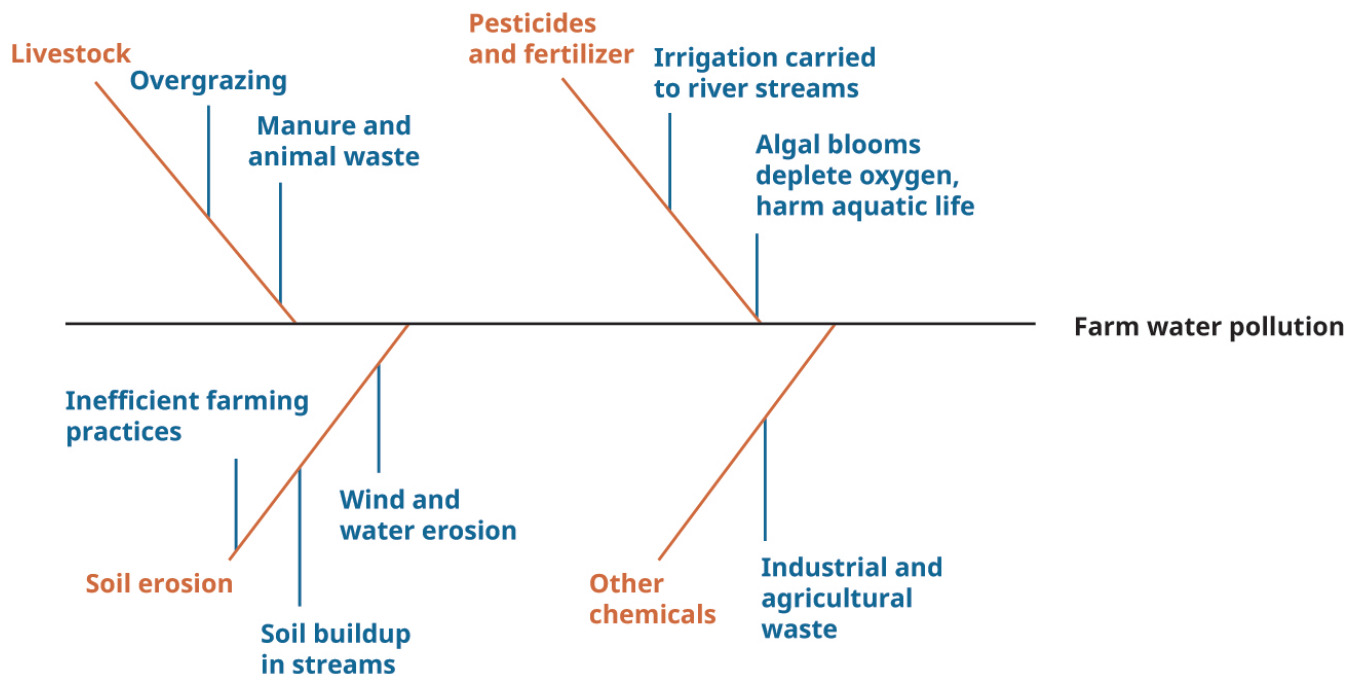


Figure 4.11 Farm water pollution could have four main causes, such as livestock, pesticide and fertilizer, soil erosion, and other chemicals. For each of those, there are other related causes. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

STEP 2: IDEATE

To ideate is the step of the creative problem-solving process that involves generating and detailing ideas by the entrepreneur. After collecting all information relevant to the problem, the entrepreneur lists as many causes of the problem as possible. This is the step in which the largest variety of ideas are put forth. Each idea must be evaluated for feasibility and cost as a solution to the problem. If a farm does not have clean water, for example, the entrepreneur must list causes of toxic water and eliminate as many of those causes as possible. The entrepreneur must then move forward investigating solutions to bring the water back to a safe state. If, say, nearby livestock are polluting the water, the livestock should be isolated from the water source.

STEP 3: DEVELOP

To develop is the step in which the entrepreneur takes the list of ideas generated and tests each solution for feasibility. The entrepreneur must consider the cost of each idea and the obstacles to implementation. In the preceding example, adding a chemical to the water may not be a feasible solution to the farmer. Not every farmer wants additional chloride or fluoride added to the water due to the effect on both humans and livestock. These tradeoffs should be addressed in the feasibility assessment. The farmer might prefer a filtration system, but the cost of that solution might not be practicable. The entrepreneur should identify and assess alternative solutions to find one that is most cost-effective and feasible to the customer.

STEP 4: IMPLEMENT

To implement is the step in which the solution to the problem is tested and evaluated. The entrepreneur walks through the planned implementation with the client and tests each part of the solution, if a service, or thoroughly tests a developed good. The entrepreneur implements the solution and goes through a structured system of follow-up to ensure the solution remains effective and viable. In the water example, the solution would be reducing runoff from toxic insecticides by adding prairie strips, buffers of grass, and vegetation along banks of streams.

STEP 5: EVALUATE

To evaluate is the step in which the final solution is assessed. This is a very important step that entrepreneurs often overlook. Any fallacy in the implementation of the product or service is reassessed, and new solutions are implemented. A continual testing process may be needed to find the final solution. The prairie strips, buffers of grass, and vegetation along banks of streams chosen in the farming water example should then be analyzed and tested to ensure the chosen solution changed the content of the water.

ARE YOU READY?

Implementing Creative Problem Solving

Removing waste is a problem, and it can also present an entrepreneurial opportunity. Try to examine ways in which waste products that you usually pay to have hauled away can now generate revenue. Whether it's recycling aluminum cans or cardboard, or garbage that could be used to feed animals, your task is to come up with solutions to this entrepreneurial-oriented problem.

Try following the first step of the creative problem-solving process and clearly identify the problem.

- Next, gather data and formulate the challenge.
- Then, explore ideas and come up with solutions.
- Develop a plan of action.
- Finally, note how you would evaluate the effectiveness of your solution.
- Using Creativity to Solve Problems

Entrepreneurs are faced with solving many problems as they develop their ideas for filling gaps, whether those opportunities involve establishing a new company or starting a new enterprise within an existing company. Some of these problems include staffing, hiring and managing employees, handling legal compliance, funding, marketing, and paying taxes. Beyond the mundane activities listed, the entrepreneur, or the team that the entrepreneur puts in place, is indispensable in maintaining the ongoing creativity behind the product line or service offered. Innovation and creativity in the business are necessary to expand the product line or develop a groundbreaking service.

It is not necessary for the entrepreneur to feel isolated when it comes to finding creative solutions to a problem. There are societies, tools, and new methods available to spur the creativity of the entrepreneur that will further support the success and expansion of a new enterprise.¹ Learning and using entrepreneurial methods to solve

1. "Three Tips for Entrepreneurs Creating the Perfect Team." Virgin. n.d. <https://www.virgin.com/entrepreneur/three-tips-entrepreneurs-creating-perfect-team>

problems alleviates the stress many startup owners feel. The entrepreneur's creativity will increase using collaborative methodologies. Some entrepreneurial collaborative methodologies include crowdsourcing, brainstorming, storyboarding, conducting quick online surveys to test ideas and concepts, and team creativity activities.

CROWDSOURCING

Professor Daren Brabham at the University of Southern California has written books on crowdsourcing and touts its potential in for-profit and not-for-profit business sectors. He defines it simply as “an online, distributed problem-solving and production model.”² Crowdsourcing involves teams of amateurs and nonexperts working together to form a solution to a problem.³ The idea, as cbsnews.com's Jennifer Alsever has put it, is to “tap into the collective intelligence of the public at large to complete business-related tasks that a company would normally either perform itself or outsource to a third-party provider. Yet free labor is only a narrow part of crowdsourcing's appeal. More importantly, it enables managers to expand the size of their talent pool while also gaining deeper insight into what customers really want. The challenge is to take a cautionary approach to the ‘wisdom of the crowd,’ which can lead to a ‘herd’ mentality.”⁴

Link to Learning

Read this article that discusses what crowdsourcing is, how to use it, and its benefits for more information.

This new business prototype, similar to outsourcing, features an enterprise posting a problem online and asking for volunteers to consider the problem and propose solutions. Volunteers earn a reward, such as prize money, promotional materials like a T-shirt, royalties on creative outlets like photos or designs, and in some cases, compensation for their labor. Before proposing the solution, volunteers learn that the solutions become the intellectual property of the startup posting the problem. The solution is then mass produced for profit by the startup that posted the problem.⁵ The process evolves into the crowdsourcing process after the enterprise mass produces and profits from the labor of the volunteers and the team. Entrepreneurs should consider that untapped masses have solutions for many issues for which agendas do not yet exist. Crowdsourcing can exploit those agendas and add to the tools used to stimulate personal creativity. This type of innovation is planned and strategically implemented for profit.

For example, Bombardier held a crowdsourced innovation contest to solicit input on the future of train interiors, including seat design and coach class interior. A corporate jury judged the submissions, with the top ten receiving computers or cash prizes. Companies are often constrained, however, by internal rules limiting open source or external idea sourcing, as they could be accused of “stealing” an idea. While crowdsourcing outside of software can be problematic, some products such as MakerBot's 3D printers, 3DR's drones, and Jibo's Social Robot have used developer kits and “makers” to help build a community and stimulate innovation from the outside.

2. Daren C. Brabham. “Crowdsourcing as a Model for Problem Solving: An Introduction and Cases.” *Convergence: The International Journal of Research into New Media Technologies* 14, no. 1 (2008): 75–90.
3. Michael Houlihan and Bonnie Harvey. “How Crowdsourcing Is Shaping the Future of Everything.” *Entrepreneur*. January 13, 2018. <https://www.entrepreneur.com/article/307438>
4. Jennifer Alsever. “What Is Crowdsourcing?” *CBS News*. May 1, 2008. <https://www.cbsnews.com/news/what-is-crowdsourcing>
5. Daren C. Brabham. “Crowdsourcing as a Model for Problem Solving: An Introduction and Cases.” *Convergence: The International Journal of Research into New Media Technologies* 14, no. 1 (2008): 75–90.

WORK IT OUT

A Crowdsourced Potato Chip

In an effort to increase sales among millennials, PepsiCo turned to crowdsourcing to get new flavor ideas for their Lay's potato chips (called Walker's in the UK). Their 2012 campaign, "Do Us a Flavor," was so successful that they received over 14 million submissions. The winner was Cheesy Garlic Bread, which increased their potato chip sales by 8 percent during the first three months after the launch.

Questions

- What are some other products that would work well for a crowdsourced campaign contest?
- What items wouldn't work well?

Amazon's Mechanical Turk is an online crowdsourcing platform that allows individuals to post tasks for workers to complete. In many instances, these tasks are compensated, but the payment can be less than one dollar per item completed. Mechanical Turk is one of the largest and most well-known crowdsourcing platforms, but there are a number of other more niche ones as well that would apply to smaller markets. In the case of innovation contests and outsourced tasks from corporations, those tasks may be hosted internally by the corporation.

BRAINSTORMING

Brainstorming is the generation of ideas in an environment free of judgment or dissension with the goal of creating solutions. See Creativity, Innovation, and Invention to refresh yourself on this technique. Brainstorming is meant to stimulate participants into thinking about problem solving in a new way. Using a multifunctional group, meaning participants come from different departments and with different skill sets, gives entrepreneurs and support teams a genuine chance to suggest and actualize ideas. The group works together to refine and prototype potential solutions to a problem.

Link to Learning

Brainstorming is a highly researched and often practiced technique for the development of innovative solutions. One of the more successful proponents of brainstorming is the United Nations Children's Fund (UNICEF). UNICEF faces unique problems of solving resource problems for mothers and children in underdeveloped nations.

See how UNICEF practices brainstorming to solve problems including child survival, gender inclusion, refugee crises, education, and others.

The setting for a brainstorming session should remain as informal and relaxed as possible. The group needs to avoid standard solutions. All ideas are welcome and listed and considered with no censorship and with no regard to administrative restrictions. All team members have an equal voice. The focus of brainstorming is on quantity of ideas rather than on the ideal solution provided in every suggestion. A classic entrepreneurial brainstorming activity, as popularized by business software developer Strategyzer, is known as the "silly cow" exercise. Teams come up with ideas for new business models pertaining to a cow, with the results often outrageous, ranging from

sponsored cows to stroking cows for therapeutic release. Participants are asked to identify some aspect of a cow and develop three business models around that concept in a short time period, typically two minutes or fewer. The activity is designed to get creative juices flowing.

Watch this video from ABC's Nightline that shows how IDEO designed a new shopping cart for an example of a design process that involves brainstorming.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=142>

STORYBOARDING

Storyboarding is the process of presenting an idea in a step-by-step graphic format, as Figure 4.12 shows. This tool is useful when the entrepreneur is attempting to visualize a solution to a problem. The steps to the solution of a problem are sketched and hung in graphic format. Once the original graphic is placed, images of steps working toward a solution are added, subtracted, and rearranged on a continual basis, until the ultimate solution emerges in the ultimate graphic format. For many years, entrepreneurs have used this process to create a pre-visual for various media sequences.

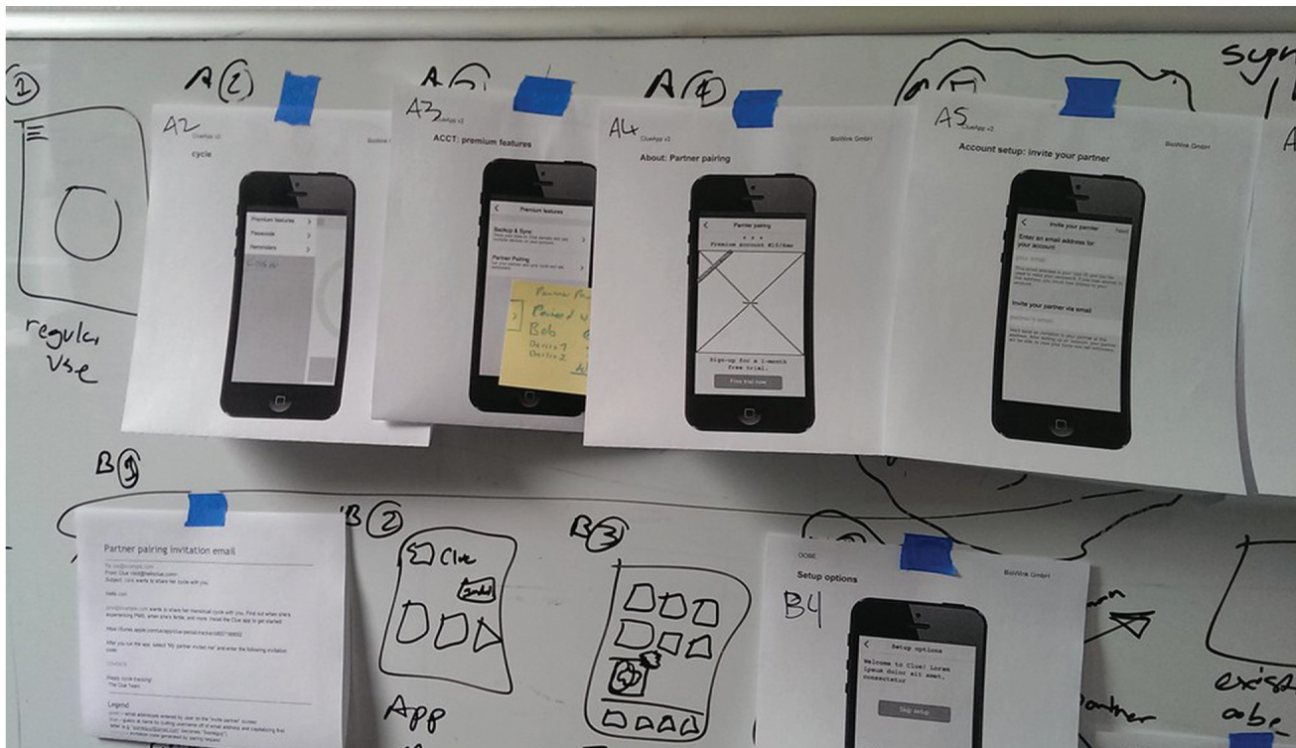


Figure 4.12 Storyboarding helps entrepreneurs and team members to visually represent steps in product creation and problem solving. Credit: "Clue storyboarding" by Adam Wiggins/Flickr, CC BY 2.0

TEAM CREATIVITY

Team creativity is the process whereby an entrepreneur works with a team to create an unexpected solution for an issue or challenge. Teams progress through the same creative problem-solving process described already: clarify, ideate, develop, implement, and evaluate. The main advantage of team creativity is the collaboration and support members receive from one another. Great teams trust in other team members, have diverse members with diverse points of view, are cohesive, and have chemistry.

Team members should work in a stress-free and relaxing environment. Reinforcement and expansion of ideas in the team environment motivates the team to continually expand horizons toward problem solution. A small idea in a team may spark the imagination of a team member to an original idea. Mark Zuckerberg, cofounder of Facebook, once said, “The most important thing for you as an entrepreneur trying to build something is, you need to build a really good team. And that’s what I spend all my time on.”⁶

ENTREPRENEUR IN ACTION

Taaluma Totes⁷

Young entrepreneurs Jack DuFour and Alley Heffern began to notice the beautiful fabrics that came from the different countries they visited. The entrepreneurs thought about what could be done with the fabrics to create employment opportunities both in the country from which the fabric originated and in their home base of Virginia. They decided to test producing totes from the fabrics they found and formed Taaluma Totes (Figure 4.13). DuFour and Heffern also wanted to promote the production of these fabrics and help underserved populations in countries where the fabric originated maintain a living or follow a dream.

6. “Three Tips for Entrepreneurs Creating the Perfect Team.” Virgin. n.d. <https://www.virgin.com/entrepreneur/three-tips-entrepreneurs-creating-perfect-team>

7. “Backpacks That Carry a Country.” Taaluma Totes. n.d. <https://www.carryacountry.com/pages/about>



Figure 4.13 This photograph was taken by a traveler, Kelsey Friedman, who studied abroad in Rwanda through Virginia Tech's International Business in Lugano: Combining Theory and Practice program. (credit: photo provided by Taaluma Totes)

The team continued to test the process and gathered original fabrics, which they sent to Virginia to create totes. They trained individuals with disabilities in Virginia to manufacture the totes, thus serving populations in the United States. The entrepreneurs then decided to take 20 percent of their profits and make microloans to farmers and small business owners in the countries where the fabric originated to create jobs there. Microloans are small loans, below \$50,000, which certain lenders offer to enterprising startups. These startups, for various reasons (they are in poor nations, at poverty level), can't afford a traditional loan from a major bank. The lenders offer business support to the borrower, which in turn helps the borrower repay the microloan. The microloans from Taaluma are repaid when the borrower is able. Repayments are used to buy more fabric, completing Taaluma's desire to serve dual populations. If the process proved unsuccessful, the co-owners would revise the process to meet the plan's requirements.

DuFour and Heffern now have fabrics from dozens of countries from Thailand to Ecuador. The totes are specialized with features to meet individual needs. The product line is innovated regularly and Taaluma Totes serves a dual purpose of employing persons with disabilities in Virginia and creating employment for underserved populations in other countries.

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4.3 Design Thinking

Learning Objectives

By the end of this section, you will be able to:

- Explain the design thinking process
- Discuss some design thinking tools

David Kelley, founder of Stanford University's Design School and cofounder of design company IDEO, is credited as the originator of design thinking, at least within business and entrepreneurial contexts. You were briefly introduced to design thinking in Creativity, Innovation, and Invention, but we will delve into it in more depth here. IDEO grew from a merger of the creator of Apple's first mouse and the first laptop computer designer, David Kelley Design and ID Two, respectively. Almost a decade after the 1982 Apple creations, the 1991-merged company primarily focused on the traditional design of products, ranging from toothbrushes to chairs. Yet another decade later, the company found itself designing consumer experiences more so than consumer products. Kelley began using the word "thinking" to describe the design process involved in creating customer experiences rather than creating physical products. The term design thinking was born.

The current IDEO CEO Tim Brown defines design thinking as "a human-centered and collaborative approach to problem-solving, using a designed mindset to solve complex problems."¹ Design thinking is a method to focus the design and development decisions of a product on the needs of the customer, typically involving an empathy-driven process to define complex problems and create solutions that address those problems.

A common core of design thinking is its application beyond the design studio, as the methods and tools have been articulated for use by those outside of the field, particularly business managers. Design practice is now being applied beyond product and graphic areas to the design of digital interactions, services, business strategy, and social policy.

Watch this 2009 TEDGlobal talk where Tim Brown describes design thinking from a historical perspective to modern times.

1. Mark Logan. "Design Thinking for Entrepreneurs." Medium. September 29, 2018. <https://medium.com/idealect/design-thinking-for-entrepreneurs-392c8cbdcc24>



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=146>

DESIGN THINKING PROCESS

Business schools have typically taught a rational, analytic approach to thinking. It focuses on well-defined goals and constraints, and thought precedes action in a sequential process of planning and analysis. The design thinking process approaches problem solving differently. Thinking and doing are often intertwined in an iterative exploration of the design “space,” and the process uncovers goals and constraints, rather than identifying them up front.

One design thinking approach that is taught at places like Stanford’s Design School and organizations like the LUMA Institute (a global company that teaches people how to be innovative) is human-centered design (HCD). HCD, as the name suggests, focuses on people during design and development. This speaks to the Tim Brown definition of design thinking. Inspiration for ideas comes from exploration of actual people, their needs and problems.

Three spaces—inspiration, ideation, and implementation—compose the design thinking process (Figure 4.14). The process uses “spaces” and not “phases” because multiple spaces can happen simultaneously.

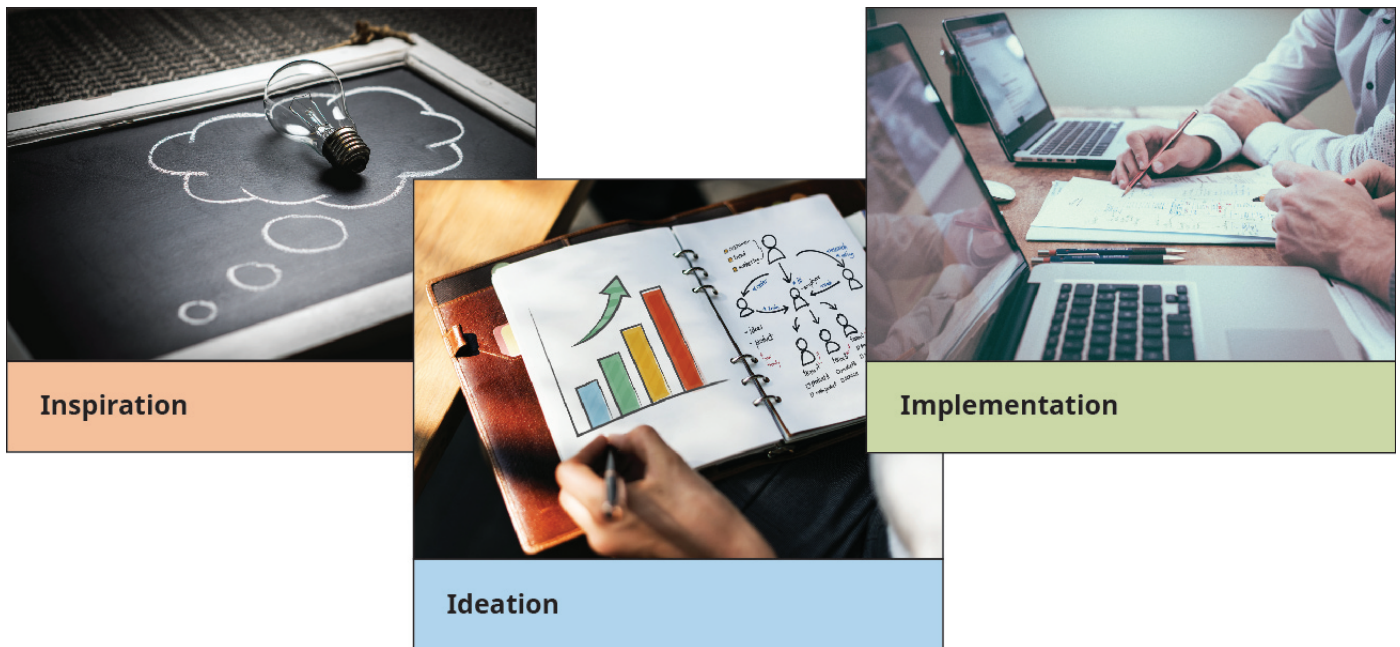


Figure 4.14 The design thinking process focuses on the spaces of inspiration, ideation, and implementation. Credit (left): modification of “thought idea innovation imagination” by “TeroVesalainen”/Pixabay, CC0; credit (center): modification of “document paper business chart” by “rawpixel”/Pixabay, CC0; credit (right): modification of “office business colleagues meeting” by “Free-Photos”/Pixabay, CC0

Nevertheless, inspiration usually occurs first. This entails identifying a problem or opportunity that motivates someone to search for solutions. Ideation is the process of generating ideas and solutions through various techniques such as brainstorming and sketching sessions. There are hundreds of ideation techniques available. A few examples of ideation exercises include Top Five, How Might We, Mash-up, and Co-Creation Session. In Top Five, everyone on the team writes down their top five ideas, shares them, and clusters similar ideas. In How Might We, the team looks at insight statements and reframes them as “How Might We” questions by adding that phrase at the beginning. The goal is to find opportunities for design that also allows for a variety of solutions. Mash-up involves combining existing brands or concepts to create something new. The team identifies those brands or concepts that represent a quality they desire in their solution, and they “mash up” those ideas to create a new idea. A co-creation session incorporates the desired market into the creation process by recruiting a group of people from the market to work on the design with the team. The goal is to capture the feedback the group provides by treating them as designers, not as interview subjects. Implemented solutions evolve from interactions with users and from the ongoing creation and refinement of possible solutions. Design thinking incorporates experience-based insights, judgments, and intuition from the end users’ perspectives, while in a rational analytic approach, the solution process often becomes formalized into a set of rules.

Nesta is a UK-based innovation foundation that offers many design thinking tools and resources similar to IDEO. Named for the acronym NESTA, the National Endowment for Science, Technology and the Arts, the organization was established in 1998 with an endowment from the UK National Lottery and became an independent charity in 2012. Nesta’s strategy focuses on health, government innovation, education, arts, and creative economy and innovation policy. Nesta offers a set of five criteria to ascertain that an occupation is creative:²

1. Novel process
2. Christine Harris, Margaret Collins, and Dennis Cheek. America’s Creative Economy: A Study of Recent Conceptions, Definitions, and Approaches to Measurement across the USA. National Creativity Network and Creative Alliance. August 2013. <https://www.centerforcreativeeconomy.com/wp-content/uploads/2015/10/AmericasCreativeEconomyFULLReport.pdf>

2. Mechanization resistant
3. Nonrepetitive or nonuniform function
4. Makes a creative contribution to the value chain
5. Involves interpretation not merely a transformation in the service or artifact

As the name implies, design thinking originates from design. As design is one of the identified creative industries, there's a clear connection between creative industries and design thinking. In fact, Nesta offers inspiration and ideation exercises that are freely available for users wishing to implement design thinking practices.

HUMAN-CENTERED DESIGN THINKING SPACES

The Stanford Design School uses human-centered design thinking (HCD) as its design thinking approach. HCD emphasizes the following spaces of the design thinking process:

- Empathizing: As illustrated by the human-centered approach, it is important to have empathy for the problem you are attempting to solve. Empathy, as the chapter on Creativity, Innovation, and Invention defined, means observing and immersing yourself in the surrounding environment to engage with and understand people's experiences and motivations.
- Defining: This aspect involves describing the core problem(s) that you and your team have identified. Asking "how might we?" questions helps narrow the focus, as the ultimate aim here is to identify a problem statement that illustrates the problem you want to tackle. "Frame Your Design" is one such challenge in what IDEO calls its "toolkit" that works well here. Frame Your Design asks you to write down your problem and then refine it by following specific steps so that you end up with a design question that serves as a starting point but leaves room for creativity.³
- Ideating: This is where you begin to come up with ideas that address the problem "space" you have defined. There are hundreds of exercises aimed at the ideation process, ranging from brainstorming to "Five whys?" in the IDEO toolkit. The "Five whys" is a questioning method in which the researcher, in looking for information to solve a problem, asks a respondent a broad question, then asks "why" to get deeper into the respondent's thinking. IDEO puts it this way: "You'll use this method while you're conducting an interview and start with really broad questions like "Do you save much money?" or "How was your harvest this year?" Then, by asking why five times you'll get some essential answers to complicated problems. This can be a great method to use if you're trying to get at the human and emotional roots of a problem."⁴
- Prototyping: In this space, the entrepreneur creates and tests inexpensive, scaled-down versions of a product with features or benefits that serve as solutions for previously identified problems. This could be tested internally among employees, a process known as dogfooding, or externally with potential customers. This is an experimental phase.
- Testing: Designers apply rigorous tests of the complete product using the best solutions identified in the prototyping space.

Example – **Every Day a Little Closer**

3. IDEO.org. The Field Guide to Human Centered Design. 2015. https://bestgraz.org/wp-content/uploads/2015/09/Field-Guide-to-Human-Centered-Design_IDEOorg.pdf

4. "The Five Whys." Design Kit. n.d. <http://www.designkit.org/methods/66>

Some examples of everyday items that can be improved through design thinking are sinks on top of toilet cisterns that save water by refilling the cistern with the water you wash your hands with, video doorbells, and smart light bulbs. Try to think of an improvement to one of your everyday items.

DESIGN THINKING TOOLS

There are numerous design thinking tools aimed to aid or stimulate your design thinking activities. They stem from organizations dedicated to design thinking like IDEO and Google Ventures. While methodologies incorporate processes and techniques, tools are resources that enable such approaches. These may be activities, or templates that facilitate the approach.

- **Innovation Flowchart:** A sample innovation flowchart may map out the details of the process. The structured overview serves as an organizational tool in the development process.
- **Question Ladder:** A tool that helps you ask the “right” questions by refining your questions (Figure 6.15). Asking the “wrong” questions can yield meaningless or less-than-adequate results.

QUESTION COMPLEXITY						
Simple						Complex
	IS	DID	CAN	WILL	WOULD	MIGHT
WHO	Who is	Who did	Who can	Who will	Who would	Who might
WHAT	What is	What did	What can	What will	What would	What might
WHERE	Where is	Where did	Where can	Where will	Where would	Where might
WHEN	When is	When did	When can	When will	When would	When might
HOW	How is	How did	How can	How will	How would	How might
WHY	Why is	Why did	Why can	Why will	Why would	Why might

Figure 6.15 A question ladder can help refine questions. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

- **Design Thinking Tool Kit:** There are various tool kits for select audiences. For example, the “design thinking for educators” toolkit has design thinking resources related to education. A typical tool kit includes a wide assortment of resources with methods and instructions to help you put design thinking into action.
- **IDEO Design Kit:** IDEO offers an approximately 200-page free PDF, “The Field Guide to Human Centered Design,” with activities on mindsets, ideation, inspiration, implementation and a few case studies.
- **Google Ventures Design Sprint:** A five-day design-thinking exercise that helps resolve questions through design, prototyping, and testing.
- **Design Thinking Mix Tapes:** Stanford’s Design School offers three “mixtapes” that serve as guides through a half day of design thinking work in the areas of understanding, experimentation, and ideation.
- **WE THINQ:** Software designed to enable collaboration in innovation management.

ENTREPRENEUR IN ACTION

BitGiving and Design Thinking

At age twenty-two, Ishita Anand created India's first live social crowdfunding platform that enabled artists, engineers, and creators to collaborate and raise funds for special causes by verifying causes and how the funds would be used, while charging a small percentage of the funds raised as a fee. Within five years of its inception, her social enterprise, called BitGiving, has led efforts to address problems through social change. The firm has contributed to various social campaigns related to children, women, education, health, and disaster among others. The firm partnered with charities and other organizations to raise funds for India's National Ice Hockey team to compete in Kuwait at the World Cup and for the victims of the 2015 Nepal earthquake through the crowdfunding platform and other social media platforms such as Twitter.⁵

As India's first social crowdfunding platform, BitGiving literally aimed to solve problems through social change. Describe some design thinking activities that would have been useful to Anand at BitGiving's inception.

As of September 2018, the company closed its website abruptly and reportedly shut down. While the exact reason for its failure is unknown, some reasons the venture could have failed were insufficient capital, regulation, management problems or strategic misalignment, or even poor timing. Failure is common in entrepreneurship, and conferences dedicated to failure are even conducted around the globe (FailCon is sort of the TED Talk of failure).

Question

How could the design thinking process have helped BitGiving from the outset?

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5. "BitGiving." Crunchbase. n.d. <https://www.crunchbase.com/organization/bitgiving#section-overview>

4.4 Lean Processes

Learning Objectives

By the end of this section, you will be able to:

- Discuss the lean process methodology
- Understand the phases of the lean problem-solving process.

You have learned about different problem-solving approaches that entrepreneurs take to lead their startups and work with others. Most of these approaches have had to do with the entrepreneur's cognitive or creative mindsets. Now we will learn about an approach that is more rooted in process, called lean process. Lean problem solving has been used as an entrepreneurial methodology in new and emerging ventures, and it's interesting that it comes from a large corporate, manufacturing background that focuses on efficiencies. The Six Sigma methodology, pioneered at Motorola in the 1970s and 1980s, and adopted by many companies, is a disciplined, data-driven approach that provides companies tools to improve the capability of their business processes. According to the American Society for Quality, "Six Sigma views all work as processes that can be defined, measured, analyzed, improved and controlled. A set of qualitative and quantitative tools is used to drive process improvement. This increase in performance and decrease in process variation helps lead to defect reduction and improvement in profits, employee morale, and quality of products or services."¹ GE copied it and created the "Process Excellence" programs that millions of managers and others have taken to get certified at various "belts." Although Six Sigma and Process Excellence do not fit strictly in terms of entrepreneurship, as they are used mainly by large, mature companies, many of the methods fit in the lean model.

Toyota pioneered the lean process in the 1980s. The term "lean manufacturing" is the most common, but it is much more than manufacturing. The lean process is a systematic method for the maximizing of continuous improvement and the minimization of surplus or unused material in the production of a process. The entrepreneur begins the startup with a sense the original product will be the product carrying the organization to success in the long term. In most cases, the good or service will require modification to maintain a process, technology, or up-to-date product offering. Lean problem solving means the entrepreneur's entire team scans both the company's internal and external environments for continuous improvement and methods for bringing additional revenue to the startup by cost improvement processes that promote sustainable value. The external environment encompasses customers, industry trends, and competition. The internal environment comprises the factors inside the enterprise, such as employees, and internal practices and processes. In lean manufacturing,

1. American Society for Quality. "What Is Six Sigma?" n.d. <https://asq.org/quality-resources/six-sigma>

for example, improving efficiencies in the internal environment should lead to advantages in the external environment (whether that be cost savings to customers, competitive advantage from more output/superior product, etc.).

For example, every mile saved per day per UPS truck driver results in approximately \$50 million in savings per year, according to Juan Perez, the company's chief information and engineering officer. Using customer data and artificial intelligence, the company created a system dubbed ORION, which is an acronym for On-Road Integrated Optimization and Navigation.² To date, the system has resulted in \$400 million in savings to UPS. By applying the lean process, everything that UPS saves on the input (by reducing mileage) leads to savings on the output, which leads faster deliveries, lower costs for consumers, and more profit for UPS.

LEAN PROBLEM-SOLVING PROCESS

The lean problem-solving process is a cycle of observation, assessment, and continual evaluation. As shown in Table 4.1, this cycle typically involves eight specific steps.

Table 4.1 The lean problem-solving, step-wise process allows the business to observe, assess, and continually evaluate.

Step	Action
Step 1	Clarify the problem.
Step 2	Analyze the problem (genchi genbutsu is the Toyota practice of thoroughly understanding a condition by confirming information or data through personal observation at the source of the condition; the Japanese phrase essentially means "go and see"). ³
Step 3	Set targets.
Step 4	Identify root causes. Asking, "Why?" repeatedly can narrow down the factors to a root cause.
Step 5	Develop countermeasures by asking, "What is the specific change we want to make?" and involving others in the problem-solving process.
Step 6	Implement the countermeasures and see them through.
Step 7	Monitor results.
Step 8	Standardize processes that succeed. Lean problem solving is about learning more about the problem itself and its deep causes in context.

Exercise – Too Much Too Late?

Many entrepreneurs create a startup with an idea that they develop without any feedback from potential customers, relying on their own knowledge or assumptions about the market. Consider the story of Rapid SOS:

- What would most likely happen when they decided to go forward with their product?
- Will it be a fit to the customer's needs or solve their problems?
- How is lean process different from this?

2. Juan Perez. "UPS' Approach to Innovation and Technology." Presentation sponsored by J. Mack Robinson College of Business, Georgia State University, Atlanta, GA. March 28, 2019.

3. "Genchi Genbutsu." Lean HE Glossary. n.d. <http://www.leanhe.org/lean-he/glossary#TOC-Genchi-Genbutsu>

LEAN PROBLEM-SOLVING PHASES

Observation is the phase in which the entrepreneur studies the challenge and notes all facets of the challenge requiring solution. In this phase, the entrepreneur asks questions and conducts research about the change needed for a successful product, outcome, or service. The entrepreneurs must determine why the change is needed. What is the purpose of the endeavor? Feedback is extremely important in this phase.

For example, a community asked a group of entrepreneurs to help address the youth obesity problem in a middle school. The entrepreneurs began to study the intake of food by the children and determined that both the content of the school lunch menu and the lifestyle of the majority of the children were affecting the obesity rate in the community. They then defined the purpose of the project as finding a low-cost, low-risk method of changing the lunch menu and agreed that the primary outcome would be a 30 percent reduction in the obesity rate of the children. The entrepreneurs began to assess the cost of changing the lunch menu and observing what else the kids ate.

The entrepreneurs discovered that the lunch menu change required to reduce the obesity rate was beyond the financial capability of the school district. Research also showed that many of the children, products of single-parent homes, were eating high-calorie, high-fat, take-out foods for dinner. Further observation revealed that the children did not engage in physical activity after hours because the local surroundings were not safe. The community needed a process to transform the wellness of the children, and the entrepreneurs recommended using a lean process approach to help the children as quickly as possible.

After the observation of the problem comes assessment, the phase in which the entrepreneur experiments and analyzes the potential process and its capabilities. The entrepreneur leverages creative tools and resources to arrive at a solution and assesses each step of a possible solution. Each step must add value to the solution, or that step in the solution is unnecessary. In addition, the step must be capable of solving the issue and add flexibility to the solution. How is the process or product being improved? In this phase, a prototype of the product is developed and delivered. The entrepreneur must ask the customer if all needs and wants are satisfied with the prototype. If the prototype is being developed for mass production, surveying customers about potential sales is essential. In the school lunch example, the school system would have been the customer of the new food menu (prototype) in the assessment phase.

Evaluation is the phase in which behaviors are analyzed to assess success. The entrepreneur continually studies each phase of the solution to observe the effectiveness of outcomes desired by the client. The entrepreneur ensures that transformation is built into the habits of the school to obtain, maintain, and develop the desired outcomes.

In a real-world example of a company applying lean processes, the New Balance Company, which designs and manufactures both athletic and casual shoes, used a batching approach in the early 2000s that organized production by departments, so that all of the cutting took place in one department, all of the stitching took place in another, and so forth. While it seems that batching tasks would improve efficiency, at New Balance, it meant that production of one pair of shoes took nine days. Executives observed piles of inventory sitting between floors and departments, and noticed employees waiting while there were delays in the production line. They also noticed that the pay structure contributed to the piles of works in process because employees were paid by the piece, which encouraged them to produce as much as possible.

The company applied lean principles to rearrange the production floor by value streams, or the making of a product by sharing similar processing steps. On one side was “cut and stitch” products using US materials of leather and mesh, while another side used premade products from overseas for soles, inserts, and kits. This

change cut the time to make a pair of shoes down to four hours, meaning that domestic plants could ship some orders in twenty-four hours, while competitors may need as much as 121 days to ship when they outsourced manufacturing to Asia.

An often-used lean problem-solving tool is whiteboarding (Figure 4.16). Whiteboarding is a type of graphing that permits the entrepreneur to plot each step in a process to build comprehension and detailing of the process. The entrepreneur draws each step on the whiteboard using a linking-type diagram, and draws arrows to show how processes affect other processes. Seeing the flow of the process allows the entrepreneur to note where functions in the process are duplicated or inconsistent.



Figure 4.16 Whiteboarding is a technique that can help entrepreneurs visualize and analyze processes. (credit: "whiteboard man presentation write" by "StartupStockPhotos"/Pixabay, CC0)

For example, in a community garden, storing tools, such as hoes and hand trowels for weeding, in different sheds wastes time when preparing to begin the process of weeding. These tools should be stored collectively to eliminate multiple trips and wasted time. Seeing the process on a whiteboard or other medium brings awareness to how processes can be improved. After the process is changed, it is graphed again for further scrutiny.

ENTREPRENEUR IN ACTION

The Origin of Lean

Would it surprise you to know the origin of lean, in modern times, is considered to be Henry Ford's production line? Although we don't necessarily think of the creation of automobiles as an entrepreneurial venture in today's world, Henry Ford was truly an entrepreneur for his time when the manufacture of automobiles was just beginning. Not only did he recognize the opportunity inherent in the sale of automobiles, he recognized the need to create an efficient process for automobile production that could decrease costs and, consequently, the selling price of the

vehicle. As the first entrepreneur to join the use of interchangeable parts with moving conveyance to develop fabrication processes, Ford was able to turn over inventory in a very short time; however, Ford's process could not deliver variety. In fact, Ford was quoted as saying of the Model T's color, "You can have any color as long as it's black."Diana T. Kurylko. "Model T Had Many Shades; Black Dried Fastest." Automotive News. June 16, 2003. <http://www.autonews.com/article/20030616/SUB/306160713/model-t-had-many-shades%3B-black-dried-fastest> It had the fastest drying time; hence, it was the only color he used for a number of years.

The Ford system was built around one static product. In the 1930s, when the market demanded product variety, the company was not set up to address this challenge. Kiichiro Toyoda (Figure 4.17), the second president of Toyota Motor Corporation, visited the Ford plant in Michigan to learn more about their application of the assembly line concept. After observing, he proposed a new production system that would strive to "right size" equipment to better match tasks and the volume of work, as well as introducing quality assurance steps in each sequence of the work process. Toyoda's approach shifted the focus from machinery to process, optimizing efficiency while maintaining quality.



Figure 4.17 Kiichiro Toyoda introduced new ways to improve processes. (credit: "Kiichiro Toyoda" by "Scanyaro"/Wikimedia Commons, Public Domain)

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4.5 Key Terms

adaptive model

method of entrepreneurial problem solving that seeks solutions in ways that are tested and known to be effective

assessment

lean problem-solving process phase in which the entrepreneur experiments and analyzes the potential process and its capabilities

brainstorming

generation of ideas in an environment free of judgment or dissension with the goal of creating solutions

clarify

first step of the creative process, which involves recognizing the existence of a gap between the current state and a desired state

communication skills

skills entrepreneurs use to pool resources for the purposes of investigating solutions leading to innovative problem solving and competitive advantage

creativity

development of original ideas

critical thinking

complex analysis of a problem or issue with the goal of solving the problem or making a decision

crowdsourcing

teams of amateurs and non-experts working together to form a solution to a problem

data analysis

process of analyzing data and modeling the data into a structure that leads to innovative conclusions

decisiveness

ability to make a quick, effective decision, not letting too much time go by in the process

design thinking

method to focus the design and development decisions of a product on the needs of the customer, typically involving an empathy-driven process to define complex problems and create solutions that address those problems

develop

stage in which the entrepreneur takes the list of ideas generated and tests each solution for feasibility

entrepreneurial problem solving

process of using innovation and creative solutions to close the opportunity gap by resolving complex societal, business, or technological problems

evaluate

stage in which the final solution is assessed

evaluation

lean problem-solving process phase in which behaviors are analyzed to assess success

external environment

outside the enterprise and encompasses customers, industry trends, and competition

hackathon

event, usually hosted by a tech company or organization, which brings together programmers and workers with other degrees of specialization within the company, community, or organization to collaborate on a project over a short period of time

human-centered design

focuses on people during design and development

ideate

stage of the creative problem-solving process leading to the detailing and formation of idea generation by the entrepreneur

implement

means to enact the plan and test for success

innovative model

method of entrepreneurial problem solving that uses techniques unknown to the market and that bring competitive advantage to an organization

internal environment

comprises the factors inside the enterprise, such as employees, and internal practices and processes

lean process

systematic process for the maximizing of continuous improvement and the minimization of surplus or unused material in the production of a process

need awareness

occurs when the entrepreneur notes a gap between societal or customer needs and actual circumstances

observation

lean problem-solving process phase in which the entrepreneur studies the challenge and notes all facets of the challenge requiring solution

petitioner problem solvers

problem solvers who see a problem and ask others for solution ideas

resourcefulness

ability to discover clever solutions to obstacles

self-regulating problem solvers

problem solvers who are autonomous and work on their own, without external influence; they have the ability to see a problem, immediately visualize a possible solution to the problem, and seek to devise a solution

storyboarding

process of presenting an idea in a step-by-step graphic format

team creativity

process of a team creating an unexpected solution for an issue or challenge

theorist problem solvers

problem solvers who see a problem and begin to consider a path toward solving the problem using a theory

whiteboarding

type of graphing that permits the entrepreneur to plot each step in a process to build comprehension and detailing of the process

4.6 Unit Summary

PROBLEM SOLVING TO FIND ENTREPRENEURIAL SOLUTIONS

Problem solving involves more than making decisions. Problem solving is a necessary component of entrepreneurial genesis, used to manage your business and helpful in addressing everyday personal situations. Entrepreneurs must know their personal strengths and capitalize on applicable problem-solving methods to create innovative products. Moving a startup ahead of the competition requires the entrepreneur to use all problem-solving sources and skills in the entrepreneur's tool box. Problem-solving models can be adaptive or innovative, the latter being more common among entrepreneurs. Problem-solving skills include critical thinking, communication, decisiveness, resourcefulness, business and industry awareness, and an ability to analyze data. There are various types of problem solvers, including self-regulating, theorist, and petitioner problem solvers.

CREATIVE PROBLEM-SOLVING PROCESS

The creative problem-solving process is a logical process. The steps to the creative problem-solving process are clarify, ideate, develop, implement, and evaluate. Each step is an aid to creating a solution. The steps are repeated cyclically until the entrepreneur develops an innovative solution. When entrepreneurs experience creativity block, tools to alleviate the block are available. These tools include crowdsourcing, brainstorming, and storyboarding. Each of these tools assist the entrepreneur in innovative thinking.

DESIGN THINKING

Design thinking in business and entrepreneurship was made prevalent by David Kelley, founder of Stanford University's Design School and cofounder of design company IDEO. Design thinking, which espouses an HCD approach, can be applied beyond product and graphic design to include the design of social policy, business strategy, services, and digital interactions. The five stages as espoused in Stanford's design thinking model are empathizing, defining, ideating, prototyping, and testing. There are numerous design thinking tools that help develop and carry out these processes from various organizations and companies, ranging from IDEO to Google.

LEAN PROCESSES

Lean process is a systematic process for maximizing continuous improvement through minimizing surplus or unused material in the production of a current process. With origins in manufacturing, the lean process can be applied to internal organizational processes as well as external product development. Lean process uses observation, assessment and evaluation, and whiteboarding techniques to solve problems.

4.7 Review Questions

1. What is the relationship between entrepreneurial thinking and problem solving?
2. What are the key aspects of the two types of problem-solving methods the entrepreneur uses to problem solve?
3. What are the key skills entrepreneurs need to arrive at innovative solutions?
4. What are the differences in the three major types of entrepreneurs?
5. List and describe the steps an entrepreneur uses in the specific and logical process of creativity?
6. What are the key aspects of the brainstorming process?
7. What is the main advantage of using teams to create a solution?
8. Discuss the advantages of storyboarding.
9. What are the differences between the design thinking process and the problem-solving process and why are they important?
10. What are the steps in human-centered design thinking? Briefly describe each.
11. What is human-centered design?
12. Observation is the phase in which entrepreneurs explore problems that requires solution. Which is not a step in this phase?
 - a. talk to clients and conduct research for potential solution
 - b. determine if change is needed
 - c. experiment and analyze potential solution
 - d. None of these options is correct.
13. What are some advantages of the lean process?

4.8 Discussion Questions

1. Which method do you think applies more to entrepreneurship, the innovative or adaptive problem-solving method? Do you see yourself as using one method more than the other in your entrepreneurial endeavors? If so, which one and why?
2. Do you think it is important for the entrepreneur to understand and develop all the problem-solving skills to manage a successful startup? Why or why not?
3. Which of the three types of entrepreneurs relies more on the innate skill of the entrepreneur?
4. How does the fishbone process aid entrepreneurs in finding the root cause to problems worth solving?
5. Discuss the different methodologies an entrepreneur might use when experiencing creativity block.
6. Discuss the crowdsourcing process, including how contributors to the solution are rewarded and how different platforms fit with different types of businesses.
7. Why is empathy needed in defining problems?
8. Why is it important to continuously ask for feedback and improve the current design?
9. What are some ways you can determine the true root cause of a problem and not just its symptoms?
10. What are the best ways to implement lean thinking in your company?

4.9 Case Questions

1. The team at AMD, the manufacturer of a chip processor, has a good grasp on how software giants build products around its processors. The teams at AMD design processors to feature attractive capabilities to the software giants by seeking input from researchers and designers on the AMD team who possess knowledge of current and upcoming trends. New processors will incorporate these trends in design. After identifying what type of problem-solving style this would be an example of, incorporate the key skills entrepreneurs must have according to the chapter and apply them in terms of the AMD team.
2. Tamika, a young entrepreneur, has been purpose-driven toward social change in their rural community. They have created solutions for pesticide runoff, erosion problems, and toxic well water. Tamika has decided to focus more on energy conservation and local air quality. Their first client is interested in wind as a power source. Tamika is unfamiliar with wind power and needs to learn about innovative solutions for residential application. How might Tamika use creative problem solving methods to develop solutions for the client's request?
3. Based on input from his second-grade students, New York teacher Michael Schurr was able to redesign his classroom to better serve the students' needs. In the book *Design Thinking for Educators*, he redesigned the cubby space to make the room semi-private and lowered the boards so that students could see the content. He made all of these changes after asking the students for input. What are some ways you could improve your classroom if your instructor asked your opinion, using design thinking tools?

5.1 Avoiding the “Field of Dreams” Approach

Learning Objectives

By the end of this section, you will be able to:

- Understand the importance of planning
- Understand the concepts of product and service innovation, and define and understand key business models
- Describe and be able to construct a value proposition for a new business idea (product or service)

In the 1989 film *Field of Dreams*, Kevin Costner plays an Iowa farmer who hears a voice that tells him, “If you build it, he will come.” Inspired by this vision, Costner’s character turns his cornfield into a baseball field (of dreams), and eventually the ghosts of deceased baseball players such as Shoeless Joe Jackson appear on the field as younger versions of themselves. The movie coined the popular axiom that “if you build it, they will come,” just as the players appeared after the field of dreams was built. Although it’s a fun saying for film buffs and sports fans, this approach is one you will want to avoid in entrepreneurship. In fact, the entrepreneurial graveyard is littered with ghosts of startups that never gained traction with customers, never to be heard from again. (Seventy-five percent of venture-backed startups fail, according to one recent study.)¹ Thus, you don’t want to blindly build a product and hope that customers will come. Juicero is one recent example of product that conducted little-to-no customer discovery before launch. A cold press juicer made by this San Francisco startup cost \$699 at launch. The juicer squeezed packs of cut up fruits and vegetables, but customers found they could just as easily squeeze the juice out of the packs by hand and avoid the hefty price of the juicer.

Customer acquisition and customer retention are not easy processes by any means. You have to work to gain a customer and work even harder to get her to return. One study by the data analysis firm CBInsights of why 101 startups failed found that 42 percent of them joined the “entrepreneurial afterlife” because there was “no market need,” which suggests a customer (or lack thereof) problem.² Current trends in entrepreneurial thinking reflect a customer-centric approach: From the start, entrepreneurs infuse their insights into the planning process through a process called “customer discovery.” The entrepreneurial journey should begin with finding what the

1. Patrick Henry. “Why Some Startups Succeed (and Why Most Fail).” *Entrepreneur*. February 18, 2017. <https://www.entrepreneur.com/article/288769>

2. “298 Startup Failure Post-Mortems.” CBINSIGHTS. February 28, 2019. <https://www.cbinsights.com/research/startup-failure-post-mortem/#original>

serial entrepreneur, author, and educator Steve Blank, one of the founders of modern entrepreneurship, calls the problem/solution fit.^{3,4} In a complementary approach, the Mosaic/Netscape founder Marc Andreessen discussed the need to achieve product-market fit.⁵

In other words, don't just build a baseball field and expect players to show up. This is an oversimplification, but if we extend the Field of Dreams analogy before blindly believing in the magic, you would want to talk to prospective players and fans to see if a field is needed, what type of field (corn-to-baseball?), why that field is needed, how that field would be used, and what features of the field would be most useful—before you go to bat (Figure 5.2).⁶



Figure 5.2 This field in Dyersville, Iowa, was used in the filming of Field of Dreams. (credit: "FieldofDreamsMay06" by "JoeyBLS"/Wikimedia Commons, CC BY 2.5)

BUSINESS MODEL

Although there are countless varieties of business models, the Scaling Lean author Ash Maurya offers three common types: direct, multisided, and marketplace. Direct businesses are the most common and involve one-sided actors—that is, users—becoming your customers. A coffee shop is a classic example; other examples include retail stores, software as a service (SaaS), many mobile apps, hardware stores, and stores that sell physical goods. In multisided models, users and customers—multi-actors—are usually different people. Ad-based models, big data, and enterprise are common examples where the products are free to users, and their value is monetized

3. Steve Blank. "Driving Corporate Innovation: Design Thinking vs. Customer Development." July 30, 2014. <https://steveblank.com/2014/07/30/driving-corporate-innovation-design-thinking-customer-development/>
4. Hayley Leibson. "How to Achieve Product-Market Fit." Forbes. January 18, 2018. <https://www.forbes.com/sites/hayleyleibson/2018/01/18/how-to-achieve-product-market-fit/#10814b68476b>
5. Tren Griffin. "12 Things about Product-Market Fit." Andreessen Horowitz. February 18, 2017. <https://a16z.com/2017/02/18/12-things-about-product-market-fit/>
6. Mike Pinder. "Innovation Reality Check: Are You Building a 'Field of Dreams'?" Board of Innovation. December 31, 2017. <https://www.boardofinnovation.com/blog/2017/01/31/innovation-reality-check-are-you-building-a-field-of-dreams/>

by a different customer base. Marketplace models are a more complex variant of multisided models made up of two different customer segments of buyers and sellers. eBay and Airbnb are well-known examples of marketplace models.⁷

Although planning is important, adaptability within the planning process is equally important. That’s what the business model approach is all about: outlining an approach but changing that approach throughout if or when you discover that your assumptions and educated guesses were wrong. For each new iteration, or version, the entrepreneur makes a minor change to the current business model to better capitalize on market opportunities.

Successful entrepreneurs are often multidimensional: part dreamer, part pragmatist. Adam Grant, Wharton School of Business professor and author of the best-selling book *Origins: How Non-Conformists Move the World*, explores how entrepreneurs are “capable of recognizing a good idea, speaking up without getting silenced, building a coalition of allies, choosing the right time to act, and managing fear and doubt.”⁸ Entrepreneur magazine tells the story of FedEx founder Fred Smith, who, while attending Yale University in the mid-1960s, wrote an economics term paper on the need for a new approach to overnight delivery in the computer age. His professor, unimpressed with Smith’s idea, graded his paper a C because the idea was not feasible.⁹ After graduation, using innovative thinking, dogged determination, and hard work, Smith would turn his “unfeasible” concept into the world’s first overnight delivery company, and in so doing, change the transportation industry forever. Smith embodied the entrepreneurial concept of being part dreamer, part pragmatist.

Exercise

Read about the popular corporate narratives related to relatively new companies.

- Consider whether these stories involve inventor-founders.
- If so, what is the invention and how does that tie in with the current and future narrative of the company?

Link to Learning

Listen to the NPR podcast “How I Built This” with Guy Raz to hear stories about more than 100 startup companies and their founders.



One or more interactive elements has been excluded from this version of the text. You can view them online here:
<https://pressbooks.nsc.ca/entrepreneurship/?p=170>

Several more brief narratives on how to tell your company’s story are also available.

Sports metaphors offer important entrepreneurial lessons beyond insights on customer discovery and planning. In baseball and softball, you must field a team to enter the game. In boxing, you enter the ring alone to go toe to toe with your competitor (where some of the best-laid plans get thrown out after you get hit). The tides of entrepreneurial thinking have shifted from the twentieth-century economist Joseph Schumpeter’s early

7. Ash Maurya. *Scaling Lean*. New York: Portfolio/Penguin, 2016.

8. “Bio.” Adam Grant. n.d. <https://www.adamgrant.net/bio>

9. “Fred Smith: An Overnight Success.” *Entrepreneur*. October 9, 2008. <https://www.entrepreneur.com/article/197542>

belief that it is “lone individuals who carry novelty” for wider market exploitation and benefit to society to the notion that it takes a team to innovate and back to the idea that individuals can enact entrepreneurial change.¹⁰ “Solopreneurs,” for instance, are hard-working entrepreneurs who are comfortable working alone on all the requisite tasks of starting a venture.¹¹ At the same time, many successful investors preach the merits of teams in entrepreneurship. Venture capitalist Aileen Lee says that people are the second-most important factor behind addressable market when evaluating startups.¹² The cohesion, diversity, and makeup of the team all contribute to investable worthiness and potential entrepreneurial success (Figure 5.3). Many successful accelerator programs have typically required teams in order to be considered for entry into their programs. The accelerator Techstars has said that what they look for in a startup is “team, team and team,”¹³ and the accelerator Boomtown requires at least two present founders for the duration of its accelerator program.¹⁴



Figure 5.3 While solopreneurs can certainly find success, many ventures find value in a team approach. (credit: “achievement agreement arms business” by rawpixel/Pixabay, CC0)

Multiple shifts in sources of innovations and rapid business model exploration may reflect high startup failure rates. Lack of planning is also a major reason for failure. Most small businesses fail within the first few years because of cash-flow issues. With more people today willing to field a startup team or enter the entrepreneurial ring, failure is more often than not a part of the entrepreneurial journey. Serial entrepreneurs launch numerous ventures, many of which fail, before moving on to other efforts. Entrepreneurs are the modern-day equivalent of Hamilton: An American Musical’s Hercules Mulligan to the world: They get back up again after getting knocked down.

10. Joseph A. Schumpeter. *Can Capitalism Survive?* New York: George Allen & Unwin, 1942.

11. John Rampton. “4 Differences Between Solopreneurs and an Entrepreneur Working Alone.” *Entrepreneur*. May 15, 2015. <https://www.entrepreneur.com/article/245766>

12. Aileen Lee. “Investing and Business Lessons from Aileen Lee (Cowboy Ventures).” *25iq*. April 21, 2018. <https://25iq.com/2018/04/21/investing-and-business-lessons-from-aileen-lee-cowboy-ventures/>

13. Michael Cohn. “Team, Team, Team: Welcome Tyler Scriven to Techstars Atlanta.” *Techstars*. April 13, 2016. <https://www.techstars.com/content/accelerators/team-team-team-welcome-tyler-scriven-techstars-atlanta/>

14. The Farm. “Accelerator FAQs.” n.d. <https://thefarmatl.com/about/faq/>

INNOVATION

One of the fundamental theories of entrepreneurship is that it brings innovation, which can be a new addition to the market or a novel change to an existing product or service. The famed management guru Peter Drucker put it simply: “Entrepreneurs innovate.”¹⁵ Of course, we should note that not all entrepreneurial ventures involve innovation. Even for those that do, however, the term innovation can be ambiguous. Further complicating the issue, a plethora of different extensions (or “types”) has arisen surrounding the concept of innovations—such as radical, incremental, and disruptive—that have been used to describe and emphasize different innovations in different situations.¹⁶ Innovation can also refer to products or processes because there are differences between product innovation and process innovation. In other words, not all innovations are created equal.¹⁷

As it pertains to entrepreneurship, the creative destruction of old markets with inferior technology and the creation of new markets, as defined by Schumpeter back in the 1930s, occurs through disruptive innovation.^{18,19}

The adjective disruptive also became a bit of a catchphrase in the 1990s during the first Internet era, largely due to the popularity of Clayton Christensen’s Figure 5.4 theory of incumbent failure in the face of what he first termed “disruptive technology” and later renamed “disruptive innovation.”¹⁹



Figure 5.4 Clayton M. Christensen has contributed many ideas about innovation to the field of entrepreneurship. (credit: “Follow Business of Software – Clayton Christensen” by Betsy Weber/Flickr, CC BY 2.0)

As Christensen defines them, disruptive innovations are often more advantageous to new entrants than to incumbent firms. This is because once market uncertainty occurs as a consequence of the disruption around the disruptive product, established firms consider it irrational to abandon their existing paying customers for the smaller customer base of the new, initially small market for what they believe is inferior technology. New entrants challenge incumbent firms by either creating markets where no markets exist, turning non-consumers

15. Peter F. Drucker. *Innovation and Entrepreneurship: Practice and Principles*. (New York: Harper Business, 1985), 30.

16. Henri Simula. “Concept of Innovation Revisited: A Framework for Product Innovation.” *International Association for Management of Technology 2007 Proceedings*. 2007.

17. Salem Baer. “The 3 Types of Innovation: Product, Process, & Business Model.” *Differential*. January 16, 2017. <https://differential.com/insights/the3typesofinnovation/>

18. Joseph Schumpeter. *Theory of Economy Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle* (Cambridge: Harvard University Press, 1934),

19. C. M. Christensen. *The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail* (Boston: Harvard Business School Press, 1997). C. M. Christensen, Taddy Hall, Karen Dillon, and David S. Duncan, *Competing Against Luck: The Story of Innovation and Customer Choice* (New York: HarperCollins, 2016).

into consumers, or by targeting overlooked segments of the market and later moving up market as the product improves. Leading firms' decision criteria for developing new products and commercializing innovations are all biased toward supporting incremental innovations that build on their existing technology base and help maintain or grow revenue and profitability in established markets. This opens the door for startups to develop and introduce disruptive innovations and profit from them. Table 11.1 lists some disruptive innovations.

Area	Timeframe	Established Market	Disruptive Innovation
Medical imaging	1960s	X-rays	Ultrasound offered a new type of imaging; X-ray companies lost out to the market and could not match the innovation, although eventually they purchased many ultrasound companies
Screens	1990s–2000s	CRT (cathode ray tube)	LED/LCDs innovated to overcome their display limitations, replacing heavy and bulky CRTs. More recent innovations like foldable screens and retinal scans have added more functionality and “intelligence” to link to Internet of Things devices
Entertainment	2000s	Video rental	Streaming services ousted much of the video rental market and companies like Blockbuster found themselves irrelevant in the market. More recently, multiple streaming services along with proprietary content (and “Over the Top” menu options) have disrupted cable TV companies

NETFLIX'S DISRUPTION

Netflix, founded in 1997 in California, disrupted video rental stores such as Blockbuster with its subscription service, which mailed DVDs directly to customers' homes. The rental stores, whose business model was predicated on revenue from late fees, could not compete with the ease and convenience of home delivery coupled with lower costs than the per-tape rental fees. But as streaming video content directly to televisions or over-the-top devices disrupted Netflix's original DVD-by-mail model, Netflix moved to offer a streaming service in addition to the DVD by mail model. In both instances, Netflix's prevailing model was predicated on serving as a distribution outlet for content created by other businesses. Netflix in recent years has begun not only distributing others' content but creating its own TV and movie content as well. (Orange Is the New Black and The Unbreakable Kimmy Schmidt are both original Netflix series; The Irishman is an original Netflix film.) Now content creators such as Disney and Marvel are creating their own streaming distribution platforms to exclusively deliver their own content, eventually pulling those shows from Netflix.

Questions

1. What should Netflix do to counter this threat to the third iteration of its business model?
2. What threats does the end of net neutrality pose to Netflix's business model?
3. If you were in charge at Netflix, would you pay more to Internet providers to gain faster delivery of your

content on the Internet? Why or why not?

In separate but related work, Christensen also developed the jobs-to-be-done theory, which aids companies in determining how to create products and services that customers want to buy by getting at the causal driver behind a purchase. Christensen uses the term job as shorthand for what an individual wants to accomplish in a given circumstance, often with social, emotional, and functional dimensions. For example, two jobs that a newspaper does for its readers are to inform and entertain, whereas the jobs to be done of a newspaper are completely different for another customer segment—advertisers. A newspaper’s jobs to be done for advertisers, for instance, may include promotions, attracting customers, or selling products. The jobs-to-be-done approach has also been incorporated into the development of business models in the form of customer empathy maps and value proposition canvases covered.²⁰

Watch this video illustrating Christensen’s jobs-to-be-done theory through a milkshake to learn more.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=170#oembed-1>

Questions

- After you watch this video, think about how Christensen’s definition of jobs relates to innovation.
- What are some jobs to be done for your entrepreneurial idea?

Disruptive innovations are contrasted with sustaining technologies, which improve the performance of established products through characteristics that mainstream customers adopt. Disruptive technologies allow for new entrants in the market, often with simpler, more affordable, more convenient products. Entrepreneurs and marketers have difficulty predicting or projecting how the emergence of an innovation will occur, and anticipating how customers will react to the new offerings. Predicting who the early adopters will be can also be difficult during the early stage of an innovation’s emergence. The mainstream customer base initially fails to find value in the new product. New customer segments, however, see value in the new features and lower prices. Eventually, developments improve the new product’s features to a level that will satisfy mainstream customers and thus attract more of the mainstream market.²¹

20. Clayton M. Christensen, Taddy Hall, Karen Dillon, and David S. Duncan. “Know Your Customers’ ‘Jobs to Be Done’.” Harvard Business Review. September 2016. <https://hbr.org/2016/09/know-your-customers-jobs-to-be-done>

21. Christian Hopp, David Antons, Jermain Kaminski, and Torsten Oliver Salge. “What 40 Years of Research Reveals about the Difference between Disruptive and Radical Innovation.” Harvard Business Review. April 9, 2018. <https://hbr.org/2018/04/what-40-years-of-research-reveals-about-the-difference-between-disruptive-and-radical-innovation>

RIDE SHARING



Figure 5.5 Uber and Lyft are popular ride-sharing services. Credit: "navigation car drive road gps" by DariuszSankowski/Pixabay, CC0

Ride-sharing services disrupted the traditional taxicab business by providing a mobile platform that connected ride-seeking consumers with drivers willing to provide transportation. In rapidly becoming the market leader of ride-sharing services, Uber became the poster child for disruptive innovation. A customer using a ride-sharing service like Uber or Lyft no longer had to wave down a cab on the street, nor did she need cash in hand anymore through its mobile payment system within the app. An Uber ride usually costs less than a regular cab ride. Ride-sharing services also offer more versatility in choices and greater overall convenience. Now Uber continues to evolve its model, adding options like Uber Eats and Uber Copter.

Questions

- What are the jobs to be done that Uber addresses?
- What areas of a taxi cab's business model does Uber disrupt?

Christensen prefers the term disruptive innovation to disruptive technology because even in his original theoretical framework, technology was not the driving force disrupting existing markets, products, and models—rather, business models were.²² The root of the tension in disruptive innovation is the conflict between the previously established business model for the incumbent technology and the new business model that may be necessary for exploiting the disruptive technology or process.

The efforts of incumbents to capitalize on a disruptive technology will fail in most instances because commercializing the new technology will require a different business model from the one that the incumbents currently use. When disruption occurs, incumbents struggle to commercialize, whereas new entrants take control through their mastery of the requisite new business models. Thus, a disruptive business model can fundamentally

22. C. M. Christensen. *The Innovator's Dilemma*. (Boston: Harvard Business School Press, 1997), 13.

reshape profits within an industry because managers are faced with a technological disruption/innovation that alters their businesses, specifically their business models. This phenomenon is known as business model innovation.²³

Business model innovation, as defined by Professor Constantinos Markides of the London Business School, occurs when an existing business fundamentally changes their business model.²⁴ In order to be an innovation, the “new business model must enlarge the existing economic pie, either by attracting new customers or by encouraging existing consumers to consume more.” Disruptive innovations tend to require a business model that is not only different from but even in conflict with the traditional way of competing.²⁵ In contrast, radical innovations (see the preceding text) are new-to-the-world products that are disruptive to both consumers and producers.

In the context of disruptive innovation, business model innovation is distinct from open business model innovation, which leverages external ideas together with internal ones. We also can define a business model innovation as a reformulation of an existing product or service, including a shift in how it is provided to the end user. A business model innovation “leads to a new way of playing the game” and can consist of new performance attributes on price or distribution outlets.²⁶ Stitch Fix uses data to offer personal styling at scale and ships customized clothing boxes from its own in-house label and from 1,000 brands in its collection directly to customers who want to avoid the hassles of in-store shopping. Despite volatility from investors, which dropped its initial \$5.1 billion valuation at offering by two-thirds over three months, the company continues to reinvent the \$334 billion US apparel industry.²⁷

23. C. M. Christensen and M. Raynor. *The Innovator’s Solution*. Boston: Harvard Business School Press, 2003.

24. Constantinos Markides. “Disruptive Innovation: In Need of Better Theory.” *Journal of Product Innovation Management* 23 (2006): 19–25.

25. Constantinos Markides. “Disruptive Innovation: In Need of Better Theory.” *Journal of Product Innovation Management* 23 (2006): 19–25.

26. Constantinos D. Charitou and Constantinos C. Markides, “Responses to Disruptive Strategic Innovation.” *MIT Sloan Management Review*. January 15, 2003. <https://sloanreview.mit.edu/article/responses-to-disruptive-strategic-innovation/>

27. Lauren Smiley. “Stitch Fix’s radical data driven way to sell clothes- \$1.2 billion last year—is reinventing retail.” *Fast Company*. February 19, 2019. <https://www.fastcompany.com/90298900/stitch-fix-most-innovative-companies-2019>

VALUE PROPOSITION

ENTREPRENEURS PLAY A KEY ROLE IN DETERMINING THE VALUE OF THEIR PRODUCTS. OF COURSE, THERE ARE FINANCIAL MEASURES OF VALUE SUCH AS ECONOMIC PERFORMANCE, JOB CREATION, WEALTH, AND GROWTH MEASURES. BUT MORE OFTEN THAN NOT, VALUE CREATION AT THE OUTSET OF A NEW STARTUP VENTURE LIES OUTSIDE THESE FINANCIAL REALMS AND ADDRESSES INSTEAD INDIVIDUAL VALUE TO CUSTOMERS. THE VALUE PROPOSITION IN A BUSINESS MODEL, FOR EXAMPLE, IS A SUMMARY DESCRIBING THE BENEFITS (VALUE) CUSTOMERS CAN EXPECT FROM A PARTICULAR PRODUCT OR SERVICE. YOUR VALUE PROPOSITION DESCRIBES THE BENEFITS CUSTOMERS CAN EXPECT FROM YOUR PRODUCTS AND SERVICES.²⁸ THE VALUE PROPOSITION IS AN INTEGRAL PART OF THE BUSINESS MODEL CANVAS. ENTREPRENEUR IN ACTION

From Odeo to Twitter

Evan Williams and Biz Stone, both ex-Google employees, began a podcasting platform startup called Odeo around 2005. According to an early engineer in the company, Blaine Cooke, they built and tested Odeo but never used it. Shortly after co-founder Noah Glass created Odeo's podcasting platform, Apple announced plans to include a podcasting platform in all of its iPods. Faced with the reality that many of Odeo's fourteen employees weren't using the product they had built and the emergence of a giant competitor with a tremendous unfair advantage in Apple, Williams decided Odeo's future wouldn't be in podcasting.

The company held hackathons among employees and began searching for a pivot. One of those fourteen Odeo employees, Jack Dorsey, focused his efforts on the problem of status, the position of affairs at a particular time. In February 2006, Dorsey, Glass, and Florian Weber, a German contract developer, presented what they called Twitter, a system whereby a user could send a text message to a phone number, and it would be broadcast to the user's friends. A month later, Odeo had a working Twtr prototype, while obsessed employees were racking up hundreds of dollars in text messaging bills using the product. By the fall, Twitter (as it was now called) had thousands of users. Many began to see the product's utility after a San Francisco earthquake when it was heavily used to broadcast messages throughout the Bay Area.

Questions

- What type of innovation would you consider the original Odeo platform? Why?
- Why did Apple have an "unfair advantage" with its podcasting platform over competitors like Odeo?
- What value proposition did the early version of Twitter offer its users?

28. Alexander Osterwalder, Yves Pigneur, Gregory Bernarda, and Alan Smith. Value Proposition Design: How to Create Products and Services Customers Want. Hoboken, NJ: Wiley, 2015.

5.2 Designing the Business Model

Learning Objectives

By the end of this section, you will be able to:

- Define a business model and its purpose
- Describe a business model canvas
- Describe a lean model canvas
- Describe a social business model canvas

According to Alexander Osterwalder and Yves Pigneur, the authors of *Business Model Generation*, a business model “describes the rationale of how an organization creates, delivers and captures value.” Nevertheless, there is no single definition of this term, and usage varies widely.¹

In standard business usage, a business model is a plan for how venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture’s offerings are made and distributed to the end users; and the how income will be generated through this process. The business model refers more to the design of the business, whereas a business plan is a planning document used for operations.

Each business model is unique to the company it describes. A typical business model addresses the desirability, feasibility, and viability of a company, product, or service. At a bare minimum, a business model needs to address revenue streams (e.g., a revenue model), a value proposition, and customer segments. In non-jargon English, this means you want to address what your idea is, who will use it, why they will use it, and how you will make money off it.

A canvas is a display that would-be entrepreneurs commonly use to map out and plan different components of their business models. There are several different types of canvases, with the business model canvas and the lean canvas being the most commonly used. There are hard-copy canvases modeled after an art canvas as well as digital versions. The original physical canvases are meant to serve as visual tools, used with sticky notes and sketches.

As developed by Osterwalder and Pigneur, the business model canvas has nine components, as shown in Figure 5.6.

1. Alexander Osterwalder and Yves Pigneur. *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers*. Hoboken, NJ: Wiley, 2010.

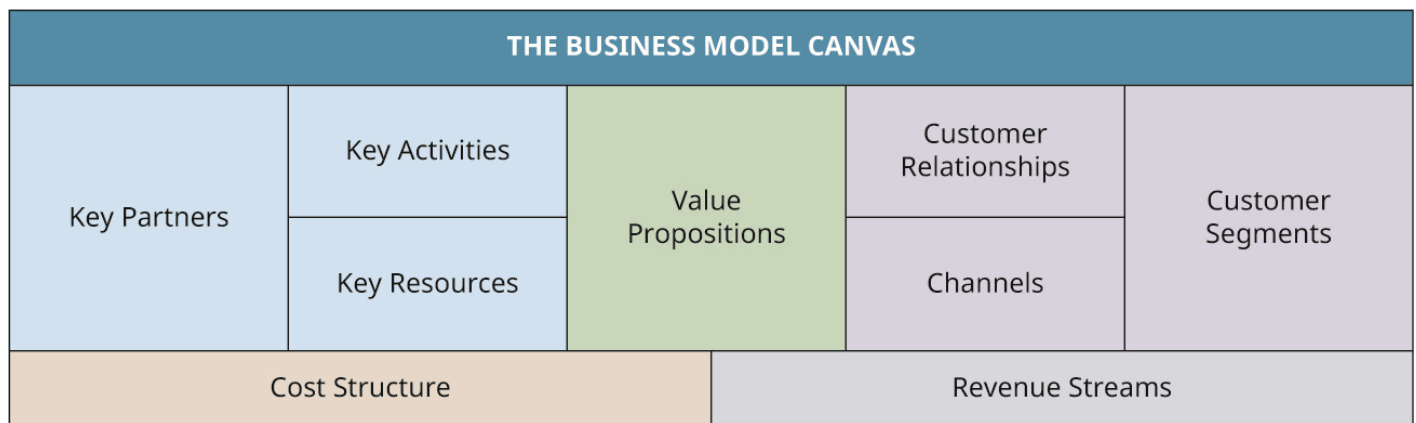


Figure 5.6 The business model canvas can be used to map or lay out the initial concept of your business. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Link to Learning

Visit this site to see examples of completed Business Model Canvases for a variety of industries for a deeper understanding of how the different categories are filled in.

Osterwalder and Pigneur wrote *Value Proposition Design* as a sequel to *Business Model Generation*. Their value proposition canvas is a plug-in that complements the business model canvas, going in depth on activities such as encouraging entrepreneurs to address and tackle customer pains, gains, and jobs-to-be-done trigger questions, and designing pain relievers and gains. The complementary and accompanying activities and resources can be useful for a deeper dive into and understanding of customer value creation in the form of value proposition, although there are other approaches to conceptualizing your value proposition. For Christensen, the originator of the disruptive innovation and jobs-to-be-done theories, a value proposition is a product that helps customers do a job they've been trying to do more effectively, conveniently, and affordably.

Finding the intersection of your customers' problems and your solutions is how you create a unique value proposition, according to the entrepreneur Ash Maurya, the author of *Scaling Lean* and *Running Lean*. In *Running Lean*, Maurya offers the following formula for creating an initial value proposition in the canvas, as shown in Figure 5.7.



Figure 5.7 Maurya's formula to determine value proposition considers customer needs and potential objections within a specific period of time. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.

Maurya deviated from the standard business model canvas to create the lean canvas. It overlaps the business model canvas in five of the nine components: customer segments, value proposition, revenue streams, channels, and cost structure (Figure 5.8). Rather than addressing key partners, key activities, and key resources, the lean canvas helps you tackle problems, solutions, and key metrics instead.

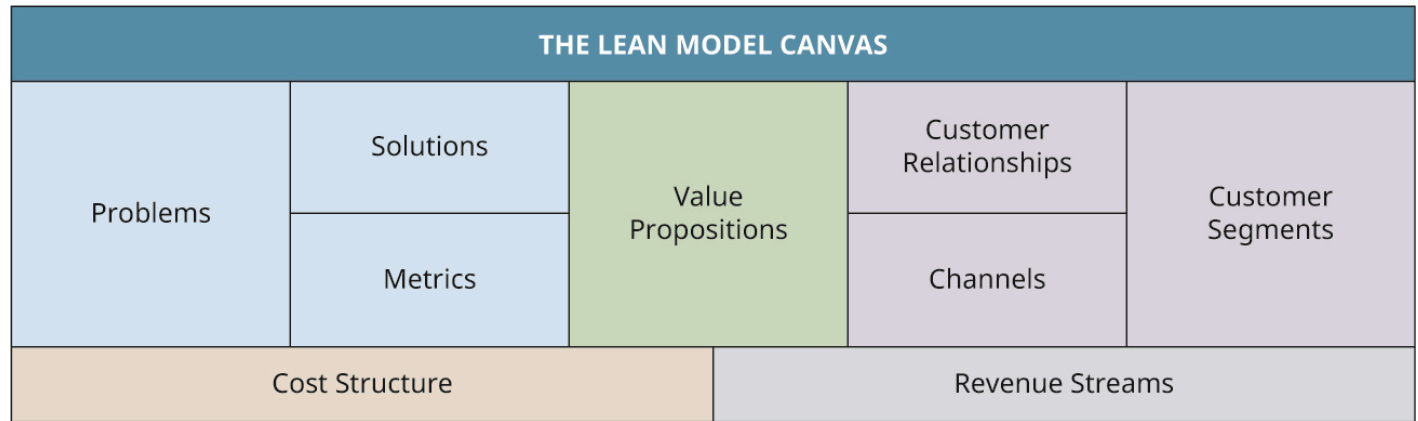


Figure 5.8 The lean model canvas is a modification of the Business Model Canvas. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license

Link to Learning

Visit this site to see examples of completed Lean Model Canvases from some major companies for a deeper understanding of how the canvas can be applied.

While the business model canvas and the lean canvas are similar in format, there are differences in how they are used. It is generally accepted that the lean canvas model is a better fit for startups, whereas the business model canvas works well for already established businesses. The lean canvas is simpler; the business model canvas provides a more complete picture of a mature business.

Watch this Railsware video that demonstrates how the lean canvas model might be applied to startups to learn more. In the case example in the video, the lean canvas model is applied to the successful P2P ride-sharing app Uber, as if it were a startup.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=178>

Both the business model canvas and the lean canvas are designed for constant iterations, allowing for multiple versions and changes throughout the entrepreneurial process. Part of that process involves customer discovery; thus, the canvases invoke customer-focused design. The target customer is integrated into the canvas from the start through the use of a customer empathy map and a number of design-thinking ideation activities.² The customer empathy map is a portrayal of a target customer—the most promising candidate from a business's customer segments—that explores the understanding of that person's problems and needs (Figure 5.9).

2. Charlene Perrin. "Create A Customer Empathy Map in 6 Easy Steps!" Conceptboard. March 28, 2019. <https://conceptboard.com/blog/create-a-customer-empathy-map-in-6-easy-steps/>

Osterwalder and Pigneur used a customer empathy map as part of the design ideation phase of developing a business model canvas. There are differing versions of customer empathy maps, but most seek to answer common questions pertaining to the customer, such as:

- With whom are we empathizing?
- What do they need to do?
- What do they see?
- What do they say?
- What do they do?
- What do they hear?
- What do they think?

Phillips, Proctor & Gamble, Microsoft, and Yeti are examples of well-known companies that make use of customer empathy mapping because, according to the journal *Entrepreneur*, every transaction can be turned into a meaningful and valuable customer interaction.³ Once a company analyzes the results of customer mapping exercises, it may very well lead to new products that serve customer needs and/or wants.

For example, Philips used empathy mapping to detect a high level of fear in young patients immediately before an MRI medical procedure, so it invented a miniature version of the CAT scan equipment used in the procedure called the “kitten scanner” along with toy animal characters that were used to dispel the fear of MRIs among children. Proctor & Gamble created a new advertisement that was released for the 2012 Olympics visualizing the trials and tribulations of mothers raising young athletes, demonstrating Proctor and Gamble’s awareness that some of its customers wanted or needed empathy for the sacrifices they had made to help their children succeed. Likewise, Microsoft has attempted to demonstrate empathy with customers’ privacy concerns by developing an interactive website that explains not only how data is stolen but also how we can better protect our own data.⁴

On their company website, the now-famous Yeti cooler company publicly extols the value of empathy mapping, explaining that it leads to better products. Yeti doesn’t just create one on its own, it actually asks its clients to work with the company to create an empathy map.⁵ Thus, empathy mapping for Yeti is part of its product development process.

Customer empathy maps also strive to address customer pains (in this case, fears, frustrations, and anxieties) and gains (wants, needs, hopes, and dreams).⁶

3. Vineet Arya. “How to Infuse Empathy in Your Marketing?” *Entrepreneur*. June 28, 2019. <https://www.entrepreneur.com/article/335987>

4. Vineet Arya. “How to Infuse Empathy in Your Marketing?” *Entrepreneur*. June 28, 2019. <https://www.entrepreneur.com/article/335987>

5. Mike Godlewski. “The Secret to Knowing What a Client Is Thinking? Empathy Maps.” Yeti. February 8, 2016. <https://yeti.co/blog/the-secret-to-knowing-what-your-client-is-thinking-empathy-maps/>

6. Germán Coppola. “What Is an Empathy Map, and Why Is It Valuable for Your Business?” *Medium*. November 28, 2017. <https://medium.com/swlh/what-is-an-empathy-map-and-why-is-it-valuable-for-your-business-14236be4fdf4>

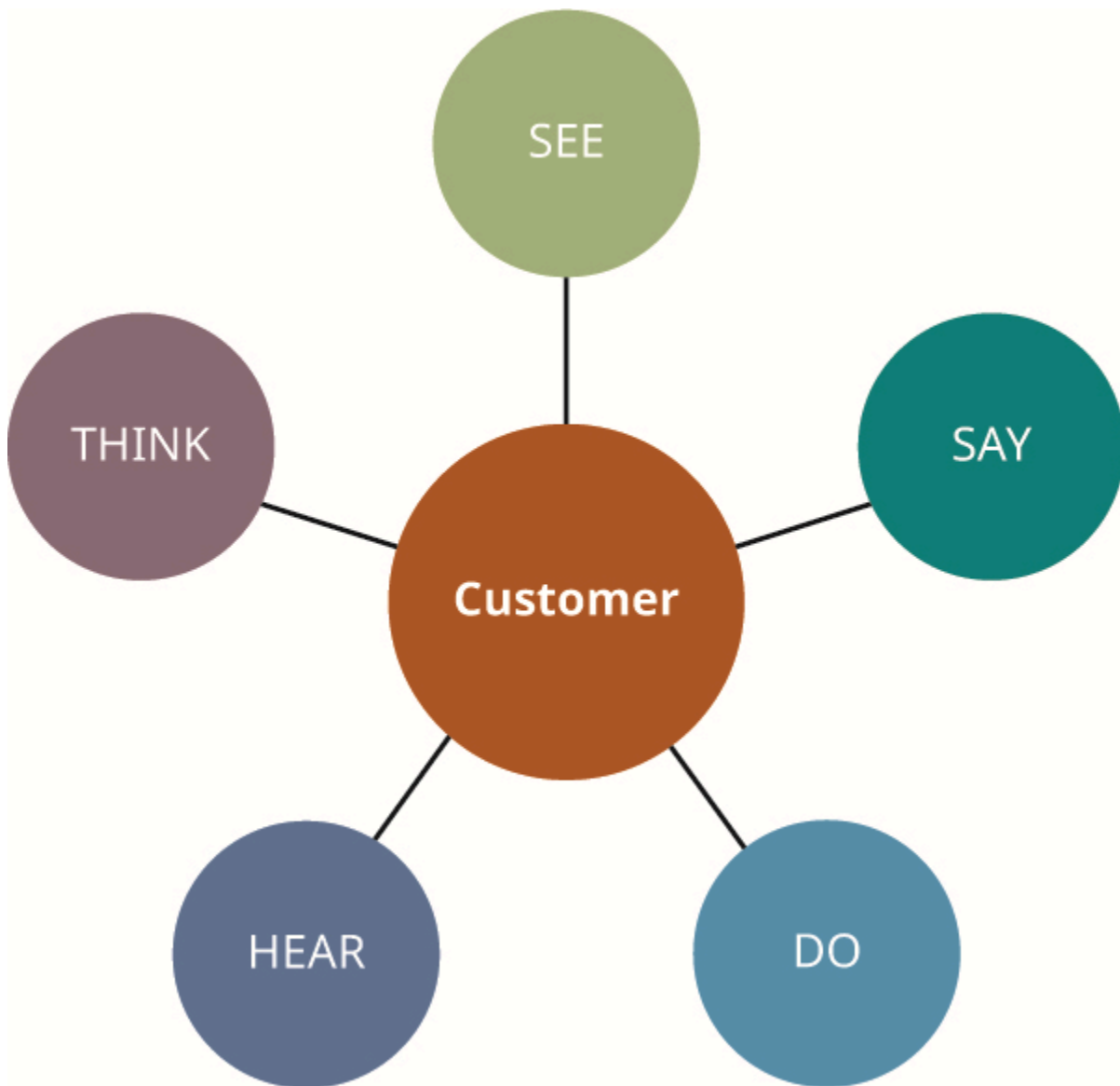


Figure 5.9 An empathy map portrays the target customer in order to understand the market needs. Credit: Copyright Rice University, OpenStax, under CC BY 4.0 license

Strategyzer offers six videos outlining the business model canvas that total about 12 minutes; specifically they cover the prototyping journey from ideation to visualization of conceptualization.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=178#oembed-1>

BUSINESS MODEL CANVAS⁷

As Osterwalder and Pigneur describe it, according to Media Innovation and Entrepreneurship, their business model canvas blocks include revenue streams, customer segments, value propositions, cost structures, channels, key activities, key partners, key resources, and customer relationships.

Early on, your greatest focus should be on the right side of the canvas because:

- These are, in many ways, the most critical aspects of starting a new venture (customer segments, value propositions, channels, and revenue streams).
- The most fluid (revenue streams, channels, and value propositions will likely differ for the differing customer segments and, as you iterate and adapt throughout the customer discovery process, could likely change).
- These follow a logical temporal order (there's no need to focus on the costs of building a company if you won't have customers).

In a follow-up to business model generation, the Strategyzer team created a second canvas, the value proposition canvas. The value proposition canvas is a new tool that pulls out the customer segment and value proposition blocks of the business model canvas, and encourages more in-depth exploration of those blocks to achieve a good fit between the two. The value proposition canvas tool looks at customer pains, gains and jobs to be done on the customer side and painkillers, gain creators, and products and services on the value proposition side.⁸

Link to Learning

Read this blog that provides a walk-through of how to fill in a value proposition canvas to learn more.

When you peel away the language used to describe business models, the early startup planning stages come down to a series of questions. When it comes to formulating a business model for a startup concept, another popular framework used in entrepreneurial circles is that of desirability-feasibility-viability (Figure 5.10). This framework forces the entrepreneur to address broad questions about the startup concept:

- Desirability: How desirable is the product? Who will use it and why?
- Feasibility: How feasible is this idea? What are the costs of making it? How practical is the concept?
- Viability: Will this idea remain viable? How will it make money? How will it be sustained over time?

These questions then begin to connect to form a narrative about where the startup concept came from, whom it serves, why it's needed, how it will make money, and how it will be sustained in the future.

7. This material is based on original work by Geoffrey Graybeal and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

8. Michelle Ferrier and Elizabeth Mays. Media Innovation and Entrepreneurship. The Rebus Foundation, 2017. <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

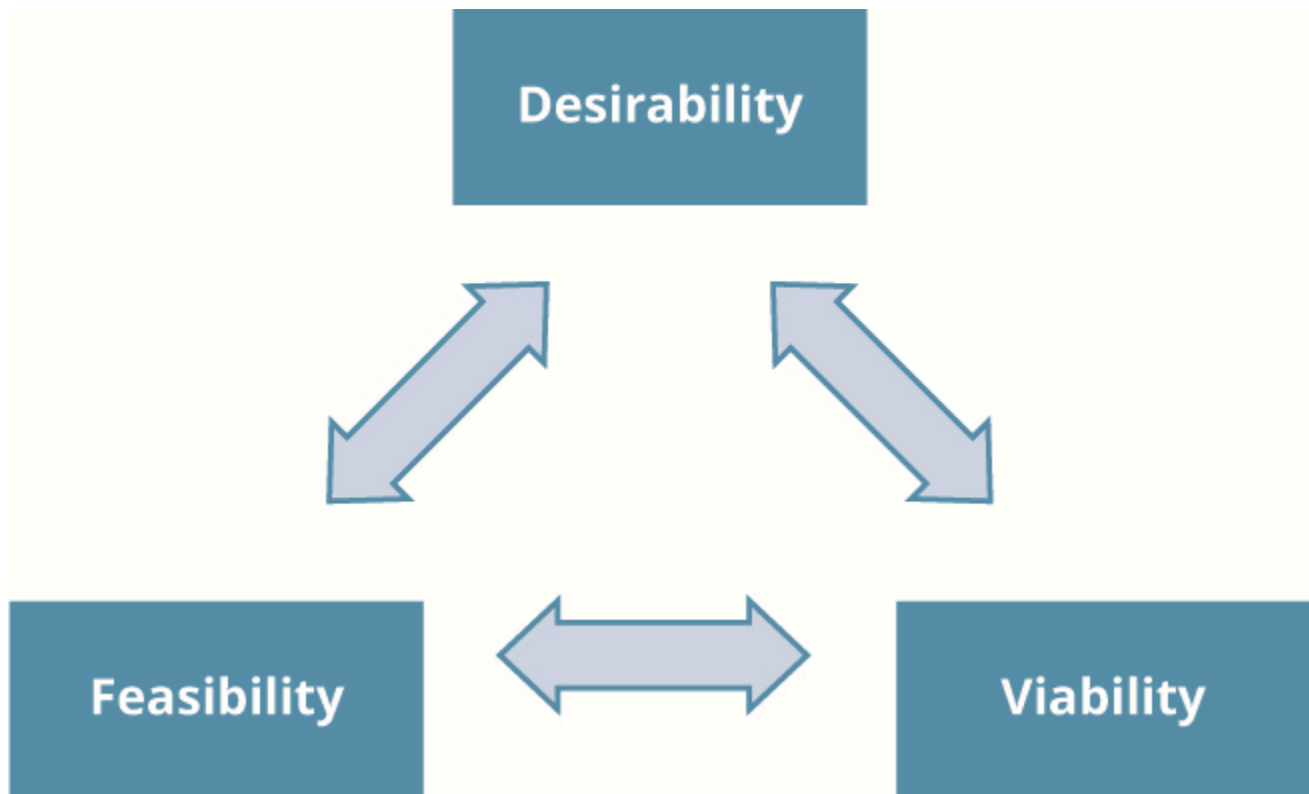


Figure 5.10 The framework of desirability, feasibility, and viability form a story about a company's startup. Credit: Copyright Rice University, OpenStax, under CC BY 4.0 license

The value propositions, customer relationships, customer segments, and channels address the assumptions that will create customer value (desirability). The cost structure and revenue stream blocks are aimed at viability, or overcoming flawed business models. The key partners, key activities, and key resources are about execution and address feasibility. The risk of poor execution can undermine your assumptions that you chose the right infrastructure to execute your business model (feasibility). The risk of solving an irrelevant customer job (sometimes derisively labeled “a solution in search of a problem”) undercuts desirability in your business. The risk of a flawed business model would hamper the financial assumption that your business will earn more money than you spend (viability). Adaptability is about the assumption that you chose the right business model within the context of external factors such as technology change, competition, and regulation.

The business model canvas is not an exhaustive planning tool by any means.^{9, 10} The risk of such external threats is not specifically addressed on the canvas blocks. The external threats not specifically covered by the canvas blocks can be designed for adaptability, that is, the business model canvas is a necessary but insufficient component of determining the viability of the business idea/concept. There are many elements not included in the canvas that entrepreneurs must address. Industry analysis, including a competitive analysis, for example, falls “off canvas” but is important nonetheless.

9. Jennifer van der Meer. "Do You Suffer from Value Proposition Confusion?" LinkedIn. October 19, 2016.

<https://www.linkedin.com/pulse/do-you-suffer-from-value-proposition-confusion-jennifer-van-der-meer/>

10. "The Value Proposition Canvas." Strategyzer. n.d. <https://strategyzer.com/canvas/value-proposition-canvas>

THE LEAN MODEL CANVAS

The lean model canvas is Ash Maurya's adaptation of the original business model canvas. As we noted earlier, gone are the customer relationships, key activities, key partners, and key resources blocks. Instead, a problem block is added, because as Maurya explains, "Most startups fail, not because they fail to build what they set out to build, but because they waste time, money and effort building the wrong product. I attribute a significant contributor to this failure to a lack of proper 'problem understanding' from the start." Maurya next added a solution block to the lean model canvas, which corresponds well with features on a minimum viable product (MVP), which you will recall was covered in depth in *Launch for Growth to Success*. The lean model canvas also adds an "Unfair Advantage" block, similar to the block for competitive advantages or barriers to entry found in a business plan.¹¹

SOCIAL BUSINESS MODEL CANVAS

As you've noticed by now, the core canvas components are common throughout the various versions. Many of the blocks of the social business model canvas are similar to those used in the business model canvas and the lean model canvas.¹² A few differences, as developed by Tandemic, focus on areas unique to social entrepreneurship ventures. For example, the new areas added include measures of what kind of social impact you are creating or developing, measures of surplus to address what happens with profits and where you intend to reinvest them, and measures of beneficiary segments, and social and customer value propositions.¹³ These could be measures such as the number of trees planted, number of refugees housed and fed, jobs created, or investments made—depending on the venture. Social impact looks at an organization's social mission beyond the bottom line. Measurement can differ among social entrepreneurs, but in terms of the canvas, impact measures are an effort to establish quantifiable metrics.

Social impact can be hard to measure, but nonetheless, many social entrepreneurs aim for long-lasting impact.¹⁴ A 2014 report by the think tank, consultancy, and member network SustainAbility lists cooperative ownership, inclusive sourcing, and the "buy one, give one" model as three forms of social impact.¹⁵ In addition to the Tandemic social business model canvas, there are other versions of similar canvases used for social entrepreneurship. For instance, Osterwalder adapted the business model canvas for mission-driven organizations into a mission model canvas.¹⁶ There's also a social lean canvas that adds purpose (explaining your reason for creating the venture in terms of social or environmental problems) and impact sections (describing the intended social or environmental impact).¹⁷

[Link to Learning](#)

11. Ash Maurya. "Why Lean Canvas vs Business Model Canvas?" Medium. February 27, 2012. <https://blog.leanstack.com/why-lean-canvas-vs-business-model-canvas-af62c0f250f0>
12. "Social Business Model Canvas." Business Model Toolbox. 2013. <https://bmtoolbox.net/tools/social-business-model-canvas/>
13. "The Business Model Canvas Reinvented for Social Business." Tandemic. n.d. <http://www.socialbusinessmodelcanvas.com>
14. Ayse Guclu, J. Gregory Dees, and Beth Battle Anderson. "The Process of Social Entrepreneurship: Creating Opportunities Worthy of Serious Pursuit." Duke/Fuqua case. 2002. https://centers.fuqua.duke.edu/case/knowledge_items/the-process-of-social-entrepreneurship-creating-opportunities-worthy-of-serious-pursuit/
15. Lindsay Clinton and Ryan Whisnant. "Model Behavior: 20 Business Model Innovations for Sustainability." SustainAbility. February 2014. https://sustainability.com/wp-content/uploads/2016/07/model_behavior_20_business_model_innovations_for_sustainability.pdf
16. Alexander Osterwalder. "The Mission Model Canvas: An Adapted Business Model Canvas for Mission-Driven Organizations." Strategyzer. February 25, 2016. <https://blog.strategyzer.com/posts/2016/2/24/the-mission-model-canvas-an-adapted-business-model-canvas-for-mission-driven-organizations>
17. Social Lean Canvas. n.d. <https://socialleancanvas.com/>

This completed social business model canvas for the popular peer-to-peer lending platform Kiva illustrates how the business model canvas can and perhaps should be adapted for social entrepreneurship ventures.

TOMS SHOES

Toms Shoes is perhaps one of the best-known companies for adopting a social entrepreneurship purpose into its business model. Part of its early success hinged on the fact that for every pair of shoes a customer bought, the company donated a pair of shoes to someone in need. The company won a prize in 2006 for its innovative solution to poverty. This “1-for-1 business model,” sometimes commonly called the “Toms model” after the shoe company that popularized it, gained traction among other companies that followed suit in similar fashion, seeing both the social and the financial successes in the Toms model. Warby Parker is another example of a company that does essentially the same: A customer purchases a pair of eyeglasses, and the company donates a pair (although Warby Parker pays a third party to procure the glasses, as eyeglasses require an individual prescription, whereas shoes do not).

Question

Can you think of an innovative social entrepreneurship business model?

THE BIRTHDAY PARTY PROJECT



Figure 5.11 The Birthday Party Project helps provide celebrations to honor the birthdays of homeless children. (credit: modification of "children's birthday table" by "Efraimstochter"/Pixabay, CC0)

Paige Chenault wanted homeless children in Dallas to feel special on their birthdays. Many have never experienced a birthday party. So this professional event planner sprang into action in January 2012. She launched the Birthday Party Project, a nonprofit group whose mission is to celebrate the lives of homeless children (ages one to twenty-two). The group organizes monthly birthday parties with partner shelters. Since its inception, the concept has spread beyond Texas to cities across the United States, including Atlanta, Chicago, Los Angeles, New York, and San Francisco. In six years, the Birthday Party Project has celebrated 4,800 birthdays with 30,000 kids in attendance, eaten 40,000 cupcakes, cracked 30,000 glow sticks, and performed 1,100 renditions of "Happy Birthday."

Question

Identify a need in your community that could become a social entrepreneurship business, as Paige discovered with an initial passion project.

CREDIT

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5.3 Conducting a Feasibility Analysis

Learning Objectives

By the end of this section, you will be able to:

- Describe the purpose of a feasibility analysis
- Describe and develop the parts of a feasibility analysis
- Understand how to apply feasibility outcomes to a new venture

As the name suggests, a feasibility analysis is designed to assess whether your entrepreneurial endeavor is, in fact, feasible or possible. By evaluating your management team, assessing the market for your concept, estimating financial viability, and identifying potential pitfalls, you can make an informed choice about the achievability of your entrepreneurial endeavor. A feasibility analysis is largely numbers driven and can be far more in depth than a business plan. It ultimately tests the viability of an idea, a project, or a new business. A feasibility study may become the basis for the business plan, which outlines the action steps necessary to take a proposal from ideation to realization. A feasibility study allows a business to address where and how it will operate, its competition, possible hurdles, and the funding needed to begin. The business plan then provides a framework that sets out a map for following through and executing on the entrepreneurial vision.

ORGANIZATIONAL FEASIBILITY ANALYSIS

Organizational feasibility aims to assess the prowess of management and sufficiency of resources to bring a product or idea to market Figure 5.12. The company should evaluate the ability of its management team on areas of interest and execution. Typical measures of management prowess include assessing the founders' passion for the business idea along with industry expertise, educational background, and professional experience. Founders should be honest in their self-assessment of ranking these areas.



Figure 5.12 An analysis of organizational feasibility focuses on resource needs and management capabilities. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Resource sufficiency pertains to nonfinancial resources that the venture will need to move forward successfully and aims to assess whether an entrepreneur has a sufficient amount of such resources. The organization should critically rank its abilities in six to twelve types of such critical nonfinancial resources, such as availability of office space, quality of the labor pool, possibility of obtaining intellectual property protections (if applicable), willingness of high-quality employees to join the company, and likelihood of forming favorable strategic partnerships. If the analysis reveals that critical resources are lacking, the venture may not be possible as currently planned.¹

FINANCIAL FEASIBILITY ANALYSIS

A financial analysis seeks to project revenue and expenses (forecasts come later in the full business plan); project a financial narrative; and estimate project costs, valuations, and cash flow projections Figure 5.13.

1. Ulrich Kaiser. "A primer in Entrepreneurship – Chapter 3 Feasibility analysis" University of Zurich Institute for Strategy and Business Economics. n.d. <https://docplayer.net/7775267-A-primer-in-entrepreneurship-chapter-3-feasibility-analysis.html>

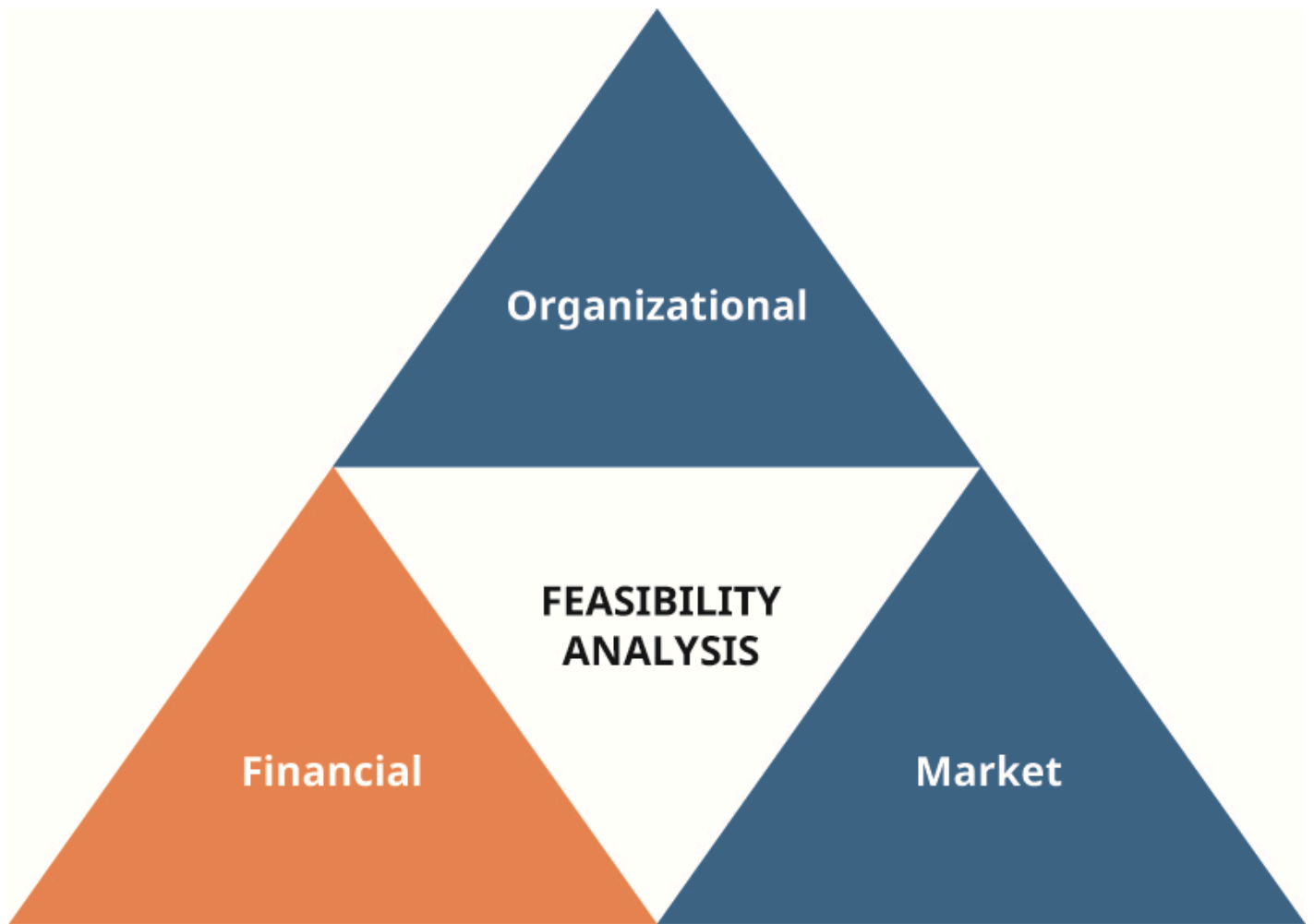


Figure 5.13 An analysis of financial feasibility focuses on expenses, cash flow, and projected revenue. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The financial analysis may typically include these items:

- A twelve-month profit and loss projection
- A three- or four-year profit-and-loss projection
- A cash-flow projection
- A projected balance sheet
- A breakeven calculation

The financial analysis should estimate the sales or revenue that you expect the business to generate. A number of different formulas and methods are available for calculating sales estimates. You can use industry or association data to estimate the sales of your potential new business. You can search for similar businesses in similar locations to gauge how your business might perform compared with similar performances by competitors. One commonly used equation for a sales model multiplies the number of target customers by the average revenue per customer to establish a sales projection:

$$T \times A = S$$

$$\text{Target(ed) Customers / Users} \times \text{Average Revenue per Customer} = \text{Sales Projection}$$

Another critical part of planning for new business owners is to understand the breakeven point, which is the level of operations that results in exactly enough revenue to cover costs (see Entrepreneurial Finance and Accounting for an in-depth discussion on calculating breakeven points and the breakdown of cost types). It yields neither a profit nor a loss. To calculate the breakeven point, you must first understand the two types of costs: fixed and variable. Fixed costs are expenses that do not vary based on the amount of sales. Rent is one example, but most of a business's other costs operate in this manner as well. While some costs vary from month to month, costs are described as variable only if they will increase if the company sells even one more item. Costs such as insurance, wages, and office supplies are typically considered fixed costs. Variable costs fluctuate with the level of sales revenue and include items such as raw materials, purchases to be sold, and direct labor. With this information, you can calculate your breakeven point—the sales level at which your business has neither a profit nor a loss.² Projections should be more than just numbers: include an explanation of the underlying assumptions used to estimate the venture's income and expenses.

Projected cash flow outlines preliminary expenses, operating expenses, and reserves—in essence, how much you need before starting your company. You want to determine when you expect to receive cash and when you have to write a check for expenses. Your cash flow is designed to show if your working capital is adequate. A balance sheet shows assets and liabilities, necessary for reporting and financial management. When liabilities are subtracted from assets, the remainder is owners' equity.

MARKET FEASIBILITY ANALYSIS

A market analysis enables you to define competitors and quantify target customers and/or users in the market within your chosen industry by analyzing the overall interest in the product or service within the industry by its target market Figure 5.14. You can define a market in terms of size, structure, growth prospects, trends, and sales potential. This information allows you to better position your company in competing for market share. After you've determined the overall size of the market, you can define your target market, which leads to a total available market (TAM), that is, the number of potential users within your business's sphere of influence. This market can be segmented by geography, customer attributes, or product-oriented segments. From the TAM, you can further distill the portion of that target market that will be attracted to your business. This market segment is known as a serviceable available market (SAM).

2. In a preliminary financial model and business plan, startup costs should be allocated, as they are intended for one-time investments in development; pre-launch costs and other necessary expenses will not carry over once the product/solution has launched.

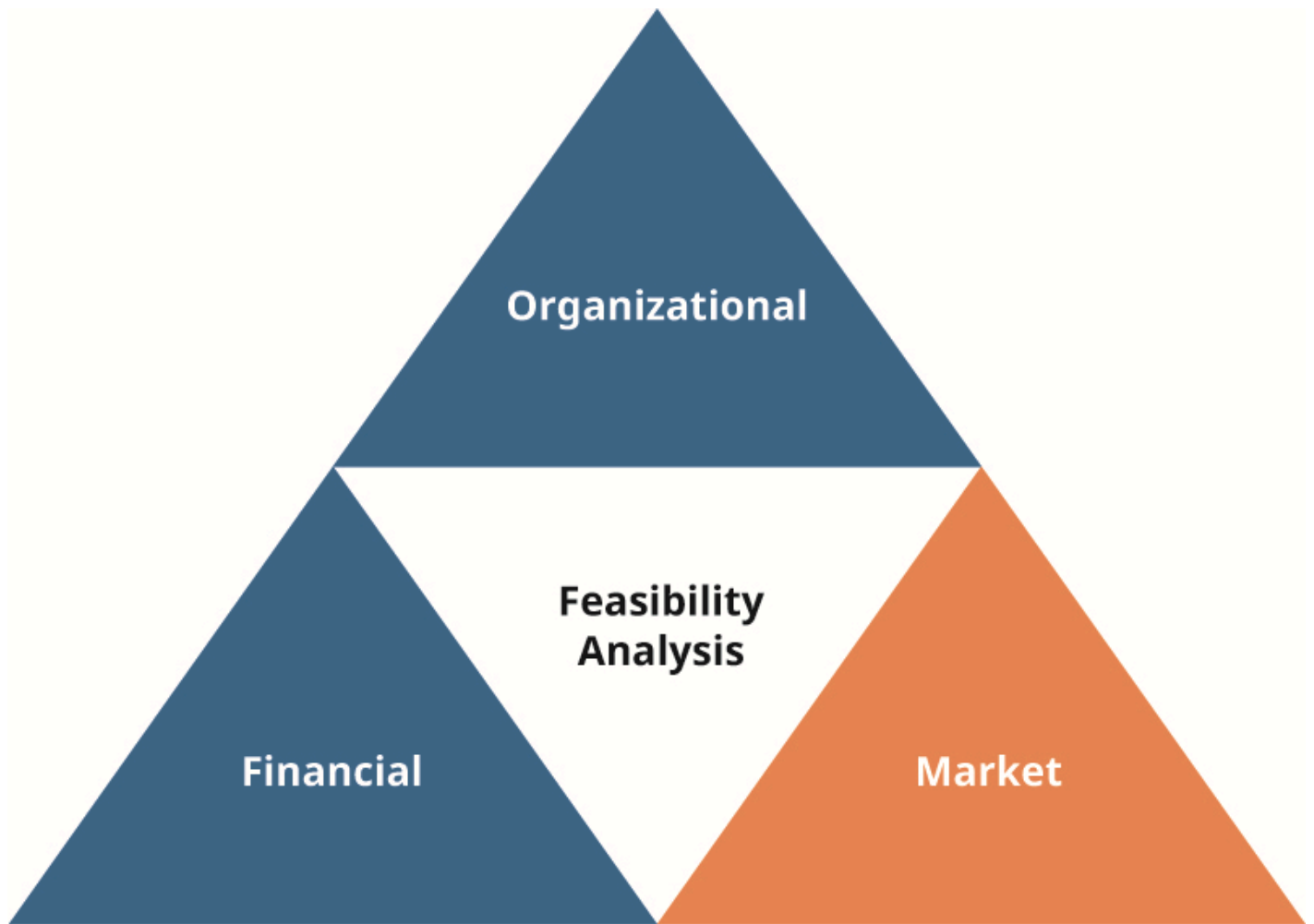


Figure 5.14 An analysis of market feasibility examines the overall market and focuses on the anticipated share of the target market. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Projecting market share can be a subjective estimate, based not only on an analysis of the market but also on pricing, promotional, and distribution strategies. As is the case for revenue, you will have a number of different forecasts and tools available at your disposal. Other items you may include in a market analysis are a complete competitive review, historical market performance, changes to supply and demand, and projected growth in demand over time.

Exercise – Market Feasibility Analysis

You've been hired by a leading hotel chain to determine the market and financial potential for the development of a mixed-use property that will include a full-service hotel in downtown Orlando, located at 425 East Central Boulevard, in Orlando, Florida. The specific address is important so you can pinpoint existing competitors and overall suitability of the site. Using the information given, conduct a market analysis that can be part of a larger feasibility study.



Figure 5.15 If you wanted to open a business in downtown Atlanta, you would need to research the feasibility of operating a location there. (credit: "Atlanta, Georgia, downtown skyline, dusk" by "tableatny"/Flickr, CC BY 2.0)

Exercise – Location Feasibility

You're considering opening a boutique clothing store in downtown Atlanta. You've read news reports about how downtown Atlanta and the city itself are growing and undergoing changes from previous decades. With new development taking place there, you're not sure whether such a venture is viable. Outline what steps you would need to take to conduct a feasibility study to determine whether downtown Atlanta is the right location for your planned clothing store.

APPLYING FEASIBILITY OUTCOMES

After conducting a feasibility analysis, you must determine whether to proceed with the venture. One technique that is commonly used in project management is known as a go-or-no-go decision. This tool allows a team to decide if criteria have been met to move forward on a project. Criteria on which to base a decision are established and tracked over time. You can develop criteria for each section of the feasibility analysis to determine whether to proceed and evaluate those criteria as either "go" or "no go," using that assessment to make a final determination of the overall concept feasibility. Determine whether you are comfortable proceeding with the present management team, whether you can "go" forward with existing nonfinancial resources, whether the projected financial outlook is worth proceeding, and make a determination on the market and industry. If satisfied that enough "go" criteria are met, you would likely then proceed to developing your strategy in the form of a business plan.

LOVE BEYOND WALLS

When Terence Lester saw a homeless man living behind an abandoned, dilapidated building, he asked the man if he could take him to a shelter. The man scoffed, replying that Lester should sleep in a shelter. So he did—and he saw the problem through the homeless man’s perspective. The shelter was crowded and smelly. You couldn’t get much sleep, because others would try to steal your meager belongings. The dilapidated building provided isolation away from others, but quiet and security in its own way that the shelter could not. This experience led Lester to voluntarily live as a homeless person for a few weeks. His journey led him to create Love Beyond Walls, an organization that aids the homeless, among other causes. Lester didn’t conduct a formal feasibility study, but he did so informally by walking in his intended customers’ shoes—literally. A feasibility study of homelessness in a particular area could yield surprising findings that might lead to social entrepreneurial pursuits.

Question

- What is a social cause you think could benefit from a formal feasibility study around a potential entrepreneurial solution?

5.4 The Business Plan

Learning Objectives

By the end of this section, you will be able to:

- Describe the different purposes of a business plan
- Describe and develop the components of a brief business plan
- Describe and develop the components of a full business plan

Unlike the brief or lean formats introduced so far, the business plan is a formal document used for the long-range planning of a company's operation. It typically includes background information, financial information, and a summary of the business. Investors nearly always request a formal business plan because it is an integral part of their evaluation of whether to invest in a company. Although nothing in business is permanent, a business plan typically has components that are more “set in stone” than a business model canvas, which is more commonly used as a first step in the planning process and throughout the early stages of a nascent business. A business plan is likely to describe the business and industry, market strategies, sales potential, and competitive analysis, as well as the company's long-term goals and objectives. An in-depth formal business plan would follow at later stages after various iterations to business model canvases. The business plan usually projects financial data over a three-year period and is typically required by banks or other investors to secure funding. The business plan is a roadmap for the company to follow over multiple years.

Some entrepreneurs prefer to use the canvas process instead of the business plan, whereas others use a shorter version of the business plan, submitting it to investors after several iterations. There are also entrepreneurs who use the business plan earlier in the entrepreneurial process, either preceding or concurrently with a canvas. For instance, Chris Guillebeau has a one-page business plan template in his book *The \$100 Startup*.¹ His version is basically an extension of a napkin sketch without the detail of a full business plan. As you progress, you can also consider a brief business plan (about two pages)—if you want to support a rapid business launch—and/or a standard business plan.

As with many aspects of entrepreneurship, there are no clear hard and fast rules to achieving entrepreneurial success. You may encounter different people who want different things (canvas, summary, full business plan), and you also have flexibility in following whatever tool works best for you. Like the canvas, the various versions of the business plan are tools that will aid you in your entrepreneurial endeavor.

1. Chris Guillebeau. *The \$100 Startup: Reinvent the Way You Make a Living, Do What You Love, and Create a New Future*. New York: Crown Business/Random House, 2012.

BUSINESS PLAN OVERVIEW

Most business plans have several distinct sections (Figure 5.16). The business plan can range from a few pages to twenty-five pages or more, depending on the purpose and the intended audience. For our discussion, we'll describe a brief business plan and a standard business plan. If you are able to successfully design a business model canvas, then you will have the structure for developing a clear business plan that you can submit for financial consideration.

BUSINESS PLAN	
✓	Executive Summary
✓	Business Description
✓	Market Strategies
✓	Marketing Plan
✓	Competitive Analysis
✓	Operations and Management Plan
✓	Financial Analysis
✓	Design and Development Plan

Figure 5.16 Most business plans include the same important sections. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Both types of business plans aim at providing a picture and roadmap to follow from conception to creation. If you opt for the brief business plan, you will focus primarily on articulating a big-picture overview of your business concept.

The full business plan is aimed at executing the vision concept, dealing with the proverbial devil in the details. Developing a full business plan will assist those of you who need a more detailed and structured roadmap, or those of you with little to no background in business. The business planning process includes the business model, a feasibility analysis, and a full business plan, which we will discuss later in this section. Next, we explore how a business plan can meet several different needs.

PURPOSES OF A BUSINESS PLAN

A business plan can serve many different purposes—some internal, others external. As we discussed previously, you can use a business plan as an internal early planning device, an extension of a napkin sketch, and as a follow-up to one of the canvas tools. A business plan can be an organizational roadmap, that is, an internal planning

tool and working plan that you can apply to your business in order to reach your desired goals over the course of several years. The business plan should be written by the owners of the venture, since it forces a firsthand examination of the business operations and allows them to focus on areas that need improvement.

Refer to the business venture throughout the document. Generally speaking, a business plan should not be written in the first person.

A major external purpose for the business plan is as an investment tool that outlines financial projections, becoming a document designed to attract investors. In many instances, a business plan can complement a formal investor's pitch. In this context, the business plan is a presentation plan, intended for an outside audience that may or may not be familiar with your industry, your business, and your competitors.

You can also use your business plan as a contingency plan by outlining some "what-if" scenarios and exploring how you might respond if these scenarios unfold. Pretty Young Professional launched in November 2010 as an online resource to guide an emerging generation of female leaders. The site focused on recent female college graduates and current students searching for professional roles and those in their first professional roles. It was founded by four friends who were coworkers at the global consultancy firm McKinsey. But after positions and equity were decided among them, fundamental differences of opinion about the direction of the business emerged between two factions, according to the cofounder and former CEO Kathryn Minshew. "I think, naively, we assumed that if we kicked the can down the road on some of those things, we'd be able to sort them out," Minshew said. Minshew went on to found a different professional site, The Muse, and took much of the editorial team of Pretty Young Professional with her.²

Whereas greater planning potentially could have prevented the early demise of Pretty Young Professional, a change in planning led to overnight success for Joshua Esnard and The Cut Buddy team. Esnard invented and patented the plastic hair template that he was selling online out of his Fort Lauderdale garage while working a full-time job at Broward College and running a side business. Esnard had hundreds of boxes of Cut Buddies sitting in his home when he changed his marketing plan to enlist companies specializing in making videos go viral. It worked so well that a promotional video for the product garnered 8 million views in hours. The Cut Buddy sold over 4,000 products in a few hours when Esnard only had hundreds remaining. Demand greatly exceeded his supply, so Esnard had to scramble to increase manufacturing and offered customers two-for-one deals to make up for delays. This led to selling 55,000 units, generating \$700,000 in sales in 2017.³ After appearing on Shark Tank and landing a deal with Daymond John that gave the "shark" a 20-percent equity stake in return for \$300,000, The Cut Buddy has added new distribution channels to include retail sales along with online commerce. Changing one aspect of a business plan—the marketing plan—yielded success for The Cut Buddy.

Watch this video of Cut Buddy's founder, Joshua Esnard, telling his company's story to learn more.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=191#oembed-1>

2. Jonathan Chan. "What These 4 Startup Case Studies Can Teach You about Failure." Foundr.com. July 12, 2015. <https://foundr.com/4-startup-case-studies-failure/>
3. Amy Feldman. "Inventor of the Cut Buddy Paid YouTubers to Spark Sales. He Wasn't Ready for a Video to Go Viral." Forbes. February 15, 2017. <https://www.forbes.com/sites/forbestreptalks/2017/02/15/inventor-of-the-cut-buddy-paid-youtubers-to-spark-sales-he-wasnt-ready-for-a-video-to-go-viral/#3eb540ce798a>

If you opt for the brief business plan, you will focus primarily on articulating a big-picture overview of your business concept. This version is used to interest potential investors, employees, and other stakeholders, and will include a financial summary “box,” but it must have a disclaimer, and the founder/entrepreneur may need to have the people who receive it sign a nondisclosure agreement (NDA). The full business plan is aimed at executing the vision concept, providing supporting details, and would be required by financial institutions and others as they formally become stakeholders in the venture. Both are aimed at providing a picture and road map to go from conception to creation.

TYPES OF BUSINESS PLANS

The brief business plan is similar to an extended executive summary from the full business plan. This concise document provides a broad overview of your entrepreneurial concept, your team members, how and why you will execute on your plans, and why you are the ones to do so. You can think of a brief business plan as a scene setter or—since we began this chapter with a film reference—as a trailer to the full movie. The brief business plan is the commercial equivalent to a trailer for *Field of Dreams*, whereas the full plan is the full-length movie equivalent.

Brief Business Plan or Executive Summary

As the name implies, the brief business plan or executive summary summarizes key elements of the entire business plan, such as the business concept, financial features, and current business position. The executive summary version of the business plan is your opportunity to broadly articulate the overall concept and vision of the company for yourself, for prospective investors, and for current and future employees.

A typical executive summary is generally no longer than a page, but because the brief business plan is essentially an extended executive summary, the executive summary section is vital. This is the “ask” to an investor. You should begin by clearly stating what you are asking for in the summary.

In the business concept phase, you’ll describe the business, its product, and its markets. Describe the customer segment it serves and why your company will hold a competitive advantage. This section may align roughly with the customer segments and value-proposition segments of a canvas.

Next, highlight the important financial features, including sales, profits, cash flows, and return on investment. Like the financial portion of a feasibility analysis, the financial analysis component of a business plan may typically include items like a twelve-month profit and loss projection, a three- or four-year profit and loss projection, a cash-flow projection, a projected balance sheet, and a breakeven calculation. You can explore a feasibility study and financial projections in more depth in the formal business plan. Here, you want to focus on the big picture of your numbers and what they mean.

The current business position section can furnish relevant information about you and your team members and the company at large. This is your opportunity to tell the story of how you formed the company, to describe its legal status (form of operation), and to list the principal players. In one part of the extended executive summary, you can cover your reasons for starting the business: Here is an opportunity to clearly define the needs you think you can meet and perhaps get into the pains and gains of customers. You also can provide a summary of the overall strategic direction in which you intend to take the company. Describe the company’s mission, vision, goals and objectives, overall business model, and value proposition.

Rice University's Student Business Plan Competition, one of the largest and overall best-regarded graduate school business-plan competitions (see Telling Your Entrepreneurial Story and Pitching the Idea), requires an executive summary of up to five pages to apply.^{4,5} Its suggested sections are shown in Table 5.2.

Table 5.2 Suggested Executive Summary Components for Rice University Business Plan Competition⁶

Section	Description
Company summary	Brief overview (one to two paragraphs) of the problem, solution, and potential customers
Customer analysis	Description of potential customers and evidence they would purchase product
Market analysis	Size of market, target market, and share of market
Product or service	Current state of product in development and evidence it is feasible
Intellectual property	If applicable, information on patents, licenses, or other IP items
Competitive differentiation	Describe the competition and your competitive advantage
Company founders, management team, and/or advisor	Bios of key people showcasing their expertise and relevant experience
Financials	Projections of revenue, profit, and cash flow for three to five years
Amount of investment	Funding request and how funds will be used

Exercise – Create a Brief Business Plan

Fill out a canvas of your choosing for a well-known startup: Uber, Netflix, Dropbox, Etsy, Airbnb, Bird/Lime, Warby Parker, or any of the companies featured throughout this chapter or one of your choice. Then create a brief business plan for that business.

See if you can find a version of the company's actual executive summary, business plan, or canvas. Compare and contrast your vision with what the company has articulated.

- These companies are well established but is there a component of what you charted that you would advise the company to change to ensure future viability?
- Map out a contingency plan for a “what-if” scenario if one key aspect of the company or the environment it operates in were drastically is altered?

4. Jennifer Post. “National Business Plan Competitions for Entrepreneurs.” Business News Daily. August 30, 2018. <https://www.businessnewsdaily.com/6902-business-plan-competitions-entrepreneurs.html>

5. “Rice Business Plan Competition, Eligibility Criteria and How to Apply.” Rice Business Plan Competition. March 2020. https://rbpc.rice.edu/sites/g/files/bxs806/f/2020%20RBPC%20Eligibility%20Criteria%20and%20How%20to%20Apply_23Oct19.pdf

6. “Rice Business Plan Competition, Eligibility Criteria and How to Apply.” Rice Business Plan Competition. March 2020. https://rbpc.rice.edu/sites/g/files/bxs806/f/2020%20RBPC%20Eligibility%20Criteria%20and%20How%20to%20Apply_23Oct19.pdf; Based on 2019 RBPC Competition Rules and Format April 4–6, 2019. <https://rbpc.rice.edu/sites/g/files/bxs806/f/2019-RBPC-Competition-Rules%20-Format.pdf>

Full Business Plan

Even full business plans can vary in length, scale, and scope. Rice University sets a ten-page cap on business plans submitted for the full competition. The IndUS Entrepreneurs, one of the largest global networks of entrepreneurs, also holds business plan competitions for students through its Tie Young Entrepreneurs program. In contrast, business plans submitted for that competition can usually be up to twenty-five pages. These are just two examples. Some components may differ slightly; common elements are typically found in a formal business plan outline. The next section will provide sample components of a full business plan for a fictional business.

Executive Summary

The executive summary should provide an overview of your business with key points and issues. Because the summary is intended to summarize the entire document, it is most helpful to write this section last, even though it comes first in sequence. The writing in this section should be especially concise. Readers should be able to understand your needs and capabilities at first glance. The section should tell the reader what you want and your “ask” should be explicitly stated in the summary.

Describe your business, its product or service, and the intended customers. Explain what will be sold, who it will be sold to, and what competitive advantages the business has. Table 5.3 shows a sample executive summary for the fictional company La Vida Lola.

Table 5.3 Executive Summary for La Vida Lola

Executive Summary Component	Content
The Concept	La Vida Lola is a food truck serving the best Latin American and Caribbean cuisine in the Atlanta region, particularly Puerto Rican and Cuban dishes, with a festive flair. La Vida Lola offers freshly prepared dishes from the mobile kitchen of the founding chef and namesake Lola González, a Duluth, Georgia, native who has returned home to launch her first venture after working under some of the world's top chefs. La Vida Lola will cater to festivals, parks, offices, community and sporting events, and breweries throughout the region.
Market Advantage	Latin food packed with flavor and flair is the main attraction of La Vida Lola. Flavors steeped in Latin American and Caribbean culture can be enjoyed from a menu featuring street foods, sandwiches, and authentic dishes from the González family's Puerto Rican and Cuban roots. Millennial foodies craving ethnic food experiences and Latin food lovers are the primary customers, but anyone with a taste for delicious homemade meals in Atlanta can order. Having a native Atlanta-area resident returning to her hometown after working in restaurants around the world to share food with area communities offers a competitive advantage for La Vida Lola in the form of founding chef Lola González.
Marketing	The venture will adopt a concentrated marketing strategy. The company's promotion mix will comprise a mix of advertising, sales promotion, public relations, and personal selling. Much of the promotion mix will center around dual-language social media.
Venture Team	The two founding members of the management team have almost four decades of combined experience in the restaurant and hospitality industries. Their background includes experience in food and beverage, hospitality and tourism, accounting, finance, and business creation.
Capital Requirements	La Vida Lola is seeking startup capital of \$50,000 to establish its food truck in the Atlanta area. An additional \$20,000 will be raised through a donations-driven crowdfunding campaign. The venture can be up and running within six months to a year.

Business Description

This section describes the industry, your product, and the business and success factors. It should provide a current outlook as well as future trends and developments. You also should address your company's mission, vision, goals, and objectives. Summarize your overall strategic direction, your reasons for starting the business, a description of your products and services, your business model, and your company's value proposition. Consider including the Standard Industrial Classification/North American Industry Classification System (SIC/NAICS) code to specify the industry and insure correct identification. The industry extends beyond where the business is located and operates, and should include national and global dynamics. Table 5.4 shows a sample business description for La Vida Lola.

Table 5.4 Business Description for La Vida Lola

Business Description	<p>La Vida Lola will operate in the mobile food services industry, which is identified by SIC code 5812 Eating Places and NAICS code 722330 Mobile Food Services, which consist of establishments primarily engaged in preparing and serving meals and snacks for immediate consumption from motorized vehicles or nonmotorized carts. Ethnically inspired to serve a consumer base that craves more spiced Latin foods, La Vida Lola is an Atlanta-area food truck specializing in Latin cuisine, particularly Puerto Rican and Cuban dishes native to the roots of the founding chef and namesake, Lola González.</p> <p>La Vida Lola aims to spread a passion for Latin cuisine within local communities through flavorful food freshly prepared in a region that has embraced international eats. Through its mobile food kitchen, La Vida Lola plans to roll into parks, festivals, office buildings, breweries, and sporting and community events throughout the greater Atlanta metropolitan region. Future growth possibilities lie in expanding the number of food trucks, integrating food delivery on demand, and adding a food stall at an area food market.</p> <p>After working in noted restaurants for a decade, most recently under the famed chef José Andrés, chef Lola González returned to her hometown of Duluth, Georgia, to start her own venture. Although classically trained by top world chefs, it was González's grandparents' cooking of authentic Puerto Rican and Cuban dishes in their kitchen that influenced her profoundly. The freshest ingredients from the local market, the island spices, and her attention to detail were the spark that ignited Lola's passion for cooking. To that end, she brings flavors steeped in Latin American and Caribbean culture to a flavorful menu packed full of street foods, sandwiches, and authentic dishes. Through reasonably priced menu items, La Vida Lola offers food that appeals to a wide range of customers, from millennial foodies to Latin natives and other locals with Latin roots.</p>
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Industry Analysis and Market Strategies

Here you should define your market in terms of size, structure, growth prospects, trends, and sales potential. You'll want to include your TAM and forecast the SAM. (Both these terms are discussed in Conducting a Feasibility Analysis.) This is a place to address market segmentation strategies by geography, customer attributes, or product orientation. Describe your positioning relative to your competitors' in terms of pricing, distribution, promotion plan, and sales potential. Table 5.5 shows an example industry analysis and market strategy for La Vida Lola.

Table 5.5 Industry Analysis and Market Strategy for La Vida Lola

Industry
Analysis
and
Market
Strategy

According to Mobile Food Trends and Insights' first annual report from the San Francisco-based Off The Grid, a company that facilitates food markets nationwide, the US food truck industry alone is projected to grow by nearly 20 percent from \$800 million in 2017 to \$985 million in 2019. Meanwhile, an IBISWorld report shows the street vendors' industry with a 4.2 percent annual growth rate to reach \$3.2 billion in 2018. Food truck and street food vendors are increasingly investing in specialty, authentic ethnic, and fusion food, according to the IBISWorld report.

Although the IBISWorld report projects demand to slow down over the next five years, it notes there are still opportunities for sustained growth in major metropolitan areas. The street vendors industry has been a particular bright spot within the larger food service sector.

The industry is in a growth phase of its life cycle. The low overhead cost to set up a new establishment has enabled many individuals, especially specialty chefs looking to start their own businesses, to own a food truck in lieu of opening an entire restaurant. Off the Grid's annual report indicates the average typical initial investment ranges from \$55,000 to \$75,000 to open a mobile food truck.

The restaurant industry accounts for \$800 billion in sales nationwide, according to data from the National Restaurant Association. Georgia restaurants brought in a total of \$19.6 billion in 2017, according to figures from the Georgia Restaurant Association. There are approximately 12,000 restaurants in the metro Atlanta region. The Atlanta region accounts for almost 60 percent of the Georgia restaurant industry. The SAM is estimated to be approximately \$360 million.

The mobile food/street vendor industry can be segmented by types of customers, types of cuisine (American, desserts, Central and South American, Asian, mixed ethnicity, Greek Mediterranean, seafood), geographic location and types (mobile food stands, mobile refreshment stands, mobile snack stands, street vendors of food, mobile food concession stands).

Secondary competing industries include chain restaurants, single location full-service restaurants, food service contractors, caterers, fast food restaurants, and coffee and snack shops. The top food truck competitors according to the Atlanta Journal-Constitution, the daily newspaper in La Vida Lola's market, are Bento Bus, Mix'd Up Burgers, Mac the Cheese, The Fry Guy, and The Blaxican. Bento Bus positions itself as a Japanese-inspired food truck using organic ingredients and dispensing in eco-friendly ware. The Blaxican positions itself as serving what it dubs "Mexican soul food," a fusion mashup of Mexican food with Southern comfort food. After years of operating a food truck, The Blaxican also recently opened its first brick-and mortar restaurant. The Fry Guy specializes in Belgian-style street fries with a variety of homemade dipping sauces. These three food trucks would be the primary competition to La Vida Lola, since they are in the "ethnic food" space, while the other two offer traditional American food. All five have established brand identities and loyal followers/customers since they are among the industry leaders as established by "best of" lists from area publications like the Atlanta Journal-Constitution. Most dishes from competitors are in the \$10-\$13 price range for entrees. La Vida Lola dishes will range from \$6 to \$13.

One key finding from Off the Grid's Mobile Food Trends and Insights report is that mobile food has "proven to be a powerful vehicle for catalyzing diverse entrepreneurship" as 30 percent of mobile food businesses are immigrant owned, 30 percent are women owned, and 8 percent are LGBTQ owned. In many instances, the owner-operator plays a vital role to the brand identity of the business as is the case with La Vida Lola.

Atlanta has also tapped into the nationwide trend of food hall-style dining. These food halls are increasingly popular in urban centers like Atlanta. On one hand, these community-driven areas where food vendors and retailers sell products side by side are secondary competitors to food trucks. But they also offer growth opportunities for future expansion as brands solidify customer support in the region. The most popular food halls in Atlanta are Ponce City Market in Midtown, Krog Street Market along the BeltLine trail in the Inman Park area, and Sweet Auburn Municipal Market downtown Atlanta. In addition to these trends, Atlanta has long been supportive of international cuisine as Buford Highway (nicknamed "BuHi") has a reputation for being an eclectic food corridor with an abundance of renowned Asian and Hispanic restaurants in particular.

The Atlanta region is home to a thriving Hispanic and Latinx population, with nearly half of the region's foreign-born population hailing from Latin America. There are over half a million

Hispanic and Latin residents living in metro Atlanta, with a 150 percent population increase

predicted through 2040. The median age of metro Atlanta Latinos is twenty-six. La Vida Lola will

offer authentic cuisine that will appeal to this primary customer segment.

La Vida Lola must contend with regulations from towns concerning operations of mobile food ventures and health regulations, but the Atlanta region is generally supportive of such operations. There are many parks and festivals that include food truck vendors on a weekly basis.

Competitive Analysis

The competitive analysis is a statement of the business strategy as it relates to the competition. You want to be able to identify who are your major competitors and assess what are their market shares, markets served, strategies employed, and expected response to entry? You likely want to conduct a classic SWOT analysis (Strengths Weaknesses Opportunities Threats) and complete a competitive-strength grid or competitive matrix. Outline your company's competitive strengths relative to those of the competition in regard to product, distribution, pricing, promotion, and advertising. What are your company's competitive advantages and their likely impacts on its success? The key is to construct it properly for the relevant features/benefits (by weight, according to customers) and how the startup compares to incumbents. The competitive matrix should show clearly how and why the startup has a clear (if not currently measurable) competitive advantage. Some common features in the example include price, benefits, quality, type of features, locations, and distribution/sales. Sample templates are shown in Figure 5.17 and Figure 5.18. A competitive analysis helps you create a marketing strategy that will identify assets or skills that your competitors are lacking so you can plan to fill those gaps, giving you a distinct competitive advantage. When creating a competitor analysis, it is important to focus on the key features and elements that matter to customers, rather than focusing too heavily on the entrepreneur's idea and desires.

	La Vida Lola	Mix'D Up Burgers	Mac the Cheese	The Fry Guy	The Blaxican
Price	\$6-\$13	\$10	\$10-13	\$13+	High end
Location	Varies	Rotate/Smyrna	Rotates	Buckhead	Midtown
Quality	Mid to high	Low	Mid	High	High
Food type	Latin	American/ Burgers	American/ Comfort	American	Soul/ Mexican fusion

Figure 5.17 This chart shows one sample format for a competitor analysis. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

COMPETITIVE ANALYSIS TEMPLATE							
	Price	Benefits	Quality	Features	Locations	Distribution/ Sales	Customer satisfaction
Competitor 1							
Competitor 2							
Competitor 3							
Competitor 4							

Figure 5.18 This chart provides a more complex template for creating a competitive analysis. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Operations and Management Plan

In this section, outline how you will manage your company. Describe its organizational structure. Here you can address the form of ownership and, if warranted, include an organizational chart/structure. Highlight the backgrounds, experiences, qualifications, areas of expertise, and roles of members of the management team. This is also the place to mention any other stakeholders, such as a board of directors or advisory board(s), and their relevant relationship to the founder, experience and value to help make the venture successful, and professional service firms providing management support, such as accounting services and legal counsel.

Table 5.6 Operations and Management Plan for La Vida Lola

Operations and Management Plan Category	Content
Key Management Personnel	<p>The key management personnel consist of Lola González and Cameron Hamilton, who are longtime acquaintances since college. The management team will be responsible for funding the venture as well as securing loans to start the venture. The following is a summary of the key personnel backgrounds.</p> <p>Lola González: Chef Lola González has worked directly in the food service industry for fifteen years. While food has been a lifelong passion learned in her grandparents' kitchen, chef González has trained under some of the top chefs in the world, most recently having worked under the James Beard Award-winning chef José Andrés. A native of Duluth, Georgia, chef González also has an undergraduate degree in food and beverage management. Her value to the firm is serving as "the face" and company namesake, preparing the meals, creating cuisine concepts, and running the day-to-day operations of La Vida Lola.</p> <p>Cameron Hamilton: Cameron Hamilton has worked in the hospitality industry for over twenty years and is experienced in accounting and finance. He has a master of business administration degree and an undergraduate degree in hospitality and tourism management. He has opened and managed several successful business ventures in the hospitality industry. His value to the firm is in business operations, accounting, and finance.</p>
Advisory Board	<p>During the first year of operation, the company intends to keep a lean operation and does not plan to implement an advisory board. At the end of the first year of operation, the management team will conduct a thorough review and discuss the need for an advisory board.</p>
Supporting Professionals	<p>Stephen Ngo, Certified Professional Accountant (CPA), of Valdosta, Georgia, will provide accounting consulting services. Joanna Johnson, an attorney and friend of chef González, will provide recommendations regarding legal services and business formation.</p>

Marketing Plan

Here you should outline and describe an effective overall marketing strategy for your venture, providing details regarding pricing, promotion, advertising, distribution, media usage, public relations, and a digital presence. Fully describe your sales management plan and the composition of your sales force, along with a comprehensive and detailed budget for the marketing plan. Table 5.7 shows a sample marketing plan for La Vida Lola.

Table 5.7 Marketing Plan for La Vida Lola

Marketing Plan Category	Content
Overview	La Vida Lola will adopt a concentrated marketing strategy. The company's promotion mix will include a mix of advertising, sales promotion, public relations, and personal selling. Given the target millennial foodie audience, the majority of the promotion mix will be centered around social media platforms. Various social media content will be created in both Spanish and English. The company will also launch a crowdfunding campaign on two crowdfunding platforms for the dual purpose of promotion/publicity and fundraising.
Advertising and Sales Promotion	<p>As with any crowdfunding social media marketing plan, the first place to begin is with the owners' friends and family. Utilizing primarily Facebook/Instagram and Twitter, La Vida Lola will announce the crowdfunding initiative to their personal networks and prevail upon these friends and family to share the information. Meanwhile, La Vida Lola needs to focus on building a community of backers and cultivating the emotional draw of becoming part of the La Vida Lola family.</p> <p>To build a crowdfunding community via social media, La Vida Lola will routinely share its location, daily if possible, on both Facebook, Instagram, and Twitter. Inviting and encouraging people to visit and sample their food can rouse interest in the cause. As the campaign is nearing its goal, it would be beneficial to offer a free food item to backers of a specific level, say \$50, on one specific day. Sharing this via social media in the day or two preceding the giveaway and on the day of can encourage more backers to commit.</p> <p>Weekly updates of the campaign and the project as a whole are a must. Facebook and Twitter updates of the project coupled with educational information sharing helps backers feel part of the La Vida Lola community.</p> <p>Finally, at every location where La Vida Lola is serving its food, signage will notify the public of their social media presence and the current crowdfunding campaign. Each meal will be accompanied by an invitation from the server for the patron to visit the crowdfunding site and consider donating. Business cards listing the social media and crowdfunding information will be available in the most visible location, likely the counter. Before moving forward with launching a crowdfunding campaign, La Vida Lola will create its website. The website is a great place to establish and share the La Vida Lola brand, vision, videos, menus, staff, and events. It is also a great source of information for potential backers who are unsure about donating to the crowdfunding campaigns. The website will include these elements:</p> <ul style="list-style-type: none"> • About Us. Address the following questions: Who are you? What are the guiding principles of La Vida Lola? How did the business get started? How long has La Vida Lola been in business? Include pictures of chef González. • Menu. List of current offerings with prices. • Calendar of Events. Will include promotional events and locations where customers can find the truck for different events. • Social Media. Steps will be taken to increase social media followers prior to launching the crowdfunding campaign. Unless a large social media following is already established, a business should aggressively push social media campaigns a minimum of three months prior to the crowdfunding campaign launch. Increasing social media following prior to the campaign kickoff will also allow potential donors to learn more about La Vida Lola and foster relationship building before attempting to raise funds.
Facebook Content and Advertising	<p>The key piece of content will be the campaign pitch video, reshared as a native Facebook upload. A link to the crowdfunding campaigns can be included in the caption. Sharing the same high-quality video published on the campaign page will entice fans to visit Kickstarter to learn more about the project and rewards available to backers.</p> <ul style="list-style-type: none"> • Promoted Post(s): Boosting/promoting a Facebook post for only \$5 can go a long way for a business page the size of La Vida Lola's. Reach and engagement will be exponentially higher than it would have been organically. Promoting two or three posts during the first few weeks of the campaign would be highly effective. • Video Views Ad: Video ads are a little more ambitious than promoted posts and cost a little more. But the objective is the same: increase the number of people who watch the pitch video and drive them to the campaign page.
Crowdfunding Campaigns	<p>Foodstart was created just for restaurants, breweries, cafés, food trucks, and other food businesses, and allows owners to raise money in small increments. It is similar to Indiegogo in that it offers both flexible and fixed funding models and charges a percentage for successful campaigns, which it claims to be the lowest of any crowdfunding platform. It uses a reward-based system rather than equity, where backers are offered rewards or perks resulting in "low-cost capital and a network of people who now have an incentive to see you succeed."⁷</p> <p>Foodstart will host La Vida Lola's crowdfunding campaigns for the following reasons: (1) It caters to their niche market; (2) it has less competition from other projects which means that La Vida Lola will stand out more and not get lost in the shuffle; and (3) it has/ is making a name/brand for itself which means that more potential backers are aware of it. La Vida Lola will run a simultaneous crowdfunding campaign on Indiegogo, which has broader mass appeal.</p>
Publicity	<p>Social media can be a valuable marketing tool to draw people to the Foodstarter and Indiegogo crowdfunding pages. It provides a means to engage followers and keep funders/backers updated on current fundraising milestones. The first order of business is to increase La Vida Lola's social media presence on Facebook, Instagram, and Twitter.</p> <p>Establishing and using a common hashtag such as #FundLola across all platforms will promote familiarity and searchability, especially within Instagram and Twitter. Hashtags are slowly becoming a presence on Facebook. The hashtag will be used in all print collateral.</p> <p>La Vida Lola will need to identify social influencers—others on social media who can assist with recruiting followers and sharing information. Existing followers, family, friends, local food providers, and noncompetitive surrounding establishments should be called upon to assist with sharing La Vida Lola's brand, mission, and so on. Cross-promotion will further extend La Vida Lola's social reach and engagement. Influencers can be called upon to cross promote upcoming events and specials. The crowdfunding strategy will utilize a progressive reward-based model and establish a reward schedule such as the following:</p> <ul style="list-style-type: none"> • \$5 or more (unlimited): Exclusive updates on fundraising progress • \$10 or more (500): \$1 OFF; a coupon for \$1 off purchase • \$20 or more (200): BOGO! Buy one entree, get one FREE • \$50 or more (100): FREE entrée coupon • \$250 or more (2): One-on-one with chef González! <p>In addition to the publicity generated through social media channels and the crowdfunding campaign, La Vida Lola will reach out to area online and print publications (both English- and Spanish-language outlets) for feature articles. Articles are usually teased and/or shared via social media. Reaching out to local broadcast stations (radio and television) may provide opportunities as well. La Vida Lola will recruit a social media intern to assist with developing and implementing a social media content plan. Engaging with the audience and responding to all comments and feedback is important for the success of the campaign.</p> <p>Some user personas from segmentation to target in the campaign:</p> <ul style="list-style-type: none"> • Influencer Isabel: Social media-savvy, college-age Latina influencer • Food truck Freddie: An avid food truck follower, this thirty-three-year-old white urban hipster professional seeks out the best food trucks around town on a regular basis looking for "noms" to satisfy his cravings. • Taco townies: In-town residents who religiously eat tacos on "taco Tuesday," as a family rite of passage for the wives, husbands, and kids. The entire neighborhood turns out for the occasion as a community event of sorts.

Financial Plan

A financial plan seeks to forecast revenue and expenses; project a financial narrative; and estimate project costs, valuations, and cash flow projections. This section should present an accurate, realistic, and achievable financial plan for your venture. Include sales forecasts and income projections, pro forma financial statements (Building the Entrepreneurial Dream Team, a breakeven analysis, and a capital budget. Identify your possible sources of financing. Figure 5.19 shows a template of cash-flow needs for La Vida Lola.

INCOME		EXPENSES	
Daily Income		Fixed Monthly Expenses	
Monday	\$	Facility rental	\$
Tuesday	\$	Personal loans	\$
Wednesday	\$	Insurance	\$
Thursday	\$	Credit cards	\$
Friday	\$	Farmer's Market overheads	\$
Saturday AM	\$	Planned savings	\$
Saturday PM	\$	Other	\$
Sunday	\$	<i>Total fixed monthly expenses</i>	\$
		Variable Monthly Expenses	
		Food/Beverages	\$
		Utilities (electricity, gas)	\$
		Uniforms	\$
		Wages	\$
		Fuel (vehicle)	\$
		Medical expenses	\$
		Other	\$
		<i>Total variable monthly expenses</i>	\$
		Fixed Infrequent Expenses	
		Insurance	\$
		Annual subscriptions	\$
		Property rates/taxes	\$
		Union fees	\$
		Education	\$
		Other	\$
		<i>Total fixed infrequent expenses</i>	\$
		Variable Infrequent Expenses	
		Gifts	\$
		Holidays	\$
		Vehicle repairs and registration	\$
		Durable goods purchase	\$
		Donations	\$
		Other	\$
		<i>Total variable infrequent expenses</i>	\$
TOTAL Income	\$	TOTAL Expenses	\$

Figure 5.19 La Vida Lola can use a template like this to project cash flow. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

ENTREPRENEUR IN ACTION

Laughing Man Coffee

Hugh Jackman (Figure 5.20) may best be known for portraying a comic-book superhero who used his mutant abilities to protect the world from villains. But the Wolverine actor is also working to make the planet a better place for real, not through adamantium claws but through social entrepreneurship.



Figure 5.20 Hugh Jackman launched a social entrepreneurship venture called Laughing Man Coffee. (credit: "Hugh Jackman navy" by "U.S. Navy photo by Photographer's Mate Airman Dennard Vinson"/Wikimedia Commons, Public Domain)

A love of java jolted Jackman into action in 2009, when he traveled to Ethiopia with a Christian humanitarian group to shoot a documentary about the impact of fair-trade certification on coffee growers there. He decided to launch a business and follow in the footsteps of the late Paul Newman, another famous actor turned philanthropist via food ventures.

Jackman launched Laughing Man Coffee two years later; he sold the line to Keurig in 2015. One Laughing Man Coffee café in New York continues to operate independently, investing its proceeds into charitable programs that support better housing, health, and educational initiatives within fair-trade farming communities.⁸ Although the New York location is the only café, the coffee brand is still distributed, with Keurig donating an undisclosed portion of Laughing Man proceeds to those causes (whereas Jackman donates all his profits). The company initially donated its profits to World Vision, the Christian humanitarian group Jackman accompanied in 2009. In 2017, it created the Laughing Man Foundation to be more active with its money management and distribution.

Questions

- You be the entrepreneur. If you were Jackman, would you have sold the company to Keurig? Why or why not?
- Would you have started the Laughing Man Foundation?
- What else can Jackman do to aid fair-trade practices for coffee growers?

TEXTBOOKS FOR CHANGE

Founded in 2014, Textbooks for Change uses a cross-compensation model, in which one customer segment pays for a product or service, and the profit from that revenue is used to provide the same product or service to another, underserved segment. Textbooks for Change partners with student organizations to collect used college textbooks, some of which are re-sold while others are donated to students in need at underserved universities across the globe. The organization has reused or recycled 250,000 textbooks, providing 220,000 students with access through seven campus partners in East Africa. This B-corp social enterprise tackles a problem and offers a solution that is directly relevant to college students like yourself.

Questions

- Have you observed a problem on your college campus or other campuses that is not being served properly?
- Could it result in a social enterprise?

8. "Hugh Jackman Journey to Starting a Social Enterprise Coffee Company." Giving Compass. April 8, 2018. <https://givingcompass.org/article/hugh-jackman-journey-to-starting-a-social-enterprise-coffee-company/>

FRANCHISEE SET OUT

A franchisee of East Coast Wings, a chain with dozens of restaurants in the United States, has decided to part ways with the chain. The new store will feature the same basic sports-bar-and-restaurant concept and serve the same basic foods: chicken wings, burgers, sandwiches, and the like. The new restaurant can't rely on the same distributors and suppliers. A new business plan is needed.

Questions

- What steps should the new restaurant take to create a new business plan?
- Should it attempt to serve the same customers? Why or why not?

Watch the New York Times video, *An Unlikely Business Plan,* for a description of entrepreneurial resurgence in Detroit, Michigan.



One or more interactive elements has been excluded from this version of the text. You can view them online here:
<https://pressbooks.nsc.ca/entrepreneurship/?p=191>

5.5 Key Terms

balance sheet

financial statement that summarizes a company's financial condition according to the accounting equation

breakeven point

level of operations that results in exactly enough revenue to cover costs

business model

plan for how venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture's offerings are made and distributed to the end users; and the how income will be generated through this process

business model canvas

developed by Osterwalder and Pigneur, used to develop a business model for a venture, including nine blocks that are mapped out to address customer segments, customer relationships, channels, revenue streams, value propositions, key partners, key activities, key resources, and cost structure

business model innovation

occurs when an existing business fundamentally changes their business model

business plan

formal document that typically describes the business and industry, market strategies, sales potential, and competitive analysis, as well as the company's long-term goals and objectives

competitive matrix

shows how and why a startup has a clear if not measurable competitive advantage for relevant features/benefits by weight according to customers, such as price and quality in relation to competitors

customer empathy map

portrayal of a target customer, the most promising candidate from a business' customer segments, which explores the understanding of that person's condition from their perspective to understand their problems and needs

disruptive innovation

process that significantly impacts the market by making a product or service more affordable and/or accessible often by smaller companies in an industry

executive summary

initial section of a business plan document that summarizes the key elements of the entire plan

feasibility analysis

feasibility analysis is the process of determining if a business idea is viable; it includes testing the viability of your product or service, evaluating your management team, assessing the market for your concept, and estimating financial viability

financial analysis

forecasts revenue and expenses; projects a financial narrative; and estimates project costs, valuations, and cash flow projections

fixed costs

costs that do not change, regardless of the amount of sales

go-or-no-go decision

determination to proceed with or abandon a plan or project

innovation

new idea, process, or product, or a change to an existing product or process

lean model canvas

developed by Ash Maurya as a derivation of the original business model canvas; this canvas differs by addressing unfair advantages, problems, solutions, and key metrics rather than customer relationships, key partners, key activities, and key resources

market analysis

analysis of the overall interest in the product or service within the industry by its target market

projected cash flow

outline of preliminary expenses, operating expenses, and reserves

serviceable available market (SAM)

portion of the market that a business can serve based on its products, services, and location

social business model canvas

modification of the business model canvas, designed for social entrepreneurship venues; new areas address impact measures around social impacts and its measurement, surplus, beneficiary segments and social and customer value propositions

SWOT analysis

strategic analytical tool used to help a potential venture or existing company identify its strengths, weaknesses, opportunities, and threats related to business competition

total available market (TAM)

total perceived demand for a product or service within the marketplace

value proposition

summary describing the benefits (value) customers can expect from a particular product or service

value proposition canvas

one of the nine blocks on the business model canvas, this additional tool developed by Osterwalder and Pigneur is designed to illustrate a deeper dive into customer understanding and value creation of a business

variable costs

costs that fluctuate with the level of revenue

5.6 Unit Summary

5.1 AVOIDING THE “FIELD OF DREAMS” APPROACH

Business models and business plans are tools involved in the strategic process of charting a path for your entrepreneurial venture. When starting a company, it's best to avoid the Field of Dreams approach of building a business and hoping that customers will just show up. Innovation has been linked to entrepreneurship for at least nine decades. More recent theories suggest that disruptive innovations are disruptive because they disturb the underlying business model of the companies being disrupted.

5.2 DESIGNING THE BUSINESS MODEL

A business model, which is unique to a company, describes the rationale of how an organization creates, delivers, and captures values. A business model canvas is a popular tool used by entrepreneurs and intrapreneurs to map out and plan different components of a business model. The business model canvas addresses customer segments, customer relationships, channels (of distribution), revenue streams, value propositions, key partners, key activities, key resources, and cost structure. The lean model canvas and social business model canvas are derivations of the original business model canvas. They are designed more for tech/software/app endeavors and social entrepreneurial ventures, respectively.

5.3 CONDUCTING A FEASIBILITY ANALYSIS

A feasibility study is a tool in the entrepreneurs' toolkit that can help determine whether to proceed on a venture early on. A feasibility study is usually more in depth than a business plan and focuses on analysis of real-world numbers and projections. The most common elements of a feasibility study include a market analysis, a financial analysis, and management analysis. Feasibility studies can be used to make a “go-or-no-go” decision for a new product or business, as well as help narrow the focus of what that venture should be (what the market would potentially support).

5.4 THE BUSINESS PLAN

The business plan is a formal document used for long-range planning of a company's operation that typically includes financial information, background information, and a summary of the business. Business plans can be used as internal guiding documents early in the entrepreneurial process. They also can be presentation documents for raising funds from prospective investors later in the process, complementing an investor pitch and iterative canvases. A brief business plan functions somewhat like an extended executive summary that summarizes key elements of the entire business plan, such as the business concept, financial features, and current

business position. A full business plan can range from ten to twenty-five pages. It includes a business description, industry and marketing analyses, and descriptions of management, marketing, and operational and financial plans.

5.7 Review Questions

1. According to Ash Maurya's typology, Airbnb is an example of what type of business model?
 - a. direct
 - b. multisided
 - c. open
 - d. marketplace

2. Which startup grew from a failed podcasting company called Odeo?
 - a. Instagram
 - b. Twitter
 - c. StubHub
 - d. Groupon

3. What is the job to be done of a milkshake according to Christensen's team's customer observation research in the Link to Learning video: https://www.youtube.com/watch?v=m3mVM_koAio&feature=youtu.be?
 - a. employ Chick-Fil-A cows
 - b. accompany on a long morning commute
 - c. placate children
 - d. satisfy hunger

4. What is a change, typically minor, of the current business model in an attempt to capitalize on a closely related market opportunity?
 - a. innovation
 - b. disruption
 - c. iteration
 - d. increment

5. A tool to identify your idealized target customer and develop a better understanding of their environment, behavior, concerns, and aspirations.
 - a. jobs to be done
 - b. business plan
 - c. business model canvas
 - d. empathy map

6. A _____ is a formal document that typically describes the business and industry, market strategies, sales potential, and competitive analysis, as well as the company's long-term goals and objectives.
 - a. business plan
 - b. business model
 - c. customer empathy map
 - d. revenue model

7. Select the item that does not belong to the business model canvas.
 - a. market size
 - b. revenue streams
 - c. value proposition
 - d. customer segments

8. The finished story benefit formula of [end customer wants] + [specific period of time] + [address objections] is designed for what component of the lean model canvas?
 - a. unfair advantage
 - b. unique value proposition
 - c. early adopters
 - d. high concept pitch

9. How does the social business model canvas differ from the business model canvas and lean model canvas?
 - a. is only used by nonprofit company
 - b. doesn't have customer block and investment bloc

- c. has profit block to talk about ways the company can makes more money
 - d. has impact measure, surplus, beneficiary segments, and social and customer value proposition
10. Which of the following has the purpose of evaluating the team, the market for the concept, the financial viability, and possible pitfalls?
- a. feasibility analysis
 - b. market analysis
 - c. financial analysis
 - d. management analysis
11. Which of the following has the purpose of forecasting revenue and expenses, projecting a financial narrative, estimating project cost, and projecting cash flow?
- a. feasibility analysis
 - b. market analysis
 - c. financial analysis
 - d. management analysis
12. Which of the following identifies competitors and quantifies target customers and/or users in a specific industry?
- a. feasibility analysis
 - b. market analysis
 - c. financial analysis
 - d. management analysis
13. What assesses the prowess of the management and sufficiency of resources to bring the product or idea to market?
- a. management analysis
 - b. operational feasibility analysis
 - c. financial analysis
 - d. cash flow
14. What are expenses that do not vary with the level of sales, such as rent, salaries, utilities, insurance and

other operating expenses?

- a. fixed costs
- b. variable costs
- c. balance sheet
- d. cash flow statements

15. Which of the following is a formal document that typically describes the business and industry, market strategies, sales potential, and competitive analysis, as well as the company's long-term goals and objectives?

- a. business plan
- b. business model
- c. customer empathy map
- d. revenue model

16. Which of these is not the purpose of a business plan?

- a. thoroughly explain a business idea and how it will be carried out
- b. planning tool and working plan over the course of several years
- c. requirement to start a business
- d. planning for "what-if" scenarios and explore new options

17. Which of these components are not in a business plan?

- a. business description
- b. industry and market analysis
- c. financial analysis
- d. None of these options is correct.

18. Estimated profits and expenses of the business is included in which of the following?

- a. financial analysis
- b. industry and market analysis
- c. operation plan
- d. marketing plan

19. Who is best suited to write a business plan?

- a. investor
- b. founder(s)
- c. consultant
- d. chief financial officer

5.8 Discussion Questions

1. What role do customers play in innovation? Is innovation possible without customer support?
2. Do you believe that teamwork is important to entrepreneurship? Or do you prefer solopreneurship? Is one approach "better" than the other? Why or why not?
3. What are the advantages of using a canvas to plan your business?
4. What types of businesses fit best with each respective canvas type?
5. Why would impact measures be important in social entrepreneurship ventures?
6. How do the arts relate to the business model creation process?
7. What are the advantages of using a lean model canvas compared to the traditional business model canvas?
8. What components are in the breakeven analysis? How would you calculate your breakeven point?
9. Why is feasibility analysis important?
10. What are the different components of a feasibility analysis?
11. Explain the purpose and importance of business plan.
12. Describe the components of a business plan.
13. Should you write a business plan even if you do not need outside financing? Why or why not?

5.9 Case Questions

1. The National Association of Broadcasters launched its PILOT Innovation Challenge in 2016. The challenge is centered around a specific challenge question aimed at helping the association's primary customers, broadcasters. The most recent challenge question was, "What is an unconventional way broadcasters and other local media could serve communities?" The PILOT organizers have contracted you to help them design their next challenge. Using your knowledge of innovation and customer-centric entrepreneurship processes, what would you advise? How would you go about determining the challenge question? What questions about innovation would you have regarding the Innovation Challenge?
2. The Guidewell Innovation Center at Lake Nona Medical Center on the outskirts of Orlando, Florida, is a 92,000-square-foot facility aimed at accelerating innovation within the healthcare industries. Guidewell, the parent company of Florida Blue, brings in outside companies to help with that innovation process. One of the features of the Innovation Center is its Collaborative Resource Ecosystem. Some of the center's strategic areas of focus are next-generation consumer engagement, computational health, well-being and human performance, digital health, and remote management, among other areas. How could Christensen's theory of disruptive innovation and jobs-to-be-done theory help guide Guidewell's mission? What are the prevalent business models in the strategic areas for incumbent businesses? What are opportunities for innovation for new companies?
3. As youth programs face severe budget cuts, many youth sports organizations respond by raising their fees, which shifts the costs to families. Good Sports was founded in 2003, to tackle this problem by providing new equipment, footwear, and apparel to those most in need. The organization's addressable markets include children ages five to eighteen living in low-income households, as defined by poverty data, and participating in youth sports in top fifty metropolitan service areas. This Boston-based organization has plans to expand from its three existing markets in Dallas, Chicago, and Boston to seven total markets by 2023 with a goal to serve 600,000 kids by that target date. What would a customer empathy map look like for Good Sports' target user?
 - a. What about its target customer segment? Would it or should it differ in differing markets? Is the Boston area user any different from say, an Atlanta, user?
 - b. Given its social mission, what are some impact measures Good Sports could use to gauge success and impact?
4. DoSomething.Org is a "global movement for good" among 6 million young people, transforming their communities across the United States and in 131 countries worldwide. This nonprofit organization constantly holds cause-based campaigns, ranging from receiving over 1 million pairs of donated jeans

from teens to clothe homeless youth to cleaning up 3.7 million cigarette butts through its Get the Filter Out initiative. A past campaign, “Don’t Be a Sucker,” addressed the problem of Americans losing \$5.8 billion annually and producing 8.7 billion pounds of carbon pollution by leaving unused devices plugged in. The campaign sought to slay those “energy vampires” not in use by having users unplug equipment and post a sticky note next to the outlet to remind others not to let them suck the energy dry. Further research the problem, solution and this campaign and answer the following:

- a. Identify what social impact(s) the campaign addressed.
 - b. What impact measures could the campaign assess?
 - c. Could a viable business be created around this problem?

1. In recent years, the entrepreneurial educator and author Steve Blank began applying lean startup principles to various US governmental agencies. Through a Hacking for Diplomacy course, students at Stanford University began tackling problems for the Department of State. A former US ambassador to the United Nations, a State Department representative to Silicon Valley and senior advisor for technology and innovation, a retired US Army colonel, and other entrepreneurial educators joined Blank in applying lean startup methods to State Department issues. Then-Secretary of State John Kerry even visited the Stanford students and said he was looking forward to the solutions students develop during the ten weeks. One project that emerged was from a group calling themselves Team Space Evaders. The team was tasked with working on the problem of satellite collision. Members charted satellite positioning data and explored how information about potential collision was shared by commercial operators and governmental entities ranging from the Federal Aviation Administration to the Department of Defense.
 - a. Apply the lean startup methodology to identify potential customer segments and problems and solutions that students such as yourself could identify for the State Department on the issue of satellite collision.
 - b. What would a unique value proposition for a State Department solution to this issue be? How could a high-level concept pitch work when selling the concept within the State Department?

6. Incorporated in 2003, Tesla declared in its mission statement that its goal is “to accelerate the world’s transition to sustainable transport,”¹ and it has proven itself a leader in green technology in the automotive sector. In its initial business plan, by co-founder Martin Eberhard, the electric sports car company promised to provide the value of a high-end sports car at a lower cost to the customer and a lower environmental cost to the planet. Electric vehicles were seen as inferior to standard vehicles prior to Tesla’s innovations in creating powerful cars that piqued consumer desire. The generic automotive manufacturing business model relies on collaborative manufacturing with industry partners and a distribution model dependent on third parties. Standard cars are aimed at people and businesses with individual transportation needs. This model is commercially viable because of custom-equipped add-on features to the per-vehicle prices.
 - a. Tesla’s business model is different. Identify at least three ways in which the Tesla model differs from the traditional automotive business model.

7. In the mid-1990s, at least one newspaper company, the now-defunct Knight-Ridder chain, created the prototype for a tablet newspaper that very much resembles the present-day iPad. A 1994 video titled “The Tablet Newspaper: A Vision for the Future” shows off the design of a futuristic newspaper designed

1. In 2016, it was changed from “sustainable transport” to “sustainable energy.” <https://www.tesla.com/about>

at the Knight Ridder Information Design Lab in Boulder, Colorado. The video went viral in 2011 after it was posted on YouTube and numerous websites and blogs. The person behind the tablet vision, Roger Fidler, had even published an essay describing a tablet future as far back as 1981. The Knight-Ridder lab shared a wall with its neighbor Apple, with executives swapping ideas and visitors. The newspaper company, focused on content creation and not the hardware side, decided to not patent its tablet design and scrapped the project because screens took too much energy, and it was too expensive.

- a. Using the components of a feasibility study, consider how the newspaper company would stack up on go-or-no-go decisions for each component of the feasibility study
 - b. How did the newspaper company in the 1990s fare in terms of management prowess, resource capabilities, financial viability, and market analysis?
 - c. Do you think the newspaper made a wise decision to abandon the project when it did? Why or why not?
8. Founded in 2013 primarily as a coding boot camp, Tech Talent South offers both part-time and full-time courses on topics like Ruby on Rails and Big Data Analytics. Most of the camp's programs are run out of cooperative working spaces and temporary locations throughout the cities it has a presence in. The primary focus of the Atlanta-founded and now North Carolina-based company as branded in the name was on coding in the South, but the company to date has expanded to eleven markets with plans to expand even more. The founder, Betsy Idilbi, jokes that she wouldn't have named the company Tech Talent South if she had known its full potential and growth, including being plugged into the entrepreneurial ecosystem in places such as Columbus, Ohio. The company even has offices in the northeastern city of Hartford, Connecticut.
 - a. Could a feasibility analysis have helped Betsy from the start?
 - b. The company has expanded its business to offer corporate trainings at existing companies, rather than teaching classes directly to student enrollees. How would you identify a new potential market for Tech Talent South to enter?
 - c. What could be done with its existing business?
 - d. How would you advise the company on making go-or-no-go decisions for entering new markets?
9. You were introduced to The Cut Buddy, a plastic hair and beard grooming tool that began selling on Amazon in 2016, in The Business Plan. Following funding from the Shark Tank investor Daymond John, the company plans to expand into retail and extend its product line.
 - a. How would a business plan for the company's ecommerce business differ from a retail distribution outlet?
 - b. Discuss how changes to aspects of the original business plan affected the outcome of the success of The Cut Buddy.
 - c. What do you think should be the key markets and strategies moving forward for the company?
10. Pretty Young Professional, discussed in The Business Plan, failed because of disagreements among its four founders that emerged shortly after launch.
 - a. If you were to launch the venture today, outline what steps you would need to take in formulating a business plan.
 - b. What do you think the total addressable market would be, which industry classification would it

fall under, and who would be the primary competition?

6.2 Sharing Your Entrepreneurial Story

Learning Objectives

By the end of this section, you will be able to:

- Identify the importance of telling your own story
- Describe the advantages and disadvantages of using stories to build a startup

The popular reality TV show about entrepreneurs making pitches, Shark Tank, is sometimes erroneously described as a show about pitching. This is false. Shark Tank is a show about people, usually inventors, with interesting back stories who are now looking for help getting their product to its next step. The show offers them the opportunity to pitch their idea to a panel of investors who, if they like the idea, make a financial offer in return to help get the product to market. Every pitch is preceded with what reality TV producers deem to be the more interesting narrative—the entrepreneur’s story. Viewers learn what inspires entrepreneurs, how hard they have worked on their prototypes and pitches, and what they have riding on those few minutes in the room with the “sharks.” Only after the entrepreneur’s story is set up do we get to the punch line, so to speak—the five-minute memorized pitch—which, if the entrepreneurs’ ideas seem viable, is followed by further talk about valuation and mentoring.

Shark Tank is not a course in pitching products, but it does highlight an important aspect about the practice: Stories matter. They matter to both investors and customers. Many angel investors base their decision more so on the team giving the pitch than on the product itself.

TELLING YOUR STORY

As an entrepreneur, you need to be able to effortlessly discuss your product and its problem-solution narrative, its value proposition, its market niche, and the competition, but in your pitches, you also need to be able to tell your story. Prepare to tell your entrepreneurial story by applying the most universal story format: the fairy tale. Here is a template you can use:

Once upon a time, we had a problem. Then, we thought of the most ingenious solution. We worked really hard and built several versions of the solution until we found The One. This, the innovation you see before you, is The One. We arrived at it through great personal cost, but here it is, and you can own part of it, not just the innovation on the table beside us, but the idea. You can own a sizeable portion of this business and its potential future growth. All you have to do is trust us, and you can be part of the magic. We will deliver this innovation to millions and make their lives better. We'll grow rich together and make the world a richer place at the same time. Join us. Invest, and live happily ever after.

Of course, the fairy tale format is not a formula for giving a practical, professional pitch, but it can help you put the pieces of your own entrepreneurial journey on paper so you can weave key details into your pitch as it develops.

Exercise – Writing Your Entrepreneurial Story

Take the preceding fairy tale template and use it to write the story of the entrepreneur behind your favorite product or brand. For example: “Once upon a time, Steve Jobs had a problem. He wanted to fit a computer into a box the size of an oversized cell phone...”

Conduct some biographical research on an entrepreneur and, after fleshing out the fairy tale, answer these questions:

- Why does the entrepreneur’s story matter to investors?
- Is there a way to craft an entrepreneur’s story so that it appeals simultaneously to both investors and consumers?
- How would you weave fairy tale elements about this entrepreneur into a mock pitch for their most ingenious invention?

Once a company grows, its story grows. But the original stories of the founders still play a part. This bigger story is called a corporate narrative. A corporate narrative is not a fairy tale but relays how a successful company grew from something small, perhaps starting in a garage in California, into a powerful firm or corporation serving millions of people. Companies craft narratives, often with several embellishments, for marketing purposes, but they also serve to remind leaders and employees about the vision and dreams the company’s founders once had.

An example of a startup that still inspires many today is the Hewlett-Packard Corporation (HP). Its origins lie in the efforts of Bill Hewlett and David Packard, two Stanford University classmates in the 1930s. Much like members of a garage band, they started their company in a real garage, and the firm has outgrown its humble beginnings many times over. You can see the actual (restored) garage in Figure 6.5.



Figure 6.5 Hewlett-Packard has restored the original garage in Palo Alto, California, in which its two cofounders, Bill Hewlett and David Packard, former Stanford University classmates, began work in 1938 on the electrical switches and sound oscillators that became their new company's first products. Credit: HP Garage in Silicon Valley by MGA73bot2 via Wikimedia Commons, CC BY 2.0

THE ADVANTAGES AND DISADVANTAGES OF USING STORIES

The primary advantage of using stories in pitch development is that they are relatable. Stories are how we make sense of our lives, so it's natural for stories to help others make sense of our new ventures. Stories are useful for transferring concepts with imagery told from a particular point of view.

When making a pitch, it is best not only to convey the value proposition of your product but to convey the value in the way that a loyal, enthusiastic consumer of the product (a brand advocate) would see it. Your goals become their goals. For example, Nike's Air Jordan brand has one of the most powerful advocate communities in the world. They are motivated by stories of being, in some small way, like one of the greatest athletes of all time. Inspired, they not only buy Nike shoes and clothes, they camp out and wait to be a part of the latest release—like people waiting for the next installment of their favorite film on opening night. Using narrative structures to get your pitch points across can inspire potential investors to see and share your vision and goals. The downside to narrative-based customer development and marketing is that it can lead to a culture of manufactured need. A new form of

consumerism, built on what marketers call the “fear of missing out,” is another way of characterizing the euphoria people feel when they are enraptured by a brand. Fear of missing out (FOMO) refers to the sense that we need to keep up with our peers and the personas they represent in social settings, particularly on social media. They can say they were there and that they had the best stuff first. Critics would say that building such a strong identity to a brand, or even material goods, clouds people’s sense of what is really important in life.

Even as you develop skills in pitching products by crafting inspiring narratives, be aware of the ethical implications of your work. You need to learn how to successfully make pitches to grow a brand and a company or nonprofit, but this is not a license to ignore the impacts of your work. Instead, consider this a call to action to balance your entrepreneurial, consumerist pitches and efforts with pro-social ones as well. Across a career, this kind of balance may be achievable, and, for both mass consumer products and purposeful social entrepreneurship efforts, good storytelling will help you achieve your objectives.

There is another type of narrative that can be pernicious—that of the wildly successful entrepreneur who has it all. Yes, this chapter starts by comparing entrepreneurs to superheroes. They do accomplish things other people only dream about, but many of the most famous ones have anomalous careers marked also by favorable conditions, luck, and hard work. The narrative that matters other than that of your entrepreneurial effort is your own personal one. The same way a successful startup is expected to iterate and overcome failures, so too are you encouraged and expected to persevere after setbacks when it is reasonable to do so.

As with the rapidly evolving tastes and habits of consumers in the face of “omnichannel” marketing practices in the US economy, it is impossible to be out in front of all of the latest information and communication technologies (ICTs). Even manufacturing technology evolves rapidly. If you make it an essential part of your corporate narrative that you are always “on top” of all technologies, you may be setting your business or service up for failure. ICTs and manufacturing are massive sectors in the global economy. You are not expected to know everything about them. If you can conquer your FOMO regarding the latest technological developments, your story may not be perfect, but you will be able to work from a personal and corporate position of balance.

Also, be realistic about your own entrepreneurial story. Entrepreneurs who focus too much on their own narrative might miss important market challenges or deep-seated problems with their design or key features. Issues may arise and be ignored, to the peril of the endeavor, if entrepreneurs believe their own stories are a matter of destiny. Ignoring hurdles, failures, and shortcomings within yourself, your value proposition, or your organization can seriously hinder your ability to grow your venture. Your role as a communicator is not to spin a fairy tale yarn and try to live in it. Rather, your role in telling your entrepreneurial story is to demonstrate your capability to overcome challenges and show your capacity for growth as it relates to perseverance, thoughtful inquiry, and providing value and solutions to others.

ATTRIBUTION

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6.1 Clarifying Your Vision, Mission, and Goals

Learning Objectives

By the end of this section, you will be able to:

- Clarify the vision statement, mission statement, and goals for your enterprise
- Define and develop a problem-solution narrative that is compelling
- Define and develop a value proposition that is credible and appealing to customers and investors

Entrepreneurs can sometimes be compared to superheroes: They solve problems. They wield great power and responsibility. They're willing to take on risks the way superheroes are willing to take on villains. They are undaunted in the face of failure. They seek solutions and continuous improvement of their products with their customers in mind so that their solutions go beyond addressing their individual needs. When an entrepreneur succeeds, others say "If only I'd thought of that!"

But thinking isn't enough. And even doing isn't enough. Successful entrepreneurs also understand the need to communicate the origin and value of their venture. They not only solve problems, they tell stories of crises averted, foes bested, and painful defeats from which they learned how to start anew. After all, what's a hero without an origin story and a list of tales, battles lost, and markets won?

In superhero narratives, these origin stories are sacred lore. For an entrepreneur, a problem-solution narrative is like the origin story for their offering. The problem-solution narrative concisely introduces a specific problem that affects many people and presents the good or service as an innovative, unique, and insightful solution. Here are some classic problem-solution narratives in advertising and in corporate origin stories to think about as you consider how to craft a quick, compelling problem-solution narrative.

A young basketball player lacks muscle mass. The athlete drinks milk and gets stronger, earning the a place on the school team.

Young people, pictured in silhouette, walk around a city looking bored with life. Then, they turn on their new MP3 players and start dancing in the streets. Their world is set ablaze in color and sound.

A hardworking ballerina lands the lead in a school performance, only to have it canceled as a result of the 2020 pandemic. Family and friends order lights and stage a rendition on the street.

These may not be the greatest stories ever told. You're not going to get a National Book Award for a Snickers commercial, but these are memorable narratives about people who have a problem that the product in question can solve.

To stay focused through repeated series of successes and failures, you need more than a problem-solution narrative: You need a vision and, in turn, a mission statement and goals. You learned about these in The Entrepreneurial Perspective, but you should revisit them as you develop your story and refine how to pitch that story to potential investors, customers, and employees. A pitch is a formal presentation in which you ask for something. It is delivered (usually) to potential investors in a startup. More on pitches later in the chapter.

Sara Minkara's vision statement may be defined as wishing to live in a world where visually impaired people are not discriminated against. Her venture's mission is to establish a well-functioning nonprofit organization showing people in the United States, the Middle East, and North Africa the humanity and value in those with severely impaired eyesight. Minkara's vision, imagining the organization's long-term future, is to make it a global leader in providing services to visually impaired people. Specific goals include hosting events, developing educational programs, organizing awareness campaigns, and, of course, fundraising. Following this example of mission, vision, and goals, let's break down each concept and consider how they work broadly and apply to your potential venture.

VISION

A vision statement, as you saw in The Entrepreneurial Perspective, outlines the venture's broader purpose, what the entrepreneur sees the venture growing into in the future. Before you can create a focused mission statement and goals answering who you are, what you do, and what you plan to do in the future, you must develop a vision statement that allows you look into the future to answer this question: "What might we become someday if our organization were the best possible version of itself?"

Drafting a vision statement is an exercise in ideation—a purposeful process of opening up one's mind to new trains of thought that branch out in many directions from a stated purpose or problem—in this case, with the goal of generating new possibilities for goods, services, or processes to make your venture successful. A vision statement is more open-ended than a mission statement. For example, Table 6.1 shows Amazon's vision and mission statements. Notice how they differ.

Amazon's Vision Statement¹

To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online

Amazon's Mission Statement²

We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience

Differences

Notice the differences in Amazon's vision and mission statements. The vision statement is broader than the mission statement and looks to the future.

1. "Amazon Mission and Vision Statement Analysis." Mission Statement Academy. June 19, 2019. <https://mission-statement.com/amazon/>

2. Ibid

To create a strong vision statement, look at the broader field in which your organization operates. Be general. State a dream that is not currently attainable but that defines what your collective outcomes would be in a best-case scenario. Crafting a vision statement enables your organization, as a team, to identify key areas for potential growth and key social influences you can have, but it is important to stay focused on changes in your industry or sector as a general rule of thumb and to revisit your vision when those may warrant a change. For example, Netflix started out with the goal of providing optimum value and convenience for customers renting DVDs but as entertainment consumption platforms evolved it needed to adjust, and it has since shifted into streaming content for television. The company's 2019 vision statement is "Becoming the best global entertainment distribution service."³

When crafting a vision statement, write questions beginning with, "How might we...?" or statements starting with, "In a perfect world, our organization would..." Craft a vision statement that hinges on the organization's service goals and turns it into a lasting social good. (You should not promise to create world peace or give everybody a puppy, but you should look at how businesses operate in your field and dream of doing better strategically and socially.) These steps provide a good starting point:

1. State how your organization would function in a dream scenario.
2. Connect your organization's dreams to broader hopes for progress.
3. Define how you're going to make the world a better place in the future through your products and services.

Dreams do not have to be wild to be broadly appealing or influential. The purpose of the vision statement is not to set unattainable goals but to open minds in the organization. If the vision statement has no grounding in reality, it can easily be written off; if it focuses on market share and product development (that is, tangible, mission-oriented things), the point is lost. Imagine your best team doing its best work with future capabilities and affordances made possible by other entrepreneurs and creators like you, and then state clearly what your influence as world changers could be. Again, the goal is not to develop unmanageable expectations or demand constant innovation from employees and contributors who have jobs that sustain day-to-day operations. The purpose is to develop a conversation about what is possible for the enterprise. For smaller startup enterprises (a deli or coffee shop, for example), the vision can be simpler but still focused on a unique experience they want to create for their customers. In other words, it should still be aspirational, with a link to the mission statement. Table 6.2 lists the vision statements of some companies across a variety of industries.

Example Vision Statements

Entity	Vision Statement
Alzheimer's Association	A world without Alzheimer's disease
Teach for America	One day, all children in this nation will have the opportunity to attain an excellent education
Creative Commons	Realizing the full potential of the Internet—universal access to research and education, full participation in culture—to drive a new era of development, growth, and productivity
Warby Parker	To offer designer eyewear at a revolutionary price, while leading the way for socially conscious businesses
IKEA	To create a better everyday life for the many people

3. "Netflix Mission and Vision Statement Analysis." Mission Statement Academy. July 12, 2019. <https://mission-statement.com/netflix/>

A vision statement does not have to be long to be strong. One well-known vision statement contains only fifteen words: “At IKEA our vision is to create a better everyday life for the many people.”⁴ This vision statement focuses on what IKEA hopes to accomplish, and what its employees can aspire to be—people who make everyday life better for others. Note the phrase “the many people.” This is purposeful: IKEA makes mass-marketed products and chooses to align its vision with its targeted consumers: many people. This vision statement is not framed as a political statement; rather, it is an ideal established for the global brand, and it indicates a broad positive outcome. IKEA’s statement is almost pure vision. A vision statement should connect an organization’s day-to-day work to a universal ideal rather than trying to draw a roadmap for implementation.

That being said, alongside its vision, the company follows up with what IKEA calls its “business idea.” It states: “Our business idea is ‘to offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.’” This is something of a value proposition and a mission statement wrapped up in one. A value proposition explains what it is, exactly, that an organization or firm does that people will pay for (or contribute, to in the case of a nonprofit), and it is a central point in any pitch. We learned about value propositions in Identifying Entrepreneurial Opportunity as being integral to identifying opportunities, and you will learn how they figure into your business model in Business Model and Plan. But the discussion in this chapter is about how and why the value proposition needs to be articulated.

An example of a complicated vision statement is Coca-Cola’s.⁵ While they are a very successful company, in the vision and mission statements published on their website, the distinctions between each can be difficult to discern. Figure 6.2 shows a large collection of statements and comments titled “Mission, Vision, & Values” on Coca-Cola’s website that includes sections on workplace culture, market focus, and “working smart.” These concepts, taken together, cover most of what is discussed in this section. Coca-Cola is not committing sins of omission with its “Mission, Vision, & Values” page. If anything, it tries to say too much. Also at issue is how these ideas are stated. For a company with massive global reach and some of the best, most memorable marketing moments, the relatively lifeless nature of its vision stands out.

Coca-Cola’s Mission, Vision and Values

Type your examples here.

- First
- Second

This is a classic case of telling rather than showing. IKEA and Coca-Cola arguably have a similar vision. They want to make life a little bit better for people in an everyday way. But with this series of statements, Coca-Cola tries to cover all possible types of vision for almost every major relationship or facet of the corporation imaginable. Coca-Cola has a separate mission statement on its website, shown in Figure 6.3.

4. “Vision and Business Idea.” IKEA. n.d. <https://www.ikea.com/gb/en/this-is-ikea/about-us/vision-and-business-idea-pub9cd02291>

5. “Mission, Vision, and Values.” The Coca-Cola Company. n.d. <http://www.coca-colacompany.com/our-company/mission-vision-values>

While this is shared as a mission statement, it reads like a vision statement. The value proposition is relegated to an afterthought in convoluted corporate-speak. This is all tied into a vague “2020 Vision,” which is not truly a vision statement but appears more like a wrapper for the “Mission, Vision, & Values” content.⁶ It is not clear what leadership, employees, business partners, or consumers are supposed to do with this information.

Coca-Cola is one of the world’s most recognizable brands. The company can grow by creating new products and by recapturing market share from competitors. It is essential, if and when Coca-Cola revises these statements, that it succinctly speak to all of those groups with one voice rather than trying to address each independently.

Exercise – Can You Help Coca-Cola Rework Its “2020 Vision”?

- Revise Coca-Cola’s vision statement so that it more clearly states how the corporation can be a force for good in the world?
- Read Coca-Cola’s “Mission, Vision, and Values” page then draft a new vision statement that alludes to hopes and potential accomplishments in the context of broad, positive, future outcomes for everyone the corporation comes into contact with.

Crafting a vision statement for an entrepreneurial endeavour is different from redrafting Coca-Cola’s vision statement. A startup is in the process of defining itself, which can make it challenging to establish a far-off vision, but crafting and adhering to a vision statement can remind leaders and employees what they are capable of and what their market is all about, so it is an important step. A good vision statement is sufficiently broad to allow for your organization to move within its marketplace while still aiming to do some good in the world.

MISSION

In the chapter’s opening vignette, you learned about a young woman seeking to battle social injustice. Minkara’s mission was self-evident. It followed her experience facing prejudice in society. Other entrepreneurial missions may not be as personal or altruistic, but they can still be a force that drives passionate solution seeking. As we saw with Minkara, entrepreneurs often develop a product or service idea through a difficult or frustrating experience, whether a social injustice or a consumer frustration.

An entrepreneurial mission is a business or nonprofit organization’s reason for being. It is expressed as a self-conceptualization in the context of a marketplace and includes a sense of action. In considering a venture’s mission, relevant questions are: Who are we? What do we make or do? Why do we exist as an enterprise in the first place? Steve Jobs and Steve Wozniak, cofounders of Apple, had a mission to put personal computing in the hands of everyday consumers, which meant they had to create simple tools (a graphic user interface, mouse, and so on) in parallel with hardware.

A well-developed sense of mission establishes what an organization is and what it seeks to become. Even nonprofit organizations exist in marketplaces. They have to compete for resources and define themselves by the services they provide. Establishing a clear mission helps a nonprofit organization seek funding. It helps entrepreneurs in the for-profit world explain to investors, to customers, and to employees why their “thing,” whatever it is, is worth doing.

6. “Mission, Vision, and Values.” The Coca-Cola Company. n.d. <http://www.coca-colacompany.com/our-company/mission-vision-values>

For example, the American Red Cross, one of the oldest and most well-known relief organization in the United States, has a very specific mission statement: “The American Red Cross prevents and alleviates human suffering in the face of emergencies by mobilizing the power of volunteers and the generosity of donors.”⁷ Defining an organization’s mission clearly and specifically is essential for success.

A mission statement, as you read in the chapter on Identifying Entrepreneurial Opportunity is a clear expression of an organization’s reason for being that defines its primary long-term goal and often includes an abbreviated plan of action for how to reach that goal. A mission statement is written by answering these questions:

- Who are we?
- What do we make or do?
- Why do we exist as an enterprise?

Developing an effective mission statement and adhering to it puts members of an organization on the same page, and it communicates to potential partners and consumers that your organization knows where it is going. Mission statements can be revised, but it’s best to get it right at the start. A strong mission statement helps stakeholders prioritize the entity’s action steps and should guide decisions.

This Ted Talk from Simon Sinek is entitled “How Great Leaders Inspire Action.” Sinek is the author of two books: *Start with Why* and *Leaders Eat Last*.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=207>

When it comes to crafting an effective mission statement, clarity is key: It must be specific. What is left out of a mission statement is often as important as what is kept in. A good mission statement is focused, direct, and honest about the marketplace in question as well as the organization’s capabilities. It strikes the right balance between

7. “Mission and Values.” American Red Cross. n.d. <https://www.redcross.org/about-us/who-we-are/mission-and-values.html>

practicality and hope. For example, Patagonia, a well-known outdoor apparel company, has a compelling mission statement: “Patagonia: Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.”

Link to Learning

Check out the article [32 Mission and Vision Statement Examples That Will Inspire Your Buyers on HubSpot](#) about what makes an effective mission statement and tips on how to write them to learn more.

An inadequate mission statement might say this: “At Toys Inc., we make the best wooden toys money can buy, and our mission is to continue to grow to be a market leader in the classic toy industry.” A better mission statement might say this: “Toys Inc. is a market leader in North American wooden toy manufacturing. It is our mission to lead the global market in wooden puzzle and wooden toy car manufacturing and to serve customers with fresh versions of classic toys.” Both mission statements leave room for growth, but the second one defines more precisely what the organization is and where it is headed in the long term.

A mission statement should refrain from using clichés since these constrain the specific and unique vision of the venture. It should not limit innovation or creativity, and it should reference consumers or clients.

To create a strong mission statement, start by defining what the organization is. Even in a startup, you have a core problem-solution and an idea of what the product—and therefore the brand—will be. Be specific when defining your organization’s reason for being without limiting your avenues for growth. Include or embed the service mission within the broader mission. Again, the mission statement needs to do the following things with a tone of optimism:

- Define who you are.
- Define what you do now and for whom.
- Define what you want to do in the future.

In a startup, the mission may change substantially in the early phases. Mission statements should not be crafted in a way that limits an organization’s ability to pivot—that is, to adjust the value proposition to better achieve product-market fit (see the *Launch for Growth to Success* for a more in-depth discussion of pivoting). And while they should not be impervious to change, revise the mission statement only when it is necessary and helpful to do so. Companies and organizations usually change their mission statement when they have made a major shift (due to an acquisition, pivot to another market, new growth strategy, etc.) or if their purpose has changed in a major way.

For example, the March of Dimes organization was originally founded to serve people afflicted by polio, but with the success of polio vaccinations, the disease was eradicated in the United States. As a result, the March of Dimes changed its mission to focus on preventing birth defects, premature birth, and infant mortality.⁸ In another example, Slack, a venture-backed startup that went public in mid-2019, was founded as a way for online game developers to collaborate. The original venture failed (twice), but the founder noticed that his engineers used

8. Kelly Medwick. “Why, When and How to Change Your Mission Statement.” Firespring. February 13, 2018. <https://blog.firespring.com/why-when-and-how-to-change-your-mission-statement/>

the tool for rapid collaboration and did not need email or other functions of Microsoft Windows. Slack quickly communicated this change in a simple mission statement: “Slack is where work flows. It’s where the people you need, the information you share, and the tools you use come together to get things done.”⁹

One thing should be clear: It is not the purpose of an organization to come up with better mission and vision statements. The purpose of an organization is to provide value to people and try to get paid or supported in doing so. The point of crafting mission and vision statements is to assist you to that end. Essentially, your vision statement is your dream, and your mission statement is your strategy in a real-world marketplace. The vision is a statement about why you matter as an organization with a view of what the organization will become in the future, while the mission is a statement about those who might be served by the venture. Refining these statements will help you clarify your entrepreneurial story.

GOALS

An organization needs to establish concrete goals for its products and services to remain viable. Goals should be stated in precise terms that are appropriate for the marketplace. For example, a new “white table” Italian restaurant in Chicago needs an initial goal on how it will attract and retain new customers based on its vision and mission, relative to what is already available. A new company’s initial goal is probably not to crush all competition and take over a monopoly position. Instead, it may hope to capture a percentage of a close competitor’s market share or create a new product to reach a niche market. In those instances, goals would be stated as specific outcomes to attract competitors’ customers, or in the case of a niche business (like Spanx), to define a new category of women’s comfort apparel. Lululemon Athletica, which pioneered customer-centered designs for women’s athletic apparel, recently established new growth goals that were consistent with its mission: “Management is hard set on growing the company to \$4 billion in revenue by 2020. This involves growing historically small contributors to the top line, such as men’s, international, and the digital business.”¹⁰

Goals can be tactical in the short term too. They should be reasonable, influenced by a detailed understanding of the marketplace and the competition, and attainable. Nothing stunts growth and clouds the path to achieving your vision more quickly than setting unattainable goals and holding members of an organization to impossible standards. Instead, set SMART goals, which you first were introduced to in *The Entrepreneurial Perspective*. SMART stands for specific, measurable, achievable, relevant, and timely. The best goals clearly communicate all of these elements, as shown in Figure 6.4.

9. “Slack Integration.” FounderHub. n.d. <https://founderhub.io/integrations/slack>

10. John Ballard. “Lululemon Athletica Pushes Forward With Ambitious Goals for 2020.” *The Motley Fool*. December 17, 2017. <https://www.fool.com/investing/2017/12/10/lululemon-athletica-pushes-forward-with-ambitious.aspx>

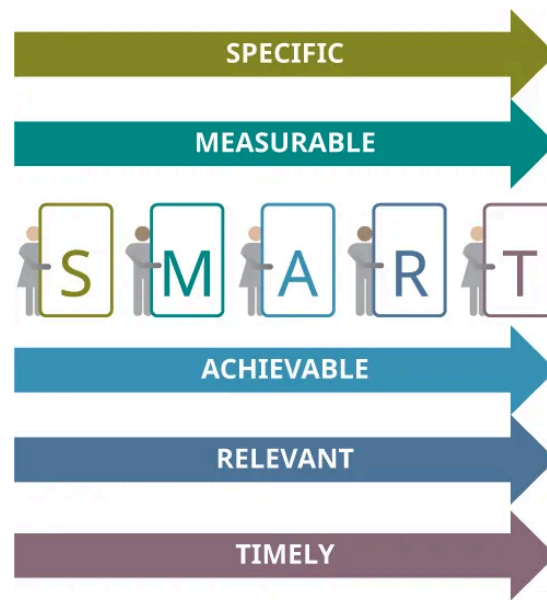


Figure 6.4 Creating SMART goals can help you realize your vision. Credit: Copyright Rice University, OpenStax, under CC BY 4.0 license

To break these down, SMART goals should be:

- **Specific:** Your goals should be precise rather than overly broad.
- **Measurable:** You should be able to test, in some quantifiable manner, whether a goal has been met, meaning that there needs to be some method to determine whether the goal has been met.
- **Achievable:** The goal must be attainable; it cannot be so lofty that it cannot be accomplished. On the other hand, the goal should not be so easy that it can be accomplished quickly or with little effort.
- **Relevant:** The goal should be well suited for what you want to accomplish; this means that the goal should be relevant to the outcome needed.
- **Timely:** Each goal needs to have a defined deadline: the time when the goal must be accomplished. What time frame do you have for completing your goals? How does this timeline fit into your overall plan?

Is it a reasonable goal for a specialty soap company to strive to capture 1.11 percent of the global market share two years after incorporating? Let's deconstruct the goal to assess how SMART it is. It is specific because it establishes a clearly targeted amount (1.5 percent) of a defined market (global specialty soaps). Market share is measurable. We can assume that this is an attainable goal for our imaginary startup. Is it relevant? Capturing market share is always relevant because it translates to near-term earnings and potential for future earnings at the same time. The goal as stated is also timely (within two years). Thus, this is a SMART goal.

SMART goals are not guarantees of success. As an entrepreneur, you could be wrong about whether a goal is attainable, for example. Or you may fail at measuring outcomes correctly, and your idea may not be as well defined or unique as you thought. Nevertheless, it is much better to set goals with all of these factors in mind than to practice wishful thinking or set abstract goals and hope to reach business benchmarks by luck.

11. "Mission, Vision, and Values." The Coca-Cola Company. n.d. <http://www.coca-colacompany.com/our-company/mission-vision-values>

WHAT CAN YOU DO?

SMART Goals for Social Activism

You can use SMART goal-setting methods to plan a peaceful social demonstration. Mobilizing people to speak out about an issue that they want political leaders to address is one of the most basic tasks social entrepreneurs undertake. Social entrepreneurs who go on to found successful nonprofit organizations often cut their teeth in this kind of base-level activism. But just because the concepts underlying demonstrating are somewhat straightforward—contact media, gather people, march, demonstrate, speak out, tell your story, clearly state your petition for change (also known as a “redress of grievances”), peacefully disperse, and strategize next steps—that does not mean that the process is always done according to SMART tactics. Protest organizers often vary immensely in their organizing skills.

Exercise

Here is the task: Think of an issue that you want addressed on your campus or in your community. Define it and draft a plan for a peaceful demonstration wherein the demonstration is clearly goal-oriented.

- State the specific issue you want addressed, who you want to address it, and what you want them to do.
- State several ways you might measure the success of your protest. Are you seeking media awareness, legislative change, or specific action regarding an individual victim or perpetrator of a crime? Be sure to clearly state not only reasonable expectations regarding reactions to your demonstration but also measurable outcomes you can communicate to others as you work to gather interest in your cause.
- Note whether your demands target the right leaders and whether what you ask of them is something you can attain.
- Demonstrate clearly how the specific action you plan to take is relevant to the cause at hand. Will you demonstrate in one place? Will you carry out some form of active protest such as a “die-in” at a certain location?¹² Will you practice nonviolent civil disobedience? Clearly explain why your action is relevant to your requests or demands. If you are planning an act of peaceful civil disobedience, are you and everyone you are encouraging to participate aware of the possible consequences, such as arrest? If someone is risking arrest to help demonstrate for an important cause, they are right to demand of protest organizers that the action be relevant and easy for target audiences to understand.
- Is your strategy timely? Are you planning a demonstration with measurable outcomes that will occur according to a timeframe you can track? It is generally ill-advised to petition for general fixes to complex solutions without paying attention to existing legislative and/or communicative cycles.

Note that this is presented as an exercise only. Much more planning goes into successful demonstrations, but this should give you a sense of how SMART goal setting can be useful for social entrepreneurship. It is not only for taking business risks. You can use SMART tactics to peacefully push for important changes. Recognize, obviously, that the risks are quite different for this type of social entrepreneurship than for other types of endeavors.

12. Tamar Harris. “Road Safety Advocates to Hold ‘Die-in’ at City Hall.” The Star. March 25, 2018. <https://www.thestar.com/news/gta/2018/03/25/road-safety-activists-to-hold-die-in-at-city-hall.html>

Thinking like a business entrepreneur again, recognize that SMART goal setting is a tactic for getting things done in the short term. You can line up several attainable goals over a period of several weeks or months, and build your way to a complex, realistic business plan. The Small Business Administration (SBA) business plan template,¹³ for example, includes eleven core sections and, as a blank outline, is thirty-five pages long. If you set a SMART goal to complete each section in about a week, in three months, you would have a comprehensive business plan.

ATTRIBUTION STATEMENT

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13. US Small Business Administration. "US Small Business Administration 8(a) Business Plan." March 31, 2014. <https://www.sba.gov/sites/default/files/SBA%201010C.pdf>

6.3 Developing Pitches for Various Audiences and Goals

Learning Objectives

By the end of this section, you will be able to:

- Understand the various audiences an entrepreneur may pitch to and how the pitch goals vary for each
- Define and develop the key elements of a pitch
- Describe a pitch deck and pitfalls to avoid
- Create and create an elevator pitch

Let's look more closely at how to develop pitches. Remember that we defined a pitch as a formal but brief presentation that is delivered (usually) to potential investors in a startup. As such, a pitch is designed to be clear, concise, and compelling around key areas, typically the key problem or unmet need, the market opportunity, the innovative solution, the management plan, the financial needs, and any risks.

You will often need to craft different types of pitches for different audiences. Key audiences include potential investors, social connectors, potential partners, key employee recruits, and the broader community, particularly if one needs to request permits or regulatory concessions. One misconception about pitching is that it is always done to investors who are ready to fork over a few hundred thousand dollars to the team that presents the best idea of the day. While this is, more or less, the premise of Shark Tank, it is not how pitching works for most entrepreneurs.¹

Entrepreneurs may pitch to friends and family as they develop an idea, and, at another time, they may pitch to well-connected entrepreneurs and investors who have little interest in the market sector in question but who can make the right introductions or helpful connections. Entrepreneurs might make pitches in what is known as a pitch competition, hoping for a shot at funding and mentoring.

Pitches come in many forms, but underlying them is that to pitch is to ask for something. Table 6.3 provides an overview of different audiences you might pitch to, outlining how the approach and presentation may vary for each.

1. Bill Rader. "The Truth about Pitching (and Why Many Entrepreneurs Fail Here)." Inc. November 22, 2017. <https://www.inc.com/bill-rader/what-theranoss-downfall-can-teach-entrepreneurs-about-pitching.html>

TABLE 6.3 SUMMARY OF PITCH SCENARIOS

Audience	Pitch Length	Pitch Approach	Key Content	Notes
Friends and family	Fifteen minutes	Usually verbal with a simple companion one-page handout explaining the concept, value proposition, and funds needed to get the enterprise off the ground	Should cover basic elements of the business model and concept, unmet need, and solution (including if it seems patentable), market and sales potential, and high-level risks	This common pitch can be emotional as founders are appealing to people they know well and are counting on their personal reputation and credibility vs. detailed data to sell the idea
Elevator pitch competitions	Two to five minutes	Usually a verbal pitch or single slide summarizing need, solution, market, opportunity	Should cover high-level innovation, value proposition, and a “call to action” to close the audience	Very common at accelerator or incubator events, university entrepreneurship events, etc. Prizes range from free services to \$1,000–2,000
Judges for pitch competition	Five to fifteen minutes depending on venue/rules	Varies from basic verbal to deck of one to eight slides, ending with a “call to action”; might require capital needs	Presentation that may include slides and/or video as specified in competition rules	These are very common and help the entrepreneur refine the pitch
Early investors	Ten to twenty minutes, depending on venue/rules	Standup presentation with slides and video or demo of product/service	Presentation that may include slides and/or video; more formal than pitch competitions with a specific “ask” for capital needs and use	Very common with angel investors; often the deck is required to be sent before the event
Employees	Ten to twenty minutes	Standup presentation with slides and video or demo of product/service	Major outcome is to inform and inspire; this can be a recurring event and should be informal	Very common in startups; usually monthly until company is profitable
Trade groups/associations	Ten to twenty minutes	Standup presentation with slides and video or demo of product/service; may be tailored to the specific group	Major outcome is to inform and connect to other key groups (investors, customers, etc.)	Very common at trade conferences; some have their own pitch competitions
Grant-making agencies (such as NIH, NSF)	Ten to twenty minutes if in person but usually embedded in grant application	Usually written but can lead to face-to-face meeting, depending on agency rules	Outcome is to get “scored” to gain grant funding; if not awarded, company can reapply in the next grant cycle	Grants are often technical and usually awarded for research and cannot be used for any commercial activities

PITCH AUDIENCES

No matter to whom you are pitching, you usually need to include references to your problem-solution statement, value proposition, and key features, and how you prioritize that information will change for different audiences. As shown in Table 6.3, once those core sections are covered, your different presentations should be tailored for different ultimate “asks.” The ask in a pitch is the specific amount of money, type of assistance you request, or outcome you are seeking.

INVESTORS

You have been introduced to different types of investors. For now, you just need to know the different types so you can start to think about how entrepreneurs structure their pitches to them. Individual investors want to know about team, product, value proposition, and potential return on investment. Angel investors are individuals who use their own money to invest in companies they’re interested in. Venture capitalists are investors who pool money from others and use that money to invest in companies.

Pitching to many potential investors without success can be time consuming and disheartening, but in most cases, the investor’s time is worth more than that of the people giving the pitch. If an investor offers feedback, it must be considered. You will probably not get all of the answers you need regarding how to make your venture an immediate success after giving a few pitches to individual investors and pitch competition judges, but if they take the time to offer a constructive critique, consider the pitch development and performance feedback a valuable experience.

David S. Rose is the author of *Angel Investing*. Watch David Rose’s TED Talk where he offers advice about how to pitch venture capitalists.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=213>

FRIENDS AND FAMILY

Imagine asking friends and family for money to keep your startup going after you have maxed out your credit cards and secured a small business loan only to build a prototype and realize you do not have enough funds to get it to market. A common entrepreneurial journey starts with this sort of self-funded effort. Between 50 percent and 70 percent of startup companies in United States self-fund (savings, credit cards, or friends and family) their initial capital needs.²³ In one sense, you may be perceived as being more trustworthy with so much riding on the endeavor. Still, you would frame your pitch differently when going to friends and family than you would if preparing for an investor. You would probably make the tone less formal. You would focus on the value proposition and the immediate outcomes of the loan. You would point out tangible deliverables or milestones that this money would help you attain, and you would need to draw a roadmap from this contribution to likely, not just hoped for, revenues if you were to give yourself the best shot at raising money. Asking friends and family for, say, \$10,000 might be more stressful to an individual than to ask an investor for ten times that amount. Your friends and family may want to invest in you, but they will also want to make their decision with a tangible narrative in mind. You want to build this narrative so that they can say: “I gave my family member X, so that they can finish building Y, to earn revenues of Z and continue forward with their innovation.”

2. Laura Entis. “Where Startup Funding Really Comes From (Infographic).” *Entrepreneur*. November 20, 2013. <https://www.entrepreneur.com/article/230011>
3. Meredith Wood. “Raising Capital for Startups: 8 Statistics That Will Surprise You.” *Fundera*. October 23, 2019. <https://www.fundera.com/resources/startup-funding-statistics>

POTENTIAL EMPLOYEES

Entrepreneurs also pitch to potential employees by focusing on why they are needed to help the team create something innovative and valuable. Once a product is under development, you must pitch to vendors. Prepare to explain the value proposition and key features in detail and explain how the vendor shares in revenues, such as options about accepting equity in part or in lieu of cash payments for services.

Entrepreneurs might also pitch to each other in hopes of building teams. Since most entrepreneurs are familiar with the structure of the pitch, you might be able to streamline proposals and simply state the value proposition and the ask. You will want to mention your team. The level of detail you share about who is working with you and what their contributions will be depends on the level of interest of the potential collaborator or investor. Future employees will likely want to know who they will be working with. Family and friends may not need to know the employment history of team members, but they, like other investors, will expect to know that there is a team capable of continuing to develop the product.

OTHER AUDIENCES

Other types of audiences include quasi-governmental bodies, individual investors, incubators, trade groups, and competition judges. Understand that governments usually care most about creating jobs or retaining jobs in their communities. Advanced competitions and larger investment firms will want to see concrete numbers demonstrating product viability, market relevance, and previous growth. In other words, they will expect to see more details, and they will usually communicate ahead of time their specific interests. That being said, you must network and investigate which elements of your pitch to prioritize based on individual investor or investment firm preferences.

PITCH GOALS

Planning a pitch means researching region, potential investors, and current competitors working in the same or similar marketplaces. A good pitch explains not only what makes the product or service good but what makes a market good. Research markets in addition to the individual investors you would like to target. Angel investors are hard to find, but markets can be thoroughly dissected. Marc Andreessen, cofounder of Andreessen Horowitz, one of the most successful Silicon Valley venture capital firms in existence, once wrote, “In a great market—a market with lots of real potential customers—the market pulls product out of the startup.”⁴ This is presented as an answer to a question Andreessen posed to himself: “What correlates the most to success—team, product, or market?” He set up this question as a rhetorical tool to teach entrepreneurs that without a market, you do not have a product no matter how hard you work or how genius your team is. Investors specialize: Find investors in the right geographic location and find investors who know the market sector. Your goal should be to find mentors who can explain markets to you in significant, accurate ways. If you find a fertile marketplace, you can practice customer development, and learn and iterate your way to success.

4. Marc Andreessen. “Part 4: The Only Thing That Matters.” The PMARCA Guide to Startups. June 25, 2007. https://pmarchive.com/guide_to_startups_part4.html

KEY ELEMENTS OF THE PITCH

A pitch is usually presented through what is called a pitch deck, alternately called a slide deck. This is a slide presentation that you create using a program such as PowerPoint, Prezi, Keynote, or Google Slides that gives a quick overview of your product and what you're asking for. As such, a pitch is designed to be clear, concise, and compelling, and should include the key areas shown in Figure 6.6.



Figure 6.6 Key elements of pitch include identifying the need, the market opportunity, an innovative solution, how the venture will be managed, what funding is needed, and how risks will be mitigated. Credit: Copyright Rice University, OpenStax, under CC BY 4.0 license

Here are six key elements of an entrepreneurial pitch from Media Innovation and Entrepreneurship.⁵

- Element 1: Brand identity image and tagline. Your presentation slide deck should begin with a memorable brand image. It can be a logo representing your product in a stylized way, or it could be a screen grab of your product wireframe (a computer rendering if it is a product, and a schematic or flow chart if it is a software/service business model).
- Element 2: Problem-solution narrative. Some entrepreneurial ideas solve common problems. Some solve problems that users didn't know they had. Communicate the problem-solution narrative succinctly. Incorporate visuals and a "hook" (skit, emotional testimonial, deep question, etc.) to connect directly with the audience. An effective technique when addressing a generally common problem is to ask the question while raising your hand to prompt the audience: "How many of you have experienced this issue/problem/challenge recently?"
- Element 3: Key features and your value proposition. Your pitch can introduce potential investors,

5. Mark Poepsel. "Pitching Ideas." Media Innovation and Entrepreneurship. (Montreal: Rebus Community, Fall 2018). <https://press.rebus.community/media-innovation-and-entrepreneurship/chapter/pitching-ideas/>. This material is based on original work by Mark Poepsel, and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

collaborators, employees, and others to your key features, your value proposition, and your user interface at the same time. Consider using a mockup of your product or images of a prototype to show your design capabilities while at the same time pointing out key features building to a value proposition. Or if you are a service or nonprofit venture, explain what you plan to provide to individuals or the community.

- **Element 4: Product-market fit description.** Define the market niche clearly and explain how your innovation serves the market purpose precisely. Not every problem is one people would pay to fix. Explain why there's a market to overcome this problem, how sizeable it is, and why your value proposition is the best. The chapter on Identifying Entrepreneurial Opportunity can help you hone in on this section and put your idea into words.
- **Element 5: Competitive analysis.** Demonstrate that your product is unique by defining its competition and illustrating how it will stand out in the marketplace. Investors will pay close attention to any missed or omitted competitors. They will want to see that you can establish barriers to entry, lest some immediate copycat eat up market share.
- **Element 6: Financial projections.** The business model canvas (BMC) can help you understand and be able to visualize how your value proposition sits at the center of two dynamics: input and output cycles. This is covered in Business Model and Plan, but just know that you must pay for inputs and overhead, and that revenues from outputs, sooner rather than later, ought to catch up to initial expenses. Show what the overall market is worth: How big is this pie? Then, show how big your slice and your investor slice is going to be. In many cases, you will want to end with a description of your team, demonstrating quickly why you are up to the task of growing this innovation. As mapped out here, this could be the basic framework for your pitch deck for a short competition. Some elements can be communicated in a single slide. Some will take more than one. Flesh out your essential pitch decks with further specifics or with data requested by competition organizers for longer contests. It is suggested that you keep your core deck to no more than ten slides and that you practice a two-minute version that covers all six of these concepts in case you meet an angel investor on the street.

If you have followed this discussion, you have established a vision for your innovation and the company you want to build around it. You have established a mission and identified a clear purpose for it. You should have a keen sense of your entrepreneurial story, but if you cannot express these things in a way that makes other people see the value, your innovation may not survive. You don't build pitch decks solely for the purpose of asking for money or support. That may be the primary objective, but when you work on your pitch, you build the narrative case again and again for why your idea has value and why other people should buy into your vision.

THE PITCH DECK

As you can see, the primary means entrepreneurs have of sharing their vision is the pitch deck. Usually ten to twenty slides can explain your company, its goals, and key information to persuade an audience to take action (usually investors to consider investing in the enterprise). Pitch presentations should be visual and engaging. They should be easy to edit and rearrange, and should engage viewers with art, panache, and reasonable appeals. In general, they communicate the inspiration behind the innovation, its future capabilities, and the strengths of the team. Incorporate as many visuals as you need and make sure the visuals match the script.

As an entrepreneur, you will be judged on your ability to develop and deliver a pitch. It can be taken as shorthand for your ability to research a marketplace, guide a team, and manage a product. Sharing your vision using slideshow software is not easy. Viewers are not impressed by status quo pitch presentations, but critical audiences

will also quickly notice when a pitch is all flash and lacks a good value proposition. A strong pitch, content-wise, can be noticed, even if the slide design is less than stellar. In other words, developing a great-looking pitch deck is important, but there has to be substantial content.

Link to Learning

Explore a variety of foundational pitch decks and learn what worked and didn't with each.

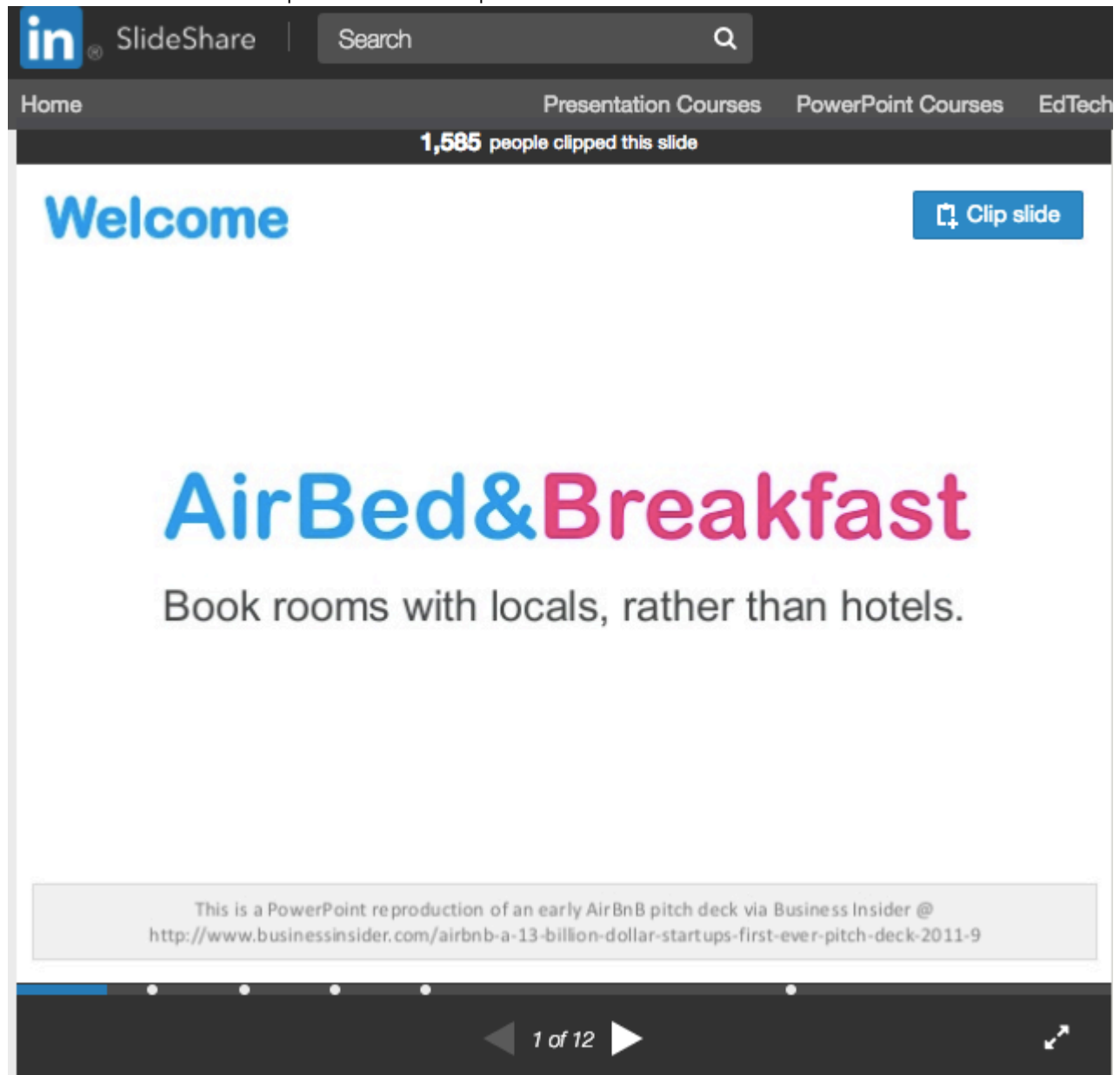
Let's use the slide deck from Airbnb as an example. It was presented after the company grew from its initial seed funding stage into a viable operation with high hopes for future revenue growth. That is, they were already established and making money when this deck was in use. It was presented after the initial investment stage, when the company had done a good deal of customer development.

The track record is always in question when small firms go asking for big money, so note how Airbnb describes its previous success and potential for future growth. When funded, AirBed&Breakfast would change its name and grow it into a global brand. This relatively straightforward deck from 2008–2009 is a popular example because of its simplicity and its powerful value proposition, although some experts note that the design could be better. Nevertheless, this was a successful pitch deck.

Successful Pitch Deck Example⁶

6. Adapted from Pitching ideas in Media Innovation and Entrepreneurship by Mark Poepsel, published by Rebus under a CC BY license.

Let's take a look at this example⁷ of a successful pitch deck deconstructed as it relates to these six elements.



Slide 1: Airbnb started out as “AirBed&Breakfast.” Brand identity is established with a sans-serif typeface, use of color, and a clear tagline: “Book rooms with locals, rather than hotels.”

Slide 2: The problem statement is straightforward: Travelers need an affordable alternative to hotels.

Slide 3: The solution statement focuses on the nature of the product, i.e. that it's a web platform, and on key features and how they create value, both financial and cultural capital. Note that key features and the value proposition are already addressed through three simple slides.

7. "Airbnb First Pitch Deck," *Pitch Deck Coach on Slideshare*, <https://www.slideshare.net/PitchDeckCoach/airbnb-first-pitch-deck-editable>.

Slide 4: To establish product-market fit, you first have to have a market. The Airbnb pitch deck notes that at the time there were 630,000 users on couchsurfing.com and that there were 17,000 temporary housing listings on Craigslist in San Francisco and New York combined in one week. Thus, there existed a large potential traveler pool and a large pool of people with rooms for lease, but these groups were in need of a unified platform.

Slide 5: The fifth slide details the size of the market and Airbnb's share, showing potential for growth.

Slide 6: Completing the case for product-market fit, this slide shows the attractive user interface and provides a mini-narrative for how the product works.

Slide 7: This slide shows four years' of revenue totals as simple math: 10 million + trips x \$20 average fee = about \$200 million in revenues. This is evidence of product-market fit and whets the investor's appetite for potential future earnings.

Slide 8: This slide shows how Airbnb has already beaten its competition to own the market for certain events and to create partnerships.

Slide 9: Here, investors get the full picture of the competition.

Slide 10: The financial expectations are pretty well established by this point and were explained verbally. What this shows are the barriers to competition expected to help preserve Airbnb's position and future earnings and growth expectations.

Consider what was involved in creating this Airbnb slide deck. The deck is not particularly complicated. AirBed&Breakfast, as it was called at the time, was a market leader in a niche that other companies had previously tried to exploit. The company's rapid growth was not a guarantee, but this offer was too good for investors to pass up, although at the seed funding stage, some investors did not see the potential in a service that helps people sleep in others' private residences.⁸ By the point this deck was in use, the company had gotten past initial concerns about safety and viability, and was ready to grow quite quickly. A 2018 check shows Airbnb has secured funding through six rounds from a variety of major investors.⁹

As we have seen, pitch decks and pitches are developed and delivered for various reasons, to various audiences, with varying content. For example, you may prepare pitches to pursue different long-term visions for your product. Or, if you do not secure seed funding, you might scale back your idea, adjust your vision, and rework your pitch. What remains the same is the need to convey how you will bring value to users or customers, and demonstrate the core pitch elements, adjusted for each altered outlook.

ELEVATOR PITCHES

After looking at an exemplary pitch deck adapted by a niche market leader between seed funding and the venture capital quest, it may seem difficult to inspire investors via a one- or two-minute elevator speech for a project under development, but preparing for this type of pitch is essential. An elevator pitch is an abbreviated pitch, a memorized talk that can get you in the door to put your full pitch deck on display. The elevator pitch should touch on the key elements of problem-solution, value proposition, product-market fit, and team, and not much else.

8. Alice Truong. "The Investors Who Passed on Airbnb's Seed Funding Had Their Reasons." Quartz. July 13, 2015. <https://qz.com/452384/the-investors-who-passed-on-airbnbs-seed-funding-had-their-reasons/>

9. "Airbnb Investors." Crunchbase. n.d. https://www.crunchbase.com/organization/airbnb/investors/investors_list#section-investors

Giving an elevator pitch is an art. The elevator pitch can be memorized and should be. It might be delivered informally at networking events or at dinner parties or other social engagements. You never know when you might need to give an elevator speech. You might find yourself talking to someone who'd be interested in your venture, and it might be at a golf outing, on the ski slopes, on the street, in a store, or, yes, in a giant investment firm's lobby as a courtesy, as in *The Big Short*. And of course, in elevators. That's why it should be memorized and up to date.

The classic example of a good elevator pitch is the one job candidates give that lands them an entry level job in a company for they have always dreamed of working. Adapted from an article in *Forbes*¹⁰ there are six elements of a good job-seeking elevator pitch.

First, the pitch must be targeted. It cannot sound as though just any job will do. You need to pitch yourself for the specific role the employer is trying to fill. It helps, second, to write your pitch down in order to edit it and perfect it. Third, it should be correctly formatted and, fourth, focused on the company where you hope to work rather than on yourself. Explain how you understand what they are hiring for and let that be the setup to a story that ends with you being the best person to fit their needs. Fifth, clear away the buzzwords and corporate-speak, and, finally, practice performing your pitch aloud. Elevator speeches, after all, are given in person.

Link to Learning – How I Built This

NPR's podcast *How I Built This* is a compelling collection of first-person accounts by entrepreneurs on all kinds of issues relating to their startups. This episode of "How I Built This" is about Sara Blakely and her elevator pitch for Spanx that turned into a bathroom pitch, and how she seized the moment for success.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=213>

However, a personal pitch is a relatively simple and straightforward task. If you're asked to write an elevator pitch for your proposed venture, start with about three sentences, or a 280-character Tweet. Write it first as a set of talking points so that you don't get hung up on trying to present the exact words in the exact order. Make your elevator speech broad enough that any member of your team could deliver it and any potential investor could comprehend it in passing. Delivering an elevator speech is a linear process, meaning a person can't be expected to read back or probe for more information the way they might with a written presentation or in a formal pitch presentation with time for follow-up questions. Be sure to bring business cards and keep your smartphone charged and ready for the exchange of contact information, a sign that you have succeeded in this first step.

Group Exercise – Developing and Practising an Elevator Pitch

Part of the idea of an elevator pitch is that you never know when opportunity will strike: when might you have thirty seconds on an elevator with someone interested in supporting your business idea? That's why thinking through the pitch—including practicing it and getting feedback—can be so valuable.

- Gather a group of 2–3 classmates or entrepreneurially minded friends.

10. Nancy Collamer. "The Perfect Elevator Pitch to Land a Job." *Forbes*. February 4, 2013. <https://www.forbes.com/sites/nextavenue/2013/02/04/the-perfect-elevator-pitch-to-land-a-job/#7843035b1b1d>

- Have each person spend a few minutes planning a 30-second elevator pitch.
- Take turns pitching your ideas. Take notes on others' presentations.
- Take turns providing feedback on the pitches. Feedback should focus less on the business idea and more on the presentation of the idea.

6.4 Protecting Your Idea and Polishing the Pitch through Feedback

Learning Objectives

By the end of this section, you will be able to:

- Understand why you need to protect your idea
- Describe both legal and unconventional tools to keep your ideas safe
- Understand the importance of feedback and how to manage and use it

When you start to pitch your idea, it means you are sharing it with a variety of people for different purposes. When encouraged to develop entrepreneurial ideas, students often ask, “How can I be sure no one is going to steal my idea?” The response often is that ideas come easily, while knowledgeable, driven leaders are hard to find. In other words, for those of you just starting out as entrepreneurs, it is important to recognize that coming up with ideas is much easier and much less important than learning how to turn those ideas into products that fit a market and that have a customer base already, or one you develop through painstaking customer development strategies. Many entrepreneurs find it is more important to sell an investor on their leadership potential and the strength of their team than on the strength of their idea or prototype. Even so, it is common for entrepreneurs to want to protect their intellectual property because more well-established companies might leverage deeper wells of resources and broader, more powerful networks to bring an innovative product or service to market in the time it takes an entrepreneur to move from securing seed funding to landing their first support for their first venture capital round (after seed funding).¹

Protecting your business idea with a patent, should you choose to apply for one, is important. Patents are granted for the purpose of encouraging entrepreneurship. If innovators have some reassurance that others will be kept out of the marketplace for a certain amount of time, they may be more likely to take the risk to pursue an innovation in the first place. Intellectual property protection (patents, trademarks, copyrights) is covered in much more depth in the Creativity, Innovation, and Invention and Fundamentals of Resource Planning chapters.

1. Some of this material is based on original work by Mark Poepsel and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

Products in most fields need to be developed and brought to market more quickly than the time it takes to go through the standard patent process. For manufactured goods, it is important to seek a patent when a product is finalized to protect the design. For intellectual property, it may be best to build first and seek patents later, particularly in a highly competitive field where it would be difficult to show that you truly have a unique breakthrough.

Entrepreneur.com has some helpful suggestions² that are paraphrased and reframed here: First, recognize that almost nothing comes to market having been created by a sole inventor or innovator. Some ideas truly are unique, but even they are nearly impossible to keep “under wraps.” Ideas have to be shared with many people for products or services to be developed. If nothing else, you will likely have to present your idea to investors at some point. Protecting initial ideas is not as important as protecting versions of products and services developed through iterative learning and testing processes because “know how” and trade secrets are considered intellectual property and must be protected since they are not always patentable. Aim to protect your successful value propositions, not your every technological whim. Most new business ideas are variations of solutions that others have anticipated or even written about, but others have not had the drive, the networking skills, or the fundraising ability of a true entrepreneur. Balance your time wisely between trying to protect your idea and working to develop it.

One way you can gain some peace of mind, again to paraphrase Entrepreneur.com,³ is by thoroughly investigating everyone with whom you plan to partner. If you have some assurance that they have not “burned” collaborators in the past, you can proceed with a sense of security. Conduct research without invading anyone’s privacy but use all of the public tools available to you. Search online to learn about potential partners and their previous endeavors. Request contact information and perhaps a list of references or former collaborators from potential partners. The level of formality is going to depend on the nature of the industry you are working to enter and the nature of the relationship you have with your collaborators, but if they resist being researched, that could be a sign that they will probably not prioritize you or your product’s protection.

LEGAL AGREEMENTS

Outside of patents, there are additional legal means of protecting your intellectual property.⁴ You may wish to require partners to sign a **nondisclosure agreement (NDA)**. Typically, NDAs carry with them a penalty should the partner disclose what they know of the proprietary information that lies at the heart of your value proposition. These can be time limited, meaning after a certain amount of time, someone will be free to discuss the business and its proprietary practices, or, for stronger legal controls, they may be open-ended. An open-ended NDA can require a person to stay silent about key information for life or face possible civil lawsuits worth potentially millions of dollars.

A **noncompete agreement** in a contract prevents an employee from working for the competition for a specified period of time after working for you. The intention is to prevent them from taking your secrets or their skills to a competitor. Some of these practices have been called into question particularly in industries where low-level workers who do not carry around trade secrets find they are asked to sign these types of agreements. However,

2. Stephen Key. “How to Protect Your Business Idea without a Patent.” Entrepreneur. May 8, 2013.

<https://www.entrepreneur.com/article/226595>

3. Stephen Key. “How to Protect Your Business Idea without a Patent.” Entrepreneur. May 8, 2013.

<https://www.entrepreneur.com/article/226595>

4. Stephen Key. “How to Protect Your Business Idea without a Patent.” Entrepreneur. May 8, 2013.

<https://www.entrepreneur.com/article/226595>

they can help keep corporate espionage to a minimum, and they can prevent certain key employees from taking the organization's intellectual property with them to their new employer, or perhaps to create their own startup. Employees should only sign them if they are a condition for employment. These agreements can vary.

A work-for-hire agreement between an individual employee and a company states that ownership of innovations belongs to the company, even if an individual makes substantial contributions to the product, service, or process. You should expect to be required to list collaborators on patents, even those working under a work-for-hire clause, but the purpose of the contractual agreement is to ensure that you or your company maintains exclusive rights to the patent.

UNCONVENTIONAL METHODS

One further suggestion is to apply creativity and mask your product or service's true nature. By de-emphasizing certain key features or by burying them in the user interface (UI), you might be able to turn attention away from your value proposition while still building your product, platform, or prototype. The user interface (UI) is what a customer sees when they use your product. A graphic user interface (GUI) is common for all Windows and Apple-based devices. Smartphones use application (app) interfaces built off the base operating system (mainly iOS or Android). UI's have become very common for many consumer and professional products, as they link to microprocessors, sensors, memory, and other embedded features. From a design standpoint, your team must decide where every button, search box, graphic element, and information display is placed and what it will look like. Good UI is useful and feels intuitive to the user.

For digital products and services, this aspect of your product is incredibly important, which is why manipulating it to mask functions or features is particularly risky. This is not a fool-proof approach by any means, but in hyper competitive, rapidly evolving environments such as the web software and mobile app industries, where invention and iteration occur at a breakneck pace and where, as soon as you go to market, your competitors can see and try to re-create your service or platform, a little subterfuge can give your business an edge at a relatively low cost.

An example of masking the true intentions of a product, perhaps, is the development of the mobile game Ingress by Niantic, Inc. Ingress is a GPS-based augmented reality game played around the world where users join imaginary factions and take over imaginary portals tied to real geographical locations in order to link up those portals and help their faction gain territory and resources. But while Niantic was taking its global mapping expertise and making a SciFi game out of it, it was also developing Pokémon GO. After specific geographic "nodes" were mapped by users the world over, Niantic had a global network of points of interest indicated by users. In many cases, nodes in Ingress—places with public art, cool architecture, or historical markers, for example—later became PokéStops in the Pokémon GO game, where players of the global augmented reality game gather resources to catch and battle their pocket monsters.

One way to protect your intellectual property is to strategically mask dormant features or capabilities until they can be more fully exploited. While few startups have the technological clout of Niantic, almost every business makes decisions on what to push forward, what to hold back, and when to release new products or features.

USING FEEDBACK TO REFINE YOUR PITCH

Pitching requires you to demonstrate that you have assembled a capable, professional team that can turn an idea into an innovation. Users, partners, investors, and others will offer thoughts on how your product or your organization should change. Investors consider it a warning sign if an entrepreneur cannot handle feedback.⁵ Applying lessons learned from feedback is the purpose of business learning.

Entrepreneurial ventures often start out as problems with no easy solutions. Your initial idea involves your best guess at what will be an innovative solution, but that will evolve more quickly toward product-market fit if your response to feedback is to accept it with grace. Your pitch must demonstrate that you have a great product, that you have done your research, and that you are able to take feedback and apply it to your products to make them better.⁶ In other words, you must show you are coachable.

Your venture's development depends on gathering data to find out what customers like and what investors are willing to fund, so you must seek out positive feedback and build on it, but you must also think critically about the positive messages you receive. Are consumers or users enthusiastic in their support or merely polite (this can especially be a concern when pitching to friends and family)? Can you clearly identify why you received positive feedback about certain features and not others? Be sure to gain feedback on many product variables and be sure you can isolate data points for meaningful analysis. The best feedback includes quantitative responses indicating what consumers like and what they don't, as well as qualitative information explaining why. Quantitative data relate to numerical measurements including actual purchase and behavior as well as opinion research about a product. Qualitative data are complex information that answers the questions "Why?" and "How?" It is often impossible to tell why people do what they do with your product unless you ask them.

In the short term, you can use feedback to decide which features to focus on early in the venture. Many entrepreneurs are faced with the dilemma of having too many good ideas.⁷ If you pursue all of your good ideas at the same time, your organization can quickly run out of resources. Focus first on features that are most popular and relatively affordable to produce and deliver. Those high-return products, services, or features might not be what you use to define your brand in later years, but they can sustain a startup long enough to develop more elaborate products and features that require more time and investment. Over the long term, feedback helps you direct your company.

Feedback may also come from employees, market leaders, and your competition. Feedback from these sources may be more useful for guiding long-term growth projects. In this sense, feedback means more than advice or product ratings. It can mean tactical moves in the marketplace. Your competitors offer you feedback when they take actions in a marketplace in response to your actions. Be sure to attend to competitors' actions with the same open mind and the same air of thoughtful skepticism you apply to other forms of feedback.

5. John Rampton. "25 Reasons I Will Not Invest in Your Startup." *Entrepreneur*. September 15, 2014.

<https://www.entrepreneur.com/article/236999>

6. Michelle Ferrier and Elizabeth Mays. *Media Innovation and Entrepreneurship*. (Montreal: Rebus Community, Fall 2018). This material is based on original work by Mark Poepsel, and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

7. Mayo Oshin. "5 Things to Do When You Have Too Many Ideas and Never Finish Anything." n.d. <https://mayooshin.com/5-things-to-do-too-many-ideas/>

Once you have the opportunity to pitch your idea, the next step is the careful measuring of quantitative and qualitative feedback about the pitch presentation, mockup, poster, or, in the case of many manufacturing processes, a 3D-printed model that approximates what the tangible finished product might look and feel like. Data from pitch competitions are sometimes out of your control, so it may be preferable to incorporate the learning you get from pitch feedback into this customer development process.

ATTRIBUTION

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6.5 Reality Check: Contests and Competitions

Learning Objectives

By the end of this section, you should be able to:

- Identify resources for locating contests and competitions
- Understand the opportunities and realities of contests and competitions

Now you have an idea of how to communicate the purpose of your innovation through clear mission and vision statements, while setting tangible SMART goals for your startup. You should also have a basic understanding of how to pitch your innovation to different groups using different types of pitches to garner financial support, to attract skilled talent, and/or to garner contributions if you are a social entrepreneur. You have some strategies to protect your idea, and you have reviewed how to incorporate feedback into an iterative process to improve and refine the concept or prototype. Now it is time for a reality check. What can you actually do as a student entrepreneur to enter the marketplace ready to innovate and make your first pitches?

First things first: Use your educational and professional background to conduct research to determine the kind of entrepreneurial environment that suits you. Do you wish to work for a startup and put your creative talents to work helping an existing team to build on their ideas? Are you looking to get in on the ground floor to help develop a startup from scratch, adding your knowhow about pitching to the mix? Or, are you looking to be an entrepreneur and build your own team around your own innovative ideas? You owe it to yourself to explore these options through careful research.

REGIONAL RESOURCES

Just as communities invest in schools to educate students for the improvement of the entire community's standing, some communities are starting to see the long-term value in investing in entrepreneurs. Here are some of the resources to look for:

- Shared workspaces where entrepreneurs come together to work on their independent projects as well as to build teams. HQ Raleigh in North Carolina is one such space that offers multiple membership options, office and kitchen facilities, and other perks. WeWork is another space, located in New York City, as is Spark in Baltimore, Maryland (Figure 6.7).
- Business incubators or accelerators that do more than offer office space. They offer mentorship rather than a good coffee bar.
- Pitch competitions to begin to garner the feedback you need to refine your value proposition(s) and

develop a comprehensive business plan.

Depending on the size of the community where you choose to live, there may be different types of entrepreneurial niches for you to target, or there may be a more generalized entrepreneurship space. Regardless of the size of the community, it is the people in it and your ability to network that will most strongly influence your potential.

One option to pursue is to be part of a product pitch within six months of landing in a new city. Perhaps you are pitching your own focused idea, or perhaps you take your talents to a team with a pitch already in the works. Regardless, as an individual with an interest in being an entrepreneur, if you are not collaborating and competing, you are not growing your business or social venture.

CONTESTS

According to Entrepreneur.com,¹ it is essential to take the temperature of the contests available in a certain geographic region before diving in. An entrepreneurial contest is any entrepreneurial competition other than a pitch competition. They usually are run by nonprofit organizations and universities, but more companies are hosting them to open up to more outside innovation to attract diverse entrepreneurs and access nontraditional sources of new ideas with commercial potential. They usually entail submitting documentation about your business, items such as business models, prospectuses, and forms tailored to contest specifications.

There are many reasons for joining a contest. Finding a mentor is at the top of the list. Your first contests and pitch competitions provide a learning experience for yourself as well as an opportunity to network and look for mentors and potential collaborators. To prepare for a contest, find out exactly what is expected of you and do as much research as you can so that you are writing using the iceberg principle. Following this writing principle, each word or sentence in your contest submission should be backed up with a wealth of supporting information and details. Even if judges never see a long-form prospectus, a detailed summary of the business, the investment that the company is seeking, or the key risks that the company faces—ensuring you have the hard data to back up those points in your executive summary or introduction increases your chances of success in the competition.

Entering a contest is similar to deconstructing your pitch deck, backing up every point with careful research, and writing and presenting the information in the various formats requested. Contests may ask for papers, posters, videos, social media campaigns, and other materials. Whatever kinds of media product the contest requires, you must complete them in a professional manner. If you truly want to win a contest that requires multimedia or social media elements, you might want to hire a media professional to assist you in this, which is essentially a marketing effort.

If and when you win a contest, make connections with organizers and seek mentorship. Great mentorship, in the long run, is more valuable than a cash prize with strings attached. A good mentor and a good market niche are often better predictors of entrepreneurial success than a person's ability to develop compelling contest packets or highly charged pitch presentations. To be an entrepreneur, you need to know how a business sector functions within a social, cultural, and regulatory geographic context. To the extent that entering a contest can help you learn about these things, it is a valuable effort, but in most cases, the prize funding of \$5,000, \$10,000, or even \$20,000 won't guarantee your startup much of a head start.

Contests on college campuses may be more worthwhile than others because of the number of mentors brought in to judge them. Mentors that understand regional markets and opportunities for networking can be quite valuable, and contests may be one of the few times that large numbers of professionals get involved in a college course or extracurricular exercise. Also, competitions may be put on by business groups or social entrepreneurship

1. "Entering a Small Business Funding Contest." Entrepreneur. January 25, 2017. <https://www.entrepreneur.com/article/286209>

groups on campus that provide great networking opportunities. Some contests compose the preliminary phase before the pitch competition that follows. In that case, you would prepare your pitch deck as you prep your contest application to ensure that your pitch matches your claims. It may seem fairly straightforward, but when discrepancies exist between what you submit and what you ultimately present, judges will notice. Regardless, a contest on a college campus or in your niche market gives you a chance to research your market, scrutinize your own ideas, and build a team.

Building a team for a contest with the ultimate goal of creating a successful endeavor is one of the most exciting but trying aspects of entrepreneurship. Many entrepreneurs are reluctant to relinquish control and seek people who will do things only the way they want them done. This is not usually possible, and it is not advisable. You want to build a team of people who can see a problem from different points of view and can offer constructive, honest input. Your best hope is to establish an ethic of clear communication and respectful give-and-take when it comes to criticism because there will be differences of opinion and approaches. If a contest is nothing more than an impetus to build a good team, it is a worthwhile effort. There are many ready sources to find out about these contests; check most entrepreneurship programs at major universities (some are open only to students and/or alumni, but others may be open to others). Also check with major startup sources (such as TechStars or Y Combinator) as well as with local economic development entities. Finally, you might locate contests focused on particular groups for which you may qualify, such as women entrepreneurs or other historically underrepresented groups.

COMPETITIONS

Like contests, pitch competitions may offer cash prizes or mentorship opportunities to the winners. Some larger pitch competitions have seed funding agreement contingencies that winners must sign before they can accept cash prizes. The key difference between a contest and a pitch competition is that in the latter, you are expected to present your business idea in the form of a presentation, usually with a pitch deck, whereas in the former, you are expected to provide a more informal summary of your idea, though the prizes in contests are less (e.g., \$1,000 in free legal or other business services vs. a much larger cash prize).

A photo shows seven people holding up certificates after winning a pitch competition.



Figure 6.8 Universities, communities, funders, and other interest groups offer pitch competitions to support entrepreneurial ventures. Shown are participants in the Road to GES (Global Entrepreneurship Summit) Heartland pitch competition in Overland Park, Kansas. Credit: "Pitch Competition at Road to GES Heartland" by "Global Entrepreneurship Summit Follow"/Flickr, Public Domain.

Look for competitions in your city and in locales within half-a-day's drive such that you could compete in pitch competitions without spending too much time or resources on travel. Seek out competitions that focus on the market sector you are most interested in. Play to your capabilities and strengths. Some pitch competitions are sponsored by regional economic development offices.

They often offer cash prizes in the hopes of attracting nascent startups to their region. Others connect entrepreneurs to investors waiting with seed money and a contract stipulating what percentage of the business they will own. Some offer money toward legal, accounting, mentoring, and other services. This is how seed funding works, but contest winners would do well to ask for legal advice before signing a contract tying up a portion of their business as a condition of receiving an award or a level of seed funding they might be able to secure through other venues.

This explains why some entrepreneurs seem to tank their own deal on *Dragons' Den* or *Shark Tank*. In some cases, perhaps they are foolish to pass up a deal, but in other cases, they have other avenues for seed funding in mind that may give them more control of the future of their company. The last thing you want to do is to win a competition and sign a contract for an investment in the business that does not lead to or protect your end goals. While the show *American Idol* has been a cautionary example² (winners of *American Idol* usually sign an exclusive recording contract that is restrictive for the artist and limits them from signing with a major recording company for several years), most investors will almost always want to own a piece of the long-term future of any entrepreneurial effort they help fund. Before entering a competition, learn whether the nature of the prize requires this type of seed funding agreement or not. Base your decisions on your own comfort level with this type of arrangement as well as research how previous winners have been treated and what successes and failures they have had.

2. Nasir Pasha and Matt Staub. "The Prize for Winning American Idol? A One-Sided Contract." Pasha Law. February 6, 2015. <https://www.pashalaw.com/prize-winning-american-idol-sided-contract-e148/>

To win a pitch competition, find out exactly who you are pitching to and what criteria they will use. Be sure to thoroughly read through the competition guidelines and learn what you can about the specific judges and their backgrounds. Tailor your pitch to fit contest objectives as much as you can without changing your value proposition or promising features or deliverables you cannot make good on. Match the ask with what the contest offers. Nothing annoys contest judges more than when the prizes and offers are clearly laid out in the contest guidelines and then pitch presenters ask for much more money or for something completely different than what they have on offer.

You should develop one core business model, pitching several times to individuals, entrepreneur groups, investors, and competition judges (unless that is your day job). This will help you develop your pitch for the market niche. Over time, you will learn what to stress and what to downplay or cut, and this may help you win competitions.

As a college student, you can participate in campus pitch competitions to practice learning a market niche. Perhaps the market niche you explore in college will be similar to the ones in which you work after graduating. If you are in a college town, it may be a peculiar marketplace, but it will usually have an abundance of mentorship opportunities making up for what it may lack in business infrastructure. Make your pitch decks professional and rehearse your presentations until they are perfect. You must also be a studious audience member at such competitions. It is not uncommon for an entrepreneur to master their own approach after watching others present for a year or two.

Example

The Collegiate Entrepreneurs' Organization is an international non-profit organization dedicated to establishing networks of post-secondary students interested in entrepreneurship on university campuses.

Successful entrepreneurship happens when innovative people find fertile ground, develop ideas and concepts, and persevere through learning to fit new products in appropriate marketplaces. College graduate entrepreneurs owe it to themselves to research the entrepreneurial community they would prefer to target. Economic development offices all over the world encourage entrepreneurs to come to their cities because they need innovative people with energy and a willingness to take risks to come up with the economic engines of the future.

One of the ways regions incentivize entrepreneurship is through contests, which are any means of competing for startup funding that does not involve a pitch competition. If you can build a team for a static contest, you are well on your way to building a team to pitch new innovations.

6.6 Key Terms

ask

specific amount of money or type of assistance requested in a pitch

corporate narrative

story about how a successful company grew from something small into something broad and powerful, serving thousands or even millions of people; it may have marketing purposes, and it may serve as an inspirational story for leaders and employees

elevator pitch

abbreviated pitch, a memorized talk that can get you into the door to put your full pitch deck on display

entrepreneurial contest

any entrepreneurial competition other than a pitch competition; contests may entail submitting business models, long-form prospectuses, or forms tailored to contest specifications

fear of missing out (FOMO)

need to keep up with peers and the personas they represent in social settings, particularly on social media

iceberg principle

writing principle useful for preparing contest documents and pitch decks; following this principle, each word or sentence in the submission or presentation should be backed up with a wealth of supporting information and details that go unspoken in the pitch or proposal, but which you have at the ready should an investor take interest in the details and your knowledge of them

ideation

purposeful process of opening up one's mind to new trains of thought that branch out in many directions from a stated purpose or problem

mission statement

statement of an organization's reason for being that defines its primary long-term goal, explains what the venture will do, what value it will provide to the end customer, and how it will accomplish that action

noncompete agreement

formal agreement that the person signing the document will not work for another organization that is a direct competitor of their current employer during employment and usually for a specified length of time after employment ends

nondisclosure agreement (NDA)

contract that carries harsh financial penalties should one party to the agreement disclose what they know of the proprietary information

pitch

formal presentation in which you ask for something and that is delivered (usually) to potential investors in a startup

pitch competition

competition that may have cash prizes or mentorship opportunities for winners; you are expected to present your business idea in the form of a presentation, usually with a pitch deck

pitch deck

slide presentation that you create that gives a quick overview of your product and what you're asking for

problem-solution narrative

brief story of a sentence or two that states a problem affecting many people and offering a solution that is innovative, unique, insightful, or all of these

user interface (UI)

what a customer sees when they use your product; having a variant of a UI is not necessarily grounds for establishing a patent, but having unique design in the broader sense may help you to secure patent protection

value proposition

summary describing the benefits (value) customers can expect from a particular product or service

work-for-hire agreement

agreement between an individual employee and a company states that ownership of innovations belongs to the company, even if an individual makes substantial contributions to the product

6.7 Unit Summary

6.1 CLARIFYING YOUR VISION, MISSION, AND GOALS

The most basic formula for telling the story of your innovation is the problem-solution narrative. Entrepreneurs are problem solvers, but they need to strategize to battle competitors and to weather the risks inherent in starting a new venture. Vision and mission statements are crucial to planning a venture. Vision statements are broader than mission statements. Entrepreneurs can set attainable goals with the help of the SMART goals framework. All of these tools—vision statements, missions, and SMART goal formulation—help build on the venture's origin story and serve as a general and specific organizing narrative.

6.2 SHARING YOUR ENTREPRENEURIAL STORY

This section outlined the importance of conceptualizing and communicating your venture in narrative form. Not every startup venture is a fairy tale, but if you can recognize and apply trusted story formats, you can help establish prominence for your brand, your products, and their specific features. Eventually, your story might be the genesis of a corporate narrative if the startup grows to become one. There are advantages and disadvantages to crafting stories. The advantages are that stories help you communicate the problem your innovation addresses, the solution it offers, and its market need. The disadvantages are that a story can create the fear of missing out in consumers and can set unattainable, rigid goals that can cause you to miss key factors in the venture's development.

6.3 DEVELOPING PITCHES FOR VARIOUS AUDIENCES AND GOALS

A pitch is a request for support, either financial investment or some kind of support. A great pitch takes into account the intended audience and the goal of the talk, and prioritizes information accordingly. In other words, it answers the questions Who? (Who are we pitching?), What? (What are we pitching to them?), and Why? (Why are we pitching: What is the "ask"?). Once you establish these elements, you need to develop a professional pitch deck and include engaging materials that share your passion and communicate your vision. Your pitch should paint a picture of a successful product or service delivering strong returns for investors or for those who choose to work for you or do business with you.

This section offered an outline of elements for a professional pitch deck and provided a few details about what ought to be included. Pitches may vary in length and should take into consideration the demands of contest rules and the quirks of potential investors. That said, there are elements that almost every pitch needs to include, and they are presented in the approximate order in which they might appear in your pitch deck. In general, you should cover all elements of the pitch as outlined here, but the level of detail may vary based on the audience. The entrepreneur should ask the key contact what specific area(s) she should cover so as to make the best impact.

We also discussed crafting different pitches with different senses of vision in mind, which can be particularly helpful post-pivot when an organization has a product but needs to adjust it to target new markets. Finally, we looked at the elevator pitch, which is miniature version of your more complete professional pitch and an introduction to your vision. The pitch before the pitch, if you will, should be clear, concise, and catchy—enough to get an investor’s attention without driving them to hop off the elevator.

6.4 PROTECTING YOUR IDEA AND POLISHING THE PITCH THROUGH FEEDBACK

Protecting your intellectual property is something you must plan for as an entrepreneur. In crowded marketplaces, small innovations or variations on a theme might be difficult to patent, and the process takes time; thus, not every product or iteration needs to be patented. Investors are often more interested in the potential of a leader and team than the potential of an idea. With that in mind, the protection of an idea shouldn’t supersede building a great team or pitching your idea widely enough to tap into appropriate funding channels.

A patent can protect your intellectual property. Other protections are nondisclosure agreements, work-for-hires, and noncompete agreements. If someone breaks a contract, your only recourse is through legal channels. It is better to conduct thorough research to be as confident in your team as possible before you share your ideas, designs, and prototypes with those who will be helping you make your innovation a reality.

Entrepreneurial learning comes from seeking feedback on your ideas from potential customers and investors. Feedback on your pitch itself can help you refine how you present those ideas.

6.8 Review Questions

1. _____ is like the origin story for a brand.
 1. problem-solution narrative
 2. purpose
 3. mission statement
 4. vision statement
2. Identify the correct terms used in this text for setting SMART goals.
 1. specific, measurable, attainable, relevant, time-bound
 2. specific, marketable, attainable, relevant, time-bound
 3. specific, measurable, achievable, relevant, timely
 4. pecific, measurable, attractive, relevant, time-bound
3. What is defined as the thing your organization does that people will pay for or contribute to?
 1. earnings statement
 2. profit proposition
 3. value for revenue proposal
 4. value proposition
4. When an entrepreneur's story becomes part of the mythology of a corporation and its purpose, this is known as a/an _____.
 1. mission statement
 2. vision statement
 3. purpose statement
 4. corporate narrative
5. When someone supports your products and your brand so much that they begin speaking on your behalf in person and on social media, they are known as a/an _____.
 1. brand advocate
 2. corporate narrative sponsor
 3. impetus
 4. entrepreneurial drive
6. In previous decades, a term for a related phenomenon was "Keeping up with the Joneses." This refers to

a sense that if we are not living our best life, having the most fun, enjoying the best foods, fashion, and so on, then we are not living the life we should. This term can refer to both a short-term concern and a general anxiety that others are enjoying life more than we are.

1. brand advocacy awareness
 2. FOMO, or fear of missing out
 3. "Jonesing"
 4. happy ever anxiety
7. Pitches have different purposes, depending on the target audience. The constant in every pitch is that it _____.
1. must be short
 2. makes a request for support
 3. includes six elements and about ten slides
 4. is derived from a corporate narrative
8. An abbreviated pitch that you memorize is called an elevator pitch. Meant to be given in person, it should be _____.
1. brief
 2. memorizedconnected to a request for more time to make a more complete pitch
 3. All of these options are correct.
9. A graphic worksheet that sets forth the value proposition of any startup and allows you to identify stakeholders, and key inputs and outputs is the _____.
1. business model generator
 2. business model canvas
 3. business mobility canvas
 4. business meditation and creativity matrix
10. An agreement between an individual employee and a company that states that innovations belong to the company, even if an individual makes substantial contributions.
1. nondisclosure agreement
 2. work-for-hire agreement
 3. noncompete clause
 4. patent
11. A _____ is a license granting exclusivity, as in the exclusive rights to manufacture and sell a specific product.
1. patent
 2. UI
 3. nondisclosure agreement
 4. noncompete clause
12. Numerical measurements providing data on how people use a product or service results in _____

data.

1. qualitative
 2. quantitative
 3. lean
 4. build-measure-learn
13. More complex data indicating why and how people use or might use a product or innovation is known as _____ data.
1. qualitative
 2. quantitative
 3. lean
 4. build-measure-learn
14. The _____ is the specific request for funding, mentorship, collaborators, and/or business partners that appears in a pitch.
1. ask
 2. request
 3. pitch
 4. contest

6.9 Discussion Questions

1. After a search, give examples of companies with clear vision but poorly defined mission statements.
2. What are the pitfalls in crafting a vision statement that is too broad or too narrow?
3. Place the SMART goals in order of importance and discuss why you chose that order.
4. How can telling your entrepreneurial story help build a brand?
5. What is the risk of falling in love with your own entrepreneurial story?
6. What would it take to rework a pitch deck created for a campus competition and present it to an individual angel investor?
7. In what ways is an elevator pitch an abbreviation of a longer professional pitch? In what ways does it differ?
8. Reflect on the Airbnb pitch deck. What would the elevator pitch version of that presentation sound like? What would the ask be for the new elevator pitch?
9. At what stage of product development for a manufactured good should you file for patent protection?
10. Are noncompete clauses fair in entrepreneurial work? Why so? Are noncompete clauses always fair for employees? Why or why not?
11. Research the average time it takes to win a patent in an industry you are interested in. What are some factors that contribute to delays in patent seeking?
12. It is common to develop a product based on limited feedback using as few resources as possible only to watch as no one uses or buys the product. Can failure be a valuable part of finding product-market fit? Why or why not?
13. This section advocates using qualitative and quantitative data to develop products and find the right market for them. When might it be appropriate to rely heavily or solely on quantitative data? Can you think of a product that had very high usage rates that was incredibly popular but that almost as quickly fell out of favor? Which is better at predicting a fad: qualitative data or quantitative data?
14. Imagine entering your campus pitch competition. What is your strategy to win?
15. If your campus does not have a competition, what national competition might you enter? What is your strategy to win? Do some research online to find what has put past winners ahead.

6.10 Case Questions

1. The John Deere Company has one of the most enduring corporate narratives in the world. John Deere was a real person who developed an early, successful steel plow that in some ways contributed to the agricultural revolution the world over. Research and re-tell the John Deere story. What drove John Deere's success? How does the corporation foster brand advocacy today through its media presence and publications? Some would argue that the John Deere Company has achieved the entrepreneur's vision. Is it possible for a company to truly live up to its vision statement? Does that describe what John Deere the company did for John Deere the person, or is that an overstatement?
2. Princeton University professor, president, and CEO of New America, a think tank dedicated to "renewing America in the Digital Age," Anne-Marie Slaughter wrote an article for The Atlantic in 2012 called "Why women still can't have it all."¹ Slaughter starkly and personally lays out the challenges of maintaining the elusive work-life balance. She advocates for taking a long-term view in one's life and balancing the needs of family with career aspirations. Can a successful entrepreneur have it all? What do entrepreneurs' stories and corporate narratives suggest? What do you think of the serial entrepreneur who builds a company to sell it and then takes time between ventures to spend time with family and friends? Is this version of the entrepreneurs' story rare? If you find it to be rare, do you think this might be because it rarely happens or because it doesn't fit social expectations of workaholic success stories?
3. Design plays a major role in how investors and other audiences respond to your pitch deck, but for one startup, achieving near perfection in their slide design did not create a pathway to success. Wattage Inc. was pitched as a modular electronics company that would allow users to design their own electronic equipment from modular parts, add art and other customized pieces, and have it shipped directly to them. To take a massive market—consumer electronics—and add a customization element was incredibly ambitious. The deck made for an aesthetically pleasing failure.² Potential investors would not open their checkbooks, but would smile and suggest that these guys could always go into business making pitch decks for other startups.³ The innovation that promised to make us all inventors failed, at least for now, but it can teach us many lessons about developing pitches. View Wattage's pitch deck to learn more.

1. Can great design hurt a pitch presentation? How, or if no, why not?
2. What do you think was missing if investors loved the pitch deck, appreciated the tactile prototypes, and yet decided not to invest?
3. There is a "go-big-or-go-home" sentiment to this kind of startup that tries to shake up a massive marketplace. After visiting these links and reviewing what Wattage Inc. was trying to build, could

1. Anne-Marie Slaughter. "Why Women Still Can't Have It All." The Atlantic. July/August 2012. <https://www.theatlantic.com/magazine/archive/2012/07/why-women-still-cant-have-it-all/309020/>

2. Jeremy Bell. "Well, We Failed." Medium. May 5, 2017. <https://medium.com/inside-wattage/well-we-failed-77e795e16ecf>

3. Taylor Lorenz. "Everybody Kept Telling This Startup That Its Pitch Deck Was Beautiful—But They Didn't Invest." Business Insider. May 12, 2015. <http://www.businessinsider.com/wattage-pitch-deck-couldnt-save-startup-from-failure-2015-5>

you come up with a scaled-down or more focused version of the concept that might work? One issue with this type of startup is that it can only target very large investors. How might you build different pitch decks targeting different types of investors (electronics investors, those who invest in value-added customization products, modular tech enthusiasts, and so on)?

4. Zappos is sometimes cited as an example of the leanest of lean startups conducting the build-measure-learn process successfully.⁴ The company started with no inventory and instead started taking orders to ship shoes to customers who ordered online. They let the market pull the inventory needs out of their startup rather than buying a store of shoes and hoping to sell them all. Their inventory was their local shoe stores. They started out buying their inventory at retail price and then marking up a surcharge for the service of seeking, sorting, and shipping.

There may not be many pairs of shoes worth more than retail price, but people were willing to pay for convenience, and Zappos could measure popular sizes, brands, and trends in ways that would help them anticipate inventory needs as they grew.

1. In what ways is the Zappos lean startup story about feedback?
 2. Ideate a potential startup, besides a food delivery service, built around efficiently or conveniently packing and shipping something others have already made.
 3. Ideate a potential startup where you could conceivably earn revenues even when buying your inventory at retail price. What makes you think some online customers would pay a premium? What kind of business learning would you have to do to improve on the Zappos lean startup model?
 4. As soon as a retailer or other service provider notices that a startup is making a profit adding convenience to their existing business infrastructure, what is to keep them from entering the marketplace? Are there any protections for the service you propose? How might you protect such a business?
5. Entrepreneur.com is cited or referenced several times in this chapter, but even contributors to this publication, which relies on serving a culture of entrepreneurs as part of its value proposition, sometimes question its own community's trends. Their article, "We've Become So Obsessed with 'Innovation' That It's Now Meaningless" challenges a perceived overuse of the term "innovation." Read the article *We've Become So Obsessed With 'Innovation' That It's Now Meaningless* By Boland Jones /Sep 1, 2015 in *Entrepreneur*. Look for news of college pitch competition winners. Are they all truly innovations? Find a college pitch competition, business model competition, or elevator pitch competition winner who truly is innovative, and find ones, perhaps, who are variations of Uber—delivering stuff and charging a premium for convenience and little more.
 1. Do you agree with the guest commentary published in Entrepreneur.com? If so, why? If not, why not?
 2. What can you do in your work as an entrepreneur to develop value propositions that go beyond what can be dreamt up in a classroom?
 3. What can you read and do to come up with truly fresh ideas? What places can you visit? What networks and mentors can you tap?
 4. How can you as an individual move past an "innovation" obsession to solve people's problems.
 5. Can you be more than another college innovator? Can you be a superhero entrepreneur?

4. Anastasia. "How the Build-Measure-Learn Cycle Really Works." *Cleverism*. July 26, 2015. <https://www.cleverism.com/how-build-measure-learn-cycle-really-works/>

7.1 Entrepreneurial Marketing and the Marketing Mix

Learning Objectives

By the end of this section, you will be able to:

- Distinguish between traditional marketing and entrepreneurial marketing
- Describe the seven elements of the marketing mix

Being a successful entrepreneur often means being able to balance the many different aspects of a business, such as financing, accounting, and management. One of the most important of those aspects is marketing. After all, if no one hears about the new product, how can it be successful? According to marketing research company CB Insights, in a survey of 101 companies that failed, 14 percent of them failed due to poor marketing.¹ Marketing is an umbrella term given to those activities that companies use to identify consumers and convert them into buyers for the purposes of achieving a profit. No matter the size of the enterprise, marketing lays the foundation for how a company reaches and serves its target customers. Whether it's a global brand such as PepsiCo or Apple, a small- to mid-size company such as Birchbox, or a small restaurant or local gym, marketing refers to the core strategies companies use to reach and sell to customers. As you might expect, the way entrepreneurs market their new product is somewhat different from how a large company markets an established brand.

TRADITIONAL MARKETING

Traditional marketing for large businesses such as Coca-Cola, Disney, and Dell tends to focus on managing and growing existing programs and brands. Companies like these enjoy greater resources such as substantial financial support and large numbers of marketing professionals to steer their efforts. However, marketing for small- and medium-sized businesses (those with 500 or fewer employees and less than \$7.5 million of yearly receipts, as defined by the Small Business Administration)² is different because financial resources are limited, and it is often the entrepreneur alone who is in charge of marketing efforts. If they do have funds for marketing expenses, they might use a small agency on a fee-for-project basis.

1. Erin Griffith. "Why Startups Fail, According to Their Founders." *Fortune*. September 25, 2014. <http://fortune.com/2014/09/25/why-startups-fail-according-to-their-founders/>

2. "Meet Size Standards." Basic Requirements. U.S. Small Business Administration. n.d. <https://www.sba.gov/federal-contracting/contracting-guide/basic-requirements#section-header-6>

As you have learned in previous chapters, small start-ups are usually tight on resources, so they need to augment their resources through creativity and hard work. While having limited resources creates obvious challenges, being small also has its advantages. For example, it allows new companies to be more flexible, agile, and creative than their established competition. These qualities can allow new companies to disrupt their industries and become major global players by employing entrepreneurial marketing practices.

ENTREPRENEURIAL MARKETING

On a basic level, entrepreneurial marketing is a set of unconventional practices that can help start-ups and younger firms emerge and have an edge in competitive markets. The main difference between these and traditional approaches is that entrepreneurial marketing tends to focus on satisfying the customer and building trust by providing innovative products and services that disrupt or appeal to a specific market. Table 7.1 provides an overview of differences between traditional and entrepreneurial marketing.

Table 7.1 Traditional versus Entrepreneurial Marketing

Traditional Marketing	Entrepreneurial Marketing
Greater amount of resources	Few to no resources; founder drives efforts (sweat equity)
Management of an established brand, reminder advertising	Must be ingenious, energetic, and persistent to develop story and brand; leads to trust
Financial and market share goals	Satisfaction and awareness goals
Manage existing customers	Capture first customers; develop a client base and long-term relationships
Manage existing products, promotion, pricing, placement, people, physical environment, and process (the “7 Ps”)	Develop new products, price points, channels (placement), communication, process, training, and design
Continue doing what works	Trial and error; market pilots
Communication with customers standardized, one directional; more difficult to create one-on-one relationships	Communication with customers is more fluid and spontaneous; two-way relationships

Manage existing products, promotion, pricing, placement, people, physical environment, and process (the As the table shows, entrepreneurial marketing emphasizes flexibility and innovation as a way to stake a claim within competitive markets. For example, consider how Drybar founder Alli Webb used her understanding of market needs to create a niche within the traditional hairstyling industry. A hairstylist by trade, Webb spent five years as a stay-at-home parent, drying hair for friends and family members at their homes to make extra cash. During this time, she realized there was a market need for “just” blowouts, or professional hair drying and styling.

Seeing this need, Webb developed a business model that would offer women a way to get a blowout without having to also get a cut or color. Webb didn’t invent the blowout; she just reinvented the space to do it, focusing on that sole aspect of hair styling, and offering the service in trendy settings (Figure 7.2). By being flexible and innovative through a new space to provide this service, Drybar was able to carve a niche in the hairstyle industry. In business since 2008, Drybar is still expanding. Webb expected to open at least 20 new locations in 2019.³

3. Diana Blass. “Drybar’s Rise to Success with NetSuite Has a Hidden Message for Partners.” CRN. October 4, 2019. <https://www.crn.com/news/cloud/video/drybar-s-rise-to-success-with-netsuite-has-a-hidden-message-for-partners>



Figure 7.2 Simple innovative ideas such as Drybar can carve new market niches that weren't served before. Drybar has now grown to over 100 locations across the US.⁵ (credit: work by ralph and jenny/Flickr, CC BY 2.0)

4

MARKETING MIX

One of the biggest misconceptions people have about marketing is that it is all about promotion, or how a company sells or advertises something. But the truth is, promotion is just one facet of the marketing mix, which describes the basic set of strategies and approaches that marketers use to identify and reach their target market. A target market is the specific group of consumers for which a company seeks to provide a good or service.

One common way of understanding and remembering the components of the marketing mix for products and services is by thinking in terms of the "7 Ps." While each of these can be part of a company's marketing mix, the first four relate more to products: product, pricing, promotion, and place (and traditionally have been called "the 4 Ps of marketing"). The remaining three relate more to services: physical environment, process, and people. While the 7 Ps are conceptually the same for all businesses, how a company addresses each "P" will be specific to that company's needs and goals.

For a better understanding of the marketing mix, look at how Figure 7.3 breaks down the 7 Ps into their related activities.

4. DryBar. "About Us." n.d. <https://www.thedrybar.com/about-us/>

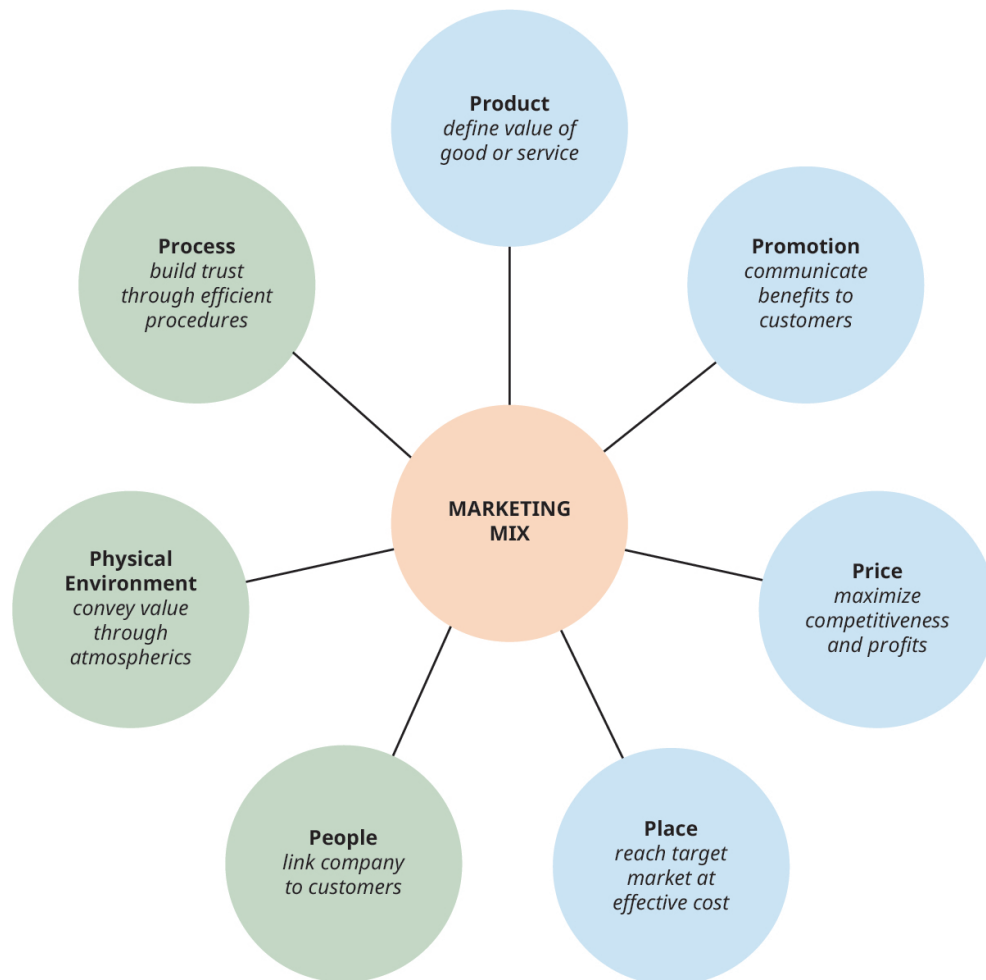


Figure 7.3 Each P of the marketing mix should work with the other Ps to create value for a business and its customers. Product, promotion, price, and place relate more to goods, while the people, physical environment, and process relate more to services. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Product

Within the marketing mix, product refers to a good or service that creates value by fulfilling a customer need or desire. Goods are tangible products that can be touched, smelled, heard, and seen, such as a pair of tennis shoes, a granola bar, or a bottle of shampoo. In contrast, services are intangible products. They usually entail paying an expert to do something for you, such as car repair or house cleaning.

Companies can bundle both goods and services together to create extra value for their customers. Birchbox, for example, provides goods (product samples) and services (customized product recommendations) to satisfy their customers' desire to be able to buy beauty products in a hassle-free manner. The value Birchbox provides to customers relies on their ability to do both. In the United States, service-oriented businesses are increasingly playing a larger role in our local and national economies.

For start-ups, defining the value of the products they are going to offer is an important step toward identifying their competitive advantage within a marketplace. On a basic level, if you don't know what benefit your product provides or what need it fulfills, neither will your customers. Kevin Plank, founder of Under Armour, knew that

the value of his product would benefit many athletes who were tired of having to frequently change their wet sportswear. As a former football player, he had spent many hours training and enduring drenched practices, and wondered how he could alleviate this problem that companies didn't address well with cotton sportswear. After college, he decided to take his idea to the next level and started a company making athletic wear that had special microfibers that kept athletes dry throughout practice and games. He then embarked on a trip to try to sell his value proposition to college football teams on the east coast. Nearing the end of 1996, he landed his first sale of shirts to Georgia Tech, which totaled \$17,000—and the rest is history. Under Armour became a strong competitor to Nike and Adidas by providing a new type of athletic wear that has revolutionized performance by keeping athletes dry.⁵

In contrast, Jawbone, the company that manufactured Bluetooth speakers and other hardware, has gone out of business because it changed its focus from audio to health devices, which placed it directly in competition with FitBit and similar hardware companies. Product failures, among other problems, caused this tech company to flop.⁶ The company is now working on reinventing itself and will use artificial intelligence and sensor hardware to provide customers information about their health through a subscription. The wearable sensors will record vital customer information that will be tracked on an online platform that will then provide suggestions for medical action.⁷ The company's redesign is not yet complete, so it is not officially in business again yet.

Promotion

Communicating a product's benefits to customers is a significant aspect of any marketing mix. Even if a product is the best in its class, a company must communicate this value to customers, or it will fail. This is what promotion does: It is the process of communicating value to customers in a way that encourages them to purchase the good or service. Promotions must have a goal, a budget, a strategy, and an outcome to measure. Companies must use their promotional budget wisely to create the best results, which can include sales, profit, and awareness through the use of a cohesive message throughout the campaign.

Some typical forms of promotion are advertising, social media, public relations, direct mail, sales promotions, and personal selling.

Advertising is a form of mass communication that allows companies to reach a broad audience through TV, radio, newspaper, Internet, magazines, and outdoor ads. Many of these media can be quite expensive for small companies, forcing them to choose one strategy, or to opt for other less expensive tactics such as guerrilla marketing or viral marketing. As Table 7.2 shows, the advantages of advertising include reaching a mass audience and increasing sales, but on the downside, the cost may be too much to bear, and the company might face a difficult time reaching the right target. As we move from advertising to social media, we can see that social media allows for more accurate targeting and better metrics to assess results.

Social media is a must-use tool for entrepreneurs to connect with consumers, especially younger demographics. Many customers can be found online in one social media platform or another. The goal is to find the customers who fit your target market. The benefits of social media include targeting customers more accurately using the platform of their choice and being able to communicate directly with them. These platforms include networking sites such as Facebook, Twitter, and LinkedIn; photo and video sites such as Snapchat, Instagram, and Pinterest;

5. Under Armour. "Our Story." n.d. <http://www.uabiz.com/company/history>

6. Lauren Goode and Chris Welch. "Jawbone Is Going Out of Business." The Verge. July 6, 2017. <https://www.theverge.com/2017/7/6/15931080/jawbone-going-out-of-business-report>

7. Conor Allison. "Jawbone Health: Everything We Know So Far about the New Premium Health Platform." June 17, 2019. <https://www.wearable.com/health-and-wellbeing/jawbone-health-hub-medical-health-wearable-2144>

blogs; and news sites. A business must find the time to connect with its customers wherever they are. As a budding entrepreneur, the best way you can start connecting with them is by identifying your target customers and by figuring out what kind of social media they frequent. You can ask your current customers about their social media habits; you can look up reports about the types of social media your customers frequent; or you can use special software that tracks conversations on social media that pertain to your business and industry.

For example, you may find out that your young customers hang out mostly on Twitter and Instagram, and not so much on Facebook. You could benefit from focusing on only those two platforms and finding out about their conversations. You may want to search hashtags and stories that pertain to your type of business so you can join their conversation. You could then set up your profile, write relevant content and hashtags that make sense to your consumer, and request to follow influencers who can help you create awareness of your business and product. Once you have a profile set up, there are many ways you can create campaigns: contests, discounts, or by simply providing useful content that your customer appreciates. The goal is to be part of the conversation and not sound like you are selling something.

In addition to posting good content and reaching out to influencers, you may also benefit from buying ads that can be geographically targeted to your customer and that are more affordable and effective because you're directly targeting someone who is specifically interested in your product. The disadvantages of targeting social media include the time and skills required to engage with customers, and the need for consistently fresh content. Many start-ups believe that having a Facebook page will be enough to reach their customers, but their customers may spend more time on other social media platforms. The time and effort required to find the right platform, develop good content, and connect with customers on a daily basis is worth it.

Public relations are the efforts and tools companies use to connect and develop goodwill with their constituents. Constituents can include customers, investors, employees, business partners, government entities, and the community at large. The goal is to highlight the company in a positive light by contributing as a community player. Tools can include newsletters, press conferences, community service, events, sponsorships, press releases, articles, and stories that help entrepreneurs create a positive image about their company and get its name out there. If participating in an event, for example, the sponsor will display the logo and name of the company in a place where everyone can see it. This shows the company as a supporter of the community and as a provider of not just products and services, but of intangible contributions, such as supporting the dreams of the event participants. The goal is not to make a sale at that point, but to impact the community and create positive relationships in general because it's the right thing to do—it may positively influence the consumer when they make a purchase in the future.

Direct mail, which is a way to connect to consumers via email or through printed, mailed pieces, is also a necessary tool to keep in touch with customers, especially when creating long-term relationships. The advantage of this strategy lies in connecting to a customer who is already interested in your product and would like to receive news and promotions from you; however, the disadvantage is that it usually takes time to create these lists because it involves collecting information about customers during events, through online requests, or at the cash register. It also can be expensive to send out pieces of mail that might end up in the trash.

Sales promotions are incentives that attract attention and push the customer to take action. These incentives include discounts, samples, rebates, rewards programs, gifts, and premiums. Sales promotions can attract new customers, but it may also reduce profits because coupons and discounts are offered for trying a product.

Personal selling is a tool that uses face-to-face interactions to communicate and influence a customer to make a purchase. It is especially suited for luxury goods. Usually, higher-priced products will need a longer selling process, and sales personnel will need more training on the product to learn about its unique qualities. This is one of the most expensive ways to reach and retain customers, but it can be worth the investment.

Overall, a good entrepreneur must find the right mix of marketing communications to reach customers. This will vary depending on the start-up's budget, goals, and strategies. Table 7.2 identifies the advantages and disadvantages of each, as they relate to small and new businesses.

Table 7.2 Advantages and Disadvantages of Promotion Types

Promotion Type	Examples	Advantages	Disadvantages
Advertising	TV ads Radio spots Newspaper and magazine spreads Internet ads Billboards	Can reach a mass audience Great for creating brand recognition Increased sales	Can be expensive Access can be limited Some targeting is possible, but it is impossible to fully control who sees the ad
Public Relations	Sponsoring community events Charitable and civic involvement Scholarships and grants Press conferences	Develops positive brand recognition Creates goodwill toward company and brand within the community	Big events and public relations campaigns can be resource intensive Not focused on generating sales
Social Media	Social networking sites such as SnapChat, Twitter, and Facebook Blogs and vlogs Influencers (industry experts who act as advocates)	Pervasive and inexpensive access to massive audiences Target markets are highly customizable based on available data Easy access to young people Can be used to create goodwill and a loyal fan base	Many companies use social media, so it is hard to stand out from the crowd Can be time-consuming Success requires dedicated personnel with special expertise It is often difficult to track conversion (customers taking a desired action, such as a purchase) and sales numbers Requires the creation of unique/engaging content
Direct Mail	Mailed letters, marketing flyers, postcards, and coupons Email newsletters	Subscribers are already interested in your product and thus more likely to convert to paying customers Keeps already interested consumers up-to-date on product news, sales, product releases Can target market based on location, average income, and other census-derived information	Building an email list of interested customers can take time Direct mail campaigns can be expensive Results cannot be precisely tracked Consumers often discard physical and digital "junk mail" without looking at it
Sales Promotions	Sales Limited-time offers Coupons Free samples Rewards programs	Incentivizes buying and encourages consumers to take action Appeals to consumers' desire to "get a deal" A good way to attract new and reluctant buyers	Reduces profits in exchange for promotion The promise of future sales and discounts can discourage regular buying
Personal Selling	Sales meetings between a salesperson and a potential customer	Personalizes the relationship between the business and the customer Effective salespeople can convert reluctant parties into paying customers Salespeople can customize purchase options for each buyer	Can be resource intensive Requires salespeople who are well-trained and effective Consumers are turned off by sales tactics they perceive as aggressive Requires constant lead generation

Price

One of the most important and challenging elements of the marketing mix is pricing. Price is the value that must be exchanged for a customer to receive a product or service. This is usually monetary and has a direct impact on sales. Many entrepreneurs are intimidated by financials and the prospect of using statements and other information to make projections. Correctly pricing your product enables your company to be competitive while maximizing your product's profit potential.

Here are several methods that entrepreneurs can use to effectively price products:

Cost-led pricing is the easiest way to price a product. This involves taking the cost of making the product and creating a profit margin, which is how much profit your business stands to make after costs have been deducted. For example, if you add the direct costs for materials and labor to the indirect costs of salaries, marketing, rent, and utilities, you determine that your product costs \$5 to make. Adding, say, a 30 percent profit margin would give you a sales price of \$6.50. The percentage added depends on the business's goals. This type of pricing is helpful when start-ups do not have much information about their target market and need more time to define their value proposition and business identity.

Another way to price a product or service is to consider what the competition is charging and determine whether to go above, below, or match their prices. If going above, or using premium pricing (also called perceived value pricing), you need a clear reason why customers would want to spend more on your product. While using penetration pricing, or pricing below competitors, can give you a competitive advantage, it may also lead to “price wars” in which competitors keep dropping prices in an attempt to beat each other. Obviously, the disadvantage is diminished profits for all. While pricing the same as your competitors seems like a logical choice, if your product offers no added value, this strategy is unlikely to entice customers to switch to your brand.

Link to Learning

Warby Parker is an example of a company that prices its eyeglasses below competition prices. Dave Gilboa and Neil Blumenthal started the online company in 2008 with the intention of providing attractive and trendy \$95 eyeglasses for everyone. This was a departure from competition, which usually priced eyeglasses at hundreds of dollars. Listen to the interview with Warby Parker founders Dave Gilboa and Neil Blumenthal to learn more about their venture and its pricing strategy.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=235>

Customer-led pricing is just as described: pricing led by the customer. You ask what the consumer is willing to pay and charge that. You can find this by doing research and asking customers what they would be willing to pay for a product. Many technology products are priced that way. Companies survey customers about what they are willing to pay, and they create products that deliver the value at the market price.

Loss leader pricing uses a below-standard price to attract business in the hope that customers will stay and shop for other, more profitable products. It is called a loss leader because companies lose money on the lower-priced product. Grocery store ads usually contain several loss leaders that are designed to lure you into their store in the hopes that you do the rest of your food shopping there.

Introductory offers use lower initial prices to attract new customers and build a customer base before prices return to “normal.” This method is a form of penetration pricing, as its goal is to help new products penetrate markets with established competitors and brands. Many subscription-based products such as gyms are introduced this way to gain market share and revenue.

In contrast, skimming is a pricing strategy that leverages the newness of a product to justify the highest price possible in order to “skim” the most profits off the top, meaning in the first phase of sales. As time passes, the price is lowered to accommodate for more price-sensitive customers. Apple often introduces its products with this particular method, charging the highest price for them until it has exhausted the market willing to buy at that price and when newer and more technologically advanced products are introduced. Then, Apple slowly lowers its pricing.

In bundling, a discount price is set for a bundle of products to encourage customers to buy in bulk. While they pay more than if they were buying just one good or service, they do so because the overall price for a bundle reduces the individual price of that product, giving them a better deal than if they were to purchase items separately. An example of this strategy is used by DirectTV, which bundles its phone, Internet, and satellite services for a monthly fee. If a customer were to purchase these services separately, they would be more expensive. The benefits of bundling include gaining more revenue per customer, as they would not have paid for some services separately, and making the order-taking task simpler. Take fast-food chains, for example.

Instead of asking the customer to list everything separately from the menu, they give you the name or number of the bundle. They make more profit by including the drink and sides to the main entrée, and the customer saves money and time ordering.

The odd numbers strategy is a psychological pricing strategy often used in conjunction with other pricing methods to make a product's price point more attractive to consumers. Using odd numbers takes advantage of the idea that such numbers have a positive psychological effect on customers. For example, instead of pricing something at \$20, the price would be set at \$19.99, which consumers perceive as closer to 19 than 20.

Link to Learning

Explore the five strategies of psychological pricing in an article published in Entrepreneur magazine.

While pricing must be established when starting a new business, pricing strategies should be reviewed on an ongoing basis. These occasions in particular merit consideration:

- When adding a new product or service to your offerings
- When demand shifts (due to market, consumer, or other factors)
- When entering a new market
- When competitors are making changes
- When your costs are changing
- When adjusting products/services or strategies

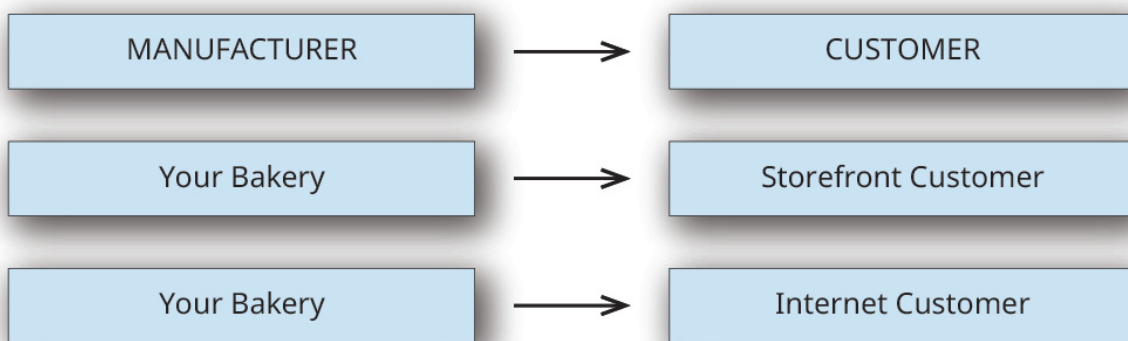
Place

Place refers to the channels or locations—physical or digital—where customers can purchase your products; it is sometimes called distribution. For the entrepreneur, the choice of place lies in figuring out which channels will create the most profit. In other words, which channels will reach the majority of the target market at the most efficient cost. Choosing the right distribution channels is one way to create a competitive advantage and generate more success for your business. Certain channels have specific capabilities such as reaching more customers, providing promotions, and providing credit.

As Figure 7.4 shows, distribution channels fall into two main groups: direct and indirect. Direct channels, such as physical or online storefronts, require no intermediaries and allow you to sell directly to consumers. For example, if you own a bakery, you would likely have a retail storefront that sells directly to consumers.

Indirect channels require intermediaries such as distributors or sales agents to sell your products to the end customer or to other physical or online retail outlets. Indirect channels often have more than one intermediary. For example, to acquire more customers than you could reach on your own, your bakery would use indirect channels such as wholesalers or agents to get your products into local markets and grocery stores across the country. These companies would also help with logistics, which include transportation, warehousing, and handling of products.

DIRECT CHANNEL



INDIRECT CHANNEL



INDIRECT CHANNEL

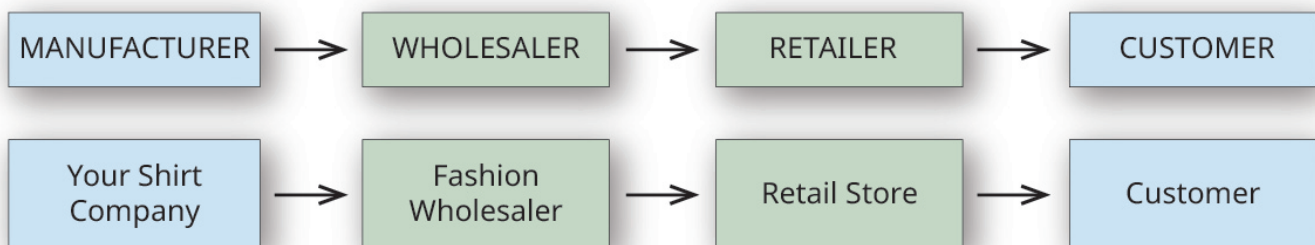


Figure 7.4 The “P” of “Place” may include distribution through direct or indirect channels. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Taking advantage of multiple distribution channels is one strategy companies use to expand their brand and grow their profits. This can include having a physical storefront, developing an e-commerce website to sell goods online, and distributing goods through wholesalers and retailers. Including multiple touchpoints with the customer can increase the likelihood that they will choose your product.

The longer your distribution channels, the longer it takes for your product to reach the end consumer, and the less control you have over the product and the price. As an entrepreneur, you must decide which channels best fit your product and pricing requirements.

Additional Ps for Services

As you have learned, products include services as well. These include legal, accounting, consulting, medical, entertainment, advertising, banking, and other professional services. When providing services, three additional Ps should be considered in the marketing mix.

People

People, or a company's human resources, will always be a key factor in any successful business. In a service-oriented business, the people who interact with customers are especially important. Because the service is the product, they are the face of the brand and a direct link between the company and the customer.

When an employee delivers an acceptable or outstanding service, customers are encouraged to return to purchase the service again and also share their positive experience with others. When customers go into a jewelry store and receive good service from the salespeople, they will likely let their friends and family know about the positive experience through a personal referral or on social media.

When service is poor, customers don't return. If customers have a bad experience at a restaurant, it is likely they will not patronize the establishment any longer and will probably share a negative review online.

Sometimes, poor service has to do with factors other than employees, but as online review sites such as Yelp become more common, poor customer service reviews can have a crippling effect on a brand, especially for start-ups trying to break into a market. It is important to hire experienced people and have a good training system in place with rewards that will help employees deliver the best service to customers. Companies should take into consideration that no matter the size of a business, they must market not only to their customers but also to their employees, as they are the face of the company and the ones who interact with customers. Employees can make or break the brand.

Physical Environment

The physical environment where a service is provided is an important part of the marketing mix. It can influence the company's image and convey a lot of information about the quality of a product, service, company, or brand. The old adage that you "get only one chance to make a first impression" is especially true for new businesses. Tangible cues—décor, smell, music, temperature, colors—send an immediate message to customers about quality and professionalism.

For example, if you walked into two dentists' offices (remember, they are also entrepreneurs), and one office smelled and looked clean, and one did not, which one would you choose? The same goes for restaurants, retail stores, and any other physical environment. Since a service cannot be inspected before it is received, these cues help customers make their decisions.

Process

Process is the chain of procedures or activities required to provide a service to the customer. It is all of the activities that take place between the service provider and the customer, from beginning to end.

In the case of a doctor's office, this would include making the appointment, filling out paperwork, waiting to be seen, seeing the doctor, and paying. Because processes can be long and involved, they need to be designed to flow as efficiently and logically as possible. In the case of services that are provided online, process includes the website's design and functionality, and all of the steps customers take from browsing through check out. A strong website design helps the entrepreneur say what the company is about, what it does and for whom, and what actions the customer can take. Actions can range from clicking for more information, the ability to purchase a product, or checking whether there is availability for a service and being able to book it or make an appointment. An example of a great website is Airbnb's website whose design is focused, inspiring, and to the point. What do you think is its main call to action?

Exercise – Determining the Marketing Mix

Imagine that you are opening a new yoga studio in a local area. Based on your research, you found that certain styles of yoga are not taught by local studios but are increasingly being sought by women aged twenty-five years and older.

- Your task is to create a marketing mix that focuses on this market and has a clear competitive advantage over other studios.
- Develop a marketing mix that includes all 7Ps and define them as they relate to your business.

7.2 Market Research, Market Opportunity Recognition, and Target Market

Learning Objectives

- By the end of this section, you will be able to:
- Distinguish between primary and secondary market research
- Define a research goal and the importance of research design
- Understand how to choose a sample, and collect and analyze data
- Identify common sources for secondary market research
- Understand how to identify the target market within the total available market and serviceable available market

Now you know the components of the marketing mix. But, as an entrepreneur, before you can make decisions about them, you need to roll up your sleeves and do some research. This type of research is similar to the concepts covered in Identifying Entrepreneurial Opportunity; however, that research focused on whether an entrepreneur has what is needed to move forward with an idea. This research is more market focused, and it's done after the entrepreneur has decided to move forward and start the enterprise or launch the product. Essentially it is about the product, not the entrepreneur's readiness.

Market research is essential during the planning phases of any start-up; otherwise, you're shooting in the dark. On a basic level, market research is the collection and analysis of data related to a business's target market. Market research can entail everything from information on competitors' products to the interpretation of demographic data related to potential customers.

The main purpose of market research is to gain an understanding of customer needs and wants in an effort to reveal potential business opportunities. When you have a clear picture of what your target market is and what it wants, you can more effectively design your marketing mix to engage that demographic.

Imagine that you are creating a cosmetic line that is organic, contains vitamins and minerals, and is easy to apply. Your target market is women who are interested in high-quality beauty products that are not harmful to themselves or the environment. But after conducting extensive market research, you learn that women aged eighteen to forty-five years tend to be interested in the benefits your product line provides, but that women over

fifty years of age are not. In light of these findings, you can either adjust your line's benefits to serve the market you initially wanted to serve (all women), or you can cater to the needs of a smaller audience (eighteen to forty-five-year-old women).

A good exercise for better understanding your target market is to detail the everyday life of your ideal customer. You can do this by describing in detail a set of possible customers who would buy your product. Details could include demographic information such as gender, age, income, education, ethnicity, social class, location, and life cycle. Other information that would be helpful would include psychographics (activities, hobbies, interests, and lifestyles) as well as behavior (how often they use a product or how they feel about it). The better you know your ideal customer, the better you can focus on capturing their attention by matching their preferences with your offerings.

Market research also helps you understand who your competitors are and how they serve the target market you want to engage. The more you know about your competition, the easier it will be to determine and differentiate your offerings. Let's dive into how marketers gather all of these data and the value the data provide to entrepreneurs.

PRIMARY MARKET RESEARCH

Primary research entails collecting new data for the purpose of answering a specific question or set of questions. While conducting your own research can be resource intense, it is also the best way to get answers specific to your business and products, especially if you want to penetrate niche markets that have not been studied. It also allows you to get specific. By asking the right questions, you can determine people's feelings and attitudes toward your brand, whether they like your product design, whether they value its proposed benefits, and whether they think it is priced fairly. Figure 7.5 shows the steps common in conducting primary market research.

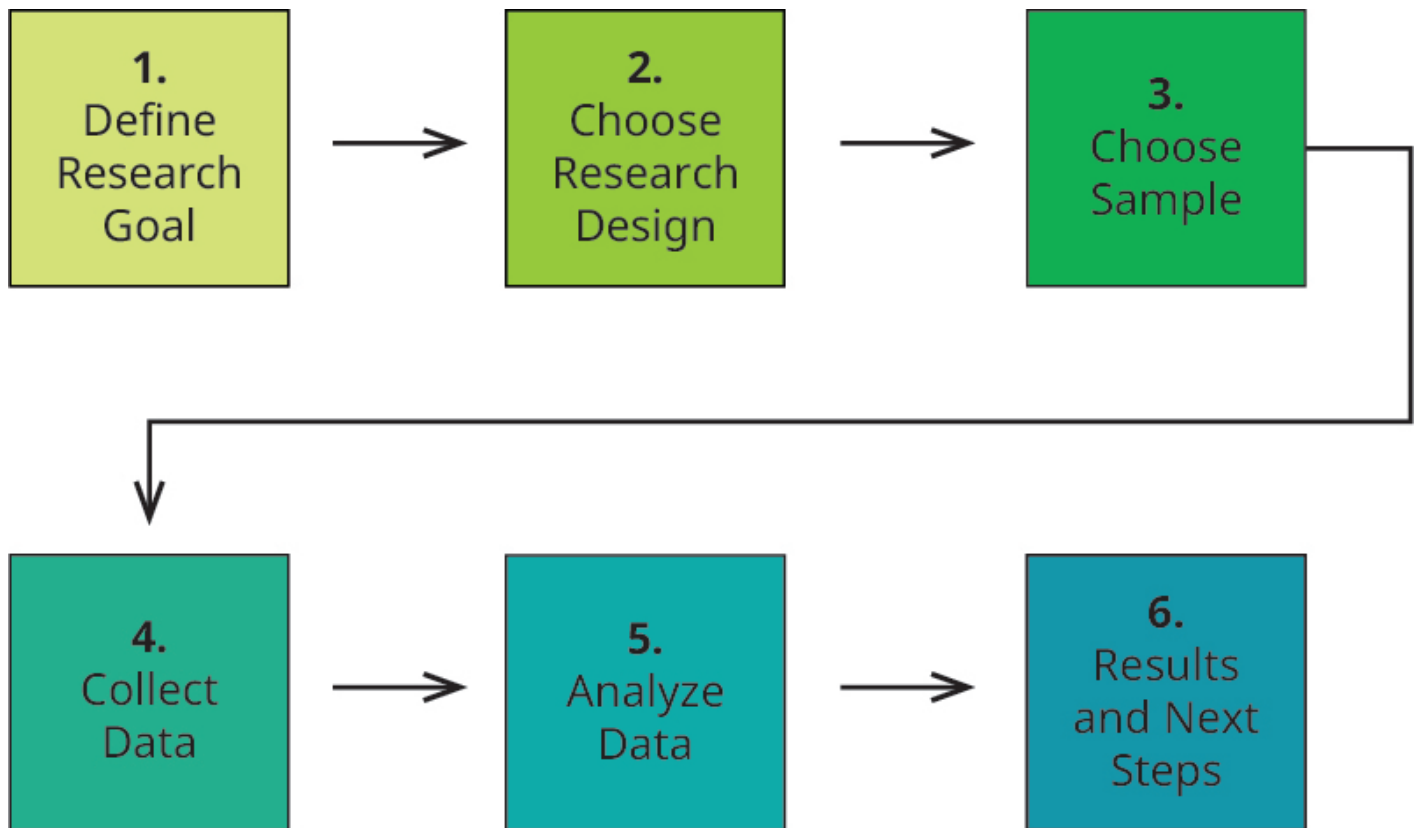


Figure 7.5 There are six steps in primary market research. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Define the Research Goal

You should start by defining the goal of your research project. What are you trying to find out? Do you want to know more about your target market, their preferences, lifestyle choices, and culture, or do you want to know more about your competitors and why your target market buys from them? What are your criteria for validation of the research goal or goals?

The more time you take to clarify your research questions, the more likely you will be to achieve your research goals. If you can't figure out exactly what you're looking for, that's okay. Exploratory research using a focus group can help you decide what kind of research questions to ask. A focus group is a gathering of people, typically six to twelve participants, who come together to discuss a topic presented by a moderator, who usually poses questions and collects qualitative data that can be used to answer questions or define research further.

For example, a manufacturer of water bottles might know there is a problem with their products as sales have been declining over time. The company doesn't know exactly why or where to start, so it would use a focus group to better define the research goal or problem. Using focus groups, they might find out that they are targeting the wrong segment or that there is a need for better water bottle designs. Talking to the focus group can uncover possible research questions to undertake.

Merkadoteknia Research and Consulting is a Hispanic-owned company that conducts research for different industries that cater to Hispanic consumers. This company helps fast-food companies, retailers, and pharmaceutical companies, among others, conduct focus groups and gather insights about specific groups of

people that may have different cultural backgrounds. These companies may not know exactly how to start researching their target market, so they use Merkadoteknia Research and Consulting to learn more through the use of focus groups. This approach helps better define the research goal or problem.

Determine Research Design

The next step is to determine which research techniques will most effectively help you answer your questions. Considering what you want to learn and determining what your budget is will help you decide if qualitative or quantitative research best suits your needs. Well-designed research projects often use some combination of both.

Qualitative research uses open-ended techniques such as observation, focus groups, and interviews to gain an understanding of customers' basic reasons, opinions, and motivations. Simply observing potential customers, whether at a store or in daily activities, and noting their behaviors are a simple, effective form of ethnographic research that can help you better understand the lifestyles and habits of potential customers. Ethnographic research includes the personal observations of the subject by being immersed in the subject's environment. Research like this helps companies see how people use their product over the course of a day.

For example, if you manufactured a water bottle and wanted to design a "better" water bottle, you could watch how people use their water bottles while working, exercising, during their commute, and so on to better understand their needs and habits. This "ethnographic" research can often uncover latent, or unstated, needs that you can use to build your concept. Unstated needs refer to those that are expected from a company, such as a certain level of quality or good customer service. These are default expectations that a customer has based on their experience with products in general.

Employing a mystery shopper, or pretending to be one yourself, is another way to learn how customers and employees act within a specific retail environment. A mystery shopper is a person who has been hired by the company or a third party to pose as a real shopper and has gone undercover with a specific goal of testing certain aspects of a business. This can take the form of purchasing a product, browsing and asking questions of an employee, interacting with other customers, or simply observing what is happening inside the store. After the experience, this person will provide feedback to the company.

Focus groups and one-on-one interviews can be useful to obtain more thoughtful answers and explore debatable topics. Both are good methods for digging deeper into the specific motivations and concerns of people, especially as they pertain to personal, privately held beliefs. This research is useful when trying to develop a more novel product, but you must do your best to eliminate "support bias" in that the panelists might seem favorable to new concepts to please or accommodate the moderator. For one-on-one interviews, it is important to develop a thorough interview or discussion guide, so other team members can also conduct the interviews. By doing this, you will ensure a consistent approach to asking key questions and documenting responses to help guide the next step of the development of your product.

Quantitative research focuses on the generation of numerical data that can be turned into usable statistics. This kind of research most often takes the form of surveys or questionnaires that pose multiple-choice questions with predefined answers. While these surveys do not allow for much free expression on the part of the participant, the focused nature of the answers means marketers can identify trends, such as which social media platforms are preferred by customers or potential customers. For example, the researcher may very well find that Instagram is the most used social media app because of its ease of use and its ability to incite emotional responses to pictures.

Sample survey questions can be anything from “How many times have you gone to the corner store this week?” to “Which age range do you belong in?” This kind of approach is an efficient way to collect a lot of data because once the survey is written, it can be distributed in person or online to as many participants as you like. Typically, the more people you survey, the more accurately your data will reflect the demographic you are examining.

Another way to generate quantitative results is through causal research and test marketing. In both cases, you present participants with a cause and record the effect. An example of this might be a taste test in which people's reactions to and preferences for different juice flavors are recorded. Given the limited resources of many start-ups, test marketing is a great way to make sure your product works before you start investing in its distribution.

An even more sophisticated—and expensive—method is conjoint analysis, in which respondents must rank, choose, or rate a number of “conjoint,” or linked, features or benefits. This real-life scenario approach will give you very useful results from potential buyers, often with features or benefits ranked relative to perceived value or importance.

For instance, let's say your company is trying to create a reusable water bottle to compete in a crowded marketplace. If you were to use conjoint analysis, you would create a survey that lists the water bottle attributes and prices to show consumers different choices. For example, customers could be given a set of very similar water bottles, each with a set of features the company would like to test. Features can include a locking lid so the water doesn't leak, different bottle shapes for easier hold and water retrieval, and different colors and sizes. Each of the choices could have its own price point and the customer can choose, rank, or rate each of the choices based on those attributes and prices. Each of the choices could be described on a survey with words or pictures, and it would ask customers to choose their favorite or rank all of the choices. After collecting information and data from many consumers, researchers would use statistical analysis by applying linear regression (a predictive tool that measures the causality of one marketing variable on another) or other techniques to determine which attributes of a water bottle are more important to the customer and what price they would be willing to pay. Based on this knowledge, the company would create a product that could possibly beat the competition.

Choose a Sample

Next, researchers need to determine the sampling method. In terms of research, your sample refers to who you will survey and how many people you will include. In most cases, you will want a sample that reflects your target market, especially if you are trying to figure out your ideal customer's interests and how to get them to buy your product. Untargeted samples can be useful when trying to figure out who your target market might be, but they aren't an efficient way to get to know your ideal customer.

Generally speaking, larger samples provide more accurate data, although researchers should not feel like they need to survey everyone in a market. For example, if you have a list of 5,000 contacts, you might choose to contact 500 people who would be representative of the total group of contacts. Surveying all of your population could be time consuming and expensive, so choosing a subset of the right people can yield good results. The sample must be large enough to be statistically significant, meaning that the relationship between variables is not a result of chance. The sample can then show the researcher an accurate depiction of a specific phenomenon.

For example, you can test whether men and women actually have different or similar tastes in water bottle attributes. In this case, the significance rests on the gender of the potential customer. If your sample is large enough (say 500 out of 5,000), and you find that men look for different attributes than women do, it is unlikely that the differences found were by chance. The cause of the differences would be the gender.

Therefore, keep in mind that errors of reliability and validity can arise if your sample is not thoughtfully selected. Statistical significance is then important in measuring reliability because it means that there is an actual difference in what is being measured. If there is a difference between men's and women's responses in our water bottle example, checking the significance will determine whether the differences really matter or if they are due to chance. Significance is measured by looking at the probability value, or P value, of the result. If it is 5 percent or less, it is usually considered a significant difference that is not due to chance, and the researcher can determine that the answers are indeed different between the two genders. Validity, on the other hand, means that the item that is being measured is relevant to the research. This means that the questions that are being asked will actually answer your research objective.

While random samples can be useful for some types of research projects, many researchers intentionally choose their sample participants based on economic and ethnographic factors to make sure they accurately reflect the nature of the demographic they seek to understand.

Collect Data

Once you've identified your research goals, chosen your design, and determined your sample, you are ready to start collecting data. The data may be collected through observation and taking notes. For example, if you are trying to figure out if your store layout is yielding the most productive sales, you can observe traffic flow and note what people look at and what they actually purchase. Then, you may change the merchandise layout, or the aisle size or space, to see whether people peruse other merchandise that they hadn't seen before. Based on your observations and sales data, you can determine the best flow for your floor.

Interviews can also help secure open-ended answers. You might interview potential customers on what they think is the best way to communicate with them and what they like about certain competitors' products. This can help you obtain additional options that you may not have thought to add on a survey, which is another way to get aggregate data.

Surveys can be done by hand or through online tools such as Survey Monkey or Qualtrics. Surveys are very helpful because you can ask question to current or potential customers about your product, competitors' products, customer service, and any other information you may seek to create or improve your business. They are an easy way to collect large amounts of data from many customers, and they allow you to calculate responses. Online tools are particularly useful in providing repositories of data that can be later exported to other analytical tools such as Excel or SPSS.

Regardless of what research technique you use, be on the lookout for data collection errors. Recording the wrong answers, failing to convey the right instructions to participants, or having to translate on the fly can all create biases that skew the answers and give you inaccurate results.

Analyze Data

Once you collect your data, the next step is to make sense of it. How you analyze the data depends largely on what you want to get out of it. Typically, you will be looking for patterns and trends among the answers. Data analysis is a field unto itself, and when complex analysis is required, seeking the assistance of experts is often worth the extra cost. You can find experts within research marketing firms that specialize in collecting and analyzing data for businesses, such as Merkadoteknia Research and Consulting. These can be found online or through local business organizations, such as chambers of commerce.

Results and Next Steps

At this stage, the entrepreneur seeks to reconcile the results of their examination with the goals of their research. For example, if you were doing exploratory research about a potential product you wanted to bring to market, now would be the time to ask questions such as whether the research suggests market potential. Similarly, if the goal was to figure out what customers like about competing products, now would be the time to list those results and determine whether they are worth incorporating into your product. Regardless, it is important to be open to what the data say, even if they indicates results that are contrary to what you were hoping for. Research should be an opportunity for growth and a roadmap for the refinement of your idea.

SECONDARY MARKET RESEARCH

Secondary research is research that uses existing data that has been collected by another entity. Oftentimes, these data are collected by governmental agencies to answer a wide range of questions or issues that are common to many organizations and people. Secondary research often answers more general questions that an entrepreneur may have, such as population information, average purchases, or trends. If there is a specific question that cannot be answered, such as how many people would be interested in a new product with certain attributes, then primary research will have to answer that. While some of this kind of research must be purchased, much of it is free to the public and a good option for entrepreneurs with limited financial resources. Some commonly used sources for free data include the US Census Bureau, Fact Finder, Pew Research Center, Current Population Survey, the Small Business Administration (SBA), and the Texas State Data Center.

Other useful resources are trade organizations that provide information about specific industries, as well as newspapers, magazines, journals, chambers of commerce, and other organizations that collect local, state, national, and international data. Resources such as these can provide information about everything from population size to community demographics and spending habits. Table 7.3 lists several free databases that are rich sources of information.

Table 7.3 Databases for Secondary Research

Database	Information	URL Address
Census Bureau	Economic, demographic, geographic, and social data	https://www.census.gov/
Fact Finder	Economic, population, and geographic data	https://factfinder.census.gov/
American Community Survey	Updated census data	https://factfinder.census.gov/
Pew Research Center	Fact tank that surveys trends, issues, attitudes, and demographics	http://www.pewresearch.org
Pew Hispanic Center	Surveys on Hispanic trends, demographics, and issues	http://www.pewhispanic.org/
Current Population Survey	Monthly survey of US households on labor data	http://www.bls.gov/cps/home.htm
Texas State Data Center	State demographic data	http://txsdc.utsa.edu/
IBISWorld	US industry trends	http://www.ibisworld.com
Mergent Online	US businesses data	http://www.mergentonline.com/
Demographics Now	US demographic and business data	http://www.demographicsnow.com/

While free sources can provide a lot of information, their research tends to be less specific than that by sources that charge for their data. Companies such as Nielsen/Arbitron, Simmons, and Geoscape can provide more detailed information about specific behaviors on media use, lifestyle choices, specific product consumption, geographic segmentation data, and others. Table 7.4 lists some sources for this research.

Table 7.4 Syndicated Sites for Secondary Research

Site	Information	URL Address
Nielsen PRIZM	Geodemographic segmenting	https://segmentationsolutionsdev.nielsen.com/mybestsegments/Default.jsp?ID=20&pageName=ZIP%2BCode%2BLookup
Nielsen TV ratings	TV ratings, media, research	http://www.nielsen.com/us/en/insights.html
Nielsen Audio	Audio ratings, media, and research	http://www.nielsen.com/us/en/solutions/capabilities/audio.html
Experian Simmons	Consumer research, trends, and insights	http://www.experian.com/
Scarborough	Consumer research, trends, and insights	http://www.scarborough.com/
Geoscape	Multicultural consumer research	http://geoscape.com/

In the end, there is no perfect way to conduct research. It all depends on what you are trying to find out and what the best approach is to do that. If you are just starting out, you may want to maximize secondary research because it is free. You can also try primary data collection by speaking to friends, family, and others you encounter in your local and online communities. If you are working at a university, you will likely have access to free market research reports (marketresearch.com, Frost & Sullivan, etc.).

Exercise – Researching Your Market

Pretend you are an entrepreneur who would like to create a new, educational toy for toddlers to develop their motor skills that uses figures, shapes, or blocks. While in college, you worked in the children's section at a well-known retailer. From this experience, you learned that there might be a need for educational toys within the market that isn't being addressed, but you aren't exactly sure how to exploit it.

- Using the market research process, develop a research plan that will help you determine the viability of your idea.

MARKET OPPORTUNITY RECOGNITION AND VALIDATION

One common goal of market research, which has been mentioned earlier in other chapters, especially the Identifying Entrepreneurial Opportunity chapter, is the identification of a market opportunity, or an unmet need within a target demographic that might be fulfilled by an existing or new product. Looking for gaps or unmet needs within a marketplace is one way to identify market opportunities for both goods and services. For new products, this entails looking at the needs of a demographic, identifying which of those are not being met, and determining what kind of product could fulfill it. Based on our earlier discussion on secondary research, there are many places where data can be found online or offline to determine these needs.

Similarly, you might identify common local, national, or global problems through observation and directly interacting with potential customers, and try to create services that would solve them. Social, economic, technological, and regulatory changes all have the potential to create market opportunities.

When inventor David Dodgen saw the suffering that Hurricane Katrina had left behind, he saw an unmet need that this event had created. By witnessing the disasters, he realized that when hurricanes or other disastrous events strike, they can contaminate the water supply in a region or city, or prevent access to clean water. As a result, he created the AquaPodkit, a plastic container that can temporarily store fresh water for weeks at a time in the event of an emergency. The Federal Emergency Management Agency (FEMA) recommends that people fill their tub if they feel that there may be a chance that water will be scarce. Oftentimes, tubs can be dirty, and people may not have the time to clean them. With this in mind, Dodgen developed a plastic lining, or bathtub bladder, which is manufactured in the United States and is safe to drink from, together with a pump that helps seal and open the plastic when the water is needed. This kit can hold up to 100 gallons of fresh water in the tub and has proven successful; it has also been featured by *CNBC*, *Entrepreneur*, and the *New York Times*.

View this video about the AquaPodkit to learn more. AquaPodKit from AquaStorage on Vimeo.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=240>

Dodgen also created smaller bags and pumps that can be stored anywhere, not just in the tub. How it works! from ReFuel on Vimeo.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=240>

WHAT CAN YOU DO?

Climate Change

Background: Earth's climate change is a topic of discussion with great importance these days. For many hundreds of thousands of years, Earth's temperature changes were attributed to tilts on its axis that allowed for more or less energy to enter our atmosphere. Recently, Earth's climate has experienced a dramatic increase in temperature, and most scientists around the world agree that it is attributed to human activities that emit carbon dioxide into the atmosphere.

Greenhouse emissions have increased the temperature of Earth to the point that glaciers in Antarctica and Greenland are now disappearing ten times faster than on a normal ice age recovery session, not to mention the many weather catastrophes that are seen around the world.¹ These changes in temperature have caused ice sheets to melt, snow caps to retreat, oceans to warm and become more acidic, water levels to rise, and severe weather to increase.

As harmful as it sounds, there is still time to change the negative effects of global warming. This can present some opportunities for social entrepreneurs who care about Earth's environment and business.

1. National Atmospheric and Space Agency (NASA). "Climate Change: How Do We Know?" n.d. <https://climate.nasa.gov/evidence/>

Exercise

Your task: As a social entrepreneur, determine one or two opportunities for a business you could develop and test for market validity.

- What kind of opportunities are there to create positive change?
- How can you validate your assumptions?
- How would you test unmet needs?
- What kind of research would you conduct? Why?

Sometimes unmet needs are not uncovered immediately. One way to better understand a market's opportunities is to conduct a market analysis, which is an analysis of the overall interest in the product or service within the industry by its target market to determine its viability and profit potential. Validation, not to be confused with validity, is the act of verifying that a specific product is needed in a target market. This can be done by conducting formal or informal interviews or surveys with potential customers to gather their feedback. Dropbox is an example of a company that conducted validation over and over until they created a product that could work with a mainstream audience (see *Launching the Imperfect Business: Lean Startup*).

In addition to identifying competition and determining growth and profit potential, a good market analysis will identify the total available market (TAM) for a specific product, which is the total perceived demand for a product or service within the marketplace. It will also identify the serviceable available market (SAM), which is the portion of the market that your business can serve based on your products, services, and location (Figure 7.6).

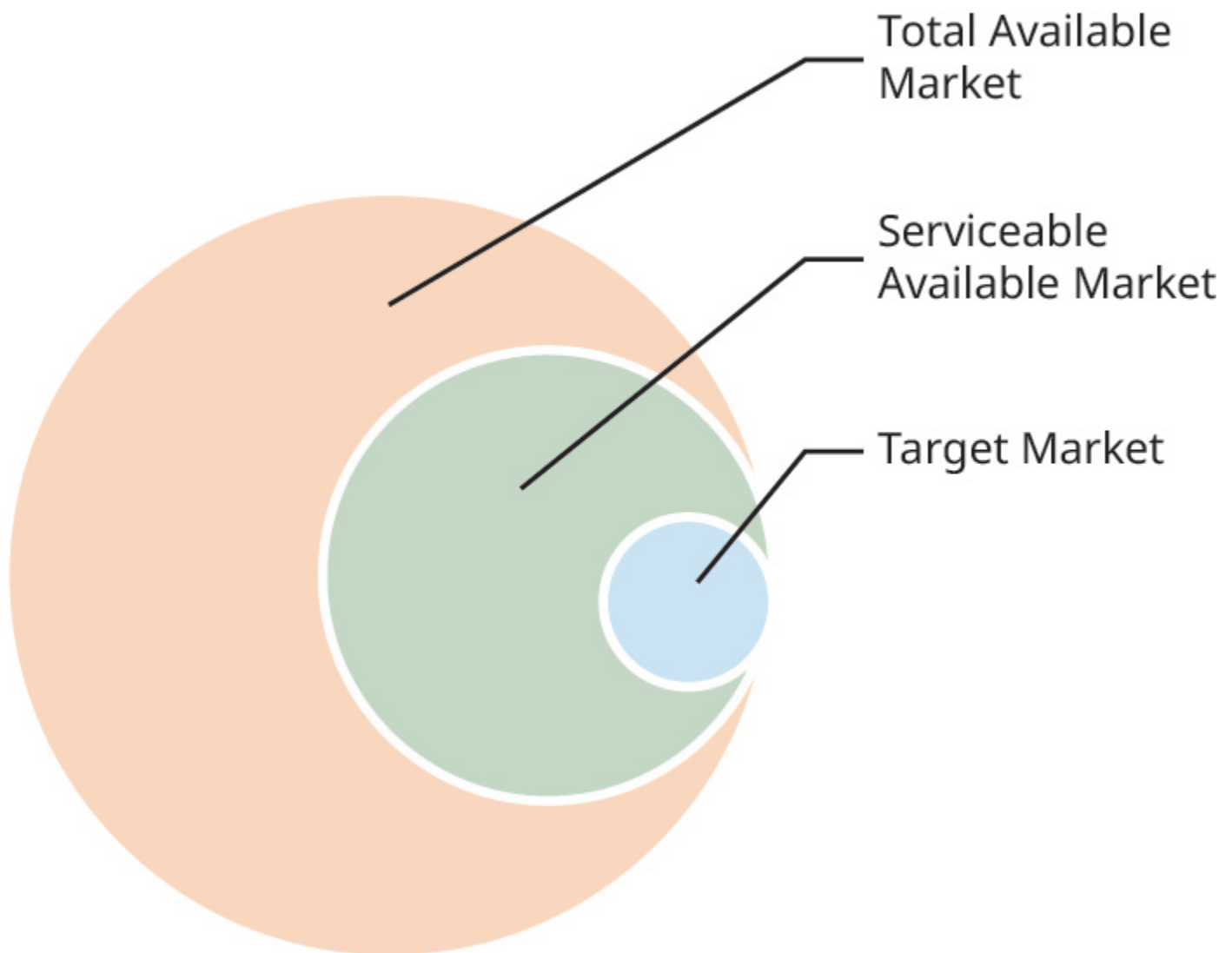


Figure 7.6 Entrepreneurs must focus on the target market within the TAM and the SAM and allocate resources to attract customers who can be satisfied by the value proposition. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

To calculate this, let's go to our water bottle example. Let's say that you are trying to figure out what your target market is based on this concept. To calculate the TAM, you would look at the whole industry and determine the total number of customers available for water bottles or total revenue available. To find the number, you can look up the industry numbers for the category on databases such as IBISWorld, mentioned earlier, or any other data available through the World Bank or World Factbook to see the potential number of customers or revenue. This is called the top-down approach, as you are looking at macroeconomic factors to determine an industry's potential.

Another way to calculate the TAM would be by using the bottom-up approach, which involves counting local market sizes and figuring out the competitors' number of customers. After collecting this information, then all the local markets would be added up and multiplied by the average amount they spend on the product per year. Since your company cannot service all markets, the next step is to figure out the SAM. You could estimate the number of customers you can service by splitting the market into those you can service given your product characteristics and geographic, demographic, and cultural factors, among others.

Finally, considering the constraints of the company and strength of the competition, you would determine your focused target market to avoid wasting valuable resources marketing to people who are generally not interested in buying your product.

As an entrepreneur, you want to segment the market and figure out if there are possible pockets of people that you can serve. Segmenting, targeting, and positioning (STP) will help you figure out who is your best customer and will allow you to allocate your resources so that you can more effectively serve that customer. Let's look at these processes now.

Segmenting means that you separate the total population by homogeneous groups of people that have similar tastes, backgrounds, lifestyles, demographics, and even culture. You may segment along lines such as age ranges, gender, ethnicity, line of work, earnings, or activities. There are many ways to separate these groups to choose the right one for your business.

The next step is targeting. You select a target based on their ability and willingness to buy. As stated earlier, a target market serves to specify which group of the total market you will serve and how you will position yourself to distinguish your company or product from your competitor.

Positioning (value proposition) is a statement of how you want the customer to perceive your company, good, or service. For example, ModCloth is an online indie retailer that sells vintage, or vintage-looking, trendy, fun clothing that appeals to the global consumer who wants to be stylish. Another example is Wag! which positions itself as the app that lets the pet owner look for a walker on demand. Kind of like the Uber for dogs who want a walk when their owners can't take them!

ENTREPRENEUR IN ACTION

Wag! Dog-Walking App

As a dog owner, Wag! CEO and co-founder Joshua Viner struggled to find the time to walk his beloved dog after a long day at work. He knew it was unfair to keep her cooped up all day. He even considered finding her a new home. This canine conundrum led him to create Wag! in 2015 as a way to help people like him who loved their dogs but didn't always have the time to make sure they were properly exercised.

To start, Viner got together with Jason Meltzer, who, like himself, had experience creating consumer tech companies. Meltzer was the founder of pet services company Surfdog LA, which already had a proven track record of success. Together, they developed an app and website with the goal of making dog ownership easy and guilt free. Wag! gave customers access to trusted, prescreened walkers who could take their dogs out on short notice without them having to be present. Customers could even see their dog being walked via the app.

Since its inception, Wag! has been growing and entering new markets at a steady pace. After launching its service in Los Angeles and San Francisco in 2015, it continues to add cities across the United States.

Because the app's dog-walkers have access to their client's houses, one of the challenges Wag! faced was making sure customers trusted them and their dog walkers (Figure 7.7). Another challenge was the safety of the dog itself. What happens if a dog gets hurt or lost? It wouldn't take much for issues like these to turn into major problems.



Figure 7.7 The Wag! app allows busy people to choose from prescreened dog walkers so their furry friends will be well-taken care of while they're at work. (credit: modification of "A woman with her dog@Takayama" by JAR/Wikimedia Commons, CC BY 2.0)

Questions

- Describe the target market for this service.
- Are there other potential customers who can be a good target for this service?
- How can Viner position his business to assure pet owners that their dogs will be well taken care of?

7.3 Marketing Techniques and Tools for Entrepreneurs

Learning Objectives

By the end of this section, you will be able to:

- Describe effective entrepreneurial marketing techniques (guerilla, relationship, expeditionary, real-time, viral, digital, word-of-mouth)
- Discuss the pros and cons of these marketing techniques

One of the hardest facts for entrepreneurs to absorb when starting a new business is that financial and human resources are limited. Fortunately, there are many marketing techniques available to entrepreneurs that require little more than a good dose of “sweat equity.”

GUERRILLA MARKETING

Coined by business writer and strategist Jay Conrad Levinson in 1984, guerrilla marketing refers to creative approaches to marketing that seek to gain maximum exposure through unconventional means. Guerilla marketing often means staging some sort of event or interaction that is designed to attract attention to a brand or product. The goal is to intrigue consumers by standing out from normal sales messages and the thousands of advertisements they are exposed to every day. These approaches usually have a component that encourages potential customers to interact with a company or product in a fun way.

Dennis Crowley, a serendipitous entrepreneur who taught himself to code and who was laid off by Google while working on his social networking site Dodgeball, was able to create and grow Foursquare through the use of guerrilla marketing techniques. Foursquare, the search and discover nearby businesses app, used this technique at the Austin, Texas-based South by Southwest film and music festival. The idea was to set a real game of foursquare in front of the convention hall that also raised awareness for the app. The games were an instant success and attracted thousands of participants who played all day long. If someone didn't know what the game was, a marketing team of 11 people helped them find it on their phones. Their efforts resulted in 100,000 views for the app that that day alone.¹ All of this was achieved for the cost of a box of chalk and two rubber balls. Although the company had plenty of investments to sustain its operations, guerrilla marketing was a clever and helpful way to get users to test it and enjoy it.

1. Knowledge @Wharton. “How to Generate Buzz on Social Networks.” Forbes. April 23, 2010. <https://www.forbes.com/2010/04/23/foursquare-facebook-yahoo-entrepreneurs-technology-wharton.html#13e159097b2d>



Foursquare's guerilla marketing idea generated 100,000 new views for the app at the South by Southwest film and music festival in Austin, Texas. (credit: work by betsyweber/Flickr, CC BY 2.0)

Another example of guerrilla marketing that has been prominent over the last few years is flash mobs. A flash mob is a gathering of people at a public place to perform an act, be it a dance, entertainment, political stance, or some sort of artistic expression that conveys a message to the public for a brief period of time. This is organized through social media calls or emails to gather enough people to perform them. Flash mobs have been effectively used by companies to create awareness and reminders about their brands.

RELATIONSHIP MARKETING

One of the main differences between start-up companies and established brands is the need for start-ups to nurture and maintain relationships with new customers. One way to accomplish this is through relationship marketing, which seeks to create customer loyalty through personal interactions and long-term engagement strategies. A small company can try to have a closer relationship with clients by writing personal notes by hand or sending an email thanking them for their business, by acknowledging their presence by their first or last name when they come into the establishment, by offering beverages, and by offering other personalized services.

An example of successful relationship marketing from a larger company comes from Moosejaw, a retailer specializing in outdoor clothing for hiking and snowboarding. At one point, a Moosejaw customer returned a piece of clothing that he had bought as a gift for his girlfriend. In his explanation for the return, he wrote, "Girlfriend dumped me." Seeing this as an opportunity to engage with a customer, the company decided to send the man a care package.

A few weeks later, the man received a surprise shipment with a note saying they were sorry his girlfriend broke up with him so they decided to give him a gift. The box contained shirts, stickers, and other goodies. There was also a card with notes from Moosejaw's employees.² Moosejaw's efforts were rewarded when the situation went viral on social media, which generated more exposure and support for the company.

Another way companies maintain relationships with their customers is through regular email newsletters. By using sales history and other market data, companies are able to customize the content of these usually free newsletters to the needs, concerns, and desires of their target market. This allows them to stay connected to their customers while developing strong connections and brand loyalty. Start-up companies can take advantage of the free and affordable options offered by such newsletter management software companies as MailChimp, Constant Contact, Mad Mimi, Marketo, Insightly, Slack, and Salesforce.

EXPEDITIONARY MARKETING

One of the toughest aspects of entrepreneurship is to stay in business and grow in a highly competitive landscape. Businesses are born every day with the goal of making a name for themselves by providing better goods and services. One way that companies big and small can stay relevant is through expeditionary marketing.

Expeditionary marketing refers to strategies that are aimed at moving established companies and their products into new markets and territories. As the name implies, there is an element of risk and discovery involved in expeditionary marketing strategies as they help a company grow into new areas. Determining where and how to effectively enter these new markets often begins with an analysis of a company's current market and its financial and human resources. Entrepreneurs will choose new markets based on where those resources might be able to fulfill an unmet need. Many small businesses need to leverage their gains as they move into new waters and perhaps more competitive landscapes. Having awareness of changes can foster planning and look for new ways to expand.

This type of marketing is very similar to entrepreneurial marketing, and the terms are often used interchangeably, except that expeditionary marketing involves existing companies continuing to innovate whereas entrepreneurial marketing also involves new companies. Companies that have succeeded in taking their businesses into new markets and consistently pivoting to create new products for current and new markets can be thought of as entrepreneurial companies. Big companies such as Apple, Google, and Dropbox Launch for Growth to Success have consistently developed products and entered new markets to keep abreast of the competition. Companies that did this while small like Birchbox (see Introduction) also use this method to grow and fight off competitors.

REAL-TIME MARKETING

Real-time marketing attempts to turn immediately available sales data (often collected from social media, websites, point-of-sale systems, and the like) into actionable and timely strategies that target the shifting landscape of consumer tastes and trends. Some of the tools entrepreneurs can use to secure information include analytics from Facebook, Twitter, and Google, as well as internal sales data. The information can include preferences for one brand over another, lifestyles, behavior, purchase frequency, and dollar amount spent. This helps entrepreneurs set up strategies that focus on providing the customer what it needs in today's instant gratification society.

2. Joshua Kraus. "The Dos and Don'ts of Relationship Marketing." Sitepoint. April 16, 2015. <https://www.sitepoint.com/relationship-marketing-examples/>

For example, a company such as Birchbox creates a post on Facebook or Twitter regarding a new promotion. It can then confirm the number of “clicks” the post gets and determine the depth of engagement for each of the posts. Clicks can be likes, shares, comments, and purchases that can be tracked immediately, minute by minute, hour by hour, or day by day, depending on the length of the promotion. Real time allows the marketer to assess the action followers take immediately after this happens. Success will depend on the goal that was set by the company. For example, if for one of their promotions, Birchbox expects 1,000 likes, 100 shares, and 30 conversions or purchases per day, it will be very easy to track whether the company is accomplishing its goal just by looking at the results every hour. This makes it very easy to gauge and to change. If a post is not getting the desired results in likes, shares, comments, or conversions in the desired timeframe, then the company can make changes to the communication sent to provide a different incentive, such as providing a deeper discount, or using different language, a new picture, and a better call to action. In addition, real-time tracking also allows for the company to answer tweets and comments from its followers immediately. This enables direct communication from customer to company without any interference or time constraints.

VIRAL MARKETING

Viral marketing is a technique that uses engaging content in the hopes that viewers will share it on their personal and social media networks. Successful content then spreads like a virus, creating exponential exposure to a company’s message.

The most important element of any viral marketing campaign is developing content that is not only engaging but that people also feel must be shared. Generally speaking, viral content is not “salesy” in nature; rather, it tends to be subtle about its presentation of branded items. In this way, the product or brand reaps the indirect exposure that comes with being part of content that people want to consume. A very successful campaign that included viral marketing is the Dove Real Beauty Sketches campaign where a real-life forensic artist sketches women’s faces based on their own descriptions and sketches them again through other people’s descriptions of their faces. When these sketches were revealed to the women who were asked to participate, they saw how much kinder and more beautiful other people had described them. This video never mentioned any Dove product at all. The result of this campaign was astounding, as it had more than 140 million views worldwide, becoming the best viral video of 2013 by connecting to the customer in an emotional way that was sincere and warm. This campaign also enabled the company to track results in real time and answer comments from viewers in a timely manner, while enhancing brand awareness.³

Another example of an effective viral campaign is that of Dollar Shave Club which has garnered more than 26 million views on YouTube in response to the low budget and entertaining video by the owner of the company. Founded in 2011 in California with the goal of providing low-cost razors to men every month through a membership, the company has been so successful that it has since been acquired by Unilever.

The benefit of this kind of marketing is that it can lead to massive exposure for little or no effort or investment once the content is developed. The challenge, though, is that it is difficult to predict what will be successful viral content. Viral marketers often create a lot of content that does not go viral before finding content that does.

3. Nidhi Dave. “Top 3 Viral Marketing Campaigns to Take Inspiration From.” SEMrush. March 9, 2018. <https://www.semrush.com/blog/viral-marketing-campaign-inspiration/>

DIGITAL MARKETING

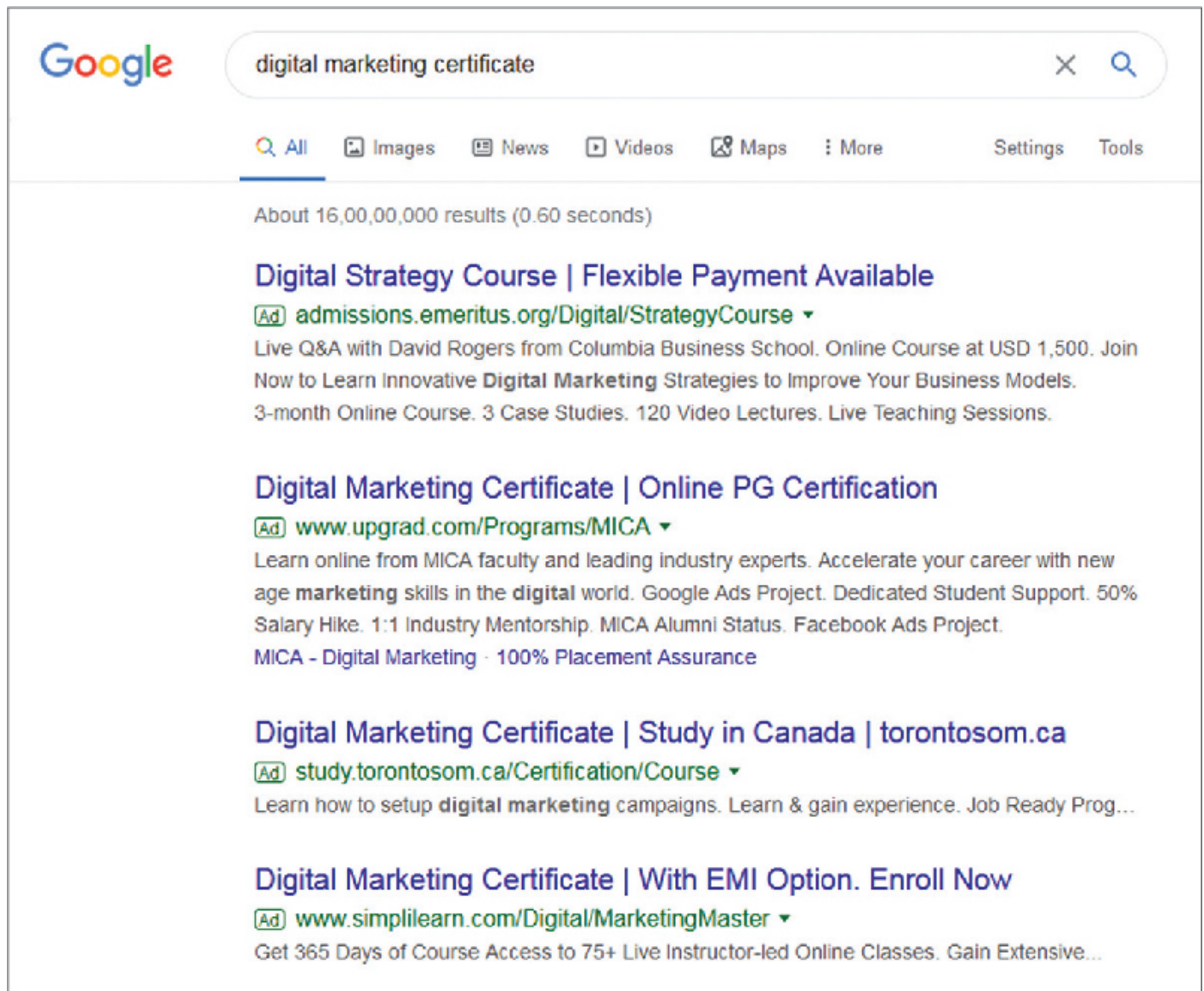
Digital marketing refers collectively to all digital (online) marketing efforts, which can include social media, email communications, websites, blogs and vlogs, and search engine optimization (SEO). This is an important area for entrepreneurs to explore because learning how to leverage digital channels and online analytics is key to remaining competitive in this technological era.

Digital ad spending has outpaced television ad spending in recent years.⁴ Digital ads include display ads, search ads, and social media ads. These can be very successful at targeting specific people in your target market and are usually more affordable than a TV ad. They are cheaper to make and to place than TV ads, which can cost millions of dollars for production and air time to reach a wide number of people. Digital ads are important for entrepreneurs because they are an effective way to redirect traffic to their websites and gain conversions on a budget. It does not matter how big your budget is. These ads can be strategically bought to be as cost effective as possible. They can range from a few dollars to millions of dollars, depending on your resources. Display ads are those that resemble banners and showcase a product or company on a website in a noticeable way. They come in various sizes, and the entrepreneur may buy them on third-party websites or search engines that provide space for ads. These ads are usually paid using a pay-per-click model, which means that you only pay for the times that someone clicks on your ad, or you can pay for impressions, which means that you only pay for the number of times the ad appears on readers' screens.

Search ads, conversely, are those text ads you see while you are looking for something on a search engine, whether it's on your laptop, tablet, or mobile device. Google, Bing, and Yahoo! are the three biggest search engines in the United States that provide businesses the ability to create targeted ads to reach customers who are looking for something in particular. These ads are created using keywords that are strategically chosen to target people typing those specific words in the search engine and are paid through a bid system that allows the business to specify how much they will pay for an ad to be displayed in a better position on the engine's display pages. Google Ads and Google Analytics are tools that allow a digital marketer to search for popular keywords and create ads based on these terms to target the right consumer. These tools are so well designed and complex that it takes some time to get acquainted with all of their features and capabilities. Their main features, however, are to look for the right keywords, create the ad campaigns, and track their success.

Go to your favorite search engine and try to search for something . What kind of ads do you see on your screen? Someone on the other side has created these ads to connect with you. Did they do a good job?

4. Greg Sterling. "Digital Now Makes Up 51% of US Ad Spending." MarketingLand. September 20, 2018. <https://marketingland.com/report-digital-now-makes-up-51-of-us-ad-spending-248617>



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The Google Ads tool is effective for reaching targeted audiences searching online for specific products.

Social media platforms also have the capability for users to create similar ads on their systems to target people based on their behaviour, likes, profiles, and searches for products online. Their popularity has increased as more people join the platforms and more information is gathered from them.

SOLAR PANELS ARE HOT

During the last ten years, solar panels have increased in popularity, as they are a great alternative to fossil fuels. Solar panels enable homes and organizations to transition from electricity generated from fossil fuels to clean energy. Given the current climate state and changes in the energy industry, solar panels have become an excellent way to save money on electricity over the long run, a great way to receive tax credits, an incentive to add equity to homes and buildings, and a help to the environment. The cost of installing such technology has decreased over the years thanks to the new technology available, the increase in competition, and the overall increase in demand of the product. Consumers can install the cells on their roofs at a more affordable price.

Exercise

Given the recent trends and interest you have in helping the environment, you've decided to get a part-time job at a new local solar panel company. This company has a very small market share (less than 1 percent), or percentage of customers, compared to the rest of its competitors. Their goal is to increase that percentage to 2 percent of total customers by the end of the year. To reach that, they have hired you as their marketing coordinator.

As part of your job, you decide to create a plan for a promotion to reach a targeted number of people. This promotion must be conducted online and on a budget. On your first few days on the job, you research the various types of ads that could most effectively reach the most people looking for solar panels. Once your research is over, you come back to the owner and help her decide which ads to use. Focus on the following three areas and provide your advice to the owner.

- What are the best types of ads and platforms for this type of company?
- What is the average price per ad clicked or seen?
- What are five to ten common keywords that can be used in the ads?

Blogs

Blogging has become an important tool for business owners. It allows them to share information about their companies, products, and their experiences in written or video form. Blogging enables entrepreneurs to create a name for themselves, especially when the content is useful and people are interested in what the blogger has to say. Strategies that help entrepreneurs include making the time to blog, having a specific niche, choosing interesting topics that matter to the blogger and the audience, and using other branding and SEO techniques that help the blog become more visible.

Content Marketing

Content marketing is an important topic for digital marketing, as content has become more important in recent years. Content can be displayed as a story, a blog, a website, social media posts, a newsletter, an article, videos, or anything else that has the ability to convey a message to the consumer. This is a valuable tool to distribute content that is useful, which can engage the target audience and entice them to take some sort of action. The entrepreneur must take the time to create useful content to connect with current and potential customers online. Entrepreneurs can also tap influencer marketers to disseminate information about their brands. This includes tapping into social media celebrities, who usually have millions of followers on YouTube, Facebook, Instagram, or similar platforms. This has been one of the biggest recent trends in marketing.⁵ When working with influencers, it's important that they disclose that they receive compensation for any product or service they are talking about to avoid legal risks.

Email Marketing

Email marketing is a form of direct mail that connects to consumers in a personal way. Emails can contain useful content for consumers, promotions, and tips that entice them to try or be aware of a product. Many email marketing platforms offer services at an affordable price, including Constant Contact, Mad Mimi, Mail Chimp, and Drip. All of these platforms allow the entrepreneur to upload a list of customers or potential customers and create

5. Sumit Gharal. "7 Reasons Why Content Marketing Is Important! Number 7 Is a Must Read!" Digital Doughnut. April 4, 2019. <https://www.digitaldoughnut.com/articles/2019/march/7-reasons-why-content-marketing-is-important>

email marketing campaigns that are tailored to each target market. These platforms also offer useful metrics, such as open rates, click-through rates, time spent viewing the message, and conversion rates, which can measure the effectiveness of a campaign.

Word-of-Mouth Marketing

Word-of-mouth (WOM) marketing occurs when a satisfied customer tells others about their positive experience with a good or service. Although similar to viral marketing, WOM does not involve active participation from the marketer and almost exclusively involves only customers, whereas viral marketing attempts to build awareness and buzz mostly via videos or email.

When consumers are very happy with their purchases, they will let people know, whether it is in person or on social media. The company has less control over this type of marketing because it happens organically. While effective WOM marketing can have a huge impact on a brand's sales and visibility, creating WOM is tricky—people have to want to talk about your product.

One way to encourage WOM is to ask satisfied customers to help you spread the word by talking to their circle of friends and family, or by sharing comments online on the website, through portals, or through social media. Companies often include call-to-action cards in their shipments that direct customers to post reviews on their website, the website where they purchased the item (Ebay and Amazon), or on public review sites such as Yelp.

Entrepreneurs who do this need to make sure they monitor what is being said about their businesses so that poor reviews don't undermine their marketing efforts. Many of these sites allow businesses to address and resolve bad reviews, which is a good way to turn a potentially damaging situation into one that creates goodwill and positive brand recognition.

Lululemon is a yoga and athletic wear company that knows well about customer reviews. On its site, customers have the opportunity to leave comments about each of the garments regarding the size, fit, quality, and ease of use. Although the quality of Lululemon garments is high, some customers still have negative experiences and don't hesitate to share their comments on the site. The company responds with an apology for the negative experience and redirects the unsatisfied consumer to an email so they can move the conversation off the site. This allows the company to make amends with the customer and hopefully remove the negative comments if the issue can be resolved.

Entrepreneurial Marketing Techniques

Marketing Technique	Description	Example
Guerilla marketing	Aims to gain maximum exposure through unconventional means	Events, such as flash mobs
Relationship marketing	Creates customer loyalty through personal interaction	Personalized communication to individual customer
Expeditionary marketing	Strives to move established companies and products into new markets	Pivots that create new products or attract new markets
Real-time marketing	Seeks to turn immediately available sales data into actionable and timely strategies that target the shifting landscape of consumer tastes and trends	Analyzing clicks or "likes" and modifying posts/offerings in response
Viral marketing	Uses engaging content in the hopes that viewers will share it on personal and social media networks	Subtle branding embedded in stories users want to share
Digital marketing	Uses online marketing strategies	Online ads and use of search engine optimization (SEO)
Word-of-mouth (WOM) marketing	Relies on satisfied customers telling others about their positive experience	Online customer reviews

7.4 Entrepreneurial Branding

Learning Objectives

By the end of this section, you will be able to:

- Understand the importance of customer-focused branding
- Explain the steps in defining and developing a brand
- Describe the benefits of brand advocacy

In a business context, the word brand has multiple meanings. First, a brand name is the name of a product or service offered by a company. For example, Coca-Cola and Goodyear are brand names. But the brand also means the image a company promotes and the connotations it fosters of itself and its products. For example, the Coca-Cola brand might be seen as refreshing, youthful, and quintessentially American. The Goodyear tire brand might be seen as performance-driven, affordable, and reliable. A logo, advertising messages, public perception, celebrity endorsements, promotional strategies, and other factors all play a part in promoting a company's particular brand.

Branding is often less about a product's actual benefits or value, and more about how it positions itself within its target market and connects with its loyal customers. Establishing a brand at a company's inception is more challenging than managing a brand that has been present for many years. In the case of a start-up, the initiatives undertaken must be customer centric and should speak directly to the heart of the consumer. These must have a trustworthy and emotional appeal to create a bond with the customer. Let's delve deeper into this.

CUSTOMER-FOCUSED BRANDING

The image a company conveys to its customers is managed through what is called brand strategy, which can include advertising, public relations, customer service, and sales promotions.

One common branding strategy is the use of taglines, which are short and catchy positioning statements that quickly communicate some core aspect of the brand to the consumer. Taglines can be a powerful tool, and in some cases can become as recognizable as the brand names themselves. Consider the list of taglines from recent start-ups [see table below]. Do they do a good job of communicating the key attributes or benefits of the brand name they are linked to?

Taglines of New Companies

New Companies	Tagline
Hello Fresh	Simply Delicious Meals
Airbnb	Belong Anywhere
Uber	Get There
BirchBox	Open to Beautiful
Snapchat	Life Is More Fun When You Live in the Moment
LuminAID	Makers of Brilliant Things
Uptown Cheapskate	Buy. Sell. Trade.

Consider the taglines shown below. They have been around for a long time, and most customers are familiar with them. Why do you think these taglines have endured over time?

Taglines of Established Companies

Mature Companies	Taglines That Have Endured Time
Nike	Just Do It
Apple	Think Different
Subway	Eat Fresh
Walmart	Save Money, Live Better
State Farm	Like a Good Neighbor, State Farm Is There
Master Card	There are some things money can't buy. For everything else, there is Mastercard.
Maybelline	Maybe She's Born With It, Maybe It's Maybelline.
Red Bull	Red Bull Gives You Wings
General Electric	Imagination at Work

Consider, also, how jingles can have a powerful effect on people's recollection of a message. A jingle is a very short song or sound that brands a product or company and helps promote it. These tunes are very easy to remember, bold, and fun. Jingles are similar to taglines in that they feature a sound that is catchy and easy to understand by the recipient. Which jingle do you remember off the top of your head?

Link to Learning

Taglines are not just visual. They can also employ sound. Consider the "Intel Inside" riff or the three notes of NBC's network chime. Sound plays a big role in brand recognition. And jingles are sure bets that entertain as well as forge a connection to a brand. Check out this website for a history lesson in some of the most famous radio and TV commercial jingles of all time.

Other components in a brand include the website, social media, customer service, and packaging. These are important components of a branding strategy that use technology to convey the message. A website allows a company to create an image of its business pages that are linked to each other. These pages convey branding information about a company that sends a message to the consumer through the use of the business logo, colors, copy, ease of use, product information, and e-commerce capabilities. The LuminAID website conveys an image

and at the same time has important calls to action and serves as an example of successful branding. This site uses colors, images, and fonts that create a specific image of modern lighting that entices customers to purchase the products and other stakeholders to give light to people who need it.

In addition to the ability of a business's website to convey the company's story, social media platforms reinforce the connection to the consumer. Social media platforms such as Facebook, Twitter, Instagram, and YouTube allow companies to invite customers to join the conversation by posting pictures of their use of products, making recommendations, participating in contests and giveaways, and obtaining coupons and other perks. Entrepreneurs have these tools at their disposal to continue creating the image of the business that perhaps got started as a brick-and-mortar business. Today, tools such as Wix, an easy, online website builder, can be used to develop this branding. Entrepreneurs with larger budgets can hire a website designer to create and help promote the site.

Customer service is another tool that can create a strong company image. Training salespeople and cashiers to be courteous, resourceful, and knowledgeable creates an image in the customer's mind about the product and the business. Wearing uniforms can also create a positive image. Customer service is particularly helpful when dealing with services because it gives some tangibility to the product that the customer cannot see. For example, a hairstylist cannot provide a tangible depiction of how a haircut might look on a customer, but the stylist's demeanor, attire, and hair can give the customer clues as to what treatment and results to expect. Packaging is an important component of branding. The design of the package, the color, the information that is conveyed on the package, and the practicality of the package all create an image of what is to be expected from the product.

Method, an environmentally conscious and customer-focused brand of cleaning products, is an example of a company that distinguished itself from the competition by employing effective branding strategies. By using recycled, environmentally friendly packaging and promoting their commitment to using plant-based, nontoxic chemicals, the company was able to attract the attention of, and eventually place their products in, Target stores nationwide.

First, Method convinced Target to use their products to clean their own stores; after a successful test, they convinced the company to carry its line, which includes soaps, detergents, and cleaners. Its quirky brand message helped land the account, as Target is a progressive and innovative retailer. The brand message that Method conveyed to them was that everything inside the cleaning bottles was plant-based, and no harsh chemicals were used in creating the product. The products were either as or more effective than leading brands. In this case, the brand message conveyed the mission of the company in all of its products by integrating all the aspects together in a simple manner through the use of clear bottles, quirky fonts, and (nontoxic) colored liquid.



Method's quirky packaging, design, and plant-based ingredients were all part of its successful brand strategy. (credit: work by Carol Bleistine/Flickr, CC BY 4.0)

The benefits of developing a good brand are several. A brand is the image of a product or service that conveys to customers who when they purchase from a particular brand, they will receive the value (quality, price, and experience) they expect. The next time they see that brand, they will choose it again because their previous expectations were met, simplifying their buying-decision process. New products must also break through crowded marketplaces and be visible to consumers who already have an attachment to other brands.

Trust in a brand can save the consumer time and may create an emotional connection to the company. However, not all benefits work for all brands and all purchase decisions. When a customer is purchasing low-commitment products and services, like cleaning products, the decision process can be quick and heuristic. When purchasing more expensive items such as electronics, vehicles, or vacations, the brand is just one of many attributes the consumer will consider.

DEFINING AND DEVELOPING A BRAND

A brand should have a clear purpose derived from the company's mission. If the purpose is to provide plant-based cleaners that are not harmful to people, pets, or the environment, as in the case of Method, then the brand must communicate this throughout all of its interactions with its consumers. The unique selling proposition, as

described in Identifying Entrepreneurial Opportunity, benefits, qualities, and overall image should be conveyed throughout the marketing mix to tell a story. In addition, the brand should have a well-designed logo, the company/product name, merchandise, promotional items, location of the business (that also provides an image or tells a story), and any other tools that communicate with buyers.

Keep in mind that there are differences in branding regarding business size and type. When starting a business, it is likely that you will brand your entire business with one logo, one name, and matching promotional items, business cards, and product packaging. As your number of products grows, you would likely develop different packaging and different images for other product categories.

A checklist of items that help develop a brand for your venture.

Branding Checklist	
1.	Develop value proposition based on mission and personality of business
2.	Know target market and its identity cues
3.	Craft positioning statement and develop tagline
4.	Integrate marketing mix
5.	Create logo, stationery, and promotional materials
6.	Develop website and social media
7.	Create related content
8.	Monitor brand

When starting a business venture, following a few key steps will help in establishing a strong brand. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

PROMOTION THROUGH BRAND ADVOCACY

One way to promote your brand is to identify loyal customers who are willing to share positive feedback about it. A brand advocate is someone who is a fan of your products and passes on the word to others. Brand advocacy is a potentially inexpensive means of building a brand and one that entrepreneurs should explore. One simple way to motivate brand advocacy is by asking your best customers and fans to refer other customers to you, leave online reviews, and/or to blog or comment about your company and products online. Companies often offer discounts and promotional codes to encourage brand advocates to spread the word.

The key to effective brand advocacy is to know the goal of your advocacy campaign, look for ambassadors (there are many online and in-person events), ask them to perform a task, and reward them for doing so.

An example of advocacy branding is to create a contest to engage consumers who love your product so they can share pictures on social media. IKEA did this in 2016, when it started a contest to win a personalized wardrobe using the hashtag #JoyOfStorage to entice its most loyal fans to share their IKEA products online. The contest asked customers to post pictures of their IKEA products on Facebook. This campaign allowed IKEA to engage and reward loyal customers in a fun way, while also using word-of-mouth marketing to expand their marketing reach.



The IKEA #JoyOfStorage contest engaged loyal fans and rewarded them for being brand advocates. Credit: By [this_could_be_my_house/Flickr](#), CC BY 2.0

Exercise – Forever 21

After living in Los Angeles for a few years, South Korean natives Jin Sook and Do Wong Chang decided to open a clothing store. They named it *Fashion 21*. The store became a success, bringing in over \$700,000 in revenue in 1984. Next, they decided to open new stores twice a year while at the same time changing the name of the store from *Fashion 21* to *Forever 21*, expanding their brand globally. While the stores have historically generated over \$3 billion in annual sales, the retailer recently filed for bankruptcy, citing struggles to pay vendors and landlords. The filing comes along with the closing of 178 underperforming US stores and allows *Forever 21* to “simplify things so we can get back to doing what we do best.”¹

Bankruptcy aside, Sook and Chang have remained at the helm of the company and their children are also in management, one working in marketing and the other in branding. Branding helps the company remain relevant to its youth segment by positioning itself as trendy, innovative, and particularly adaptive to ever-changing tastes in fashion. The company uses its logo, retail stores, and website to showcase its trendy image.

Forever 21 has been sued several times for copyright infringement, as the essence of the company is to provide fashion looks inspired by runway designs but offered at a lower price point. *Forever 21* has a long history of settling copyright suits, including a case involving *H&M*. It has been in legal battles with *Adidas*, *Puma*, and *Gucci* as well.

1. Erica Gonzales. “Forever 21 Has Officially Filed for Bankruptcy.” *Harpers Bazaar*, September 30, 2019. <https://www.harpersbazaar.com/fashion/trends/a28849065/forever-21-bankruptcy/>

- If you were the branding manager, how would you prevent these suits from happening?
- How would you develop a better image of the company?

7.5 Marketing Strategy and the Marketing Plan

Learning Objectives

By the end of this section, you will be able to:

- Distinguish between a marketing strategy, a marketing plan, and a pitch
- Describe the elements of a marketing plan

Now that you have a better idea of what marketing is, you are ready to start developing a marketing strategy and plan. A marketing strategy describes how a company will reach consumers and convert them into paying customers. Having a solid-yet-flexible marketing strategy is a good business practice, no matter what kind of business you are in.

A marketing plan is a formal business document that is used as a blueprint or guide for how a company will achieve its marketing goals. A marketing plan differs from a business plan in that it focuses more on market research, attracting customers, and marketing strategies, whereas the business plan covers much more than that.

Marketing plans are important tools because they act as roadmaps for everyone involved in an enterprise. Writing a marketing plan forces you to specify goals and develop strategies to reach them, and encourages you to research markets and competition. A strong marketing plan will encourage entrepreneurs to think deeply about their business and profit potential, helping them make better business and marketing decisions. Additionally, a marketing plan can create greater involvement and cohesiveness among employees by clarifying goals and expectations.

A variety of marketing plan templates are available that can be modified to fit your business's product and/or services. One thing to consider is why you are writing your plan and who your audience is. In addition to planning for your venture, will it be used by employees or potential investors? Different audiences will require different kinds of information. If it's an employee, then you must include extra details about the operation of the business. If the plan is geared toward acquiring an investor, be sure to highlight the value that will be gained from investing.

Keep in mind that the various parts of a plan do not need to be written in a certain order. Plans should also be seen as flexible guides rather than absolute rules. All good marketing plans are living, breathing documents that help you measure success while allowing for course corrections when necessary.

Standard components of a marketing plan.

Marketing Plan Section	Description and Purpose
Executive Summary	Provides a snapshot of the whole plan, including profit potential and major strategic ideas
Situation Analysis	Overviews internal and external environments related to the business and product; internal environments include company background and mission; external environments can include market needs, competition, market research, and an analysis of strengths, weaknesses, opportunities, and threats (SWOT)
Marketing Opportunity (Unmet Need, Proposed Solution, Value Proposition)	Validates the market opportunity being exploited by the business and articulates the potential gain for stakeholders
Business Model	Presents the framework for generation of sales and the business's competitive advantage
Marketing Objectives	Specifies goals for sales (in units or dollars), market share growth, brand awareness, secured distribution channels, inventory, and pricing
Marketing Strategies	Explains target market, projected positioning, and strategies as they relate to the marketing mix (7Ps)
Action Program	Defines who will do what and when
Financials	Discloses sales estimates, projected budgets, and financials that will help readers understand the present and future economic condition of the company
Control Procedures	Describes procedures for measuring results, monitoring goals, and adapting the plan as needed

EXECUTIVE SUMMARY

The executive summary is just that—a clear and concise summary of the major points of your marketing plan. Though it is placed first, it is generally written last because it is based on the information presented in other subsequent sections.

The executive summary is typically one or two pages long and includes key indicators of success for the business and its stakeholders, which may include company owners, managers, consultants, investors, and banks. Your goal is not merely to summarize everything in your plan but to highlight why people should be interested in your venture. Whether the reader is an employee or a potential partner or investor, the executive summary should seek to not only inform but to excite.

Focusing on the opportunity at hand, what makes your business model special, and the potential financial reward is a good way to capture a reader's attention. For example, if your business' strengths include a great marketing team and a significant competitive advantage, you should highlight them as reasons for success. Some readers may only read this section, so make sure you highlight what makes your company special and how you plan on turning that into profit.

SITUATION ANALYSIS

In many ways, the basis of your marketing plan is found in your situation analysis, which is an examination of the internal and external circumstances relevant to your business and product. A good analysis will provide the logical support for the strategies you choose. For example, the research you conduct here explains why you will develop a certain product, how you will price it, and what you will do to reach your target market.

Good situation analyses often include a SWOT analysis, which looks at a company's strengths, weaknesses, opportunities, and threats. They also look at future and current competitors, and include market validation research that has surveyed potential customers. This information is critical because it proves that you have done your due diligence on your product and market.

MARKETING OPPORTUNITY

Assuming your background research has led you to determine that there is a business opportunity, this is where you explain what and where that opportunity is. For example, if your research led you to discover a gap in the market for educational children's toys, this is where you explain the depth of the opportunity. Here you use your research as evidence to prove to your reader that there is a market gap and that you know how to fill it. If your goal is to get an investor interested, this is where you would let them know what they stand to gain and when they would gain that.

Link to Learning

The US Small Business Administration strives to help business owners initiate and succeed in developing enterprises. Their website is loaded with helpful information, classes, and templates that can help the entrepreneur navigate the intricacies of marketing, as well as provides helpful tips on developing a marketing plan.

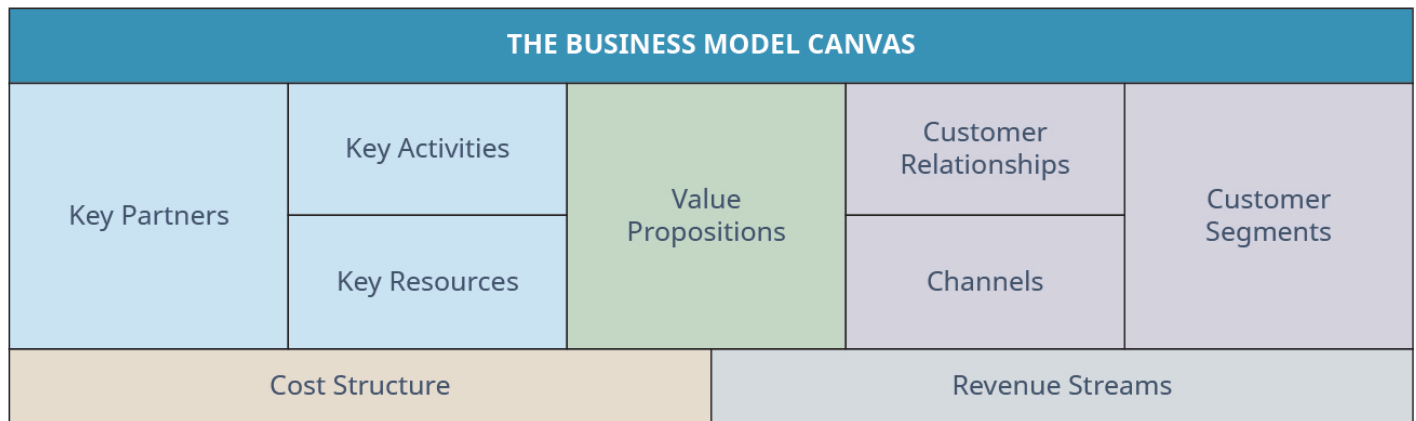
BUSINESS MODEL

In this section, your job is to marry the opportunity you saw with the solution you have created. Here you articulate how your competitive advantage and points of differentiation (nature of the solution and its key features and benefits) will provide value to customers and earn profits that will sustain your business into the foreseeable future. What will you do to create value that attracts customers? How will you generate sales? Who is your target market? If you were opening a gym, this is where you would lay out how you will capture customers, the value they will receive, what types of membership contracts will be available to them, and so on.

A great tool for capturing this information is the Business Model Canvas. The nine building blocks of this model will help you to determine the targeted customer segment, value proposition that you will present each of your segments, channels for the distribution of the proposition or touchpoints, type of customer relationship you will build with your target, types of cost structures and revenue streams based on pricing means, and key resources, activities, and partners that will help you to succeed.

The canvas also allows the entrepreneur to innovate and to change if something doesn't work out. The point of this tool is to put the pieces of a plan together.¹

1. "The Business Model Canvas." Strategyzer. n.d. <https://strategyzer.com/canvas/business-model-canvas>



A business model canvas brings together key strategies about the product being launched. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

MARKETING OBJECTIVES

Here you present your specific goals and their tangible outcomes. It is not enough to say that you will be very successful without defining what exactly success means. The point of this section is to quantify your goals as units sold, sales/revenue, market share, or some other practical metric. Goals can also include creating measurable brand awareness and developing a certain number of distribution channels.

For example, good, measurable goals might be selling 300 units per month, selling \$600,000 worth of product in a year, or gaining brand awareness of 10 percent of your target market in three months. Avoid goals that are unmeasurable or vague, as they won't help you now or later.

No matter what your goals are, they should be reasonably achievable and as specific as possible. The reason for this is so that later on, you can determine whether you have been successful. If you haven't, you will know something needs to change.

MARKETING STRATEGIES

As mentioned earlier, having a good marketing mix will help your business succeed. As an entrepreneur, you want to segment the market and figure out if there are possible pockets of people whom you can serve. The process of segmenting, targeting, and positioning (STP) will help you figure out who is your best customer and allow you to allocate your resources effectively to serve that market.

After going through this process, you can look at the marketing mix, and depending on whether you have a product, service, or a mixture of both, which is usually the case, you will outline your approach to the 7Ps of the marketing mix.

ACTION PLAN

In the action plan, you detail how things will get done in your business on a day-to-day basis, when they will get done, and who will be doing them. Often, new business owners develop extensive strategies, but they don't have the people power to implement them. Obviously, ensuring that you have the necessary human resources in place

to execute your goals is important. This is the section where you make it clear that you do. For example, if you have a marketing team in place, highlighting their ability to execute your plans will help convince potential investors that you can put your plan into action.

FINANCIALS

Here you include budgets, forecasts, and any other information that will give readers and potential investors a clear picture of your business's financial situation. Being transparent and truthful will create trust and goodwill between your company and potential investors.

This section is also important because it will help you determine how profitable your business might be. One place to start is by determining your expenses and future profits. Since most entrepreneurs tend to overestimate these numbers, it is best to develop financial projections for best- and worst-case scenarios, as well as a projection for an average case scenario.

Many entrepreneurs develop one-, three-, or five-year projections to get a sense of future profits and to prove that their business model is sustainable over the long run.

5-Year Financial Projections: Sammy's Grocery Store					
	2018	2019	2020	2021	2022
Sales/Revenue	\$100,000	\$150,000	\$170,000	\$190,000	\$198,000
Cost of Goods Sold	\$ 30,000	\$ 50,000	\$ 55,000	\$ 57,000	\$ 60,000
Sales and Administrative Expenses	\$ 40,000	\$ 55,000	\$ 60,000	\$ 60,000	\$ 70,000
Depreciation	\$ 10,000	\$ 7,000	\$ 8,000	\$ 8,000	\$ 10,000
Operating Profit	\$ 20,000	\$ 38,000	\$ 47,000	\$ 65,000	\$ 58,000

Growth projections appear in the financial section of the marketing plan. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

KEY PERFORMANCE INDICATORS

Finally, you need to determine your key performance indicators, or how you will evaluate the effectiveness of your strategies, by looking at the progress you have made during a specific timeframe. These include the quantitative milestones that will tell you if you are on the right track, help you analyze your decision-making process and focus on specific strategies, and make changes if these don't work.

For example, one of your milestones might be a sales goal of \$50,000 within the first six months. If you are not on track by the time you hit this milestone, it can be an indication that you either overestimated your sales or your strategies are not working. In either case, you will need to make actionable steps to revise your projections or find more effective strategies.

7.6 Sales and Customer Service

Learning Objectives

By the end of this section, you will be able to:

- Explain the importance of sales strategy and provide an example
- Explain the importance of customer service

A sales strategy is a plan that the entrepreneur uses to identify and engage a consumer, from prospecting to securing the sale. This strategy should keep in mind the core benefit or competitive advantage that the product or service has and make sure this information filters through the entire sales execution process. The strategy should include a six-step process that is an integrated sales system for how to prospect, pitch, handle rejections, and the like.

Setting objectives is important before reaching out to prospects and current customers because they allow the salesperson to detail the strategy, have an end goal, and measure the results. For example, a salesperson may have a goal of closing one client out of ten prospects he or she sees per week (or through a sales cycle). So the detailed strategy would be:

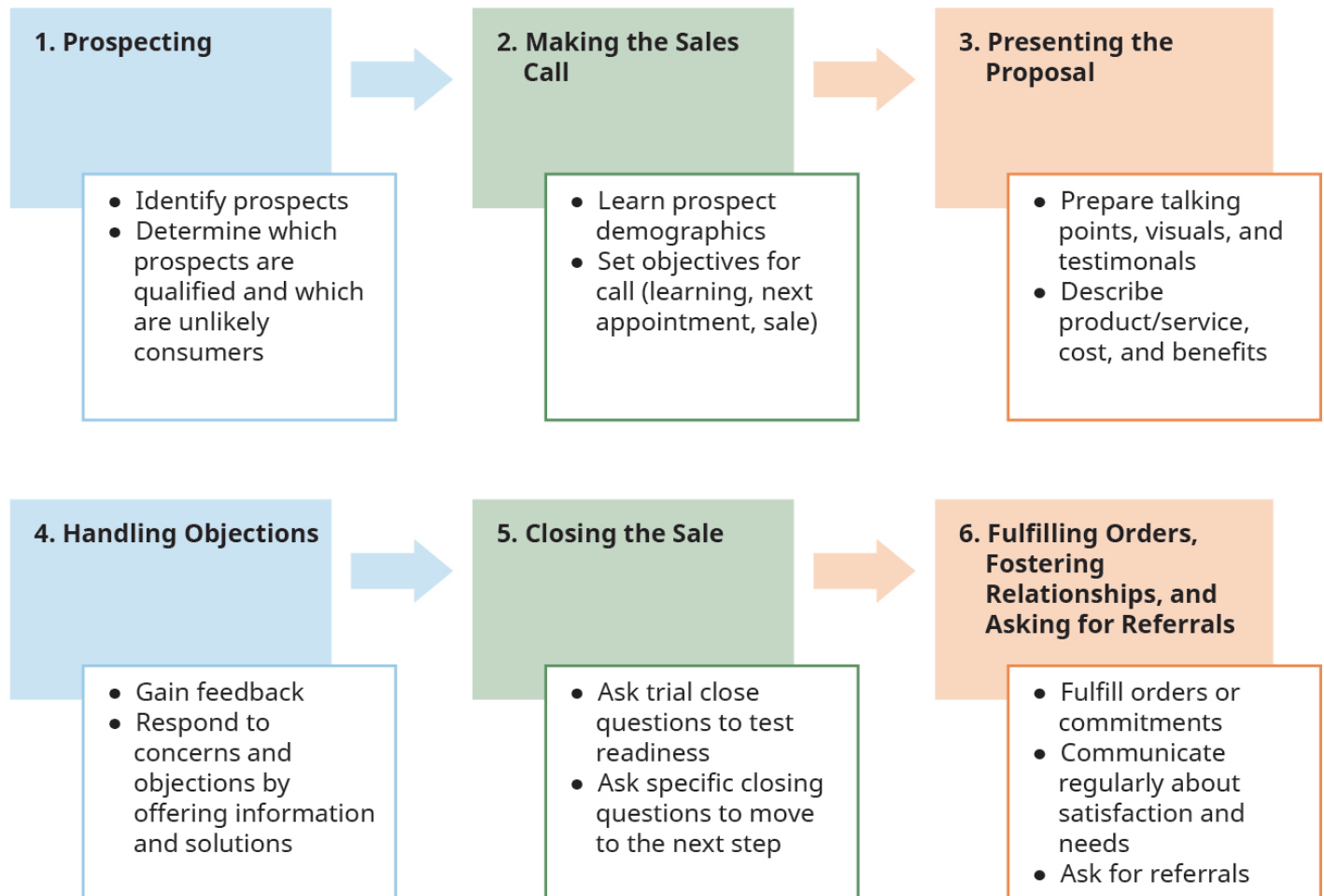
1. doing research about prospective clients and creating a list,
2. calling them to set up an appointment to talk about your product or service,
3. meeting with them to present a proposal,
4. handling objections,
5. closing the deal, and
6. nurturing the relationship after close.

The end goal would be to gain a prospect as a client and develop a good relationship for future business. And the salesperson would measure the results by looking back at goals and outcomes.

There are many methods, tools, and techniques to sell, and there is no perfect set of strategies for a business. It depends on the goals and resources of the entrepreneur, as well as on the type of product they are launching. When selling to customers who are going to be spending a substantial amount on a product or service, like a piece of equipment, a luxury yacht, or an expensive software program, there must be a sales system in place to take consumers from prospects to customers. The preceding six steps are general stages in this system. Let's take a look at each step.

SAMPLE SIX-STEP SALES STRATEGY

The graphic below outlines an example of an effective sales system or strategy using a six-step approach.¹



The six-step sales process does not end with the sale but with a positive customer relationship. Attribution: Rice University, OpenStax, CC BY 4.0 license.

Prospecting and Preparing

Prospecting focuses on finding potential new customers for the product or service. This helps acquire new customers, replace customers lost to attrition, and expand sales from current customers. In essence, prospecting allows salespeople to collect information about potential customers and identify any who are not a good fit for the company. It is important to get as many prospects as possible to secure a few customers, as the pool of prospects diminishes through successive steps of the sales process.

You may need to have a list of twenty prospects to secure one or two customers. Prospecting also tends to be more important in certain industries such as financial advising or business-to-business industries. To determine whether a person or organization is a qualified prospect, the salesperson must consider several issues, such as whether this person/business needs my product or service, and if they can afford it.

1. Stephen Castleberry and John Tanner. *Selling: Building Partnerships*. New York: McGraw-Hill, 2019.

Making the Sales Call

The next step of the sales system is to prepare for a sales call, contact, or meeting with a prospect. Effective sales people usually prepare well in advance of contacting a prospect. A salesperson can look for information regarding the company's demographics, its competition, clients, and other companies they purchase from. Information can be gathered from online sources or referrals. It is also helpful to set objectives before contacting the prospect. Some of those objectives can include securing an appointment for a presentation, understanding the prospect better, scheduling a second call/contact, or perhaps starting a sale.

Link to Learning

Neil Rackham wrote a book in 1998 called *Spin Selling*. It's a classic in the sales world. In it, he outlined a new way to approach winning big sales deals. SPIN stands for situation, problem, implication, and need payoff. Visit the SPIN site to learn about Rackham's nontraditional approach to sales and the main principles he advocated.

Presenting the Proposal

Once the salesperson has made a connection with a prospect and understands the prospect's needs, the next step is to meet with the prospect for a sales presentation. A presentation is a great way to expand the prospect's understanding about the offering. Strong presentations include good communication skills with strong visuals and testimonials. In this step, the salesperson can make a better case for the value proposition, citing the strengths of the product and how those strengths would help the prospect in their life or how it would help a company's objectives. The presentation can also include the cost of the investment and a projection of the return on investment. In the case of a financial advisor, a presentation at a prospect's home would show the potential products that the prospect might invest in, such as a variety of retirement accounts, life insurance, a college savings plan, or long-term care insurance, along with the costs and benefits of each. In the case of a business, the presentation could take place at the prospect's office, and the meeting could include a slide presentation about a piece of equipment, with video showing how it is used and how it can benefit the company, including cost savings.

Handling Objections

During or after the presentation, a salesperson will likely encounter objections or questions from the prospect. This is a good way for the salesperson to gain feedback and respond to concerns from the prospect. Objections can arise during the appointment setting, during the presentation, or while trying to close the sale. The salesperson must be proficient at dealing with these in a truthful manner so the relationship that is established is based on trust. Some of those objections can include cost concerns, credit capabilities, product benefits, or plain rejection of the product. In this case, the financial advisor could answer questions about the potential benefits of one type of insurance over another, or handle objections on the monthly payment plan. If dealing with a company, these questions can take the form of credit opportunities and amount of cost savings in comparison to a competitor.

Closing the Sale

Once the presentation and objections are handled, the next step is to close, or ask for the sale. This is as important as being prepared to present and handle objections because it signals to the prospect that the product is a good fit and the relationship can be created. A good closing includes a trustworthy and logical process. Doing a trial

close by asking “How is this so far?” or “Can I answer anything else?” can help the customer feel more at ease with making a decision. The customer will help set the pace for a final closing. Then, the salesperson can set up the next steps or ask the following questions: “Can I place the order for you?” “Can we open the life insurance account for you?” “Can you come see the demonstration at our office?” “Can we meet next week for the financial terms?”

Fulfilling Orders, Fostering Relationships, and Asking for Referrals

Finally, the salesperson must fulfill the order and make sure that the customer is satisfied with the product or service. The salesperson, in the end, is the one who is the main contact for the customer and therefore is responsible for the fulfillment of a correct order. The order needs to be closely monitored in case there are any delays or issues with it, so the customer can be immediately notified. The process of the order fulfillment has to be monitored until it is fulfilled. Software has now made it easier to keep track of these orders, so the salesperson can spend more time selling and less time on the order process. Customer relationship management tools such as Salesforce can help a small entrepreneur or a larger business keep track of its customers, their orders, troubleshooting, and strategies for cost effectiveness.

Building a direct relationship with the customer is also important; therefore, calls or emails to check in consistently is important to assess customer satisfaction and to build the relationship bridge to ask for referrals. Customer retention is more important than ever, as even a small percentage of customers can make up the majority of your sales. Wooing new customers is 5 percent more expensive than keeping your current ones, and in the long run, those who are your VIPs will generate most of your sales.² Research shows that retaining even 5 percent of your current customers can generate anywhere from 25 percent to 95 percent of your sales.³

CUSTOMER SERVICE

One of the most important aspects of making the sale, and one that often wins or loses customers, is customer service. If you have ever stepped into a business where you have been greeted with a smile and treated kindly throughout the purchase process, you will probably want to come back and purchase from that store or salesperson again. However, if the sales associate is rude and doesn't help you find what you need, chances are you will not return to the store a second time. For start-ups, customer service can be an advantage, as the business can focus on a few customers at a time in a more personal manner. The bigger a company is, the harder it is to manage many customers and sales associates on a personal level.

According to Hubspot's top statistics on customer service, 70 percent of the customer experience or journey depends on how they are being treated. The majority of customers fall in love with a brand and are willing to pay a premium for amazing customer service, and they feel that great customer service is more important than price. They will also share positive experiences with other people—an average of eleven, according to Hubspot.⁴ When a

2. Matt Mansfield. “Customer Retention Statistics: The Ultimate Collection for Small Business.” Small Business Trends. August 22, 2019. <https://smallbiztrends.com/2016/10/customer-retention-statistics.html>

3. Jia Wertz. “Don't Spend 5 Times More Attracting New Customers, Nurture the Existing Ones.” Forbes. September 12, 2018. <https://www.forbes.com/sites/jiawertz/2018/09/12/dont-spend-5-times-more-attracting-new-customers-nurture-the-existing-ones/#723fd9e15a8e>

4. Swetha Amaresan. “31 Customer Service Stats to Know in 2019.” HubSpot. March 19, 2019. <https://blog.hubspot.com/service/customer-service-stats>

customer has a negative experience, or feels unappreciated, they are more likely to switch brands, and a company has to work harder to counteract a negative experience. It takes twelve positive reviews to counteract just one negative, unresolved customer issue.⁵

As an entrepreneur, focusing on customer service before and after the purchase is an effective reminder that the company is trying to build trust and have a relationship with its customers. This also helps with the process of branding, as you've learned. Even in business-to-business sales transactions, the most important aspect of the sales process is building that trust relationship so the customer purchases from a "friend" again. Often when companies lose accounts, it is due to a change in sales personnel and the loss of the associated relationship.

One effective way to ensure great customer service is to create an operating manual for your employees that includes proper techniques for customer service. These techniques can include how to greet a customer, how to listen and help them get what they need, the philosophy of your company, how far to go when insuring great service, and how to be creative with customer service. Employees can review the manual when they are hired, and every year after that to ensure they continue to follow the procedures. Training programs before starting work and during the year can be facilitated by the entrepreneur or a consultant to sharpen the skills of the employees. These programs are a great way to energize salespeople to be more people oriented and to develop the proper attitude and positive thinking that is required when helping customers. Sales training programs are a great way to learn more about customer service. Zig Ziglar and Dr. Cialdini programs are designed with the salesperson in mind.

Also, when hiring, focus on candidates who already have customer service experience and those who come with good referrals. Incentives for great customer service such as an employee of the month/year award or financial incentives can also encourage employees to provide great service. Finally, the entrepreneur and any administrators are the leaders of a company who must show the same customer service to their employees. Walk the talk! If they realize that they are there to serve their employees and enable them to create a great customer service atmosphere, then the employees will share the same enthusiasm and energy toward their customers. Happy employees turn into profitable customers.

Customer Service Checklist for Beginning Entrepreneurs

1. Develop guidelines or an operation manual for how to handle customer service.
2. Train employees before and during their employment.
3. Hire employees with great customer service experience or those with the potential to learn.
4. Provide incentives such as awards and prizes.
5. Walk the talk! Provide great customer service to your employees. Your attitude and disposition matter and your employees will follow you if they feel appreciated.

*The quality of customer service can make or break a company. Following a few basic steps can ensure great customer service.
(attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

Customer service doesn't happen just in person or on the phone. Technology has enabled people and companies to connect through email and social media, taking the conversation and interaction online. Customers can now talk to the company employees, voice their concerns, and get issues resolve through these avenues. These

5. Swetha Amaresan. "31 Customer Service Stats to Know in 2019." HubSpot. March 19, 2019. <https://blog.hubspot.com/service/customer-service-stats>

technological advances have provided a bigger platform for customers to rave about companies or complain about them.⁶ This love or dislike can translate into social media posts, tweets, pictures, videos, and reviews for thousands or millions of people to see and can help or tarnish a company.

6. Liz Greene. "Social Media Is a Customer Service Channel Whether You Like It or Not." Digital Marketing Institute. n.d.
<https://digitalmarketinginstitute.com/en-us/blog/social-media-is-a-customer-service-channel-whether-you-like-it-or-not>

7.7 Key Terms

advertising

mass communication that allows companies to reach a broad audience through TV, radio, newspaper, Internet, magazines, and outdoor ads

brand

image a company promotes and the connotations it fosters of itself and its products

brand advocate

someone who is a fan of your products and passes on the word to others

brand strategy

image a company conveys to its customers

bundling

bundle of products that is discounted to encourage customers to buy in bulk

causal research

identification of cause-and effect-relationships between two or more variables

close

step in the sales process in which the salesperson asks for and gets the sale

conjoint analysis

survey tool in which respondents must rank, choose, or rate a number of “conjoint,” or linked, features or benefits

cost-led pricing

easiest way to price a product by taking the cost of making the product and marking it up to create profit

customer-led pricing

pricing led by what the customer is willing to pay

digital marketing

online marketing

direct mail

connecting to consumers via email or through printed mailed pieces

entrepreneurial marketing

set of unconventional practices that can help start-ups and younger firms survive in competitive markets

ethnographic research

use of personal observation of the subject by being immersed in the subject's environment

executive summary

initial section of a business plan document that summarizes the key elements of the entire plan

expeditionary marketing

marketing designed to move established companies and their products into new markets and territories

focus group

gathering of people, typically six to twelve participants, who come together to discuss a topic presented by a moderator, who usually poses questions and collects qualitative data that can be used to answer questions or define research further

guerrilla marketing

creative approaches to marketing that seek to gain maximum exposure through unconventional means

introductory offers

using lower initial prices to attract new customers and build a customer base before prices return to their standard amount

jingle

short song or sound that brands a product or company and helps to promote it

loss leader pricing

using a below-standard price to attract customers in the hope that they will purchase other, more profitable goods and services

market analysis

analysis of the overall interest in the product or service within the industry by its target market

market opportunity

unmet need within a target demographic

market research

collection and analysis of data related to a business's target market

marketing

umbrella term given to those activities that companies use to identify consumers and convert them into buyers

marketing mix

basic set of possible strategies and approaches that marketers use to reach their target market

marketing plan

formal business document that used as blueprint for how a company will achieve its marketing and business goals

marketing strategy

company's game plan for how it will reach consumers and convert them into paying customers

odd numbers strategy

psychological pricing strategy that uses odd numbers in the prices to make a product's price point more attractive to consumers

penetration pricing

pricing below that of a competitor's price

people

company's human resources

personal selling

using face-to-face interactions to communicate and influence a customer to make a purchase

physical environment

where a service takes place or a product is manufactured

place

channels or locations—physical or digital—where products can be found by customers

positioning

(or value proposition) statement of how you want the customer to perceive your company, good, or service

premium pricing

charging a price above a competitor's price

price

value that must be exchanged in order for a customer to receive a product or service

primary research

research that involves gathering new data

process

chain of procedures and/or activities required to provide the product to the customer

product

good or a service that creates value by fulfilling a customer need or desire

profit margin

amount by which revenue exceeds costs, typically described as a percent

promotion

process of communicating value to customers in a way that encourages them to buy

public relations

marketing that focuses on connecting with constituents by developing goodwill

qualitative research

use of open-ended techniques such as observation, focus groups, and interviews to gain an understanding of customers' basic reasons, opinions, and motivations

quantitative research

generation of numerical data through techniques such as surveys and questionnaires

real-time marketing

seeks to turn immediately available sales data into actionable and timely strategies that target the shifting landscape of consumer tastes and trends

relationship marketing

creates customer loyalty through personal interaction and strives for long-term engagement

sales promotion

incentives such as coupons and discounts that help attract customers and help them take action

sales strategy

plan that the entrepreneur uses to identify and engage a consumer, from prospecting to securing the sale and beyond

sample

group of people participating in market research

secondary research

research that uses existing data

segmenting

separating the total population by homogeneous groups of people that have similar tastes, backgrounds, lifestyles, demographics, and culture

serviceable available market (SAM)

portion of the market that a business can serve based on its products, services, and location

situation analysis

examination of the internal and external circumstances relevant to a particular business

skimming

high-pricing strategy that leverages the newness of a product in order to “skim” the most profits off the top at the beginning of a sale

social media

online communication tool for entrepreneurs to connect with consumers, especially younger demographics

tagline

short and catchy positioning statement that quickly communicate some core aspect of the brand to the consumer

target market

specific group of consumers for which a company seeks to provide a good or service

targeting

selecting a customer group based on their ability and willingness to buy

total available market (TAM)

total perceived demand for a product or service within the marketplace

validation

act of verifying that a product can be successful with a target audience

viral marketing

marketing that uses engaging content in the hopes that viewers will share it on their personal and social media networks

word-of-mouth (WOM) marketing

promotion in which a satisfied customer tells others about their positive experience with a good or service

7.8 Unit Summary

ENTREPRENEURIAL MARKETING AND THE MARKETING MIX

Marketing refers to those activities companies use to identify consumers and convert them into buyers. Entrepreneurial marketing is a set of unconventional practices that can help start-ups and younger firms survive in competitive markets. One way to think of the marketing mix is to break it into the 7Ps: product, promotion, price, place, people, physical environment, and process. Entrepreneurs often don't have deep enough resources to use all of these marketing tools, so they need to be strategic in which ones they choose and how they execute them.

MARKET RESEARCH, MARKET OPPORTUNITY RECOGNITION, AND TARGET MARKET

Market research is an important aspect of being an entrepreneur. Research can help you vet ideas as well as reveal opportunities that you may not have seen before. Whether you are using secondary data or performing primary research, it is important to know your research questions and goals. Good market research and analysis can help you position your product within your target market.

MARKETING TECHNIQUES AND TOOLS FOR ENTREPRENEURS

Marketing doesn't have to be expensive; entrepreneurs have many affordable techniques at their disposal. The only input necessary for these techniques is plenty of passion, creativity, and energy. These tools include guerrilla, relationship, expeditionary, real-time, viral, digital, and WOM marketing. The pros of using these techniques are plenty, as you can see from the examples shared for each of the tools. They include being able to reach many people at the same time; leveraging the timeliness of feedback; and making real, sincere connections with people. In addition, affordability, creativity, and good results (clicks, shares, comments, purchases, and awareness) can stem from using these techniques. On the negative side, customer reviews that are not so positive can also make their way through these channels and damage the reputation of a company if they are not handled with care.

ENTREPRENEURIAL BRANDING

Branding gives an identity to the product and company to which the customer can identify. It is based on its mission, goals, and product benefits, and it must be integrated with the marketing mix for greater impact. Brands help communicate a message to the consumer about product quality, pricing, and overall benefits. When the communication strategy is not cohesive, the consumer may become confused by the different signals the company sends. The entrepreneur must work hard to create a unified message all the way through.

MARKETING STRATEGY AND THE MARKETING PLAN

Once you have an idea of your marketing mix, the next step is to develop actionable strategies and write them down in a marketing plan. A marketing strategy describes how a company will reach consumers and convert them into paying customers. A marketing plan is a formal business document that is used as a blueprint or guide for how a company will achieve its marketing goals. A good marketing plan can be used to guide internal decisions and attract external investors.

SALES AND CUSTOMER SERVICE

Sales drives profit. They may require a simple sales approach or a complicated sales system. An example of a sales system is a six-step sales strategy: doing research about prospective clients and creating a list; making an appointment to talk about your good or service; meeting with them to present a proposal; handling objections; closing the deal; and nurturing the relationship after close. When selling luxury and expensive items, the sales approach is usually more thorough and requires more sales training and finesse. Customer service is a component that is linked to this process and with proper training can really differentiate a company from the competition.

7.9 Review Questions

1. What are the differences between traditional and entrepreneurial marketing?
2. What is a target market? Why is it important to know the target before creating the marketing mix?
3. What are the components of the marketing mix? Explain each component.
4. What is the difference between pricing a product based on what a competitors charge and pricing a product based on the company's costs?
5. Check out the website <http://www.flyzipline.com/>. Who is the target market? What are their 7Ps?
6. What is market research? Why is it important to do research before you start a business?
7. How does primary data differ from secondary data?
8. How does STP help entrepreneurs?
9. How does guerrilla marketing differ from viral marketing?
10. What types of activities are involved in digital marketing? Choose one and explain.
11. What is a brand? Why is it important to work toward gaining recognition for the brand, especially for a start-up brand?
12. How does a tagline help with positioning?
13. How does a marketing plan help an entrepreneur?
14. What is the difference between a marketing objective and a marketing strategy?
15. What are the steps in the sales process?
16. How does customer service impact sales of a new business?

7.10 Discussion Questions

1. If you could open a business right now, what would it be? Who would be your target market?
2. Look at the Wag! website and determine the 7Ps of this service. Do they work well together? Why or why not?
3. Give an example of a company that uses bundle pricing and explain why it uses this method.
4. Discuss how market research can benefit entrepreneurs.
5. What is the difference between qualitative and quantitative data?
6. Give examples of how entrepreneurs can leverage marketing activities even when strapped for cash.
7. If you had a business that was highly dependent on WOM marketing, how would you ensure the information passed along was positive? If the message passed along was negative, what would you do about it?
8. Describe how a brand advocate might help IKEA position itself as a cost-effective and design-oriented furniture store. Now discuss how a brand advocate can help a new product on the market establish a good reputation.
9. Discuss how the business model canvas can help an entrepreneur create a framework for generating sales. Think of a business you like and describe how it generates sales.
10. Negative referrals can have a great impact on a company's sales. Remember an instance where you were the source of a bad referral for a product or service, and determine what made the experience so negative. What would you have done differently as the sales person to prevent that?

7.11 Case Questions

1. Claire is a young artist who has decided to sell her paintings to make some money while she finishes college. She doesn't know much about promoting her work, especially through online channels. Since you are studying business, she has asked you for your advice on promoting her work to a young professional demographic who would be inspired by her message through the arts. Describe two types of promotional tools she can use to connect with her ultimate customer.
2. You have recently been hired to work as a marketing manager for a boutique hotel in San Diego. This hotel is the only one of its kind and is not part of a chain. It only has 50 rooms that have been carefully designed to fit a younger, eclectic, design oriented, and higher-income demographic. The owner needs help pricing the rooms and other hotel services (see the following). Determine which pricing strategy you would use (customer-led, cost-based, competition-based, premium, etc.) for each of the following items and explain why. If necessary, look at some industry reports on how hotels price their services and decide if you should go the same route or try something else.
 1. Room rate (weekly and weekend)
 2. Restaurant food
 3. Parking
 4. Internet and movie access
3. One of your classmates would like to open a food delivery service in town. This service would allow people to buy lunch or dinner through an app from a list of restaurants. She's in the early stages of her analysis and she is asking your advice on possible sources of data that she can use. What kind of resources would you direct her to? Why?
4. One of your classmates recently opened a new gym in an up and coming professional area. She is an accomplished trainer, but has little experience in business. She asks your help in coming up with a specific target market. You share with her the STP process.
5. Visit the current Birchbox website, its online promotions, social media, online ads, and anything you can find about its digital marketing strategies. If you were in charge of digital marketing for Birchbox, what would you include or delete from their current activities?
6. Visit the Method website and describe all of the branding components they use to position themselves as the best cleaning products in the US market.
7. You have recently become a supplier of heavy equipment to manufacturing plants that build automotive components. You have acquired one customer and would like to add more within the next three months. How would you go about prospecting?

8.1 Building and Connecting to Networks

Learning Objectives

By the end of this section, you will be able to:

- Define networking and describe its role in entrepreneurship
- Describe networking opportunities
- Describe local and trade organization networking opportunities
- Identify nonprofit and governmental agencies offering networking opportunities

When you begin thinking about your new and exciting entrepreneurial venture, you may feel somewhat like the citizens of Key West did many years ago—isolated. No matter which way you turn, you eventually come to the end of your limited community, and what you have is not enough. You can either sit on the beach and dream about what could be or commence working on building personal and professional connections to broaden your scope and improve the depth of relationships with those individuals who will assist you in becoming a successful entrepreneur. Now is the time to start building bridges and connecting yourself with the greater business community. Networking is about building bridges not about collecting tolls.

ENTREPRENEUR IN ACTION

Colonel Sanders and Building Connections

Harland David Sanders, the founder of Kentucky Fried Chicken (KFC), was a successful entrepreneur who personally experienced and understood the value of roadways and customer access. Sanders, better known as “Colonel” Sanders, owned a successful Shell service station with a small restaurant. He perfected his recipe for fried chicken and added it to his menu. Demand from satisfied customers soon exceeded seating capacity. To increase customer capacity, he purchased a building across the street that had a larger seating area. Business was steady and profitable until the new interstate system bypassed his location. Sanders lost his connection to his customers and closed his business. He did not give up, however.

Sanders began scouring the country for restaurants that would buy his recipe in exchange for \$0.04 per piece of chicken sold. He reestablished a connection with an acquaintance in Salt Lake City, Utah, who became the first KFC franchisee. With immediate success in Utah, Sanders began a nationwide campaign to connect with other

successful restaurants and signed them on as franchisees. Eventually, Sanders formed a network of restaurants across the country that sold his chicken and grew a market that could never have been developed by one person in one location. In 2019, KFC had over 21,000 locations in 130 countries (www.kfc.com/about).

Sanders took his personal experience of losing easy customer access to his business and applied it to building a network of franchises where customers, across the United States and on multiple continents, could purchase his chicken. Just as tourists, residents, and businesses in Key West need roads and bridges to connect them to their destinations and suppliers, entrepreneurs need connections and networks to get supplies from their vendors and products to their customers.

NETWORKING

For an entrepreneur, networking is finding and establishing relationships with business professionals with whom you can exchange information, ideas, and products; more importantly, you can claim these networks as trusted business colleagues. Be ready to use the networks you already have. Be intentional in seeking out established business professionals in your local chamber of commerce or at SCORE (see the following). Position yourself to contribute to the larger community. Be active in expanding your sphere of influence.

A good way to get started is to begin brainstorming a list of people who can help you along the entrepreneurial path. These potential trusted advisors will be beneficial to you as you develop your idea and start your business. In these early stages, you will encounter challenges and obstacles in many areas. Having a “go-to” list of dependable consultants can help you find solutions, reduce mistakes, and hasten your success in your new business. Anyone can be on that list—don’t exclude anyone, no matter how unlikely it seems that you will need their expertise. People you already know have knowledge and skills. They can be a valuable resource.

On the other hand, you too have knowledge and skills. You too can be a valuable resource. That is why you are starting your own business or developing a new product. Begin connecting with people who need you, perhaps even people who need you more than you currently need them. Present yourself as the expert, not the salesperson to be avoided at all costs. Become known as the “go-to” person: the person others will seek out and put on their list of experts. When you become respected as the professional expert, success will follow.

We begin developing personal connections—relationships with other people—early in our lives. (Later in life, these connections become our networks.) Typically, the first social groups we join are family, neighbors, and schoolmates. Playing with siblings and cousins, and learning to meet new friends in the neighborhood and at elementary school help us develop the social skills that we will need later in life when we meet and work with others in the professional world. As you enter adulthood, social connections that you establish and nurture become more complex and have longer-lasting benefits. You may establish some of those lifelong personal connections during your college years or perhaps in your first “big” job.

CAMPUS CONNECTIONS

During your college years, you will have many opportunities to make connections with new people. Taking advantage of these opportunities allows you to perfect your skills in initiating and developing new and even lifetime connections. You can establish new friendships with roommates, classmates, social club members, special interest groups, academic organizations, competitive and intramural athletic teams, and many others. All of these groups not only encourage new social relationships but also foster opportunities for developing and improving leadership skills.

Chances to meet and work with new people abound on college campuses. The diagram in Figure 8.2 shows some of the many social networking opportunities on college campuses.

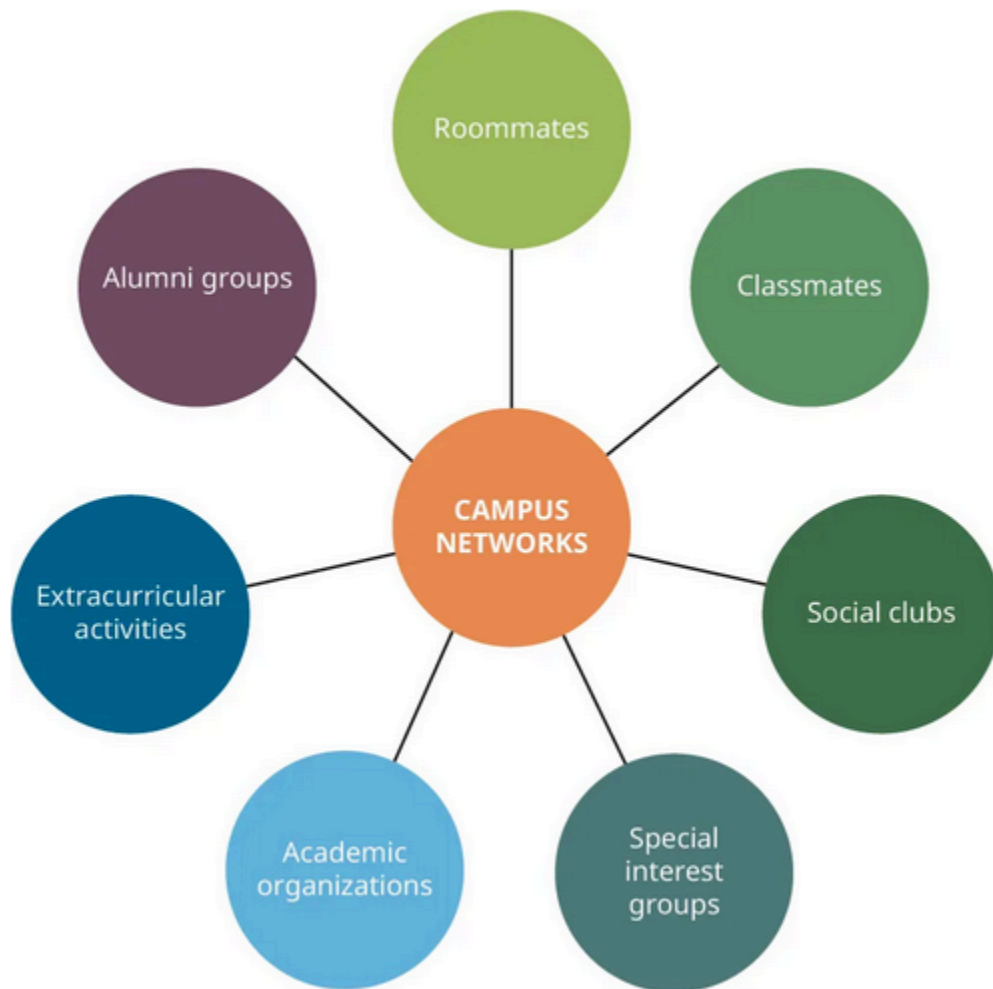


Figure 8.2 You can find many social networking opportunities through your college or university. Credit: Rice University, OpenStax, used under CC BY 4.0 license.

Your college or university is usually where you make the transition from student to professional. One method of learning to become a professional is through membership and leadership roles in academic or professional clubs. Leadership positions usually rotate annually. Academic clubs are formed around disciplines, departments, or professions. Professors, alumni, or industry professionals serve as sponsors and may provide connections to other industry professionals. Members learn the value of being active participants, discussing relevant topics. Fundraising or other special activities provide opportunities for developing leadership and organizational skills. Friendships and personal connections made in an academic club may become lifelong professional connections.

Honor societies are another type of academically oriented group, established to recognize the outstanding academic performance of students who have achieved a specific grade point average. Membership in an honor society brings with it the prestige of membership, opportunities for leadership roles, and access to professionals in many industries. Some honor societies offer scholarships for future studies in graduate school or study-abroad programs, which introduce members to students from other universities and countries with similar backgrounds and interests. Some honor societies open doors to conference memberships and presentations, and important access to other industry professionals.

Another type of collegiate organization is the special interest group. These groups may focus on social causes, promote and advance interests in the arts or other hobbies, or encourage participation in political, religious, or athletic events. Students from all disciplines and social backgrounds join special interest clubs. With such a broad spectrum of members, you have the opportunity to learn from many people from multiple backgrounds, expand your self-development, learn how to work with people who have different viewpoints, and potentially establish firm personal relationships.

Some clubs offer members the opportunity to perform or showcase their talent in a more relaxed and supportive atmosphere, or are centered around a personal interest. For example, a drama club for students not majoring in theater can offer a forum for participating in musicals and plays without the rigor demanded by the more structured academic program. Other groups that bring in nonacademic members include choral groups, visual arts gatherings, astronomy clubs, and gaming societies. These groups provide opportunities for the maturation and perfection of the interpersonal skills you need for success in the professional world. You can develop key interpersonal attributes among friends and colleagues while enjoying a common activity or interest.

Social clubs—sororities for women and fraternities for men—provide other opportunities to expand your circle of friends, as these organizations focus on social activities. Although many social clubs concentrate strictly on “get-together” activities, you can learn and perfect acceptable public-protocol behaviors at formal events as well as mastering skills in organizational negotiations and compromise. A few colleges and universities are beginning to formalize clubs for online students, including access to and membership in campus-based Greek life. One of the first online Greek clubs is Theta Omega Gamma, founded in 2009 at the Florida Institute of Technology.

College groups have high turnover rates in their membership and involvement. This can make it easier for you to learn and perfect the skills necessary for establishing social and professional connections through constant repetition of introducing yourself to new people, learning their backgrounds, and describing your own. Learning how to introduce yourself and become acquainted with strangers is a soft skill that you can learn more easily early in life than in later years, and knowing how to develop a personal relationship with others will benefit you for many years to come. One unintended benefit is that mistakes can be quickly forgotten. If you make a social blunder one semester, many in the group will soon forget your faux pas, and new members will never be aware of it.

Perhaps the largest university club is one whose membership extends beyond graduation—the alumni association. Membership in alumni associations is higher among students who earned an undergraduate degree than among those with a graduate degree. Furthermore, members of the alumni association are more dedicated and loyal to their alma mater than nonmembers. Because of their commitment to past and current students, members of alumni associations have an automatic connection to other members. Loyalty is an important characteristic of active members of the alumni association, so bonding with them links you to established professionals who can help you in your new business. One way to connect with alumni is through LinkedIn, a social network of business professionals.

The campus setting—either traditional or virtual—is one of the earliest multifaceted environments to which you as a young adult will belong. Learning how to maneuver on the college campus and within the parameters of university culture prepares you for your future environment.

Nontraditional and virtual students also can benefit from their college campus experience. These students come from a variety of industry and professional backgrounds, and they are exposed to diverse operational methods and strategies during class activities or assignments. Furthermore, becoming personally acquainted with project team members opens opportunities for building connections that might be professionally beneficial in the future.

Institutions of higher learning have become fundamentally self-contained communities. Each one functions almost like a small city, with students mingling throughout the day with people at all stages of life, from multiple backgrounds, and in various roles. It is a great place to start building a foundation of personal contacts or enhancing your current portfolio of contacts before entering a competitive world.

Exercise – What I Need and Who I Know

Create a table with two columns. On the left, list questions or issues associated with starting a new business, such as: How much money do I need to start? What licenses should I get? Do I lease or buy? Where do I find customers? Where do I find employees? How does payroll work? What kind of insurance should I get?

On the right side, write down specific answers that you already know. For questions and issues that you can't answer, write down the name of a person you could ask to help answer that issue. If you do not know someone, who might help you get to the person who can give you an answer?

LOCAL ORGANIZATIONS

Every community includes groups of individuals who have something in common. People group themselves together around shared beliefs, objectives, responsibilities, goals, or situations. Joining a local organization can place thousands of potential connections within your reach. Before seeking acceptance into a specific group, consider the type of group that fits your own personal and professional goals, and what you can contribute to the group's continuity.

An **open group** has a fluid membership; people may freely join or separate at any given time. Open groups tend to be informal, operate around a loose structure, and frequently focus on a personal or social cause. Open-membership groups include activities-oriented groups such as bridge clubs, scrapbooking groups, or photography clubs. Some open groups, such as Mothers Against Drunk Drivers (MADD) or People for the Ethical Treatment of Animals (PETA), focus on a specific topic or cause.

A **closed group** typically has either formal or informal criteria that you must meet before you can become a full member. Some organizations require sponsorship by a current member. Examples of closed groups include religious organizations, homeowners' or renters' associations, community performing arts groups, or sports groups.

Some community groups have features common to both open and closed groups. These hybrid groups have barriers or criteria that you must meet prior to joining, but those barriers are low, and prospective members can easily meet the criteria. Frequently, low barriers are an administrative feature to distinguish between participants who are serious about the group's activities and those who have an impulsive interest with no long-term commitment to the cause. Table 8.1 shows the differences among open, closed, and hybrid groups.

Table 8.1		
Open Groups	Closed Groups	Hybrid Groups
Fluid membership	Membership criteria/process	Low barriers to membership
Loosely structured	Structured	Maintain barriers to ensure members are serious
May focus on personal/social clause	Formal purpose	

Groups that have a formal legal structure, an oversight board, and a professional management staff are more effective than those groups that are impulsively formed around a good idea. Professionally organized groups have skilled employees who set long-term goals and handle day-to-day activities. With the increase in structure and management, costs increase. To cover employee wages and benefits along with operational expenses of the group, many professional groups have membership dues and revenue-generating activities that members are expected to participate in. Some professional groups are self-supporting, whereas others are joint efforts among local and regional governments, universities, and the private sector.

One of the most successful private-public partnerships is the chamber of commerce arrangement. Local business entities establish a chamber of commerce organization to enhance the local community while expanding their own businesses. In some instances, the local government provides some type of monetary support for the chamber, but the chamber is neither an agency nor a function of government. For major community events, business members of a local chamber of commerce may provide their employees as volunteer staff who use their professional skills to organize and plan the event's activities. The community benefits, because a professionally managed event is held with minimal labor costs. The company receives publicity and exposure to potential customers within the local community at nominal costs. A close working partnership between the local chamber of commerce and government can produce outcomes that are mutually beneficial to local businesses and community citizens.

Trade associations are formed within specific industries and concentrate their efforts on issues and topics particular to one trade, profession, or philosophy. Functional trade associations include auto mechanics (Automotive Maintenance Repair Association), architects (the Association of Licensed Architects, and marketing professionals (American Association of Advertising Agencies). Education groups, such as the Association of American Educators, focus on defining competencies and qualifications for teachers and publicly advocating for standards and regulations that affect teachers. Specialized groups also form associations, such as the National Association for the Education of Young Children. Entrepreneurs who are looking for a franchise opportunity might consider an association that caters to franchisees, such as the International Franchise Association or the American Association of Franchisees and Dealers. Companies interested in "going green" can join the Green Business Network at Green America. The American Retirement Association or AARP (formerly the American Association of Retired Persons, target retired individuals. Whatever the profession or industry, a trade association is certain to emerge to provide standards, training, support, and services to industry professionals and to be the industry's collective voice to legislatures and government officials in establishing regulations, laws, and licensure qualifications.

Businesses need a steady supply of new customers to replace former customers who no longer have an active relationship with them. The main purpose of networking groups is to help entrepreneurs gain new customers. These groups come in all kinds and sizes. Business Network International (BNI, www.bni.com) is dedicated to providing qualified referrals to members. BNI limits its membership to only one person per industry or profession. Members are expected to exchange contact information regarding a qualified potential customer.

Meetup (meetup.com) is a platform where people can meet others with similar wants and interests in an electronic or face-to-face engagement. Meetup's groups are social or professional, business or entertainment, or relational or transactional. Anyone can start a Meetup group if one doesn't already exist for their needs or interests. Each group's founders or members make the rules.

Whether a new entrepreneur needs a lot of support and guidance during the early stages of firm development, or a mature organization needs new potential customers, local organizations can provide an avenue to close connections and professionals who are committed to the local community and its businesses and people. As with all decisions, you must assess each opportunity in terms of the cost of membership and involvement in relation to the benefits you will receive over time.

BUSINESS INCUBATORS

Business incubators are normally associations established by a consortium of local organizations such as a chamber of commerce, local banks and other traditional businesses, and universities to provide complementary support to startup businesses and those in the early stages of development. Services provided may include office space for rent at nominal charges; simple business expertise in accounting, legal matters, and marketing; and management support. Some incubators function as independent organizations, each with its own board of directors, whereas others may be stand-alone units of a university program. One of the best byproducts of being associated with business incubators is the communal contact with all the members' connections. **Business accelerators** function much like business incubators. A key difference between incubators and accelerators is equity investment. Business accelerators usually make some type of equity investment in their members' companies. Because the financial commitment raises the stakes for accelerators, these organizations carefully screen their prospects and select only those businesses that have a reasonable chance of financial success. An entrepreneur who joins an accelerator can expect to receive a lot of support in exchange for a commitment to the organization and a share of the profits. Table 8.2 illustrates the differences between business incubators and accelerators.

SERVICE CORPS OF RETIRED EXECUTIVES (SCORE)

The Service Corps of Retired Executives (SCORE) is a nonprofit organization based in Herndon, Virginia. SCORE partners with the federal Small Business Administration (SBA) and with retired executives from private businesses to offer education, training, and mentoring to small business owners. According to the SCORE website, it is the largest network of volunteer and expert business mentors, with around 350 chapters. Small business owners can attend a workshop or view training videos available on the website. Templates of financial statements and business and marketing plans are also available on the website. Perhaps the most valuable service SCORE offers is a one-to-one mentoring program that can align a mentor with the specific skills that the business owner needs the most.

Link to Learning

The SCORE website includes a wealth of online resources on starting a business such as online courses and regional workshops. You can also fill out a form to request a mentor to help you start your entrepreneurial journey.

GOVERNMENT AGENCIES

Economic stability over the long term depends on a continual supply of new companies and organizations. A business entity will close when the owner decides to cease operations or achieves the goals of starting the business. Sometimes a business is unable to sustain operations or is forced into closure by regulatory agencies or licensing requirements. Regardless of why businesses close, new businesses must continually arise to replace them and grow the economy. Governments at the federal, state, county, and municipal levels have established

agencies and programs to encourage new business development, support new businesses in the early years of operations, and help young businesses mature to the point of self-sustainment. These include the SBA, Small Business Development Centers, Women's Business Centers, and HUBZones. Figure 8.3 illustrates some of the government agencies that assist small businesses.



*Figure 8.3 Several government agencies exist to support entrepreneurs and small business owners.
Credit: Rice University, OpenStax, under CC BY 4.0 license*

SMALL BUSINESS ADMINISTRATION

One of the most popular agencies that helps businesses in the startup and early operations stages is the SBA. The SBA was established as an agency of the US federal government in 1953. In 2012, the SBA merged with the divisions of the Department of Commerce, the Office of the US Trade Representative, the Export-Import Bank, the Overseas Private Investment Corporation, and the US Trade and Development Agency. At that time, the leadership of the SBA became a cabinet-level position.

The purpose of the SBA at the macro level is to assist and safeguard small businesses, protect and defend a competitive environment, and fortify the national economy. At the micro level, the SBA helps individuals “start, build, and grow” their businesses and companies through direct counseling, educational seminars and webinars, and public-private partnerships with institutions of higher education and foundations with similar goals and objectives.

Some of the most important activities of the SBA revolve around finances for small businesses. The SBA provides education in finance and money management, and guarantees loans through private lenders for capital, inventory, and startup costs. A business must meet the SBA’s qualifications for funding, but the application and approval of the loan is handled at the local level by officers of a local bank or other SBA-approved financial vendor.

Link to Learning

Are you looking for a lender to help you start your own business venture? The Small Business Administration’s Lender Match page helps you find lenders.

Once a business is established and operating, ongoing activities are necessary to generate the cash flow to sustain the business. The SBA supports the ongoing operations of small businesses by being the liaison between small businesses and the federal government on bids and contracts. For fiscal year 2017, the federal government purchased a total of \$105 billion³ in products from small businesses.¹ However, becoming a vendor to the US government is not like selling to a private business or the general public. Free education and training materials are available from the SBA to introduce new businesses to the types of products that the government buys, the government’s purchasing process for products and services, and the technical terms the government uses.

The SBA helps small businesses to maneuver through government purchasing processes through education, training, and support. Furthermore, the SBA has programs and funding operations that help economically disadvantaged individuals. These programs are self-contained within the SBA. Public-private partnerships or partnerships with universities or with other nonprofit organizations are also possible.

SMALL BUSINESS DEVELOPMENT CENTERS (SBDCS)

Over one thousand SBDCs are funded through state grants with matching funds from the SBA.² Most SBDCs are located on the campuses of local colleges or universities. Others are located in entrepreneurial hubs or are connected with business incubator programs.³ The coordinator of a local SBDC may be an employee of either the university or the organization that provides the office space. SBDC coordinators provide advice and information to small business owners at no charge because their fees and salaries are covered by the grants. Mostly, the coordinators provide information, steer business owners to other sources of information, and provide a context for making operational or strategic decisions.

1. Robb Wong. “New SBA FY17 Scorecard Shows Federal Agencies Award Record Breaking \$105 Billion in Small Business Contracts.” US Small Business Administration. May 22, 2018. <https://www.sba.gov/blogs/new-sba-fy17-scorecard-shows-federal-agencies-award-record-breaking-105-billion-small-business>
2. America’s SBDC (Small Business Development Centers). n.d. <https://americassbdc.org>
3. US Small Business Administration. “Find Local Assistance.” n.d. <https://www.sba.gov/sbdc>

OFFICE OF WOMEN'S BUSINESS OWNERSHIP

The Women's Business Center (WBC) is a program funded in part or in whole by the SBA to focus specifically on helping women start and operate their own businesses.⁴ Women business owners face the same challenges that men encounter, but women normally must add the role of business owner to their list of other personal responsibilities. Also, women have more limitations in access to capital and other financial resources than men typically experience. The WBC can provide support and access to resources that are unique to women. The WBC is operated through independent and educational centers in most states.

VETERAN'S BUSINESS OUTREACH CENTER (VBOC)

The SBA operates twenty VBOCs that focus on helping veterans and their families start and operate a new business.⁵ A popular program of the VBOC is the Boots to Business program, which assists veterans making the transition from the military to the owner-operator role. Another program dedicated to veterans is the Service-Disabled Veteran-Owned (SDVO) Small Business Concern (SBC) program, administered through the Office of Small and Disadvantaged Business Utilization. To qualify for the SDVO SBC program, the disabled veteran must directly own and control, at minimum, 51 percent of the business and have input into the day-to-day operations as well as a long-term strategy. Requirements vary according to the legal structure that is chosen. Title 13, Section 125 of the electronic Code of Federal Regulations lists other requirements and restrictions to be recognized as an SDVO SBC.⁶

HUBZONE

A HUBZone is a geographic location that has historically experienced low employment.⁷ Many are also low-income areas because of limited transportation or educational opportunities. Through the HUBZone program, the SBA certifies and supports HUBZone businesses in acquiring government contracts and buying opportunities. Businesses that qualify may receive preferences in pricing. Qualifications for HUBZone designation are explained on the SBA/Government Contracting webpage. As of 2018, the federal government's goal is to award 3 percent of all federal contracting dollars to certified HUBZone business.

4. US Small Business Administration. "Office of Women's Business Ownership." n.d. <https://www.sba.gov/offices/headquarters/wbo>

5. US Small Business Administration. "Office of Veteran's Business Development." n.d. <https://www.sba.gov/offices/headquarters/ovbd>

6. Electronic Code of Federal Regulations. n.d. <https://www.ecfr.gov/cgi-bin/ECFR?page=browse>

7. US Small Business Administration. "Office of the HUBZone Program." n.d. <https://www.sba.gov/offices/headquarters/ohp>

8.2 Building the Entrepreneurial Dream Team

Learning Objectives

By the end of this section, you will be able to:

- Understand key resource needs for entrepreneurial ventures: accountant, attorney, banker/financial institution, insurance agent, and industry expert
- Understand the value of developing a cross-functional team

Over the weekend of July 4, 1970, Casey Kasem started American Top 40, a radio broadcast that played songs listed in Billboard magazine's top 100 singles. What started as a simple compilation of popular songs that were played in ascending order of popularity ended thirty-nine years later on the July 4th weekend of 2009. When Kasem signed off for the final time, he gave credit to those with whom he worked. "Success doesn't happen in a vacuum. You're only as good as the people you work with and the people you work for. I've been lucky. I've worked for and with the very best."¹

Jay Samit, a vice chairman at Deloitte Consulting LLP, specializes in exponential technologies, a revolutionary method of creating and manipulating information and data for learning, planning, and communicating. Working with multiple clients who each have their own unique limitations and face a wide variety of challenges, Samit and his colleagues at Deloitte devise tailored solutions that resolve each client's problems while overcoming each client's constraints.

Two professionals, two eras, two industries, and two vastly different technologies, but one concept: Entrepreneurial success is sustained by those around you. The concept that teamwork leads to individual success is evident in many other areas. All the great National Football League quarterbacks will tell you that they depend as much on their linemen as on their receivers. Pitchers in Major League Baseball need a very close relationship with their catchers, but the fielders are the ones who make most of the outs in the game and can make a pitcher look very good. Surgeons need nurses and anesthesiologists, police officers need good partners as well as dispatchers, ground troops need air support, and airline pilots need fantastic ground crews and maintenance crews, and so on.

In reality, no one works alone. As an entrepreneur, you have the luxury of searching, soliciting, and selecting your own team. Entrepreneurial success depends on who is included on that team, and who is excluded from the team. In this section, we discuss advisors and cross-disciplinary teams.

1. Cord Himmelstein. "Casey Kasem's Final Sign-Off." Halo Recognition. June 19, 2014. <http://www.halorecognition.com/casey-kasems-final-sign-off>



Figure 8.4 Building the right team is crucial. Credit: modification of "Achievement American Analysis" by "rawpixel"/Pixabay, CC0

ADVISOR: ACCOUNTANT

One of the most important decisions that a business owner will make before beginning a new venture is hiring a good accountant. Businesses and their owners must be in sound financial health, or the company risks being closed because of financial difficulties. Just as doctors are trained to diagnose and treat health issues and symptoms, accountants are trained to recognize and treat symptoms and issues associated with the financial health of a company. And just as doctors can determine the health of an infant before birth, accountants can determine the likely financial health of a business before it begins.

In the early stages of planning a business, the entrepreneur's personal financial history is the only financial picture that investors, creditors, vendors, or lenders can review. Therefore, it is essential to have a professionally prepared tax return in hand before you approach anyone about opening a new business. Having a professional accountant prepare and file personal tax returns establishes credibility and confidence in an aspiring business owner's financial decision making. Furthermore, when a business owner is willing to let someone else see all of their finances, it indicates to other professionals that the owner is willing to expose a very personal and sensitive realm—money management.



Figure 8.5 A professional accountant's work is an important asset to any business. Credit: "Numbers And Finance" by "reynermedia"/Flickr, CC BY 2.0

A highly skilled accountant will help any small business owner set up proper procedures that track cash transactions and record financial activities. Accountants assist in creating a pro forma, a financial statement that shows how much and where monies will be collected and spent in the early stages of business creation. For an income statement, many of the figures used in a pro forma are hypothetical, a mere guess, but still are loosely based on historical industry or market data. Documenting debt service (explained in the following text) and other fixed expenses can be a simple task. However, projecting future sales with variable

costs can clearly become complicated. Many times, approval for a loan or a building lease will depend on reasonable and sound projections of future sales and expenses. Too often, entrepreneurs overestimate income and underestimate expenses. An accountant frequently brings a reality check to the entrepreneur's wishful thinking and keeps income and expense projections credible.

Tax payments, especially payroll taxes, must be made on time to avoid large, costly penalties. Annual income tax for both a business—whether a sole proprietor, a partnership, or a corporation—and the individuals involved can become very complicated. Tax laws constantly change, but a good accountant will know how these changes will affect the company and how the company should respond. Often, the accountant's fees are lower than any penalty and fine assessed by tax authorities.

Besides tracking tax obligations, accountants can help identify trends within the financial picture. Many new business owners focus on profitability of the company and not cash flow. However, cash flow is far more important to the existence of a new company. Cash flow includes money collected by the business through revenue and funding versus money disbursed by the business through expenses. In other words, cash flow equals money in minus money out.

It's true that profitability can be affected by depreciation of assets, and an accountant can apply different depreciation rules to reduce profits and tax liabilities. However, the business must maintain positive cash flows to pay its weekly or monthly obligations. Although today's accounting software can easily generate cash flow reports, the expense of paying a professional pales in comparison to the money and time a business owner would spend in purchasing an accounting package, maintaining yearly upgrades, and learning how to run reports.

When a small business needs to expand or make capital improvements, major repairs or improvements that add to the life of an asset by improving its longevity, increasing its value or productivity, or extending its usefulness, it may be necessary for the business to take out a loan. Banks expect and require the company to have a professional accounting service prepare and file federal and state tax returns. Without the impartial eye of a professional accountant reviewing the financial health of the company, lenders may consider the business to be high risk and therefore would be unlikely to offer any loans. Expansion may be delayed or halted because lenders want to know if the company has properly managed its existing business before they are willing to finance additional operations and larger financial transactions.

Bankers will want to see not only income statements, balance sheets, and tax returns, normally for the past three years, but also cash flow statements over the same time period. If the company is functioning as a sole proprietor, LLC, or S-corporation (see *Business Structure Options: Legal, Tax, and Risk Issues*), the bank may require all individuals with management authority or ownership to submit copies of both federal and state individual tax returns plus personal net worth statements. Any investments outside the entrepreneurial company will need to be disclosed as well. All of these requests from lending officers at the bank indicate that they are looking for something. An experienced accountant will be able to interpret their requests, create documents that provide the information they ask for, and advise the entrepreneur on how to address the bankers' concerns.

Inventory management and debt service are other key financial areas where accountants can quickly identify problems that need attention and then offer advice to the entrepreneur. Inventory management consists of business operations that include managing the quantity of inventory units in stock, scheduling and cataloguing replacement inventory, organizing shelf location for unit storage, paying for inventory received, and processing, fulfilling, packaging, and shipping customer orders. Debt service is repayment of a loan, including principal and interest.

Some vendors will require the same professionally prepared financial documents as bank loan officers do. Creditworthiness, or a lender's assessment of how reliable a company is in repaying a debt, is a valuable asset for a business. Being able to buy inventory on credit can greatly improve a company's marketing and overall performance. However, creditors have a different concern about a company's financial health. A vendor that sells inventory on credit may not be able to recoup a loss once the inventory is delivered to the new business. Banks can seize a building, equipment, land, and cash deposits, but creditors are not afforded that luxury. Therefore, creditors are skittish about releasing inventory to financially unstable businesses. Additionally, some businesses may owe inventory or personal property tax on inventory that is in stock.

ADVISOR: ATTORNEY

If hiring an attorney to keep you out of trouble is expensive, hiring one to get you out of trouble will be exorbitant. Getting an attorney involved with a business in the very early stages, even in the idea development stage, can be a very good investment that will save a lot of legal expenses and protect the company's income. Areas of expertise and the ability to practice in certain areas of the law will vary among attorneys. Entrepreneurs must first determine what legal issue they need help with. Then, they would determine the cost of getting legal help as well as the cost of not getting legal help.

Hiring an attorney can be similar to hiring someone to do construction work on your home. Hiring a general contractor who can do most of the work will be cheaper than hiring a general contractor who subcontracts everything out to specialists. Some attorneys are generalists, with a practice that spans many areas in which the entrepreneur or small business owner will need help. Other attorneys are specialists who limit their practice to a few specific areas of expertise and refer clients with needs outside those areas to other specialists. Generalists are frequently less expensive than specialists, who charge higher fees for their in-depth knowledge of particular areas. In many situations, the entrepreneur or small business owner will not need a high level of legal expertise. When in doubt about hiring an attorney, the new entrepreneur can visit with a few members of their established network to get their input before making a decision.

One of the important questions to ask up front is how the attorney bills for services. Some may charge a flat rate for specific services, whereas others will bill at an hourly rate. Attorneys may add any additional costs and expenses to the client's bill. For example, when filing papers at the county courthouse to register a new company, the attorney may charge for copying, tolls to drive to the courthouse, parking, and mailing fees in addition to completing the actual registration papers. Knowing how the attorney calculates the bill—what fees will be charged and what additional costs will be added—is very important in deciding which attorney to hire.

Attorneys may be associates or partners of a firm. A large firm may have several equity partners and junior associates who are supported by paralegals. Larger firms offer a wider range of expertise and support for your attorney, but that extra help and larger resource pool are available at a higher price. On the other hand, an attorney who is in a stand-alone or small boutique firm may be less expensive but has fewer resources to tap into if necessary and may be unavailable for extended periods of time when actively working for other clients.

An attorney in your specific geographic area or community could be a valuable source of uncommon knowledge. Another consideration to think about when selecting an attorney is the location of their office. Office location may seem trivial, but attorneys in large office buildings probably have higher fees because they have higher office expenses. However, they are more likely to know other business professionals in their building, and those connections may be helpful at some point. Moreover, attorneys are often keenly aware of major developments in markets, such as real estate transactions and development, new roadways, and regulations.

Law practices can be divided into broad categories and specific areas. If you look at the landing pages of many of the country's prominent law schools, you will find only one commonality among all of them—they include specialized areas in their programs. Five broad categories of law that are relevant to the entrepreneur are administrative, civil, corporate, criminal, and family law. For the entrepreneur, corporate and family law are probably the most important, because entrepreneurs may have family investors and personal assets at risk. An attorney who is skilled in family law would know how to protect the entrepreneur as well as family members if the startup business fails. If you are considering starting a business in a regulated profession, such as electrical repair, HVAC, or childcare, you will want an attorney familiar with the state's administrative code. Hopefully, a startup entrepreneur will not need a criminal defense lawyer. One of the first areas where you should consult an attorney is in determining the type of business structure. Any business structure has both legal and tax ramifications. A business attorney should help the entrepreneur select the legal structure that is best for the business, the industry, and the entrepreneur. Each legal structure—sole proprietorship, partnership, or corporation—has its advantages and disadvantages (see Business Structure Options: Legal, Tax, and Risk Issues). The attorney, in collaboration with the accountant, should help advise the entrepreneur about which legal form the business should take and why, not only for tax purposes but also for liability protection for the entrepreneur's personal assets and for ease of operations.

Other issues may arise during the startup stage that would require legal advice. These include branding, patents, trademark registration, and contracts. Will the entrepreneur be leasing a space or purchasing a stand-alone building? If leasing, who is responsible for the safety and well-being of employees and for protection of the equipment and inventory? In the excitement of getting started and making money, entrepreneurs may consider such questions to be unimportant. However, discussing these issues and making decisions before an adverse incident occurs can save the new business a lot of time and money. A good attorney will help keep the focus on important issues before they become catastrophic ones.

Another volatile area for new businesses involves employees and employment law. New business owners may also be new to management. Ignorance of employment laws can be very costly, especially if a disgruntled ex-employee seeks protection from state and federal agencies. Formulating company and employee policies is very important. Having an attorney help develop and use appropriate phrases will be a blessing that you will recognize long after the attorney has cashed your check.

Link to Learning

Visit the Society of Human Resource Management website with extensive resources for small business owners on many topics related to employment law, including their Workplace Compliance Newsletter and articles on current news at their site.

Attorneys are professionally trained and educated to argue for their clients and to destroy the arguments of their opponents. Having a good attorney who confronts and debunks the naive beliefs and behaviors of the nascent entrepreneur can help that entrepreneur mature into a professional. As a new entrepreneur, you may not find it easy to leave behind the "employee" mentality and enter the "owner" mindset. The entrepreneurial lifestyle, responsibility, position, status, authority, and so on are foreign to the employee population. Therefore, you may need to undergo a trial by fire. A good attorney, like a good marine drill sergeant, has to destroy the old mindset and develop a new mindset within the new entrepreneur: It's all mine.

Although a good attorney is necessary to many aspects of a business, the entrepreneur also needs to set limits and not allow the attorney to tread into the owner's domain. Attorneys should focus on legal issues, not operational, strategic, or—under any circumstances—financial issues. Attorneys may be tempted to go beyond their realm to help out a client, but in reality, they should stay within the areas of law and regulation, and out of operational or strategic decisions. A good attorney will provide information, insight, and recommendations for managing risks, but will not bully a client by insisting on eliminating risks. An entrepreneur should always be ready to terminate the relationship with anyone, including an attorney, who seems to be interfering in areas beyond their domain.

Hourly rates for experienced accountants and attorneys can be frightening. Even if you readily acknowledge that the information and guidance provided by these two professionals is valuable, having the funds to pay for their work in the pre-startup stage of the business can be impractical. Successful entrepreneurs are known for solving problems, and at the very beginning of your own business, you can start solving your own business problems. The question is: How can I get professional advice at discounted rates?

Often, young lawyers and accountants who have just completed their education or received their license to practice will have very few clients. Likewise, those individuals who have been junior partners in larger firms and are branching out to start their own business will have limited clients. Those two scenarios are ripe for seeking discounted billing rates. Both the entrepreneur and the budding professional have a common need but few, if any, paying customers. Therefore, other business professionals or small business owners whose businesses are in the fledgling stage may be willing to offer special rates or payment terms.

ADVISOR: BANKER OR FINANCIAL INSTITUTION

All banks are not the same. Entrepreneurs need to select a bank or financial institution that can meet their current and future needs. Local banks that target a small geographic area are an excellent choice for small, locally centered businesses. Officers of the local bank may personally know local business owners, employees of the local businesses, and other key members of the local community.

When a small business has a financial need, officers of the company may make decisions based on the reputation of the entrepreneur and the business. Sometimes a local bank will make loans and provide financial assistance with less scrutiny than an entrepreneur would face at a larger bank. For the small entrepreneurial business, banking is personal. Bankers like to see businesses in their backyard succeed.

Large banks with multiple branches in numerous cities, states, or countries may be a better choice for banking services if your company will have broad geographic and financial needs. With employees, customers, and vendors scattered over a large market, a large company is better off having a bank that mirrors that broad reach. For example, if an entrepreneur starts a business in Hutchinson, Kansas, and banks with a local bank in Hutchinson, that intimate relationship between the business and its employees in Hutchinson probably works great. However,



Figure 8.6 Selecting the right financial institution for your venture will help create a path for security and growth. Credit: "Money Coin Investment Business" by "nattanan23"/Pixabay, CCO

as the business grows into the Wichita and Kansas City markets, its banking services should expand too. Likewise, expanding a business across state lines should initiate a thorough review of banking arrangements to ensure that banking services will match the needs of the expanded business.

Large companies with multiple branches or employees over a larger area have bigger demands in banking products and services. They will be better off with larger banks that can respond faster and more effectively to market shifts or individual needs.

ADVISOR: INSURANCE AGENT

Having insurance is a necessity for every business. Entrepreneurs, however, should not overlook the advantages of an insurance agent's knowledge and industry insight. Insurance agents ought to be in the entrepreneur's portfolio of industry professionals. Furthermore, insurance agents likely have other clients who have been successful business owners for many years and may well introduce a new entrepreneur to seasoned veterans.

The insurance industry is a trove of data regarding almost every aspect of any industry or profession. All of that information is at the fingertips of your insurance agent. Agents can obtain information about any industry by running liability reports according to numbers compiled by the North American Industry Classification System (NAICS), a standard used by US federal agencies to collect, analyze, and report statistical information about businesses;² the government provides a searchable database related to the codes as well (<https://www.census.gov/eos/www/naics/>). Every business in the United States is assigned a NAICS number, and insurance premiums are determined by the risk associated within each classification. You can obtain your NAICS number from your federal income tax return form 1120S or 1040 Schedule C. Knowing your business classification and the risks associated with it, your agent can assist you in reclassifying your business and lowering your insurance premiums, a potentially big financial savings.

ADVISOR: INDUSTRY EXPERT

Studies show industry expertise and skills are vital to successfully launching and operating one's own business. However, a lack of industry skills is not an impenetrable barrier to entrepreneurship. In fact, about 15 percent to 20 percent of successful entrepreneurs have no industry experience or have limited knowledge about an industry before entering entrepreneurship.³ In the service professions, the entrepreneur's lack of skill is hardly noticeable, but technical industries have a higher success rate for entrepreneurs who already possess the skills needed in the industry.⁴ Even if you do have those skills, you are more likely to succeed if you select industry experts who know the ins and outs of your profession.⁵

2. Executive Office of the President Office of Management and Budget. North American Industry Classification System. 2017. https://www.census.gov/eos/www/naics/2017NAICS/2017_NAICS_Manual.pdf
3. Dawn R. DeTienne and Gaylen N. Chandler. "The Role of Gender in Opportunity Identification." *Entrepreneurship: Theory & Practice* 31, no. 3 (2007): 365–368.
4. Paul D. Reynolds and Richard T. Curtin. "Business Creation in the United States: Panel Study of Entrepreneurial Dynamics II Initial Assessment." *Foundations and Trends in Entrepreneurship* 4, no. 3 (2008): 155–307. https://www.academia.edu/19325466/Business_Creation_in_the_United_States_Panel_Study_of_Entrepreneurial_Dynamics_II_Initial_Assessment
5. Jeen Wei Ong and Hishamuddin Bin Ismail. "Human Capitals Make Entrepreneur More Entrepreneurial? An Empirical Data from Small and Medium Enterprises in Malaysia." *Journal of Asia Entrepreneurship and Sustainability*, 4(1), 83–105. 2008.



Figure 8.7 An industry expert can advise you and your team. Credit: "woman standing in front of sitting people" by Unknown/Pexels, CCO

With the industry professional doing the work, the new entrepreneur can focus on the business aspects of the operation while gaining industry experience and insight through hands-on exposure. As many first-time entrepreneurs find out in their first year, they will spend less time on the technical aspects of working in the business and more time managing and working on the business itself. Good collaboration between a technician and an entrepreneur increases the chances of long-term success.

As you begin searching for and interviewing professional advisors such as attorneys, accountants, or industry experts to make your team, you should follow a few fundamental principles. First and most important, you—the business owner—are the decision maker. Business owners, not members of the advisory team, reap the benefits of good decisions and bear the cost of poor decisions. Advisors inform, explain options and risks, share knowledge about others with similar situations and their outcomes, and make recommendations. An advisor's role is neither to make decisions nor to "sell" one particular viewpoint. Second, expectations and fees should be discussed before any actual work is done. Often though, a brief visit with a professional may be conducted at no charge so that each party can determine what is needed, whether the professional has the time and skills to meet the client's needs, and whether the client can afford the fees.

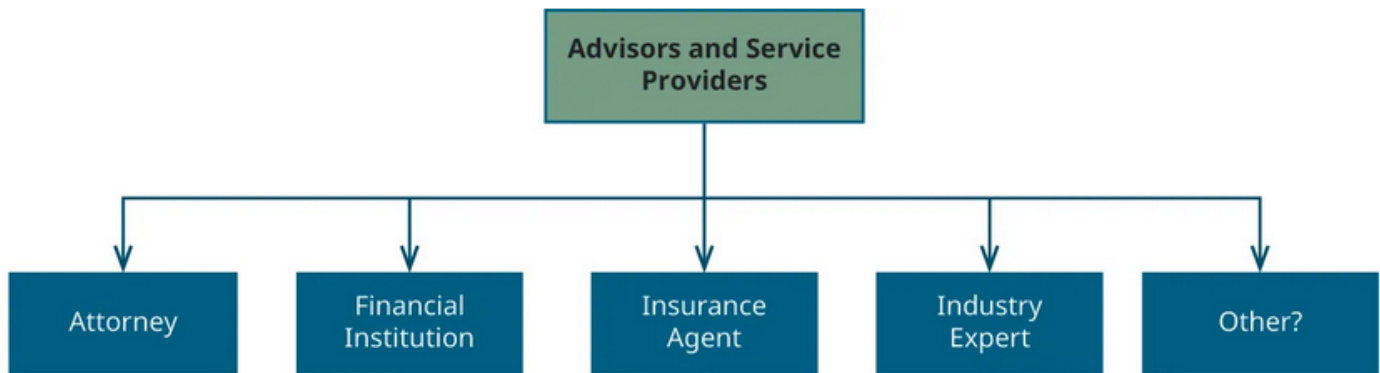


Figure 8.8 Your team should include advisors and professional service providers. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license

Another consideration is that all professionals have limitations. Licensed professionals such as attorneys and accountants are experts in their respective fields, but they are not necessarily experts in general business operations or strategy. Industry experts may be very knowledgeable in many aspects of the business, but they too have boundaries. Last, shopping for experts to advise you on crucial matters should be based mostly on competence and compatibility, not strictly on fees. Securing the services of a professional is a serious matter and should be treated as such. Yet, it is a business arrangement subject to traditional market factors such as service quality, affordability, accessibility, and change over time.

Exercise – Who Am I? Who Am I Not?

Knowing what type of person you are can help you make good career choices. Knowing what type of person your potential employee is can help you make a good hiring decision. Create a list of personality traits that you think you possess. Ask close friends, family members, instructors, or others in your life who will give you their input about your personality. People with all types of personalities and traits can be successful entrepreneurs. The difference is in how you manage yourself and what you do to compensate for areas of weakness.

A reliable tool to identify certain personalities traits is the Sixteen Personality Factor Questionnaire (16PF) developed by Raymond B. Cattell. Visit the Sixteen Personality Factors Questionnaire site to take the 16PF questionnaire.

1. What factors are reflected that you expected?
2. What factors are revealed that you did not expect?
3. If your results show that you are timid, what might you do to overcome that when you become an entrepreneur?
4. If you tend to be a perfectionist, how might you manage the uncertainties of entrepreneurship?
5. Which traits or skills on your list match or are similar to those listed by your acquaintances? Which responses do not match?

Research the functional skills that you will need to start a business. Create a list of functional skills that you believe you possess. Ask close friends, family members, instructors, or others in your life who will give you their input about your business knowledge and skill. Then:

- Make a list of the functional skills you need for your new business. Add your name next to the functional

skills that you have.

- Make a list of people you know who have different functional skills than you. Add their names next to the functional skills you do not have.
- Which of your friends and acquaintances appear on both the personality and functional lists? What do you think this means?

BUILDING A CROSS-DISCIPLINARY TEAM

Rarely does an entrepreneurial venture start or function due to the effort of only one person. “Birds of a feather flock together” may be a popular saying, but it is a very poor organizational strategy for building a team to start a successful business. Diversity is a key feature of successfully managed organizations. Compatibility and collaboration are also important, as each employee is duty-bound to work with, support, and assist other employees when necessary. Having staff with complementary skills and who get along improves the likelihood of success for a new business.

A new restaurant provides a great example of how employees with assorted talents, expertise, and responsibilities are assembled to make a bustling organization profitable. For a new owner, the first hire is a manager. Hiring a good manager with experience means a larger payroll expense but produces better financial dividends over the long term. A good manager oversees all staff as well as all operational functions such as scheduling, buying, pricing, marketing, health code compliance, and business support functions. Perhaps the second key hire is the chef, who is responsible for creating the menu, distinguishing the restaurant from its competitors, and creating repeat customers who want high-quality, tasteful meals.

Front-house employees—the hosts/hostesses, servers, and bussers—play critical roles as the faces and voices of a restaurant. The first experience in a restaurant will leave a lasting impression, so those at the front are obliged to appear and act professional at all times. Servers, who have the most direct contact with customers, are the sales force of the business and the liaison with the chef. Servers’ incomes depend on tips and turning tables, so it is essential for them to have tables cleared quickly and properly prepared for the next group. Servers, therefore, rely heavily on the bussers for those important tasks. In many restaurants, bussers receive a portion of the tips left for the servers, establishing a codependency between those two key positions.

Other positions in a restaurant are the bartender, dishwasher, custodian, payroll clerk, bookkeeper, and so on who must perform their duties accurately and efficiently. Subpar service in any one of these functions jeopardizes the viability of the restaurant. Every employee at each and every level is crucial, individually as well as collectively.

WHAT CAN YOU DO? MAKE A LIST, CHECK IT TWICE

Building a team is a skill that you can learn. One of the first steps is to identify what tasks need to be completed and what skills are necessary to complete those tasks. People in all types of leadership positions build teams. Whether they are in government, large businesses, individual retail stores, small businesses, local athletic teams, or schools, leaders go through the same process of identifying tasks and the skills necessary to accomplish those tasks and then searching for people with those skills.

A key to learning is practice. You can practice building a team and then checking with people in charge of various organizations on how well you did. For example, select a local organization that you are somewhat familiar with—a local school, a community athletic league, a church, or a scout group. List the tasks and skills you think are needed to run the organization successfully. Then observe the organization in action. Make adjustments to your list. Ask to consult the manager in charge to see how well you did. How does your list compare with the actual operational structure? How is your list different? What did you overlook? How many people are doing more than one task?

After doing this a few times, you will begin to see organizations from a functional viewpoint. This is a skill any entrepreneur needs to have. What does my business do? What skills are needed to do those activities? Which person will I select to do those activities? If my first choice declines, who will be the backup?

Not only does a business need people to perform functional activities and day-to-day operations, but it also needs people to advise in other areas such as strategy, finances, management, staff, or legal. Should I have sales? Special promotions? Expand my product lines? Raise my prices? Get another investor for expansion? What are your long-term objectives? How will you achieve them? Having individuals you can talk to about your long-term goals is important. Surrounding yourself with those who can ask the right questions, confront you on weak areas, make you consider topics that you had not considered—all without judging you—is important if you have any plans to grow your business.

Create a second list of people you know and trust, a list solely for advising purposes. Members on this list can be from any industry as these are strategic questions, relevant across all industries and markets. They will help with your business strategy and structure, not operations.

ORGANIZATIONAL STRUCTURE

A very common organizational structure for a new venture is the flat organization, consisting of family members, friends, or professional colleagues who take responsibility for different tasks. The bond that brings this group together in launching this new business is unlikely to bring to the table all of the skills, talents, personalities, perspectives, and viewpoints that can lead to long-term success. Therefore, expanding the team's human resources beyond the founding members who also manage the business is crucial. Although they do not have to become employees, access to them is as vital as having key personnel on your payroll.

An entrepreneur with a creative or big-picture mindset may not want to be bothered by day-to-day activities. If that is the case, then someone else in the business needs to be the analytical, linear-thinking individual who can process information and data to make sound decisions. After carefully considering a situation, collecting information, and studying all relevant facts affecting the business, a problem solver can recommend what action the entrepreneur should take, to whom should the tasks be assigned, when to implement the solution, and how much money to dedicate to solving the problem. In other words, the problem solver becomes a lead advisor to the entrepreneur, the manager. If the creative entrepreneur is one side of the coin, the problem solver is the other side. When those two minds work in tandem, good things can happen.

In contrast, an entrepreneur may be a functional expert or licensed professional who is obliged to perform the tasks personally—for example, an HVAC technician, dentist, or professional driver. In that case, a business manager is needed to run the business side of the company. Rules, regulations, and deadlines for business activities are beyond the functional entrepreneur's scope of interest, but they must be complied with accurately and in a timely manner, or the business may close. Like the creative founder who hires a day-to-day manager, a performance entrepreneur needs to hire someone dedicated to business functions.

Successful business owners keep careful track of metrics. They categorize and track expenses and analyze profit margins, production performance improvements or declines, employee attendance, and other measurable activities. Accurately interpreting the financial and operational performance of the company by the numbers provides the management team the information they need to make sound decisions. Having someone on the team with an aptitude for working with numbers is critical. The numbers must speak for themselves. Personnel must remain inside the box when they draw conclusions from data.

However, solutions to problems are not always inside the box. Nonlinear thinking, also known as creativity, or “thinking outside of the box,” is sometimes needed to solve problems (see Creativity, Innovation, and Invention). Creativity is the source of many new ideas, products, and processes. With companies facing shorter times of competitive advantage, the entrepreneur needs to be constantly reinventing both self and company.

Over time, as the business grows, the entrepreneur makes the transition from owner-operator of a startup through the small-business phase to being the owner-operator of a mature business. Entrepreneurs eventually need to make the cognitive shift from working in a state of ambiguity to performing methodically in a predictable environment. A business model where routine, repetitiveness, and predictability occur is more appropriate for established businesses because it brings stability and confidence to employees, customers, lenders, and investors alike. Using time-tested business methods and learning from previous experiences, an entrepreneur may avoid pitfalls that could doom a startup company in the early stages.

Every organization—whether a for-profit, not-for-profit, political, religious, or social organization—relies on revenue. For-profit businesses rely on sales as their main source of revenue. Nonprofit organizations, such as community organizations, political groups, or religious groups, depend upon donations, contributions, gifts, and grants. Some nonprofits, such as youth sports leagues, community performing arts groups, or scouting groups, bring in cash through fundraisers or through ticket sales for events. Governments customarily depend on various taxes as sources of revenue. Some local governments receive funds through block grants from their state and federal governments. Having multiple revenue streams improves cash flow and increases the prospects of long-term success.

Recruiting the person who will generate income for the organization should be a high priority during the earliest stages, perhaps even before formal operations, of the business. For a salesperson, grant writer, donor coordinator, or any other title referring to an income-generating position, a startup organization may have to offer a sweeter-than-normal compensation package. If the person can produce revenue and generate cash flow in excess of their total cost of employment, then he or she is worth the costs of higher commissions and bigger bonuses.

Trying to improve short-term financial performance and increase profits by reducing a key employee's compensation is likely to be detrimental over the long term. Losing a good sales rep may make the company vulnerable to losing very important and profitable customers. Failing to retain an effective grant writer could be the beginning of the demise, or at least a major downfall, for a nonprofit. Smart entrepreneurs pay their revenue producers appropriately, even if it means paying them more than the entrepreneurs pay themselves. As the old proverb states, “Never bite the hand that feeds you.”

Exercise – Design the Business? Build the Product!

Stan enjoys building wooden patio furniture. He started his craft while in high school and worked with a cabinet maker during his college years. For the past twenty-five years, he has been a marketing and sales representative and sales division manager for a restaurant equipment manufacturer. Recently, his company was bought by an international company, and Stan's entire division was eliminated.

Stan was offered a new position with his current employer, but he would have to move to a new city. His family is against moving. His wife would have to quit her job teaching art in elementary school, his son does not want to miss his senior year of playing baseball, and his daughter has just started a new job at a nearby restaurant.

Stan decided to start his own business making customized outdoor patio furniture. He already owns most of the equipment and tools needed to make the furniture. He has long-term relationships with his suppliers. However, his workshop in the backyard is not large enough to store raw materials or support an assistant. Besides, if he wants to make a living wage, he has to have a large place to handle the volume necessary to be successful yet safe.

Stan is comfortable with the technical aspects of making furniture. He knows how to do marketing and sales, including pricing and financing. What he is not comfortable with is everything else he needs to get the business started. Stan does not want to spend a lot of his retirement funds, so getting started with minimal expense is his goal.

1. What does Stan need to start his business?
2. What type of professional help does he need and why? Who can help him?

8.3 Designing a Startup Operational Plan

Learning Objectives

By the end of this section, you will be able to:

- Identify the major areas of operations management (money, methods, machines, people, and leadership)
- Develop a checklist of operational needs

From the start, every entrepreneur needs a business plan. Your business plan will keep you focused on the very early stages of the business, when it is easy to be distracted. A written business plan can help redirect you back to your original idea.

Business plans can be divided into four different types: operational, strategic, tactical, and contingency. In this section, the focus will be on the operational plan, the activities that an entrepreneur-owner absolutely needs to do. The core business activities and how those activities interface with customers are key to a business's long-term success. Business plans are discussed in more detail in Business Model and Plan.

OPERATIONAL BUSINESS PLAN

In the early 1900s, the mechanical engineer and management consultant Frederick Taylor introduced scientific management techniques into manufacturing industries. Since then, operational planning has evolved into a major component of successfully managing a business. An operational business plan details the what, when, who, how long, with what, and how much of company activities. This type of plan may list specific functions: What the activities of the business are, when those activities occur, who is responsible for various tasks, how long each activity will occur, what tools or equipment are required, and how much time and funding are needed.

Operational business plans should be flexible enough to allow for challenges that will occur. Some changes must be made on a daily or even an hourly basis. Other changes may be necessary only occasionally throughout the year. However, the purpose of the operational plan is to provide direction and guidance. This way, everyone in the business knows their specific assignments, who is responsible for individual tasks, and when major events occur.

Creating a table or chart in an Excel or other spreadsheet format can help your planning and scheduling. Figure 8.9 illustrates how work station scheduling for a grocery store can be displayed in an Excel spreadsheet. Functional activities, specific job tasks, work shifts, or work stations are listed as column headings. Hours of operations are listed as row headings. Employees' names are entered into individual cells, showing who is assigned to each specific task or station. The table doesn't show every position, but enough positions are listed to give you an idea of how to use the same format for your own business.

Time	Manager	Front Counter	Produce	Dairy	Register #1	Register #2	Register #3
6:00	Keith	Jamal	Lewis	Justin	Gabriela		
7:00	Keith	Jamal	Lewis	Justin	Gabriela		
8:00	Keith	Jamal	Lewis	Justin	Gabriela		
9:00	Keith	Jamal	Lewis	Justin	Gabriela		
10:00	Keith	Jamal	Lewis	Justin		Shelby	
11:00	Monica	Eleanor	Lewis/Kate	Matt	Gabriela	Shelby	
12:00	Monica	Eleanor	Lewis/Kate	Justin/ Matt	Gabriela	Shelby	
1:00			Lewis/Kate	Justin/ Matt	Gabriela	Shelby	Eleanor
2:00			Lewis/Kate	Justin	Gabriela		Eleanor
3:00				Matt		Shelby	
4:00				Matt	Emily	Shelby	
5:00				Matt	Emily	Parvati	Jesse
6:00				Matt	Emily	Parvati	Jesse
7:00				Matt	Emily	Parvati	Jesse
8:00					Emily	Parvati	Jesse
9:00						Parvati	Kate
10:00					Carol		Kate

Figure 8.9 The table shows a schedule of work stations by hour. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license

This type of schedule displays every functional position, the hours that each position has to be covered, and which employee is assigned to that function at what time. The manager can look at this schedule and know that each function has been assigned to an employee during a definite time period. If the work is not being completed, this type of schedule can help a manager make an informed decision about whether to hire more employees. Furthermore, if a problem occurs, the manager knows which employee(s) were working at that station when the problem occurred and can go directly to the employee(s) for information. When an employee is unable to fulfill a shift, the manager can change the schedule quickly to ensure that every task is being completed and every position is attended to.

Individual schedules and assigned work stations can also be displayed in a worksheet (Figure 8.10). This allows the manager to schedule an employee for the proper number of hours per week and helps budget payroll expenses. Employees know where they are expected to be and when they are scheduled to take lunch or dinner breaks, and the manager knows where the employee should be. When operational questions arise, the manager knows who was scheduled to be at the site and can go directly to that employee.

Time	Keith	Eleanor	Jamal	Lewis	Shelby	Jesse	Emily	Carol
6:00	Floor		FC	Produce				
7:00	Floor		FC	Produce				
8:00	Floor		FC	Produce				
9:00	Floor		FC	Produce				
10:00	Floor		FC	Break	R#2			
11:00	Floor	FC	Break	Produce	R#2			
12:00	Floor	FC	Break	Produce	R#2			
1:00	Floor	R #3	FC	Produce	R#2			
2:00	Floor	R #3	FC	Produce	Break			
3:00	Floor	FC	FC		R#2			
4:00	Floor	FC			R#2		R#1	
5:00		FC				R#3	R#1	
6:00		FC				R#3	R#1	
7:00		FC				R#3	R#1	
8:00						R#3	R#1	
9:00								
10:00								R#1

Figure 8.10 This table shows a schedule of employees by hour. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license

Using tools such as spreadsheets for scheduling and managing day-to-day operations brings organization and stability to daily operations. Managers know that each task has a person assigned to it, and employees know where they should be or what they should be doing throughout the day. Complex businesses with many employees and many functions need more planning and structure. Businesses with very few employees can be less structured. However, a written plan should list most tasks and activities that need to be accomplished, who will do them, and when.

Link to Learning

Many templates and spreadsheets are available online that small employers can use to organize and schedule employees. Using key terms—for example, employee, schedule, work station, template—in popular search engines can produce multiple results

ENTREPRENEUR IN ACTION

Scheduling Sounds Simple

Scheduling materials and parts for a fixed operation can be difficult. However, it can be even more challenging to coordinate your personal schedule with on-demand childcare needs near your workplace. Avni Patel Thompson undertook this massive challenge when she started Poppy, an on-demand childcare service, in 2015.

Recruiting customers and employees for any business can be challenging, but when a company business model is centered around customers who have unscheduled demands and employees who want consistent income, the company needs a high-tech solution. Poppy was an app where parents could submit their request for a caregiver. The app's algorithm would then scan all available caregivers who were available during the window of time requested and were located reasonably nearby. After the app did its work, a staff member would make the final decision and confirm the caregiver with the family.

Unfortunately, Poppy succumbed to the overall market and economic conditions plaguing the child care profession and closed in December 2018, but the business model is an example of one way to solve complex scheduling issues.

Questions about Poppy and its scheduling procedures:

- How is an app better suited for this type of scheduling requirements than a full-time employee?
- What requirements are mandated for the customer? Employee? Company?
- Will a new application of technology overcome other economic and marketing factors?
- How reliable is the technology? What potential threats to the “established” method of scheduling are possible when technology is updated?

PLANNING AND SCHEDULING

For tasks requiring attention on a monthly, quarterly, or annual basis, a simple organizer/calendar can be an excellent tool to help organize and remind you of what needs to be done and when. Tasks that you must complete on time throughout the year include payroll tax deposits and reports, insurance renewal applications, permits and license renewals, employee training and recertification requirements, and account billing to certain customers. A calendar also can help you schedule advertising and marketing activities. Some events occur regularly each year at the same time or within a known time frame. This can help remind you when to start your advertising and marketing campaigns.

You can plan for major maintenance and repair in advance or keep track of scheduled price increases, pay raises, adding or removing menu items, rearranging shelving for seasonal products, and major cleaning or maintenance activities.

As you start your business, you may need to make some adjustments to your operational plan. An entrepreneur might overlook factors that occur regularly. Or a new entrepreneur may have considered some factors to be minimally influential when in fact they may be significant. Entrepreneurs might give high priority to influences that never materialize. Once the business is open, customers and competitors may not behave as expected. Employees

may have skill sets that were omitted from the written plan, or they may lack needed skill sets. Even a well-written operational plan will most likely need to be tweaked shortly after operations start. But if you formulate your plan correctly at the beginning, your functional operational plan should rarely need a complete overhaul.

CONTROL

One element that should be included in every operational plan is control. In an operational plan, a marketing plan, an employee development plan, or any other type of plan used in business, control refers to the measurement of outcomes and an evaluation of the activities that led to those outcomes. The control element of a business plans answers the questions, “Have we accomplished what we wanted to accomplish?” and “Have we met our goals within the time frame that we wanted?” Without measuring performance outcomes, the entrepreneur does not know if the business is operating as expected, worse than expected, or better than expected.

If a business performs better than expected, the entrepreneur must consider if the original expectations were too low or if some other factor contributed to the better-than-expected performance. On the other hand, if the business performed worse than expected, two reviews must be conducted. First, why are outcomes less than expected and what can be changed to improve performance? Second, how do lower outcomes affect the viability of the business?

Comparing actual outcomes with expected outcomes is a form of internal comparison called baselining. Baselining is important because the entrepreneur must conduct a self-evaluation on what the business has done versus what it can or should do. An entrepreneur can decide to adjust a business’s capability after conducting a baseline study. However, internal comparisons should be coupled with an external analysis, called benchmarking. By comparing your business with a close competitor’s or with the industry average, you can get a better idea of how your business fits into the larger market.

INDUSTRY BENCHMARKS

If a basketball team scores sixty-eight points, do they win? If a baseball team scores four runs, do they win? If a soccer team scores five goals, have they lost? The answer to all three questions is simple: We need more information. Without knowing the other team’s score, we don’t know if a team has won or lost. There must be some other score for comparison; otherwise, the points scored are meaningless.

Similarly, businesses need to compare their individual performances with some external performance measurement. The comparison with an industry average, a leader within the industry, or a market segment is called benchmarking. Benchmarking allows a direct comparison of your company with the collective whole of the industry or market, or with an industry leader. By looking at several performance measurements, you can see if your company is performing at a level that will sustain itself over the long term or if your company’s local market is atypical compared with another company’s market. If the performance level of a startup company does not match the industry average or the industry leader, that does not mean that the company is poorly managed or cannot be profitable. Underperforming industry leaders indicates only that your company is not the same as those leaders. Frequently, benchmarking against a local market area is better than benchmarking against national leaders or the industry as a whole.

OPERATIONS MANAGEMENT

Operations management can be summed up in three words: Get it done! The foundation of operations management is the theory of scientific management. As we have seen, Frederick Taylor developed scientific management to introduce organization, scheduling, coordination, standardization, and cooperation among workers into the production process. Taylor saw a production plant as a large, multifaceted organization with many interrelated activities that should function as one large machine. The activities of each worker within one group had to be coordinated with other workers' activities within that same group. Each worker group had to be coordinated with other worker groups. Worker groups were clustered into larger cohorts. To keep materials moving through the manufacturing process, activities had to be planned, scheduled, and monitored.

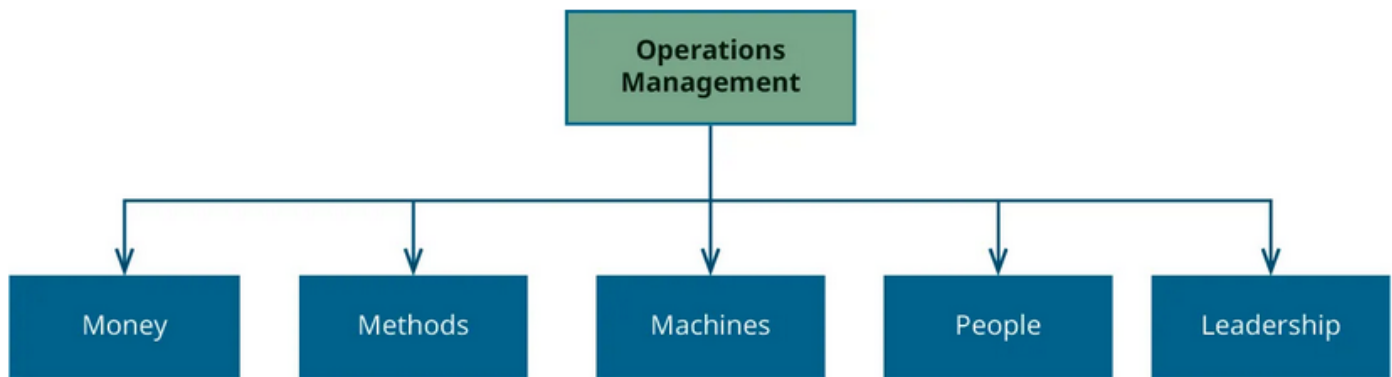


Figure 8.11 Money, methods, machines, people, and leadership form the foundation of operations management. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license

Whether you are working in a manufacturing environment in which raw materials are converted into finished products or in a service environment in which customers receive experiences, these five components of operations management—organization, scheduling, coordination, standardization, and cooperation—must be the foundation your firm's activities. To have productive outcomes, the firm must have important inputs: money, methods, machines, people, and leadership (Figure 8.11). If any of these essential management elements are deficient or lacking, the company is probably functioning inefficiently and could be at a higher risk of failure.

MONEY

Three terms—money, cash, and currency—are often used interchangeably, but each has its own distinct meaning and application. Money is any legal instrument that can be used in the exchange of goods and services. Money includes paper money or coins, but it also includes checks or money orders. In developing countries, money might be any physical item that is considered valuable to people wanting to exchange some goods or services. Most money, though, is in the form of cash.

Cash typically refers to physical money or currency, but it also includes deposits in an account (checking, savings, or certificate of deposit) at a financial institution. For example, customers can pay for their purchases with paper money, coins, checks, debit cards, or credit cards. The paper money and coins are taken to the bank for deposit. The debit card and credit card transactions are debited to the business's checking account by its bank. The cash balance of the business increases by the amount of the deposits, regardless of the form of the deposit. The cash balance is shown on the company's balance sheet and is the amount of money the company has available to pay its debts and obligations.

Currency is paper money or coins printed or minted, issued, and backed by a national government. Currency is divided into denominations or units in both paper and coin formats. With the expansion of international trade, along with the expansive movement of people among countries, it is important for an entrepreneur to know how global markets affect the value of money. Each national government decides what denominations of currency to produce. The value of a national currency is determined by the ability to exchange it for another national currency. Raw materials and supplies that originate in another country may increase in price significantly because of a decline in value of the US dollar or an increase in value of the country of origin's money. Likewise, raw materials and supplies may have a price decrease because of shifts in the value of money.

Knowing and understanding how international monetary policies and activities affect a local entrepreneur can be critical to long-term growth and survivability. You must have a clear understanding of projected costs of materials as well as enough funds available at the right time to meet your financial obligations.

Liquidity is a measure of a company's ability to meet its immediate and short-term (i.e., due within one year) debts and obligations. It's a way of describing how well you can cover your current liabilities using your current assets. When a company is liquid, it can meet its financial obligations on time, typically on a very short timeline. If the company pays its bills on time, the risk to lenders is lower, so lenders charge lower interest rates; insurance companies may set lower premiums; and vendors may offer cash discounts for early payments. Maintaining liquidity is vital to the success of a small business, as it may have limited access to other financial options.

Other sources of cash include credit accounts such as a line of credit, a company credit card, accounts payable, loans, or your own reputation and goodwill. A line of credit (LOC) is an agreement between a bank and a depositor in which the bank makes available a maximum amount of money the depositor can borrow at any time during the term of the loan. The borrower pays a fee during the term, whether or not there is an outstanding balance, and also pays interest when there is a balance on the loan. All of these sources of cash are more cumbersome and involve more planning and preparation than liquid accounts. However, these nontraditional money sources are typically necessary for a new business owner in order to pay for business activities before the company begins collecting money from its own paying customers. Mismanaging these short-term debt accounts can easily become a burden on a small business. To better manage the financial obligations of the business, the entrepreneur needs to know which financial tools are available, how to use them, and which tool to use for which purpose. Financing is the use of money to conduct company activities. Payment sources for business activities and resources should match the life expectancy of the resource. Long-term debts—such as for land, buildings, equipment, and machinery—should be paid off through long-term financial instruments that are known as secured debt. Ordinarily, a loan used to purchase long-term assets will have a shorter life than the assets. For example, a machine that is expected to be useful for ten years should be financed with a loan that is paid in full in less than 120 months (ten years \times twelve months). The purpose of long-term debt is to create revenue that exceeds the loan payment and interest. In this arrangement, the asset pays for itself by generating more cash than is needed to pay the principal of the loan, interest on the balance, costs to operate the equipment, and any additional insurance required or taxes assessed against the equipment.

Short-term or current liabilities, such as payroll, taxes, insurance, and all other operational activities, should be paid for through short-term cash resources. Most short-term payment obligations occur each week (payroll) or at least each month (insurance, rent). Short-term cash resources include sales, accounts receivables, down payments, and line of credit. Confusing long- and short-term financing strategies jeopardizes the financial stability of the company. Mismanagement of finances could create a situation in which the company is unable to pay its bills on time. When a company cannot pay its short-term obligations, it may not be able to operate much longer.

Managing cash collected and spent is one of the two most important responsibilities of the entrepreneur. A positive cash flow exists when cash received exceeds cash spent. A negative cash flow occurs when cash received is less than cash disbursed. All companies and organizations will experience a negative cash flow at some time. However, good managers will have a savings account or access to other cash in order to meet current financial obligations. What is important, though, is to have a positive cash flow over the long term.

Paying bills is not fun, especially when you have little cash to work with. Three popular methods of paying bills include credit, cash on delivery, and deposits on account. An entrepreneur's vendors may use all three payment methods. Likewise, the entrepreneur can use all three to collect monies from customers.

When bills are due and the company does not have enough cash to pay the bills or the timing is inconvenient, the company must use credit. Credit is the promise to pay later for something already acquired. Short-term credit may come with no interest charges or fees, such as accounts payable. Entrepreneurial Finance and Accounting. Vendors will routinely allow established customers to take possession of inventory or products without paying for them at the time of delivery. Payment for products is due on a specific day or after a defined period of time.

Often, a vendor will offer terms of payment at the end of the billing cycle. For example, if the terms are net thirty, purchases that a small business makes during one month are expected to be paid for in full at the end of the next month. Payments made after the due date are subject to a penalty and interest. Sometimes a vendor will offer an incentive to pay early, such as a 2 percent discount if the payment is made in less than fifteen days.

Many startup businesses must make payments at the time of delivery, a form of transaction known as cash on delivery (COD). When the delivery is made, the delivery driver or the online agent will release the product to the customer once payment has been received. This payment method can burden a startup that does not have liquidity. On the other hand, a startup business can reduce its losses by requiring COD payments from its new customers, as it receives payments and has the funds to pay its own obligations.

For unique or specialized products, some vendors will require a deposit from the customer before the product is made. This deposit reduces the financial risk to the vendor for a custom product that may be difficult to resell if the original customer backs out of the purchase. It also provides cash to the producer, who needs to buy raw materials to make the finished product. For the startup entrepreneur, paying for products beforehand could strain the cash available for ongoing operations. However, if the entrepreneur's customers provide a down payment before the product is produced, the entrepreneur secures a noninterest loan from the customer.

All three of these payment methods are used in business transactions. Cash generated during each financial cycle must equal to or exceed the expenses paid during each cycle. Otherwise, the company may find itself without any money and be unable to afford to stay in business.

METHODS

The study of how work is performed is called ergonomics. It involves designing, arranging, and coordinating tools and equipment so that the movement of workers who use them is safe and efficient, and products flow through the appropriate work stations in a timely and efficient manner.

Work methods are perhaps most important when complex machinery and equipment are involved. A progressive movement of products from one stage to the next should reduce the employees' time and effort, which reduces costs. Raw materials should be delivered to the location nearest where it will be used. Moving and storing large inventories at each point of assembly is easier and more efficient than storing parts at another location and

moving them to work stations when they are needed. Timely delivery of inventory is equally important. Delivery of materials at the moment they are needed is called the just-in-time strategy. If component failure is detected, the point at which the part was assembled can be identified, and the deficiency quickly corrected.

The just-in-time inventory system

The just-in-time inventory system, developed in Japan during the 1960s and 1970s by the Toyota Motor Corporation, significantly changed production management. To develop a new system, Toyota took advantage of three crucial factors affecting post-war Japan: (1) limited resources, including cash; (2) value-added activities; and (3) reliance on business relationships that are mutually beneficial. They were able to avoid wasted investment and to effectively manage workloads.

Watch the video on other common factors between startup entrepreneurs and Toyota to learn more.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=288>

Service industries also apply the assembly line approach.¹ When workers become proficient at their tasks, they can perform the minimum actions needed to complete a task without sacrificing quality.² The assembly line approach has given birth to another ergonomic philosophy, lean project management.³

Many fast-food restaurants, such as McDonald's and Subway, use the assembly line approach to prepare food quickly and correctly. For example, in making hamburgers, one employee selects the bun, puts the appropriate meat patty on it, and then pushes it to the next worker, who may add onions, cheese, tomato, and lettuce before passing the order to the next station. Once the hamburger is complete, it is passed along to the last worker, who wraps the food and places it in a bag or on a tray.

When employees' tasks are limited to very few functions, repetition of movement makes their work quicker. This specialization results in higher quality. Specialization allows each worker to increase productivity, improve efficiency, and reduce mistakes. This division of labor has become a major component in Western economic models. Adam Smith first explained it in his work *The Wealth of Nations* (1776), using pin makers as his illustration. Smith theorized that reducing the number of tasks required of each pin maker would enable each worker to improve his efficiency of motion, resulting in both uniformity in quality and higher production levels.

This increase in quality and quantity of work increases the productivity and profitability of the worker. Collaboration among workers who work in close proximity occurs naturally. A weakness that materializes with one worker may be canceled out by an increase in another worker's efforts. However, human labor continues to be replaced by machinery and electronic instruments developed during the Industrial Revolution and the modern technology revolution. Nevertheless, human labor is essential on the production line, whether in creating or assembling products or performing services.

1. F. Abdi, K. S. Sohrab, and S. J. Seyed Mohammad. "Gleanlean: How to Use Lean Approach in Service Industries." *Journal of Services Research* 6 (2006): 191–206.
2. T. Levitt. *Production-Line Approach to Service*. (Boston: Harvard Business School Publishing, 1972).
3. G. T. Passwater. "Industrialization of the Industry." *BodyShop Business* 18, no. 11 (1999): 92.

MACHINES

Beginning in the late eighteenth century, the Industrial Revolution shifted work from muscular power to mechanical power. Ever since, humans have used machinery to perform tasks greater than what they could achieve by themselves or using large animals. Machines provide consistency of work and higher volumes than human workers at lower costs per unit made. However, the initial outlay of cash for machinery can be large.

For a startup entrepreneur, purchasing machinery can be a difficult, time-consuming, and complicated task. First, one must look at the total costs of ownership (TCO), which is the comprehensive cost of owning large capital items, including initial direct costs, operating direct costs, and indirect costs. Maintaining and repairing operational equipment is difficult, especially when production schedules demand the machine to be operational. Poor planning can be very costly, especially for a startup business, because your ability to produce and deliver products on time reflects on your reliability to both your customers and your employees.

When making equipment purchase decisions, you should consider all the costs associated with the purchase plus the machine's ability to produce income or lower costs. Such expenses include not only the purchase price but also delivery, installation and setup, calibration, and operational expenses. You should also consider the interest paid on the loan as part of the cost of acquiring the equipment, a factor that many new business owners overlook, but one that a good accountant should be aware of.

Hidden costs to major purchases periodically involve certain operating costs. Too often, new business owners focus on the purchase price, sometimes referred to as the sticker price, rather than on the total costs associated with equipment. Major equipment may require special delivery methods and other shipping costs. Once it is delivered to the site, it may have to be installed by skilled technicians. In some situations, the site flooring may need reinforcing to carry the new weight load, or the electrical supply may need to be upgraded to handle the necessary current. Local, state, or federal inspections may be required to obtain a permit to operate the equipment. Sometimes, liability insurance policies require inspections and permits in addition to government permits. All of these extra expenses add to the overall costs of acquiring the equipment. Many times, these expenses are considered sunk costs, never to be recovered in resale of the equipment or in producing more units.

Purchasing machinery and other major equipment is classified as a capital purchase or capital expense. A capital expense is a major purchase of a functional asset that is expected to last longer than three years or that still has financial value after being fully depreciated. Capital items, which include buildings, equipment, machines, and furnishings, are best purchased using borrowed funds so that the business can use its cash to pay for operational expenses, which are those associated with daily, ongoing activities of the business, such as inventory, office supplies, wages, insurance, and utilities. When an asset is used as collateral for a debt, the lender places a lien on the asset. The debt then becomes a secured debt, backed by the resale value of the asset. To ease the financial burden of major purchases, depreciation, a reduction in the value of an asset, is calculated as an expense on the income statement, which reduces taxable income and lowers taxable liability.

As a general practice, the payment schedule of a capital expense should be equal to or less than the life expectancy of the equipment. For example, a business may purchase an offset printer that is expected to last twenty years and then finance it through a loan to be paid off before the twenty years are up. Although having the debt paid off before an asset is fully depreciated is ideal, in some instances terms of the loan may extend beyond the depreciation schedule.

Machines have limits to their performance. Absolute capacity is the highest volume of units that a machine can produce within a specified time period. Operational capacity is the number of units you can reasonably expect to be produced within a specified time period. The difference between the two is operational reserve. Because

machines may need to be warmed up, materials loaded and unloaded, moving joints lubricated, belts and hoses checked and repaired, or other operational functions performed, machines cannot operate at absolute capacity for an extended length of time.

In calculating production levels, it is easy to overestimate the number of units produced. For an offset printer to work properly, paper has to be loaded, the rollers must be inked, feeder clamps may need adjusting, and one or two test sheets need to be printed to check for ink coverage and crispness of the image. All of these necessary activities take time, but they actually are unproductive. Because each business will have unique requirements and influences upon capacity, the best method is to track your own performance over time and calculate the average. Otherwise, getting input from one of your advisors or a friendly competitor would be sufficient for planning and budgetary purposes.

Machines cost money to operate. Improvement in efficiencies and in production volume is a major motivation in purchasing new equipment. You should consider the increase in units produced, operational costs per unit, decrease in waste, and improvement in quality of products. A grocery store owner who has an old freezer that still keeps food at the required temperature may decide it is worth replacing. Buying a new freezer, with all of the associated costs and improvements in efficiency, has no impact on the number of food items taken out of it and sold. Only the difference in actual cost of electricity between the two units can be considered. However, a die machine that reduces waste and improves the number of molded pieces produced per hour may be worth the investment.

All machines break down, usually at an inconvenient time and place. Trying to repair equipment when it is needed is like a road crew trying to fix potholes without shutting down traffic. Therefore, scheduling production time, the amount of time that a machine is actually producing products that are to be sold (also called up time), and down time, the time when production is not occurring due to repair, restocking inventory, or unscheduled work, are critical areas for management. A schedule of regularly planned maintenance that includes preventive repairs and inspections will reduce unexpected down time and equipment failures. Scheduling repairs before they are necessary keeps equipment running efficiently and smoothly, helps reduce costs over the long term, and allows for better management of expenses. Unexpected equipment failures not only interrupt operations but can delay delivery of products and services to customers. This can diminish your reliability and negatively affect customers' confidence in your trustworthiness, potentially affecting future sales.

Every machine will become obsolete at some time and will need to be replaced. Having the latest, greatest piece of equipment may be a temptation that your bank account cannot afford. Replacing equipment, whether major industrial equipment that needs professional installation or office equipment that can be set up by employees, is a critical decision. Too often, the criteria for selecting new equipment are the same criteria used to describe the old equipment's ability. Using old job requirements for new equipment may be acceptable in an industry that undergoes very few changes over a very long time. However, most industries change drastically and need up-to-date equipment.

Exercise – Generating Interest at Home

Going green is a popular trend today. One way in which power companies are going green is with wind-generated electricity. As of now, almost all wind energy programs are on a large scale, with wind farms consisting of hundreds of towers in rural areas. Stationing wind turbines at individual houses is currently impractical. Zoning restrictions limit the height of structures, costs exceed the benefits for homeowners, and potential sound and sight pollution are a concern for neighbors.

Those concerns apply to the current options for wind turbines. Can you think of other options that would be beneficial, cost effective, and socially acceptable in urban, residential areas? What physical properties would you need to consider? What type of functional capacity is needed? Can a household have more than one type of electrical circuitry for different types of needs? Do we need a product to generate electricity for today's household purposes? Or should we simply rethink household electrical systems entirely?

Entrepreneurs not only create new products and services, but also redefine the problem. They may need to make adjustments to resolve other environmental factors. For example, there was no need for paved roads before the advent of cars. Businesses that provide gasoline and repair work for automobiles were not necessary before the automobile became popular. The mass-produced automobile changed more than how a product was manufactured—it changed the way people moved.

Consider what happened with Avni Patel Thompson and her childcare business Poppy (Entrepreneur in Action: Scheduling Sounds Simple). What lessons can you learn from her experience as you look at home wind turbines? What similarities are there between a service-oriented company and a product-oriented company? What differences are there between the two? Do homeowners really want a new way to power their homes? What are the similarities of purchasing a major piece of equipment for a home and for a business? What differences are there?

Customer demands within an industry also may change significantly over time, just as a company's specific needs may shift appreciably. To meet external customers' new wants and the company's new internal needs, machinery with new technology and more advanced construction may be mandatory. You should plan three to five years into the future for major purchases of equipment, machinery, tools, facilities, and skill levels. The question is not "What do I need today?" but "What will I need five years from today?"

Trading in outdated equipment may have value that is not always recognized in financial documents. When sales representatives of major manufacturers need to meet quotas, they may be willing to offer a very positive financing plan to place their equipment in your business while removing a competitor's machine. But you should avoid making the mistake of ignoring your current vendor. Your current machine supplier may be very eager to keep customers and may offer to take your old equipment as a trade-in, which lowers the purchasing price of new equipment. Or your current supplier may be able to offer better terms than competitors or provide supplies as a reward for loyalty. All of these choices eventually lower both purchase and operating costs of new equipment.

To upgrade or keep the old machinery, to buy or lease, to sell or trade in, these are just a few of the questions that business owners contend with in making major purchases. Paying for big ticket items through vendor financing might be easier than borrowing from traditional banks. But when making major equipment purchases, always keep the professional sales representatives close. Their industry insight and knowledge could be more beneficial to you than the equipment itself. People are more flexible, more knowledgeable, and especially more valuable than machines.

People

Searching, recruiting, hiring, and supporting a workforce can be some of the most rewarding and frustrating interactions that a new business owner deals with (see the discussion on human resources in Fundamentals of Resource Planning for more information on hiring the right people for a business). Selecting the right people at the beginning can be the difference between succeeding or failing in the early years of a business. Many experienced business owners will say that waiting to hire the right person is better than hiring the wrong person now.

For the new entrepreneur, hiring people you know is appealing because it is easy, they are typically very amenable in the startup stages, and they share in the excitement of the new business. Nepotism is the hiring of family members and close friends, usually based on their relationship to the entrepreneur rather than on their ability to perform the job. Spousal support and involvement are important in the early stages of a business. Spouses routinely become employees of the new business, and there may be a difference in the outcome based on gender. Many times, a wife is an unpaid employee if her husband starts the new company.⁴ Her commitment may vary from a sporadic involvement to a few hours per month or per week. Women entrepreneurs, however, are less likely to have their husbands participate in the business, especially if the husband is unpaid.^{5 6 7}

Hiring other family members or friends because of their availability and personal commitment is enticing. Yet hiring family and friends just because they are willing and available can backfire and may produce more long-term harm than good. Sometimes hiring people close to you may discourage qualified candidates from seriously pursuing employment with your new business. Seeing that previous hiring decisions were based upon personal relationships is a discouragement to skilled personnel. Terminating employment of a family member can be truly difficult, especially if that family member is an immediate family member such as parent, spouse, child, or sibling. Difficulties within the family and the business are possible if the situation occurs. Moreover, failing to terminate a family member for cause will predictably destroy morale among nonfamily employees, especially skilled employees.

As a business is getting started, having someone is sometimes better than having no one. At other times, having no one is better than having the wrong one. Eventually, however, the ability to do a job supersedes who the employee is. Furthermore, traditional employees hired from the marketplace eventually will resent seeing more favoritism and leniency granted to family members than to nonfamily members. There is a stark difference between the integration of family and non-family members in a startup environment. The career path is usually short, with favoritism towards family members or longtime friends.⁸ A delicate balance between family and nonfamily employees is difficult to achieve, and new entrepreneurs do not need the additional distractions caused by rifts between family and nonfamily staff members.

Friends from previous employment, college, high school, or the old neighborhood are also popular sources for employees. In the early stages, the entrepreneur has so many issues to tackle and tasks to complete that hiring people they know seems like an easy solution. People build personal relationships through social and personal interactions, outside the needs of the new business. They establish friendships along personal commonalities such as attending the same school or being in the same club or on the same team, not along the subordinate-supervisor spectrum. A sure way to end a good friendship is to hire a friend who is unqualified for the job and place them in a supervisory role. Hiring a friend as a subordinate could lead to a confrontation that could cost the new entrepreneur the support of friends and family.

4. B. Ndemo and F. W. Maina. "Women Entrepreneurs and Strategic Decision Making." *Management Decisions* 45 (2007): 118–130.
5. J. Kirkwood. "Spousal Roles on Motivations for Entrepreneurship: A Qualitative Study in New Zealand." *Journal of Family Economics* 30 (2009): 372–385.
6. L. Philipps. "Silent Partners: The Role of Unpaid Market Labor in Families." *Feminist Economic* 14, no. 2 (2008): 37–57.
7. B. R. Rowe and G. Hong. "The Role of Wives in Family Businesses: The Paid and Unpaid Work of Women." *Family Business Review* 13 (2000): 1–13.
8. 23Dan McConaughy. "Family CEOs vs. Nonfamily CEOs in the Family-Controlled Firm: An Examination of the Level and Sensitivity of Pay to Performance." *Family Business Review* 13(2): 121–131. April 2004.

Every new owner must be willing to move past the startup phase and into the growth stage, where skills become more important than personal relationships. This natural progression in business maturity requires skilled workers to perform their tasks effectively. Those skills come at a price that may be difficult to match in the early stages of the business, but in the long run, skilled workers will produce more revenue than it costs to employ them. Also, customers expect more from established businesses than they do from an initial startup business.

Entrepreneurs must hire employees who complement them, not only in skills but also in personalities. In all of its various phases—from inception through startup, growth, and expansion—every business faces situations and obstacles that require an assortment of skills and talents to resolve. Some situations demand a strong, direct, or even confrontational approach, which can be comfortable for an extrovert. Other situations may need to be handled more softly and indirectly. An introverted employee who naturally is slow to react may take a passive approach that would be more appropriate in some settings.

A small business can strengthen its staff by hiring people with an assortment of backgrounds and experiences. The collective experiences of the whole staff benefit the business in ways that may not always be easily identifiable. Employees who fit together make a nice place to work and an enjoyable experience for customers.

SALES FORCE

In *Building the Entrepreneurial Dream Team*, the sales rep was discussed in the context of the value and importance of generating revenue and cash flow for the business. In this section, the discussion will be focused on the sales force as a component of the personnel working in a for-profit business. However, nonprofit organizations that are also dependent upon sales revenue, as discussed earlier, could apply the concepts as described as well.

Decisions involving a sales force may be some of the most critical decisions made, perhaps even more important than organizational structure and tax status. The sales force triggers the activities that generate revenue, which brings the business to life and sustains it. Without the sales spark, the business becomes a lifeless organization doomed to closure.

A sales force must fit within the overall operational and marketing strategy of the business. The product must be fully developed, its benefits to the customers clearly defined, and the primary target market selected before a sales force is needed. Furthermore, company goals of minimum production levels must be established, and a target revenue high enough to cover expenses needs to be calculated. It is imperative that each of these goals is patently understood and achievable for both the sales force and the company before the sales force is assembled.

The first consideration is identifying the stage of the company. Some entrepreneurs have a true startup business beginning from scratch, whereas others enter entrepreneurship through the purchase of an existing business with established customers and cash flow. The organization, structure, and role of the sales force will depend upon whether the business is in the startup, growth, mature, or decline stage). As the business progresses through each stage, requirements and abilities of the company change as does the external environment of the market.

Deciding whether to self-perform sales or outsource the sales function should be done very carefully and should include research into the tax implications and benefits of using employees versus independent contractors.⁹ Self-performing involves the employees doing most of the work in a business. Outsourcing is the hiring of an outside company or third party to perform a specific task, job, or process, or to manufacture goods. Each option has benefits and limitations. The entrepreneur must consider many factors, ranging from financial strength to market

9. C. Stephen Tobin, The Tobin Firm. "Understanding the Differences between Independent Contractors and Employees." Greater Houston Builders Association (GHBA). June 23, 2016. <https://www.ghba.org/understanding-the-differences-between-independent-contractors-and-employees/>

knowledge to sales support capabilities. Hiring sales personnel as employees means the entrepreneur must use time and money to recruit, hire, train, supply with equipment and office materials, and regularly pay the sales force. Outsourcing the sales function to independent contractors may be a viable option, as the entrepreneur would have minimal upfront investment and they would be paid a commission only when they make a sale. Outsourcing is a preferred selection for businesses that are financially straining under cash flow, while self-performing sales is preferred for established, growing companies.^{10 11}

Pay is always a touchy topic. Determining a person's compensation and income gives the entrepreneur a great deal of power and control over the sales force. It is a very important responsibility that ought to be handled with great care. Issues regarding pay affect not only the employees' or contractors' livelihood, but also the company's financial health and reputation. Furthermore, there are numerous laws and regulations, at both federal and state levels, that place the burden of doing it right upon the employer.

Sales force personnel who are employees must be paid with regular wages. Sometimes, a commission or bonus is paid if sales quotas are met. Regular wages, along with employer-matching payroll taxes and employee benefits, increase fixed expenses to the business. This arrangement may not be sustainable for a startup business. Yet the entrepreneur-employer can benefit from this arrangement by retaining control over employees' schedules and routines, earning loyalty from staff, and receiving immediate market feedback from the employee.

Outsourced or independent contractor sales reps are paid on commission. This arrangement adds a variable expense to the business, an expense that should only be recognized after a sale is made. In most situations involving outsourced independent contractors, the employer is not responsible for payroll taxes. A word of caution, though, to all beginning entrepreneurs: Determining whether someone is an employee or an independent contractor can become complicated. The burden of doing it right is on the employer. And not doing it correctly can add significant expenses to the business in the form of fines and penalties.

An important factor to contemplate when deciding what type of sales force to have is knowing your position in the market and your market's characteristics (Figure 8.12). If you are selling to other businesses, business to business, you will have to understand their decision-making processes and buying criteria if you expect to make any sales. On the other hand, selling direct to the consumer, business to customer, has a wholly different marketing strategy. For the nonmarketing entrepreneur, learning about marketing basics ought to be placed on the "to do" list so that conversations with sales force personnel will be productive.

10. P. M. Madhani. "Managing Sales Force Compensation: The Strategic Choice between Direct Sales Force and Independent Reps." *Compensation & Benefits Review* 44, no. 2 (2012): 86–99.

11. P. M. Madhani. "Managing Sales Compensation: A Sales Force Configuration Approach." *Compensation & Benefits Review* 45, no. 2 (2013): 105–114.



(a)



(b)

Figure 8.12 (a) In a business-to-business transaction, a farmer may sell their produce to a grocery store that in turn processes the food for consumer sale. (b) In a business-to-customer transaction, the producer sells their wares directly to consumers. Credit (a): modification of “spectacular salad bar at wholefoods HQ in Austin” by Kevin Krejci/Flickr, CC BY 2.0; credit (b): modification of “Honey” by Phil Whitehouse/Flickr, CC BY 2.0

An additional market consideration is the sales territory. If you define territories by geographic markers, does each territory have the same potential number of customers? What is the variance in size and the distance from the home office? A similar set of questions arises if the sales force is established along product lines. How are the product lines alike? How are they different? When sketching out the sales force organization and responsibilities, it would be highly advantageous to receive input from potential sales reps or more experienced entrepreneurs who already know how to setup this division of your business.

Agreements made with the sales force must be honored, so make any agreement only after very carefully thinking through scenarios and obtaining insight from trusted advisors. The reputation of the business with employees and customers alike is at stake when employers do not honor agreements with employees, especially those employees who are the face and voice of the business to the market. If a sales rep, employee, or independent contractor decides to separate from your business, they could take their customers' business with them to their next place of employment. Although you could take legal action against a former employee who does this, the bottom line is that you have lost a sales rep and a customer. Avoiding that situation is best for everyone, especially you, the entrepreneur.

Getting the right sales people in place is critical. Having them work in a positive and effective environment is a necessity that cannot be ignored.

LEADERSHIP

Terms commonly associated with a leadership position include owner, manager, supervisor, team lead, leader, and boss. Many of these terms are used interchangeably, even though they have some minor differences in meaning, but normally one person will function as both leader and manager in a small business. Some entrepreneurs may be able to switch between these two roles flawlessly and fluidly, so that their followers and even they themselves are unaware that the roles are being filled simultaneously. Nevertheless, some traits and behaviors are associated more closely with leadership than with management.

A key difference between leaders and managers is their role in initiating action. Management is typically concerned with administering and directing an organization's activities. This includes planning, scheduling, coordinating, overseeing, and inspecting tasks performed by staff. The manager ensures that employees who have been hired to perform duties perform those duties as expected and at a level of quality and quantity acceptable.

A leader, on the other hand, instills within others a desire to perform. This is more of an internal motivation, a psychological approach, which the leader develops via words and actions. Like the results of the manager's approach, the results of motivation will be evident in the employees' performance. The difference lies within the minds and souls of employees.

Employees will work for their manager because they are obligated to on the basis of assigned roles and positions of authority. Employees will work for a leader because they want to achieve the same goals and accomplish tasks to satisfy themselves as well as their leader.

You can find many lists that describe either characteristics or qualities of a good leader. Only a few have been included here. Descriptions of good leadership can be divided into the following categories: personality, competencies, locus of control, and style.

Personality describes the characteristics of a person as shown by their actions and words. Effective leaders typically are easy to get along with, have a positive attitude, engage others, and display self-confidence in their skills. When entrepreneurs begin looking for employees, working very closely together necessitates that they get along and enjoy each other's company.

Working for someone who does not know what they are doing can be very difficult, if not impossible. Therefore, good leaders know what their competencies are and are very good at what they do. Employees as well as competitors and regulators recognize high job-performance skills. Sometimes, a very skilled leader becomes an industry expert with a reputation throughout the industry and gives training at conventions, conferences, and trade shows. Good leaders are also keenly aware of the skills they lack and readily admit their incompetence in those areas. Hiring a skilled employee who compensates for your shortcomings is a high priority.

Locus of control is the belief that you have or do not have control over events that occur in your life. If you have an internal locus of control, you believe you have significant control and influence over events that occur in your life. An external locus of control—the opposing view—means you believe you have very little control, if any, over events that occur in your daily life. Effective leaders have an internal locus of control and feel certain that they influence and control events, situations, and people in their lives and, specifically, in their business. When crises arise, effective leaders take charge and begin making decisions to get control of events. Employees, customers, and others connected to your business will rally around you if they are confident that you can take control of the situation and directly deal with the challenges.

The three common leadership styles are autocratic, democratic, and laissez-faire. Each of these approaches to leadership is effective but can also be ineffective. The approach that works is best determined by the industry, structure, environment, and requirements of the job.

Autocratic leaders make decisions by themselves and view employees as subordinates who must follow instructions without hesitating or questioning. Autocratic leaders are necessary in situations where decisions are needed quickly, the leader is highly trained and skilled in the work requirements, and the outcomes can be very serious. Democratic leaders engage their staff and seek input before making decisions. This approach works well if the organization or industry is complex, many different departments or employees are affected by the decisions,

and a broad range of information is needed to make good decisions. Laissez-faire leadership allows staff to work independently, mostly without supervision or direct input from the leader. This approach works best when the employees are highly educated and skilled, tasks among employees are not closely interrelated, and staff are self-motivated.

Leadership has been studied for many centuries, and the debate continues. You can find examples of good and bad leadership in many organizations including the military, sports, government, and business. Leadership traits are like hands in a poker game—they are all good and bad. The difference is the situation. For an entrepreneur, knowing the industry, the market, the competitive environment, the customer base, and the employee pool are starters for determining which leadership traits and style would be effective. If you decide you are not matched to the environment or situation, then you could engage someone who does possess the traits and skills that better match your current needs.

OPERATIONAL NEEDS

When starting your business, the first question you need to ask is whether anyone wants to buy your product or service. Creating a new product or service is easy. In fact, 70 percent to over 95 percent of new products introduced every year are classified as failures.¹² With more than 30,000 new products introduced every year, you could reasonable guess that between 21,000 and 27,000 are failures.¹³ On the contrary, only 5 percent to 30 percent of new products are successful. So the question is valid: Will anyone buy my product or service?

With such a low success rate, you will need to conduct careful research and small trial runs to determine the viability of your new products. You need to know not only whether anyone will buy your products but whether customers will pay your price, so that the business can make a profit, or at least break even. You need to ask these two very important questions up front, because if the answer to either one is “No,” you have no need to do anything else.

A second series of questions that you need to address focus on the location of the company's operations. Where will you locate your business? Will you rent or buy a building or facility? Does your facility need to have easy access in a high-traffic area? Or can it be in a quieter area, where costs are lower? In addition to access and costs, will your business be located within a competitor's influence? It would be unfortunate if you negated all the positive factors of your great product and viable business plan by selecting the wrong location.

Besides deciding on a proper location, you also need to consider the size of your facility. Selecting a structure that is too small from the very beginning may handicap any growth in the early stages of your business. Having to move to a larger facility soon after beginning operations could be detrimental to your operations. On the other hand, selecting a facility that is too large puts pressure on cash flow, as you will pay rent or a mortgage for an unproductive building space. Finding the balance between “big enough to grow into” and “small enough to afford with low sales” is a predicament faced by many business owners, whether new entrepreneurs or seasoned veterans.

12. M. Emmer. “95 Percent of New Products Fail. Here Are 6 Steps to Make Sure Yours Don’t.” Inc. July 6, 2018.

<https://www.inc.com/marc-emmer/95-percent-of-new-products-fail-here-are-6-steps-to-make-sure-yours-dont.html>

13. J. Schneider and J. Hall. “Why Most Product Launches Fail.” Harvard Business Review. April 1, 2011. <https://hbr.org/2011/04/why-most-product-launches-fail>

You will need to make similar decisions about furniture, equipment, and furnishings. These items are available for purchase or lease. Sometimes a lease is better, as the initial payments may be lower but over time, buying equipment and furniture can help improve cash flow once the items are paid for. However, deciding on how much, what quality, and what size can be difficult. Good equipment sales representatives can be a big help in making equipment decisions.

To get started, you will need to determine the proper inventory levels. How long is the shelf-life of your inventory? Some products have a long shelf-life, whereas others may perish quickly. Ask yourself “How much do I need?” and “When will I need it?”

Before beginning a business, you may need licenses and permits. Buildings must be inspected and approved prior to occupation for business activities. Building permits may require electrical, plumbing, HVAC, and structural inspections of building systems and physical features. Accounts for water, gas, and trash pickup must be made prior to occupying a facility. The next section summarizes the operational needs you should consider when launching a venture.

CHECKLIST OF OPERATIONAL NEEDS

1. Determine the legal organization of your business for tax purposes (sole proprietorship, partnership, or corporation). Select the legal structure of your business for operations and management control [limited liability company (LLC), general partnership or limited partnership, C-corporation, or S-corporation].
2. Decide on a name for your company. The company name becomes its official legal name for federal and state purposes. A corporate name can be anything that is currently not in use by another company. A trade name may be different from the official name. The trade name should reflect the product or industry.
3. You and any other principals of your business write and approve articles of incorporation, bylaws, or management agreements.
4. File organizational papers with the secretary of state (SOS) or its corresponding office in the state in which the company is founded. The SOS returns the registration or charter documents to the company.
5. You and other principals make cash payments to the company for starting the bank account.
6. Obtain a federal employers identification number (FEIN) from the Internal Revenue Service. This is the company's federal tax number for income and payroll taxes and filings.
7. Obtain a state employer's identification number from your state's employment commission. This is the company's state tax number for filing unemployment and sales tax reports and payments.
8. Be sure your trade name or assumed name certificate is filed and approved by the appropriate county and state offices if it is different from the corporate name.
9. Secure your business phone number, website, email, and domain name. Order your business cards.
10. Open a bank checking account with the appropriate corporate and trade name, authorized signers on the signature card, and all other documents that your bank requires to open a business account. Order debit cards or credit cards as necessary. Deposit your startup funds. Set up and test your business deposit processes.
11. Both you and your officers and partners sign agreements regarding the business.
12. Buy or lease your office space. Your local or city government will grant you a certificate of occupancy to

occupy the building. You may need additional inspections before final approval: building, fire, health, and plumbing.

13. Open utilities, water, electric, gas, garbage, and phone accounts.
14. Post required notices in a prominent place according to regulations. Common locations are near the timeclock, break rooms, front cash register, or other public location.
15. Apply for and post as required your license for business, either by federal, state, county, or municipal government.
16. Apply for and post as required your license and permits for employees or specific types of products or services.
17. Obtain insurance for your building, liability for business, and worker's insurance. Some states allow businesses to exempt themselves from workers' compensation with proper notice to employees.
18. Order and install furniture, office equipment, shelving, and so on.
19. Order your inventory and make your product list with pricing, price sheets, or menu boards.
20. Recruit and hire your employees. Training and certification may be required for specific functions such as bartenders, cooks, drivers, forklift operators, or first aid personnel. Be sure employees' training in specific job functions is completed before opening. The first day of operations is typically a low-key event to ensure that everything is working as planned and that your staff know their roles and responsibilities. This gives you time to correct any weaknesses or shortcomings before the general public is aware that your business is open.

Set the grand opening several days to a few weeks after the actual opening of business. Invited guests may include investors, city officials, family members, special customers, former employers, business neighbours, and competitors.

Question

Forbes magazine has various resources such as this step-by-step guide for entrepreneurs and this list of eight steps for entrepreneurs on starting a new business. The federal SBA list of steps is also available.

- Review each list.
- Which one best matches your entrepreneurial situation?

8.4 Key Terms

absolute capacity

highest volume of units that a machine can produce within a specified time period

baselining

internal comparison of actual outcomes with expected outcomes

benchmarking

comparing one's own company's performance with an industry average, a leader within the industry, or a market segment

business accelerator

organization formed by an alliance of business professionals who assist entrepreneurs in their startup or early stage businesses in exchange for an equity investment in the entrepreneur's company

business incubator

organization formed by a consortium of established professionals or organizations assisting startup or early stage businesses that provides office space, financial support, technical support, or advisors whose specialized skills in management and marketing complement the technical talents of the entrepreneur

capital expense

major purchase of a functional asset that is expected to last longer than three years or that still has financial value after being fully depreciated

capital improvements

major repairs or improvements that add to the life of an asset by improving its longevity, increasing its value or productivity, or extending its usefulness

cash flow

money collected by the business through revenue and funding versus money disbursed by the business through expenses

closed group

formal, structured group of individuals who have a strict process or specific criteria that applicants must meet before being accepted as members

creditworthiness

lender's assessment of how reliable a company is in repaying a debt

debt service

repayment of a loan, including principal and interest

down time

time when production is not occurring due to repair, restocking inventory, or unscheduled work

ergonomics

study of how work is performed

flat organization

organizational structure where owners, executives, or key decision makers interact directly with staff at all levels, with very few if any mid-level managers

hybrid group

group of individuals who have a loose and flexible set of criteria for membership and function within a very broad set of guidelines; certain criteria may be required of regular members, but guests are frequently accepted with no long-term commitment expected

inventory management

business operations that include managing the quantity of inventory units in stock, scheduling and cataloguing replacement inventory, organizing shelf location for unit storage, paying for inventory received, and processing, fulfilling, packaging, and shipping customer orders

line of credit (LOC)

agreement between a bank and a depositor in which the bank makes available a maximum amount of money the depositor can borrow at any time during the term of the loan; the borrower pays a fee during the term, whether or not there is an outstanding balance, and also pays interest when there is a balance on the loan

liquidity

measure of a company's ability to cover its immediate and short-term (i.e., due within one year) debts and obligations

nepotism

hiring family and close friends because of personal relationships rather than for their skill sets

networking

process of establishing and maintaining bilateral relationship with other people to exchange information, ideas, products or services, and money

North American Industry Classification System (NAICS)

standard used by US federal agencies to collect, analyze, and report statistical information about businesses

open group

informal, loosely organized group of individuals who have no formal process for joining or leaving the group, and who focus on a specific activity or social cause

operational capacity

number of units that can reasonably be expected to be produced within a specified time period

operational expenses

expenses associated with daily, ongoing activities of the business, such as inventory, office supplies, wages, insurance, and utilities

operational reserve

difference in unit capacity between absolute capacity and operational capacity

outsourcing

hiring an outside company or third party to perform a specific task, job, or process, or to manufacture goods

pro forma

financial statement that shows how much and where monies will be collected and spent in the early stages of business creation

production time

amount of time that a machine is actually producing products that are to be sold; also called up time

self-performing

when employees do most of the work in a business

total cost of ownership

comprehensive cost of owning large capital items, including initial direct costs, operating direct costs, and indirect costs

trade association

group of companies or employees of companies in a specific industry, business structure, or social cause

8.5 Unit Summary

8.1 BUILDING AND CONNECTING TO NETWORKS

Entrepreneurial networking is interacting with other people who have a common interest that eventually leads to the exchange of goods and services for payment. You must be comfortable approaching, talking to, and working with other individuals in order to build the circle of associates, colleagues, and professionals that you will need to start and operate your business. Likewise, you must be willing to offer your expert knowledge and professional skills to others. A good networker supports others in the community through sharing information and passing along personal introductions to expand everyone's networks.

People do business with those they know and trust. Connecting with people in face-to-face meetings through group membership is valuable but so is the power of social media avenues dedicated to professional connections, exchange of information, and support, such as LinkedIn. Networking is not easy or free. Some of the costs other than money include time, fear, and dedication. Because entrepreneurs are willing to invest the money, spend the time, take the risks, and stay with it, economic success for communities and individuals is possible.

8.2 BUILDING THE ENTREPRENEURIAL DREAM TEAM

The idea that entrepreneurs are isolated loners and solo performers in the market, doing everything themselves, having absolute self-reliance, is a myth. Successful entrepreneurs quickly seek outside advice, rely on professionals in supporting areas, and are very good at establishing and maintaining personal relationships with key individuals. Perhaps their essential skill is their ability to identify, connect, and trust those individuals who can help them succeed in their personal entrepreneurial journey.

Whatever the entrepreneur can do best is what they should focus on doing. Other required tasks can be assigned to employees, service providers, or consultants. However, it is very important that the functions having a direct effect on customers and sales are performed proficiently, because that is what generates revenue for the company. Entrepreneurs must assess their own skillset and willingness to execute tasks, then identify employees and outside professionals to fill in any gaps.

8.3 DESIGNING A STARTUP OPERATIONAL PLAN

Success is best defined as achieving what you want. Without some kind of plan, you can never be successful. Whether they are entrepreneurial owners or management employees, business managers need to have a written plan so that everyone can be certain of what tasks are needed, who is assigned those tasks, and when those tasks are scheduled. Recording and tracking financials is imperative in any business. Knowing where money is coming from, to whom it was sent, how much, and why are crucial to being a responsible business professional.

Without a business plan that encompasses all major aspects of your business, you may find yourself without a business. If that happens, you may very well ask, "How did I end up here?" Unfortunately, the answer is likely to be, "I don't know." On the other hand, a successful business professional can look back and say, "I did this, and this is how I did it."

8.6 Review Questions

1. What is “networking”?
2. What types of networks are created in a business relationship?
3. What types of organizations on college campuses can provide opportunities for building social networks?
4. What are some opportunities for you to develop the skills you need to establish personal relationships with people that you do not know?
5. What is most likely the largest social group connected with a university? Why is being a member of this group valuable?
6. How do government agencies at all levels support entrepreneurship?
7. Who selects the entrepreneur’s team? Why is this important?
8. Why is selecting an accountant a critical decision?
9. For the startup entrepreneur, what finances are considered relevant?
10. What are some differences between large banks and small banks as they relate to an entrepreneurial startup business?
11. What resources do insurance agents have to gain industry specific information, especially about liability, operations, and challenges?
12. What relationships are possible for sales reps and small, startup businesses? What are the benefits to each?
13. Why is a functional or operational business plan necessary?
14. Many operational business plans provide some very specific steps to take and sometimes are very detailed. What are some situations in which rigid schedules can be a hindrance or a deterrent to effective operations?
15. What simple tools can an entrepreneur use to get organized and do what is necessary throughout the month or year?
16. What is benchmarking? Why is it important? What are some limitations of benchmarking?
17. What is cash flow?
18. What is credit? What are some “instruments” of debt?
19. What are some differences between “absolute capacity” and “operational capacity”? Why do they need to be distinguished?
20. Explain nepotism. Why might it be beneficial to an entrepreneur? Why may nepotism be detrimental to an

entrepreneur?

8.7 Discussion Questions

1. How are social connections made in early life the same as those made on the college campus? How are they different?
2. What are some benefits of professional associations that are not available from government agencies or departments?
3. How is the role of government agencies with regard to entrepreneurship different from the roles of industry and trade associations?
4. How does the SBA help aspiring entrepreneurs?
5. Why is it important for government programs to offer grants to organizations, both public and private, to educate and assist entrepreneurs at no charge?
6. What are some risks associated with surrounding yourself with others who are similar to you in background? Industry experience? Education? Age? Personality? Ability to process information?
7. If the figures on a pro forma are hypothetical, then why go through the exercise of creating a document with fake numbers?
8. What are some disadvantages of having licensed professionals such as accountants and attorneys offering advice to an entrepreneur?
9. A young, very creative, artistic woman wants to start her own graphic design business. If she is out of the office looking for new clients, she is not producing any work that generates income. What are her options?
10. What can happen if a new business does not have any kind of business plan? What if the business plan that was originally written is not effective after the business starts?
11. Why are schedules important? If the new business owner keeps a schedule only in their head and does not write it down, what might be some weaknesses of that idea?
12. Why is benchmarking relevant? What are some conditions in which benchmarking against national figures would be less accurate? How would you find information regarding benchmarking?
13. Why is cash flow more important than profit? If a company does not have enough cash, what are possible ways for it to get more cash?
14. Why is money management so important to a business? What are the consequences if money is mismanaged?
15. When is the assembly-line approach appropriate in service-oriented businesses? What are the benefits of using the assembly-line approach in this type of work?
16. How does the term “division of labor” apply to the concepts of “jack of all trades” and “specialist”?

17. What is the difference between capital expenses and operational expenses? What type of financing should be used for capital expenses? Operational expenses? Why?
18. Why should hiring the right people take precedence over buying the right equipment?
19. How do the needs of a small business and its founder change from the startup stage to the growth stage?

8.8 Case Questions

1. Smart phones are everywhere today. You probably have one nearby right now. However, access to landline phone service has not been complete for very long, and wireless service is not as widespread as many people might think. The first phone lines (landlines) connected Boston and Somerville, Massachusetts in 1877. The last town in the United States to receive landline service was Mink, Louisiana, a small community 100 miles south of Shreveport, which received landline service in early 2005. Check any major US wireless carrier, and its maps have gaps in service. Building networks of any kind takes planning, money, and time.
 - a. What are some similarities between an entrepreneur starting a new business in a new profession in a new market and a telephone service network?
 - b. How are the requirements for a telephone network infrastructure like those for a new entrepreneur?
 - c. What are some estimated costs, not necessarily monetary ones?
 - d. What are some benefits to an entrepreneur who enters a market with established networks?
 - e. How do established networks save the entrepreneur valuable money and time?
 - f. With limited resources, what criteria should an entrepreneur use to determine priorities of spending time, effort, and money in developing networks?
 - g. Does each criterion have equal weight? Why or why not?
2. The Internet Association (IA, <https://internetassociation.org/>) was founded in 2012 as a trade association devoted to Internet-based companies. Founding companies included Google, Amazon, eBay, and Facebook. These Internet-based companies founded this new trade group because they did not have a voice in Washington, DC, with respect to potential regulations and laws. The IA has synergy—more influence as a group than each company would have individually.
 - a. What prompted the formation of the IA?
 - b. Was it for marketing purposes?
 - c. Management support?
 - d. Industry advancement?
 - e. Regulatory influence?
 - f. What are some secondary purposes for the IA?
 - g. How might the original purpose of the organization shift as the industry matures?
 - h. Will small companies enjoy the same benefits of the larger founding organization?
 - i. Any new venture involves substantial risks and costs. How might a new Internet startup benefit

- from joining the IA?
- j. How else do the large corporations benefit besides having a say in the political discussion in Washington, DC?
 - k. What time commitment should a new business make before expecting any positive return on investing time and money in a trade association?
 - l. If joining the IA requires a membership fee, what determinants should you use to place a value on the amount spent for dues?
 - m. What benefits of a trade association may be not easily linked to membership expenses?
3. In 1989, the new NFL owner of the Dallas Cowboys, Jerry Jones, fired the legendary coach Tom Landry and hired one of his former college football teammates, Jimmy Johnson, as the new head coach. Johnson faced the same problems that a new entrepreneur has: Who should be on my leadership team? What should be their responsibility? Out of twelve key coaching positions, Johnson kept only three coaches from Landry's staff in the same positions and moved one coach to a different position. Within four years (1993), the Dallas Cowboys, under head coach Jimmy Johnson, won Super Bowl XXVII with six of the original coaches Johnson hired his first year still in the same positions.
 - a. How is a startup similar to an existing organization that needs to be turned around? How are they different?
 - b. What are some reasons to surround yourself with others instead of taking the attitude that "I can do it myself?"
 - c. For any leader, what are some reasons that skills in identifying and recruiting key people are more important than technical skills?
 4. Every four years, the United States elects a president. Although the incumbent might be reelected, the United States is guaranteed to have a new president at least every eight years. On winning the election, the new president must identify candidates for cabinet positions. Some potential candidates decline the invitation and voluntarily withdraw themselves from consideration. Those who accept the invitation are put through an intensive screening process. The president then submits cabinet-level nominees to the US Senate for confirmation. As in any close group, recruiting and selecting individuals to join the presidential cabinet is critical for the president to achieve any objectives or goals.
 - a. What kind of experience is beneficial to members of a board of directors for a local performing arts group? Should they be experienced in industry? Government? Fundraising? Management? Marketing? The arts?
 - b. Besides experience, what other type of backgrounds should be considered? What about board members' ages? Education? Gender? Residency? Financial Status? Connections to local or regional major employers?
 - c. What can a new entrepreneur learn from an executive director of a nonprofit about selecting candidates to build a winning team?
 - d. How important is it that some candidates decline to join the board? How long should members be on the board?
 - e. How important is diversity in building a winning team? What skills must the entrepreneur perfect? What skills can be learned and developed later by the entrepreneur? Why is a variety of backgrounds, in the technical field and outside of the industry, important?
 - f. Who is the actual team leader? (1) Entrepreneur? (2) Strongest personality? (3) Smartest? (4)

Most technically skilled? (5) Financier? (6) Most experienced in management?

5. Narciso Gómez has worked in the service department at an auto dealership for about twenty-five years and has served as the service manager for the past seven years. He is qualified for retirement through the dealership but wants to open his own business. He is looking at buying a franchise, either a Jiffy Lube quick oil-change franchise that is for sale or a new SuperGlass Windshield Repair franchise. Both are automotive service and repair related, where he has plenty of experience.
 - a. Besides his technical skills, what does Narciso need to consider before purchasing a franchise business?
 - b. How might the estimated volume of work required to generate enough sales to cover his financial obligations affect his decision?
 - c. The Jiffy Lube business model requires a four-bay facility. What does Narciso need to calculate in developing his business plan?
 - d. The SuperGlass Windshield Repair is an on-site repair model whereby the technicians drive to the vehicle's location for work. What should Narciso's main concerns be in developing a business plan for this business model?
6. Han Jia-ying was an office manager for a construction company until she decided to be a stay-at-home mother with her kids. Her former employer has called her to take over some administrative work at home, such as payroll processing, payroll tax filings, bookkeeping, and other general administrative work. Her employer has said that some of his customers probably could employ her for their general administrative tasks.
 - a. If she works from home, what type of scheduling issues does Jia-ying face? What might be some interruptions to her ability to meet specific deadlines, such as processing paychecks each week?
 - b. If Jia-ying needs additional help, what options does she have? Would she be wise to hire an employee or seek some support from someone else? Who might that be? What problems might Jia-ying encounter when seeking a nonregular employee?
 - c. Jia-ying will need new office equipment, including a new computer, a new scanner/printer, phone service, Internet connections, and so on. However, she is not tech savvy. How might she best manage working from home by herself, especially if something goes wrong or does not work?

9.1 Types of Resources

Learning Objectives

By the end of this section, you will be able to:

- Distinguish between tangible and intangible resources
- Determine the venture's tangible and intangible resource needs and how to attain them
- Describe the various funding resources available to entrepreneurs and discuss the pros and cons of each

You have learned about many opportunities for entrepreneurs to explore and the processes that ensure their success. This discussion focuses on the various resources that entrepreneurs need to start, maintain, and grow an enterprise, and, in general, how to procure those assets. Many entrepreneurs make the mistake of moving forward in their business endeavor without taking enough time to research their industry and determine what resources are required to help their business not only get off to a positive start but also the resources needed for its continued operation. Much of that research also applies to questions surrounding resource allocation. But before we delve into allocation, let's examine the general categories of resources needed in just about every new venture: tangible, intangible, and financial.

TANGIBLE RESOURCES

As you can imagine, resources needed for the enterprise are varied and can have different attributes. These assets are essential in the operation of the business enterprise. Assets are property or resources that create a benefit to the person (or company) who owns them. They can be tangible or intangible. Tangible resources are assets that have a physical form. They can be seen, touched, and felt. Tangible resources differ between product-based and service-based businesses. A product-based business uses tangible resources in the production of goods sold to customers, such as raw materials, land, facilities, buildings, machinery, computers, supplies, and vehicles. The warehouse shown below would be considered a tangible resource for a tire (product-based) company.

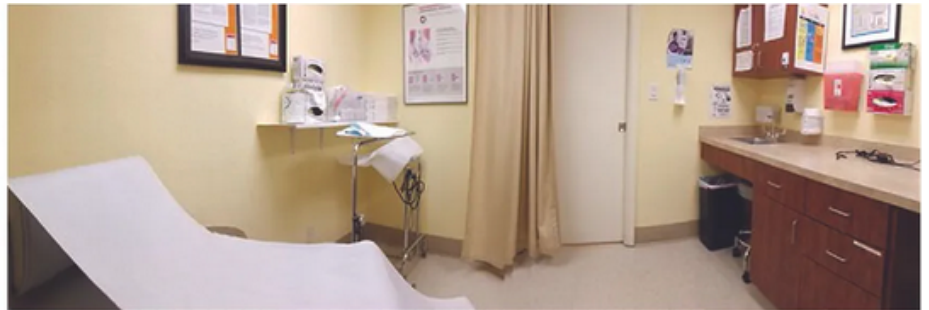


Photo of the inside of a tire warehouse, showing a forklift worker retrieving tires from a top shelf. Facilities, machinery, and other equipment are necessary tangible resources for a product-based company. Credit: "forklift warehouse machine worker" by "pashminu"/Pixabay, CC0

Tangible resources for a service-based business include buildings such as a doctor's office, bank, movie theater, amusement park, retail store, or restaurant, which are enterprises that include both products and services. Facilities and resources that the business needs to provide its services and run operations may include computers, office equipment, furniture, and technological resources. The equipment and décor need to be taken into consideration because they become part of the product offerings, even if the core product is a service.



(a)



(b)

(a) Photo of a waiting room in a doctor's office. (b) Photo of the inside of an examination room with medical equipment and supplies. Figure 9.3 Resources needed for a doctor's office include (a) furniture, decorations, and amenities for a waiting room and check-in areas, as well as (b) rooms with medical equipment and supplies in which to see and treat patients. Credit (a): modification of work by "icethim"/Flickr, CC BY 2.0; credit (b): modification of work by "osseous"/Flickr, CC BY 2.0

PLACE OF OPERATION

Your facility needs will depend on the type of product or service you are offering and vary in scope from office space to a food truck to a manufacturing facility to a storefront for sales. Knowing the limit of your budget (discussed in the next section) should help you focus on locations that you can afford. Experts recommend that you allocate only a certain percentage of your sales to your lease or purchase; some businesses use industry averages as guidelines. Factors to assess are location, visibility, foot traffic (how many potential customers walk by), how well the building has been maintained, the maintenance it will need in the future, how long you would want to stay in that location, and the insurance, property tax, and renovation costs, or the cost to build a new building. One approach is to make an assessment of your sales per square foot and compare those to sales of similar companies in the same industry or market. These data can be found through local commercial realtor offices, city or county government offices, and local associations.

MACHINERY/EQUIPMENT

Machinery and equipment are critical assets to helping launch a business. For service businesses, such as restaurants, dry cleaners, print shops, etc., the equipment can be expensive. In recent years, however, a larger reseller market has emerged for many types of equipment that are still serviceable. It is important for tax purposes to report the current asset value of used equipment and have an accountant confirm its useful life for your income statement and tax returns.

For companies that manufacture products, you may have to order customized tooling and assembly equipment. Again, if you must acquire new equipment, you will need to understand what its useful life is and determine whether you must procure or acquire the equipment from a supplier who charges a “piece price” on top of each component or finished product they supply to you. If you choose this second approach, your supplier may insist on a long-term manufacturing agreement to manage their risk.

VEHICLES

For some businesses, vehicles are necessary equipment to run day-to-day operations. You can use your own, which can be cost effective, or you can purchase or lease one. If purchasing a used vehicle, it is best to check the Kelley Blue Book, a reference guide that lists market prices, before purchasing it from a dealership; make sure that there are no defects or negotiate a lower price if you find them; and make sure to secure documentation on warranties. Other reliable valuation sources are carfax.com, nada.com, and edmunds.com.

Many small business owners are undecided as to whether buying or leasing a business vehicle nets better benefits. Let's assume for the purposes of this discussion that the vehicle is primarily a business vehicle and is not used a majority of the time for personal use. Relevant considerations include both tax and cost-related issues.

One difference between the purchase and lease of the vehicle relates to the tax deduction for depreciation. When you own a business vehicle, you can deduct a depreciation value over the life of the vehicle. Generally, you are not eligible to deduct depreciation on a leased vehicle. However, there is a corresponding difference with regard to the deductibility of monthly payments. With a leased vehicle, the monthly lease payments are tax deductible, whereas if the vehicle is purchased with a car loan, only the interest on the car loan is deductible as a business expense. Ultimately, the decision to lease or buy is one that an entrepreneur should make in concert with a tax advisor.

Link to Learning

There are also useful online calculators that can help small entrepreneurs explore the pros and cons of leasing versus buying a vehicle to inform these important business decisions.

TECHNOLOGY

No matter what business you are in, you must invest in technology to support your day-to-day operations. This typically includes computers and software, as well as Internet service and intranet/network functionality. The following list includes most of the basic investments you will need to make for your business:

- **Computers:** Laptops, desktops, and tablets are an obvious necessity for day-to-day tasks, communication, and even production of products or services. Think about the performance and attributes needed to operate the business for insight about what brand and quality to buy. A good operating system that can process calculations and requests faster can make your business operations smoother and more efficient.
- **Internet:** Every business must have strong and reliable Internet service to ensure connectivity of computers, routers, and peripherals. Communication in today's environment cannot happen without this technology, and there are many providers that have good packages for businesses to get the bandwidth necessary to operate a business and/or to provide connectivity to customers.
- **Router:** If you are using multiple computers, laptops, and printers that need to be connected to each other, you will need a wireless router. A wireless router will help you keep documents and printers accessible from anywhere in your office, even if it's a small home office. You can also have a hard-wired router, which blocks outside signal interference.
- **Printer:** Most businesses need a good quality printer for printing documents, marketing materials, and forms. Most printers now use color ink and come with the ability to scan and copy documents. They also vary in quality, so you will need to consider your printing needs and the costs of toner/ink to determine the level of quality you need.
- **Server:** If you need to store and retrieve data—such as customer profiles, emails, and sales information—you will likely need a server. The server is a hardware system with software that performs various functions that cannot be done from one computer.
- **Cloud computing:** Cloud services have emerged as a cost-effective way to process, store, and use data for company operations. Rather than host your data and systems on your own hardware services, many large companies like Amazon, Verizon, and Microsoft offer web services hosted on a network of computers. This option provides ongoing data integrity and security, while lowering the cost of IT services and equipment.
- **Software:** There are many software applications and tools that are essential for business operations. These tools support day-to-day tasks. Common software needs include accounting and billing software like QuickBooks, customer relationship management tools such as Salesforce or Marketo, word processing and spreadsheet software like Microsoft Word and Microsoft Excel, presentation software such as Microsoft PowerPoint, diagram tools like Draw.io, email marketing tools like Constant Contact or Mail Chimp, file management systems like Dropbox, online phone/meeting apps like Skype and Zoom, social media management systems such as Hootsuite, project management tools like Bootcamp, and

more. Some of these tools are free. Others carry a cost but may have free trial periods if you need to test them before investing. Most offer easy subscription payment schedules that can be set up monthly or yearly, and include ongoing software updates.

SUPPLIES

There are many other supplies needed to operate the business, mostly basic items that you might take for granted but that need to be expensed: paper, toner, files, staplers, writing utensils, cleaners, and so on. You will likely need basic office furniture too. You may also want to invest in certain amenities that create a working environment and set the stage for your envisioned company culture—whether that's a coffeemaker, a dartboard in a break area, or whiteboards for meetings and brainstorming.

LICENSES AND PERMITS

What types of licenses might be required to operate your business? You may need a basic business license or permit provided by the government for the business to be valid, such as registering as an LLC, partnership, or company. These licenses let the government know what kind of activities the business performs and ensure taxes are collected properly. They also make your business a legal entity and prove that it exists in case you need funding or permits. Some businesses require a sales tax license for products and services, whether they are tangible or digital.

Other considerations include professional certifications that pertain to the industry you are working in, such as certifications in accounting (CPA), financial advising, cosmetic services, or healthcare. Many industries require licenses before you can begin to operate; such industries include healthcare, financial services, construction, real estate, insurance, transportation, and engineering. If you will be receiving customers in your home office or storefront, you may be required to undergo a home inspection, especially from the health department if you are in a foodservice industry. Signage outside your business location may also require a permit or compliance with local regulations.

Other permits that may be required for a building include a certificate of occupancy, fire, electrical, HVAC, plumbing, and hazardous materials such as gasoline, diesel, oil, or compressed gas cylinders. Check the laws and regulations of your local and state governments to ensure your business meets the legal requirements for licensing and permits. You can do this by contacting the secretary of state in your state and also by contacting your local chamber of commerce. Importantly, these licenses and permits often carry a cost and should be part of your startup costs with renewals included in your operational budget.

Exercise – Service-Based versus Product-Based Resources

- Go to bizjournals.com and select one of the small businesses profiled in the listings of current local business news.
- Select one service-based enterprise and one product-based enterprise.
- Make a list of all the different types of tangible resources they each need to start their enterprise and sustain it.
- How do the resource needs of each enterprise differ and how are they similar?

- What did you learn about resources from this activity?

INTANGIBLE RESOURCES

Intangible resources are assets that cannot be seen, touched, or felt. Intellectual property—which includes creative imaginings such as formulas, designs, brands, and inventions—is an intangible resource, and so are the patents, trademarks, and copyrights that protect the intellectual property. For example, if you are a small business owner, you might want to protect your logo, company name, website, slogan, new product prototype, or maybe a newly developed manufacturing process that allows you to shorten production time.

In our current technological era, intellectual property has become more important than ever. The Ethical and Social Responsibilities of Entrepreneurs introduced you to intellectual property protection as an important measure to safeguarding creativity. Entrepreneurs must protect their ideas for as long as possible to sustain a competitive advantage. A competitive advantage for a business could be a formula for a product, like the recipes Kentucky Fried Chicken or Coca-Cola use for their food and beverage products. They protect their formulas so other companies do not replicate them and profit from them. Smaller companies can also invent new products, methods, and branding that will need to be protected. Patents, trademarks, and copyrights are three protections for this type of intangible resource.⁵

PATENTS¹

You or your business may have come up with a valuable innovation. An invention is usually protected by a patent. You may also protect a particular visual feature as an industrial design.² A patent grants the owner the right to claim the ability to exclude others from making, selling, using, and importing a product or process to Canada for a period of time. This allows the inventor to recuperate the costs of researching and developing the novelty before competitors can copy it. Types of patents include utility, business process, design, and plant patents.

For your invention to be patentable, it must be:

- new—first in the world
- useful—functional and operative
- inventive—show ingenuity and not be obvious to someone working in your area of specialty

A patent can be granted for:

- a product (a door lock)
- a composition (a chemical composition used in lubricants for door locks)
- a machine (a machine for making door locks)
- a process (a method for making door locks)
- an improvement on any of these

1. Section adapted from Government of Canada. (2023). *Protect your innovation*. In Canadian Intellectual Property Office. <https://ised-isde.canada.ca/site/canadian-intellectual-property-office/en/what-intellectual-property/protect-your-innovation>

2. Government of Canada. (2023). *Protect your innovation*. In Canadian Intellectual Property Office. <https://ised-isde.canada.ca/site/canadian-intellectual-property-office/en/what-intellectual-property/protect-your-innovation>

Patents reward innovation

Whether you create cutting-edge technology or improve well-known products or processes, it is in your best interest to learn more about patents.

Patent protection applies in the country that issues the patent. In Canada, the following rules apply:

Your patent is protected for up to 20 years from the date you file your patent application.

The first person to file a patent application is entitled to the patent; therefore, you should consider applying as soon as possible after completing an invention in case someone else is on a similar track.

Most inventions are improvements on a previous invention

Ninety percent of patents are for improvements to existing patented inventions.

Famous Canadian patents

Snowmobile

The SKI-DOO® snowmobile has made tracks since J. Armand Bombardier obtained his first patent in 1937. Bombardier Recreational Products now has manufacturing facilities in five countries and sells its products in more than 100 countries.

“Some day, I will invent a little machine that will glide over the snow and will even allow me to go up hills.”—J. Armand Bombardier



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=305>

INDUSTRIAL DESIGN³

A well-designed chair is not just a pleasure to sit on, but also a pleasure to look at. This can be said for most manufactured products. Their value to people depends not only on what they do, but also on how they look.

An industrial design can be:

- a shape
- a configuration
- a pattern
- an ornament
- any combination of these

3. Section adapted from Government of Canada. (2023). Industrial designs - Learn the basics. In Canadian Intellectual Property Office. <https://ised-isde.canada.ca/site/canadian-intellectual-property-office/en/industrial-designs-learn-basics/industrial-designs-learn-basics-its-all-look-learn-why-industrial-designs-matter>

An industrial design is applied to a finished article made by hand, tool or machine, and the features can be two- or three-dimensional.

To qualify as an industrial design:

- the design must be novel and
- the features must appeal to the eye.

Your industrial design is worth a lot of time and money and it may mean the success of an entire enterprise. In Canada, industrial designs are protected under the Industrial Design Act for up to 15 years.

TRADEMARKS

Trademarks in Canada

- Trademark information from the Government of Canada

A trademark is a combination of letters, words, sounds or designs that distinguishes one company's goods or services from those of others in the marketplace. A trademark is unique. It is important to a company because over time, a trademark comes to stand not only for the actual goods and services you sell, but also for your company's reputation and brand.

By registering your trademark, you protect it under law from misuse by others, and you gain exclusive rights to use it throughout Canada for 10 years (a term that you can renew).

Resources

- See A Guide to Trademarks for information on how to register, key facts and other important information.
- Trademarks can be applied for with the Canadian Intellectual Property Office.

If you are opening your own candle and soap company, for example, you might want to register your company name and logo initially to prevent others from using it and benefiting from your reputation. If you decide to create a jingle, a slogan, a character, or another branding asset, you can do it while you develop and grow your business, as it can become cumbersome and expensive if it's done all at once. Getting a trademark itself is not as difficult as getting a patent, but just as with a patent, getting a lawyer's help can prove beneficial.

Trademarks are not as costly—it may cost a few hundred dollars to file the application—but attorney fees can vary, depending on the type of project and the length of time it takes to process the application. This can range from a few hundred to thousands of dollars. This type of intellectual property can provide an opportunity for your company to be sustainable for years to come and avoid other businesses copying or using your ideas to promote themselves.

COPYRIGHTS

Copyright is the exclusive legal right to produce, reproduce, publish or perform an original literary, artistic, dramatic or musical work. The creator is usually the copyright owner. However, an employer—for example, a film studio—may have copyright in works created by employees unless there is an agreement in place stating otherwise.⁴



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=305>

TRADE SECRETS

Trade secrets are oddly similar yet completely different from traditional intellectual property (patents, copyrights, and trademarks.) Trade secrets derive their legal protection from their inherently secret nature, not from a grant of exclusivity by the government. In fact, patents and copyrights are required to be made public, whereas trade secrets are not.

Resource

- Government of Canada Trade Secrets Fact Sheet

Examples of trade secrets range from the formula for Coca-Cola to the Google search algorithm. An inventor has a choice: patent the invention or keep it as a trade secret. Some advantages of trade secrets include the fact that a trade secret is not limited in duration/time (patents generally only last for twenty years). A trade secret may therefore continue indefinitely as long as the secret is not revealed to the public. However, a trade secret is more difficult to enforce than a patent because the level of protection granted to trade secrets is generally considered weaker when compared with the protection granted by a patent. Additionally, a trade secret may be patented by someone else who developed the relevant information by legitimate means.

DETERMINING YOUR RESOURCE NEEDS AND HOW TO ATTAIN THEM

As you begin your entrepreneurial plan, start by developing a list of the basic tangible and intangible resources you will need and determine their availability. For example, let's say you are starting a solar panel manufacturing company called Helios Panels. Your new manufacturing plant will require you to have a 10,000 square foot factory, where you will need two or three specialized machines to build your solar panels. Unfortunately, the area of town that you like does not have buildings available. You will probably need to look for another location where there's a facility that fits your needs that is easily accessible for transport vehicles. If you don't make your list first, then you run the risk of ending up in a facility that is not suitable. Table 9.2 and Table 9.3 provide starting points for thinking through the tangible and intangible resources needs for your venture.

4. Government of Canada. (2023). *What copyright is*. <https://ised-isde.canada.ca/site/canadian-intellectual-property-office/en/what-intellectual-property/what-copyright>

TANGIBLE RESOURCE NEEDS

Table 9.2 This table can help you determine your tangible resource needs.

Resource	Considerations	My Needs
	Will there be customer interaction, and if so, does the location meet the needs of the target market? How much square space is needed? How well will the location meet the needs of employees? Does inventory need to be stored?	
Machinery/equipment	What equipment is needed to create the product or provide the service? What quantity of equipment is needed to meet customer demand? Are there any special requirements for machinery, such as level ground, vibration or sound protection, or water and electricity supplies?	
Technology	What hardware is needed (computers, tablets, printers, or routers)? What software is required? What type of Internet service is needed? What other technology architecture might be required (server, network, or cloud computing)?	
Vehicles	Are vehicles needed, and if so, for what function (transporting goods or meeting clients)?	
Miscellaneous supplies	What basic supplies may be needed (desks, chairs, wastebaskets, or whiteboards)? What office supplies are needed for operations?	
Licenses/permits	Is the business licensed as a legal business entity if needed? Does the location/facility require any licenses or permits to operate? Do all parties involved in providing products/services have necessary licenses or certification to be in compliance with industry and government standards?	

INTANGIBLE RESOURCE NEEDS

Table 9.3 This table can help you determine your intangible resource needs.

Resource	Considerations	My Needs
Patents	Does the venture merit patent applications (utility, design, or plant)?	
Trademarks	Do the immediate plans or long-term vision include elements that should be trademarked (name, symbol, logo, jingle, or character)?	
Copyrights	Do the company's offerings include intellectual property such as artistic, literary, architectural, or software works that need to be protected?	

Business owners are constantly faced with difficult decisions about resources. A decision tree is a beneficial tool that Business News Daily describes as a “flowchart graph or diagram that helps explore all of the decision alternatives and their possible outcomes.”⁵ In other words, it uses a logical framework to help us make decisions. First, you determine what your different options are for use of resources, and then you can calculate the return for each option, using mathematical models that help estimate the probability of successful outcomes.

5. Chad Brooks. “What Is a Decision Tree?” Business News Daily. March 28, 2014. <https://www.businessnewsdaily.com/6147-decision-tree.html>

For example, let's say that you must decide which piece of expensive equipment to use in the manufacture of your solar panels. You can create a decision tree to determine the best course of action (Figure 9.6).

Decision tree for solar panel manufacturing equipment, Machine A costs \$320,000 with a potential high profit of 60 percent (\$400,000) and a potential low profit of 40 percent (\$200,000). Machine B costs \$255,000, with a potential high profit of 70 percent (\$300,000) and a potential low profit of 30 percent (\$150,000).

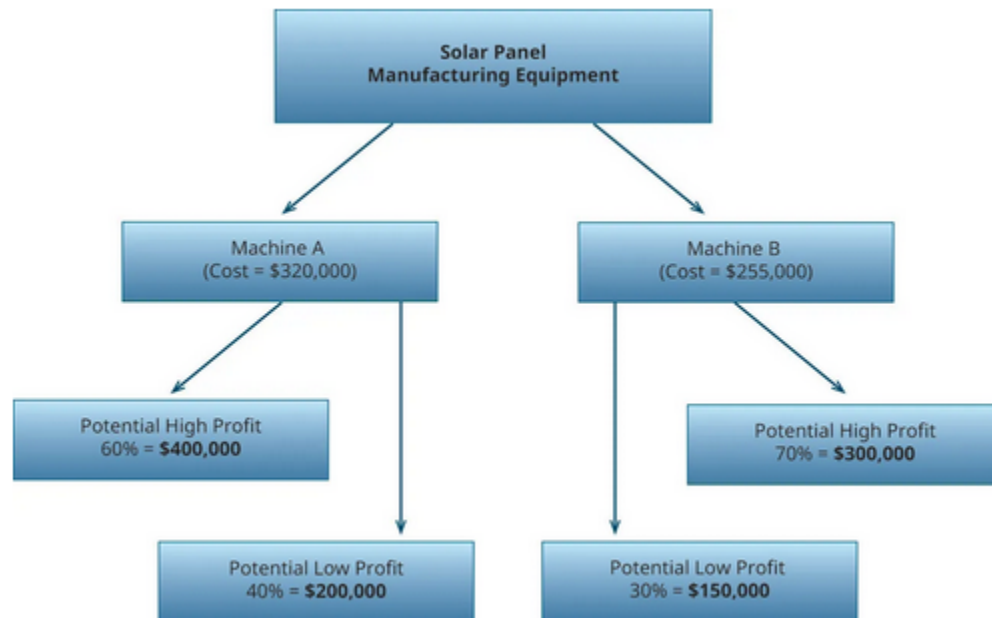


Figure 9.6 A decision tree can help estimate the probability of success when making a decision regarding how to allocate resources, sometimes including examining cost tradeoffs. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.

Working through these questions can help you be prepared prior to opening the business and identify additional resources you will need in the future. This takes time and effort, but the payoff is worthwhile in having a clear understanding of needs to support a path to success. Furthermore, the risk of expensive and unrecoverable mistakes can be mitigated when one uses management tools such as the decision tree tool. Creating a checklist with answers and details (Figure 9.7) can help sort through and organize your thoughts and your action steps.

Checklist for resource planning. Items receiving green checkmarks are 10,000 square foot facility with 3 to 5 offices, equipment space for three 10 × 30 machines, inventory storage, supplier parking, safe location, computers, supplies, and office furniture. Items with red X's are ample employee parking space and patent protection.

CHECKLIST FOR RESOURCE PLANNING	
	10,000 square foot facility with 3–5 offices
	Equipment space for three 10 × 30 machines
	Inventory storage
	Supplier parking
	Ample employee parking space
	Safe location
	Patent protection
	Computers
	Supplies
	Office furniture

Figure 9.7 Sample checklist for determining whether a location and other physical resources are appropriate for Helios. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.

Link to Learning

Often in the planning stages, entrepreneurs fail to identify all the resources they may need in the startup phase, and, as a result, the business suffers and opportunities are lost. This article from Business News Daily on decision trees can be a helpful resource when completing the exercise below.

Exercise – Get Organized

- Create a checklist of the various resources you might need for your own business idea. Categorize them into tangible and intangible.

- Prioritize them in order of importance to your growing enterprise and what cost factors to consider for each.
- Construct a decision tree that shows what choices you had to make as you made your checklist.

FUNDING RESOURCES

Funding resources are the monetary resources necessary to start and operate a business and are usually the biggest challenge that entrepreneurs face. If you don't have funding, you are not able to secure your basic resources—that is, to buy the raw materials to make a product, hire employees, purchase inventory, or secure facility space, furniture, or equipment. Entrepreneurial Finance and Accounting covers these funding sources in depth. Here, we consider how these can be best leveraged to acquire the other resources needed for your business.

PERSONAL SAVINGS

Most entrepreneurs start their business by tapping into their personal savings. Many entrepreneurs will work another job while setting aside some savings money for their venture. Using personal savings can be a good idea if the business requires low startup costs (marketing material, software, equipment, products, and materials) and low maintenance costs for the first year. This can include businesses that don't require as much capital, such as professional services (engineers, accountants, and business consultants). Saving for major expenses like equipment can also help avoid paying fees and loans, but it may tie up the money in assets and will prevent you from covering payroll or other operational costs. Having cash reserves on hand can ensure that your basic business needs are met. The positive aspect of using your own savings is that you have the opportunity to use the funds as you see fit: You decide how you want to spend the money. A potential negative with this freedom is that if the business fails, your investment will be depleted as well.

BOOTSTRAPPING

Bootstrapping literally means to pull yourself up by the bootstraps with tenacity and “sweat equity” using the bare minimum resources.⁶ This means that you do things as cheaply as possible until you start earning revenue that you can reinvest in the business. For example, entrepreneurs starting out might work from home to save on rent and utilities, might create a website and marketing materials themselves, and might use social media to promote the business. Once a customer base is established, the entrepreneur may explore options for outside-of-the-home office space and invest in professional services from a website designer and marketing printer.

Using credit cards can be an option to help the entrepreneur bootstrap and not take out loans. This can be risky, but if you are disciplined and only use them for the essentials of the business, such as production or marketing, they can really help get the enterprise off the ground. Paying off the balance every month and using credit cards that provide rewards and cash back can help develop healthy habits, while reaping the rewards to use on items that are highly needed.

6. Alejandro Cremades and Barbara Corcoran. *The Art of Startup Fundraising: Pitching Investors, Negotiating the Deal, and Everything Else Entrepreneurs Need to Know* (Hoboken, New Jersey: Wiley, 2016).

An example of the savvy use of a credit card comes from Johnny Cupcakes, a “t-shirt bakery” in Boston, created by Johnny Earle, who started selling witty cupcake t-shirts out of the back of his ’89 Toyota Camry. He used his parent’s credit card to charge the materials for his t-shirts and bootstrapped his operations out of his home with family help until his clever shirts started selling so well that he had to open his first retail store. Fortunately, Earle was smart enough to use the credit card only for production of his t-shirts, and once they sold, he used the revenue to pay off the credit card completely so as to not incur any more debt or interest charges. Eventually, his business started to flourish and he didn’t need to use credit cards to operate. Today Johnny Cupcakes brings in millions of dollars. The company has expanded to locations in Los Angeles and London, and Earle speaks to entrepreneurs all over the world.⁷

BANK LOANS

Bank loans are another funding option with different banks that focus on various industries and different interest rates available. Usually, these loans can be secured by some sort of equity. This can take the form of personal assets, such as the owner’s home, cash, vehicles, other commercial property, or business assets like equipment, inventory, or cash. Rates can be high, especially for startups that don’t have any credit history. The paperwork required can also be cumbersome, and the payments have to be made on time regardless of how much revenue the business is earning. Organizations such as the *Canadian Federation of Independent Businesses (CFIB)*, *The Canadian Council for Small Business & Entrepreneurship*, *Business Development Bank of Canada (BDC)* and local chambers of commerce can be helpful in providing guidance and loans.

Bank loans are most helpful when the business does not have enough money to fund a particular part of operations, such as expanding production by means of buying new equipment. Although loans may be difficult to attain, there are local banks and large banks that provide help to small businesses and startups. Interest rates may range from 5 to 8 percent, and the loans can be used for the purchase of capital equipment or assets that are necessary for the business to take off, such as land/facilities, working capital, or marketing. Once a business has established making payments on the loan, it also establishes good credit. It may then qualify for larger loans or a line of credit, which is an amount of money that a bank allows a business to borrow on demand to expand a business or to have cash flow for required expenses. Usually, there is an interest rate attached to the line of credit that will have to be paid back within agreed terms, and often an annual fee for an open line of credit. Entrepreneurs with good credit ratings can access amounts around \$25,000–50,000 without taking a term loan.

FRIENDS AND FAMILY MEMBERS

Friends and family can be a great way to get quick funding because they usually believe in your skills and ideas, and they want to see you succeed. Entrepreneurs should have a specific strategy for asking friends and family for the amount they need to open a business. This can range from a few hundred to thousands of dollars. You will want to determine whether to ask many people to help you with small investments or have one or a few people provide larger amounts. It depends on the strength of your relationships and how much stress you’re willing to introduce into the relationship. Many entrepreneurs have persuaded friends and family members to give small amounts, and some have persuaded a few to give large amounts of money. Regardless, it is important to have a strategy for asking and a plan for how to pay them back. You will also need to be prepared to discuss their expectations regarding the use of their money. Are they expecting to be part owners of your company? Is this a loan that must be repaid? Is it a gift? It is always best to keep communications about funding the business professional. If they are investors, the expectation is that they will have a say in how you run your business.

7. Johnny Cupcakes. (n.d.). Johnny Cupcakes website. <https://johnnycupcakes.com/pages/about>

Once you have figured out what interest you are willing to give up in return for the investment, make it professional by giving a presentation about the business and signing a contract to ensure that they will get paid back, whether in money or shares of stock. This safeguards the relationship by holding you accountable for paying back the money.

There are many contract templates available online, such as those at Loanback.com, Lendingkarma.com, Exilend.com, and Zimplemoney.com. These contracts should include the amount of money you're asking for, the interest rate, timeframe of payback, installment information, and any other necessary terms. If the money is a gift, it is recommended to get a statement in writing that those funds are a gift in case you need proof of where that money came from and whether payback was expected.

ANGEL INVESTORS

Angel investors are usually professionals who have accumulated wealth and are open to sharing their wealth in exchange for some sort of equity. Many are former entrepreneurs who have harvested their business and enjoy providing guidance and support to new entrepreneurs. Others have worked in large corporations and have an abundance of knowledge and interest in new technologies. The name given to this type of investor began with those “angels” who helped fund Broadway shows in the last century.⁸ The name stuck, and now they fund many industries, not just the arts. Many of these angels belong to groups of investors such as private equity groups, while others look for opportunities on their own. They also can range in their lending capabilities, as they are private individuals with differing amounts of wealth.

An example of an angel investor is Natalia Oberti Noguera, the CEO and founder of an organization called Pipeline Angels that helps provide capital for women and nonbinary entrepreneurs. She is not the typical angel investor, as she focuses on empowering minorities through her business coaching and providing capital opportunities for women.⁹

VENTURE CAPITALISTS

Venture capitalists are usually large private or public firms that are interested in pooling funds to invest in high return, high-risk startups or growing firms. These investors want high payouts in an average span of three to five years, so they will likely fund promising businesses in technology sectors, pharmaceuticals, media and entertainment, and biotechnology.¹⁰ The business must give up some of its equity to gain those funds. Usually, venture capitalists not only provide the funds necessary to start or grow the business, but will also provide guidance and expertise. More than likely if you are seeking funds this way, you will probably deal with an established venture capital firm, but occasionally, an individual may work alone as a venture capitalist.

For example, Birchbox received \$90 million from their first rounds of funding from venture capitalists. This allowed them to fully develop their business model and grow to be valued at over \$500 million. Most of the funds went to creating the technology that fueled their website, hiring customer representatives, and creating distribution systems.

8. Alejandro Cremades and Barbara Corcoran. *The Art of Startup Fundraising: Pitching Investors, Negotiating the Deal, and Everything Else Entrepreneurs Need to Know* (Hoboken, New Jersey: Wiley, 2016).

9. Natalia Oberti Noguera. n.d. www.nataliaobertinoguera.com

10. Rachel Hallett. “These Are the Industries Attracting the Most Venture Capital.” World Economic Forum. February 13, 2017. <https://www.weforum.org/agenda/2017/02/these-are-the-industries-attracting-the-most-venture-capital/>

CROWDFUNDING

Just like in the case of New Story (Introduction), there are instances where businesses rely on crowdfunding, which is a good vehicle for collecting large amounts of money made up of small donations. That's the beauty of crowdfunding: You can receive various amounts of money from many people through an online platform, with a request that can be shared not only with family and friends, but with many other people who are passionate about your idea. New Story created a new business model that allows them to crowdfund its home building projects entirely. This model, together with New Story's partnerships, has helped them create many communities in different countries, thanks to the donations from people who care about this cause. There are many types of online platforms that focus on specific industries. The most common platforms include Kickstarter.com, Indiegogo.com, CircleUp.com, and Fundable.com, among others. In 2012, Congress passed the JOBS Act to allow startups to raise money from people who were not professional investors. Crowdfunding was born from the ability to raise money without having to create an IPO.

GRANTS

A tougher way to get funding for your venture is by applying for grants from the government at the federal, state, and local levels.¹¹ Most require a match of funds by the entrepreneur and may have many more requirements, but they can be a good way to launch. You can start by looking up federal grants and work your way down to your local city level. Federal grants are broken down by industry. Usually, they focus on fields that have innovations in technology, science, or health. Some of those grants such as the Small Business Innovation Research Program or the Small Business Technology Transfer Program focus on these disciplines and can range from \$150,000 to \$1 million. Other governmental entities offer grants, such as the National Aeronautics and Space Administration, the National Science Foundation, and the Departments of Energy, Health, Defense, and Education; these grants focus on their fields, and their amounts and requirements vary.

State grants, on the other hand, generally focus on economic, educational, or social issues. These can be smaller and easier to acquire since competition can be lower. Each state has its grants posted on the <https://www.grants.gov/> website and includes requirements and funding opportunities. These focus on areas of growth and needs such as green technology, education, environmental initiatives, tax incentives, job retention, historic preservation, and tourism, among others.¹² Grants are also discussed in *The Ethical and Social Responsibilities of Entrepreneurs*.

RESOURCE FUNDING CONSIDERATIONS

When evaluating resource needs, you can consider these questions:

- How will I obtain the money needed to operate the business on a daily basis?
- When might I need to hire staff, and how much would their wages and benefits cost?
- Where are these sources of money I can tap into for both immediate and long-term needs?
- Would a line of credit be a better option for my business or should I pursue a term loan?
- Is borrowing from friends and family a practical option?

11. Priyanka Prakash. "Small Business Grants: 107 Ways to Get Money for Your Business." Fundera. October 15, 2019. <https://www.fundera.com/blog/small-business-grants>

12. Priyanka Prakash. "Small Business Grants: 107 Ways to Get Money for Your Business." Fundera. October 15, 2019. <https://www.fundera.com/blog/small-business-grants>

- Are there angel investors who fund businesses in my industry who I can investigate?
- What will I need in terms of assets and financial reserves to open my business and keep the doors open for at least six months? One year? Five years?

Based on your needs, you will be able to choose from the type of funding that best suits you.

Pros and Cons of Funding Types

Types of funding	Pros	Cons
Personal savings	<ul style="list-style-type: none"> • Only risk your own funds • Use the funds as you see fit • Can take the time to save up funds • Can run a smarter business by making better decisions on a tight budget 	<ul style="list-style-type: none"> • Risk losing all your savings/retirement accounts • Hard to save enough money to fund a business, so the amount is limited • Can cause cash flow challenges
Bootstrapping	<ul style="list-style-type: none"> • Requires the least amount of investment • Using credit cards can potentially provide rewards 	<ul style="list-style-type: none"> • May not get paid until the business makes money • Requires “sweat equity” using minimal resources • May need risky use of credit cards
Bank loans	<ul style="list-style-type: none"> • Ability to get greater amounts of funding than personal savings and bootstrapping • May be faster funding than waiting to save up • Builds credit history • Set payment rate • No loss of equity in venture 	<ul style="list-style-type: none"> • Must qualify for loan on the business creditworthiness • Must qualify for loan based on personal creditworthiness of all spouses, partners, members, or stockholders • Must pay interest • May default loan • Cash outflow on interest and principal payments • Can jeopardize needed cash for other productive uses • Potential loss of collateral • Potential decrease in credit rating
Venture capitalists	<ul style="list-style-type: none"> • Potentially large sum of money • Ability to grow quickly • Not a loan, so no regular cash repayment plan • Access to useful connections and experience in the industry 	<ul style="list-style-type: none"> • Give up ownership/equity • Have to take others’ direction • Expectation of payoff • May cause company to grow too quickly • May relinquish management control or decision-making to an unknown person • Can be squeezed out of own company
Angel investors	<ul style="list-style-type: none"> • Useful investing networks and experience in the industry • Ability to guide you toward success • Invest funds in exchange for equity and participation in the venture’s success • Not a loan 	<ul style="list-style-type: none"> • Give up ownership • Have to take others’ direction • Expectation of payoff • May relinquish management control or decision-making to an unknown person • Can be squeezed out of own company
Friends and family	<ul style="list-style-type: none"> • Can be easier and faster to acquire • People believe in your idea/skills • Ability to raise from many or a few • No credit check • Flexibility for payback 	<ul style="list-style-type: none"> • Expectations need to be met • Risk losing their money • Usually will raise less funding • May complicate relationship • Might be embarrassing • Has tax implications if provided as a gift
Crowdfunding	<ul style="list-style-type: none"> • Ability to raise cash from many people • Fast • Larger overall sums 	<ul style="list-style-type: none"> • Requires significant planning/work • Requires some sort of reward • Can be stressful method • Transparency required and may need to be documented

Types of funding	Pros	Cons
Grants	<ul style="list-style-type: none"> • Range from small to large • May have little competition • May offer training • Free application 	<ul style="list-style-type: none"> • May only focus on certain industries • Difficult to obtain • Long process • Reporting may be required • Repayment may be required if specific conditions are not met • Some conditions of the grant are outside the control of the benefactor

Exercise – Informational Interviews

Do some research within your industry to see how your idea compares to those who have been in business five years or more (reaching success) and those in business five years or less (startups). Explore whether you can access needed resources to successfully launch the intended enterprise and reach the proposed customer.

If you can, interview others in the industry to get a pulse on the considerations of entry into this business. For example, you can ask them the following questions:

- What experience did you have in your industry before you started your own business?
- What made you consider opening a business?
- What were some of the positive aspects you saw about this industry? What were some negative aspects?
- What are the obstacles of entry into this industry?
How much funding did you need to get started? How much to continue operating?
- What networks of business owners, mentors, and guides did you tap into before you started your business?
- What organizations did you join to get help with your business?
- How much time did you spend in your business each week?
- What did you give up in your personal life when you started your business?
- If you could start over, what would you do differently?
- Would you still open your own business?
- What advice do you have for someone who is just starting?

9.2 Using the PEST Framework to Assess Resource Needs

Learning Objectives

By the end of this section, you will be able to:

- Describe the components of the PEST framework (political, economic, sociocultural, and technological factors)
- Apply the PEST framework to assessing resource needs
- Understand how to assess typical resource costs at startup

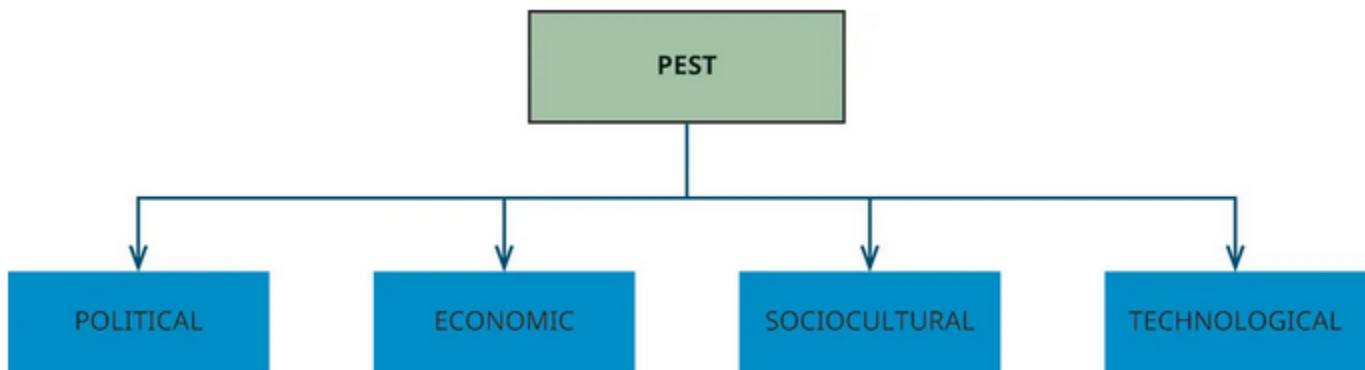
As you venture into planning the resource allocation for your enterprise, you will learn that there are a variety of tools that can help you. It is important prior to launch to identify the minimum resources needed for startup. Some businesses will require more capital equipment (such as production machines); some require more technological resources, such as software (or software designers); some companies may require a lot of funding at the beginning of their quest, whereas some will require only a small investment of money. The level of resources needed for an enterprise changes over time, as well.

As the entrepreneur goes through the brainstorming process to identify the feasibility of the idea, they can simultaneously begin to think practically about what they will need to make this business operational: What raw materials are needed to manufacture the product? How many employees are needed at each phase? Will a physical site be necessary, and, if so, where will it reside?

Narrowing down the minimum resource needs of the enterprise in response to some or all of these questions is essential to a successful business launch. The entrepreneur can gather information and make an informed decision on what needs have to be covered at the beginning of the venture. This information can be condensed into the business plan, marketing plan, or pitch that can be shared with stakeholders. The information gleaned from the stakeholders' responses to the plans informs not only the entrepreneur and stakeholders internal to the business, but external stakeholders such as banks, investors, suppliers, vendors, and partners. The information is essential for the decision-making process. One tool that can help ensure that planning is comprehensive and well thought through is the PEST framework.

PEST FRAMEWORK

The PEST framework is a strategic assessment tool that entrepreneurs can use to identify factors that may influence access to essential resources. PEST is an acronym for political, economic, sociocultural, and technological factors.



The PEST framework depicted as a box with arrows to political, economic, sociocultural, and technological. Gaining an understanding of these four factors can help entrepreneurs gauge access to important resources. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.

Link to Learning

Watch the video about PEST by MindTools to learn more. Why is it important to look at the outside environment? How does the PEST analysis work?

POLITICAL FACTORS

Although you may hope to be your own boss, make your own schedule, and follow your own rules, you must still work within the realities of outside factors that affect your business. Political factors stem from changes in politics, such as the policies of a new presidential administration or congressional legislation. Such policies can affect access to capital, labor laws, and environmental regulations. Moreover, these political changes can take place on federal, state, and local levels. Tax reform law, for example, could influence the amount of taxes a business owes, while actions by the newly appointed chair of the Federal Reserve could affect how much capital may cost the small business owner because of interest rate changes.

Some political factors influencing resources are tax laws, interest rates, protections/regulations, labor expenses, inflation, insurance costs, benefits costs, and environmental laws.

Businesses must follow all laws and regulations, but political factors such as the ones listed below can influence the profitability of the organization.

- Tax laws
- Interest rates
- Protections / regulations
- Labour expenses
- Inflation
- Insurance costs
- Benefits cost
- Environmental laws

For example, these government agencies require businesses to train employees about materials that may be hazardous to people and provide notices and reports on these matters. The EPA also has regulations on air and water emissions that businesses must follow, as improper disposals can harm the environment. Smaller businesses may be exempt from some of the regulations under certain circumstances.

Imported products are regulated by the federal government through quotas and tariffs. Tariff laws have been used as political instruments to manage the flow of goods between countries. Tariffs are taxes or duties that are added to imported goods from another nation. Quotas, a limit on the number of items entering a country, are also used to restrict the volume of goods entering a country. For example, the US government in 2019 imposed tariffs on \$550 billion of Chinese products, while China has imposed tariffs on \$185 billion worth of US products. While it is likely that this ongoing trade dispute will be resolved, free trade remains an ongoing source of international economic competition.¹

For example, business owner Daniel Emerson, CEO of light manufacturer Light and Motion, described in a National Public Radio (NPR) interview that the latest round of tariffs on materials from China might push him to open a manufacturing plant overseas. Light and Motion manufactures lights for bicycles, headlamps, drones, and media production. According to Emerson, in order to get his parts from China, he has to pay the US government for importing them. He states that these tariffs might destroy his company, as his main competitors in China and other countries don't face those tariffs; therefore, his prices are forced higher. Emerson might have to move his company to the Philippines, which has no tariffs. He'll have to build them there and ship the completed lights to the United States.²³ As an entrepreneur, you should remain aware of political issues that may impact your operations and planning.

ECONOMIC FACTORS

Entrepreneurship has a direct impact on the economy by providing employment opportunities to many people. However, economic factors can also affect the success of a business. For example, they can deter customers from purchasing goods and services due to an economic downturn. On the other hand, when the economy is expanding and growing, people tend to feel confident about their jobs and income, and they may spend more than usual. Economic factors—which include inflation rates, interest, currency exchange (if the business operates or engages globally), state of the economy (growth or decline), employment rates, and disposable income—can impact the business owner's pricing of goods or services, the demand for such services, and the cost of production.

Taking the state of the economy, for example, when the economy is down, restaurants will see a decline in clientele as more people prepare meals at home to save money, or they will switch from fine dining restaurants to more casual or fast-food restaurants. In weak economies, consumers tend to purchase store (often called "private label") brands more often than national brands to reduce their grocery bill. When the economy is healthy, consumers spend more on entertainment and restaurants, which can be considered luxury items. The restaurant will need to adjust its resources to meet the economy-driven fluctuating demand. When demand is high, it is likely that the restaurant will need more supplies and more employees. These needs, in turn, result in the restaurant needing additional financial resources to buy more supplies and to pay employees. When demand is low, the opposite is true.

1. Dorcas Wong and Alexander Chipman Koty. "The US-China Trade War: A Timeline." China Briefing. October 12, 2019. <https://www.china-briefing.com/news/the-us-china-trade-war-a-timeline>

SOCIOCULTURAL FACTORS

Knowing about your customers is key to delivering what they really want. Additional factors that need to be taken into consideration include changes in how society is moving and the direction of that movement as it relates to your customer base and potential new markets. These sociocultural factors include population growth rates, changes in where people live, social trends such as eating healthier and exercising, education levels, generational trends (millennial, baby boomer, or Gen X and Y), and religious culture. These factors can affect not only the seven Ps you learned about in the Entrepreneurial Marketing and Sales chapter, but also resource assessment more specifically. It is necessary to look at these factors closely in order to allocate marketing resources optimally. For example, if you are opening a restaurant and you see an increasing trend in healthy food, you may want to allocate your resources to fresh ingredients or more vegetarian and vegan options.

One far-reaching sociocultural factor is the impact that digital shopping has had on brick-and-mortar retailers. This online shopping trend has forced long-established companies such as JCPenney, Payless, Gap, Victoria's Secret, Radio Shack, Macy's, and Sears, to close thousands of stores, file for bankruptcy, or shut down the business altogether. These companies have faced enormous competition from entities such as Amazon and smaller businesses such as ModCloth and Birchbox that interact with customers virtually and stay on top of societal trends. Younger generations such as the Y and Z generations have triggered these social changes, as they are technologically savvy and expect to find exactly what they want, where they want it, and when they want it.

TECHNOLOGICAL FACTORS

In the case of technological factors, the enterprise needs to be sure it has equipment that allows it to operate efficiently. There are different types of technology that help with marketing, finances, productivity, collaboration, design, and production.

Being able to use technology to meet the needs of the customer, such as having an informational or an e-commerce website (so the customer can purchase from the comfort of home) is a “must” these days for most ventures. Digital marketing has allowed entrepreneurs to promote their businesses in many different ways, through e-mail marketing, digital ads on search engines such as Google or Bing, websites, social media groups, YouTube videos, and blogs. These tools are easy to use, available, and can be affordable, even on a shoestring budget.

Exercise – Social Media as a Resource

Leveraging social media technology is essential to building your brand and awareness in today's digital society.

- Create an idea sheet for a Facebook page for your Helios solar panel enterprise, which was mentioned earlier in the chapter.
- What are the types of information you want to include?
- Do you want the page to be operational or just informational?
- Will this social media tool be used as the main source for customers to learn about your business or will it be a supplemental tool to create deeper relationships?

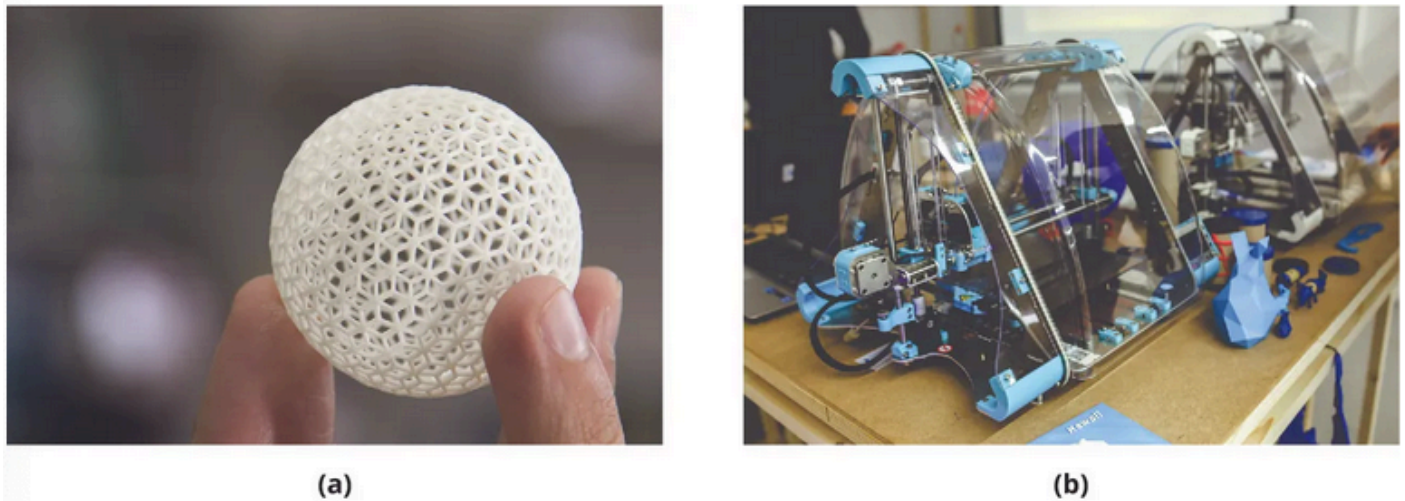
Other technology can also be helpful in managing payments from customers, billing, human resources payments, and keeping the books. QuickBooks is a popular software program that a starting entrepreneur can purchase and use to manage the company's financials. Other products are available too—ZOH Books, FRESH Books, GoDaddy Bookkeeping, and Kashoo—each has pros and cons.

Other types of software such as UAttend help small businesses keep track of their employees' time and productivity, and Basecamp helps entrepreneurs keep track of the projects that everyone is working on, while allowing them to collaborate with each other and keep track of what is happening. These tools can make it easy for an entrepreneur to manage a project with contractors or employees.

Other technology that needs to be taken into consideration if you are manufacturing a product includes the tools and equipment that will create goods and services. Some examples are CAD (computer-aided design), 3-D printing for developing quick prototypes, CAM (computer-aided manufacture), robots, and new materials that allow faster and cheaper production of goods. 3-D printing, for example, is a manufacturing process that uses a technique of adding layers of material to create rapid prototypes. It can be used to create prototypes of products, toys, architectural models, prosthetics, tools, fashion, automotive parts, and even final products like homes, as in the case of New Story.² The use of prototyping allows for creativity, and these newer technologies allow users to create many prototypes. Nike, for example, uses 3-D printing to make their prototypes because it is faster than waiting for a full prototype to go through the manufacturing process. Using these technologies for prototyping can also avoid the expense of building the actual product, allow for the final product to be refined quickly, and help in the reduction of manufacturing errors.

The drawback is that some of these technologies can be expensive to purchase, and it can take a long time to recuperate the cost. (However, when wages and benefits costs rise quickly, they can pay for themselves rather quickly.) Entrepreneurs must be sure to acquire only those tools and materials that will help them get started. Then, as the business thrives, more funding is available for more expensive equipment and software. Entrepreneurs then need to have the skills and knowledge to operate specific software and consider upgrades and replacement costs. Questions include: What about support services? How long will support last? If the entrepreneur updates the PC, will the old software run on the new operating system? Can the data be easily copied to the new operating system or software program?

2. "What Is 3D Printing?" 3DPrinting.com. n.d. <https://3dprinting.com/what-is-3d-printing/>



(a) A 3-D-printed sphere. (b) A 3-D printer. Figure 14.12 3-D printing allows companies to develop prototypes quickly before investing substantial resources. (a) A 3-D sphere, for example, can be created using (b) a 3-D printer. Credit (a): modification of “ball 3d printing design” by “metalurgiamontemar0”/Pixabay, CC0; credit (b): modification of “3d printer printing technology” by “kaboompics”/Pixabay, CC0

ASSESSING RESOURCE COSTS FOR STARTUP

Starting a business can be an exciting event, and one that requires thoughtful planning. Resource planning can help determine start-up costs, which helps determine an estimate of breakeven sales, profits, what types of funding to use, and how to plan for future expenses like tax payments. According to the SBA business guide,³ there are several steps you should take to determine startup costs for different types of businesses.

First, figure out the type of business you want to open: brick and mortar, online, or services. Brick-and-mortar businesses have physical locations where a customer may purchase a product in one or several locations. Online businesses operate through e-commerce websites and sell products and services virtually. These may or may not also have a physical location. Service businesses provide services rather than a tangible product. Also, consider the type of business structure you will have (see Business Structure Options: Legal, Tax, and Risk Issues).

Next, make a cost list. There could be additional costs based on the resource needs identification discussion in Types of Resources. Many of the costs will be easy to determine, but others—like salaries, insurance, and improvements—might be more difficult to estimate. You can consult research sites, local business resources (such as the chamber of commerce), or speak to mentors or consultants (such as SCORE) for more guidance on how to estimate these numbers. Also see Building Networks and Foundations to see how industry professionals can help determine startup costs.

Determine the estimated cost for each item. Once the list has been developed, finding out what each of those items costs will allow you to make an estimate of your basic needs. A good source of information is the US Bureau of Labor, which publishes a list of occupations and their wages and benefits by location and profession. Some costs may have a range to consider, and a decision tree may be helpful. Many state governments have a labor and workforce department that tracks wages and employment data for specific industries and professions on an annual basis.

3. US Small Business Administration. “Calculate Your Startup Costs.” n.d. <https://www.sba.gov/business-guide/plan-your-business/calculate-your-startup-costs#section-header-6>

After you have identified all of the costs, determine which ones are one-time costs (pre-launch costs) and which will be ongoing costs (typically monthly, quarterly, or annual). Pre-launch costs include everything you must have before opening the door of your business to the public. These include licenses and business permits, marketing materials, equipment, and inventory. Ongoing costs, on the other hand, are recurring. These may include rent, utilities, certain ongoing marketing costs like digital ads, and salaries. It is suggested to have at least one to two years of saved monthly expenses to make sure you give the business time to create a brand and a customer base. Add up your total pre-launch costs and your monthly costs to identify of how much capital you will need to start your business.

You should include this information in the financial section of your business plan. This data can help provide a clear picture of expenses and future revenues that banks and venture capitalists may find useful in making decisions about investing in your business.

Exercise – Specialty Pizzeria Costs

Imagine that you are interested in opening a pizza parlour in your town.

- Your idea is to provide specialty dietary choices such as vegan and gluten-free pies in addition to regular pies.
- You would like to open it in a new, busy shopping area where you can reach your target market.
- Figure out your one-time and monthly costs for your business.

9.3 Managing Resources over the Venture Life Cycle

Learning Objectives

By the end of this section, you will be able to:

- Explain how resource dependence theory helps a venture grow
- Understand typical resource needs through the life cycle
- Describe the basic steps in securing human resources
- Understand the importance of educational and personal resources to the entrepreneur

The evaluation of needed resources does not end with the startup phase. This is an essential activity that the business owner must engage in throughout the life cycle of the business. Many entrepreneurs have failed to re-assess how their needs have changed as industry, technology, economic, political, or social changes emerge in the marketplace. This lack of timely assessment of operational needs can result in business struggles or even failure. Business owners need to be engaged in ongoing research, monitoring of the external environment, ensuring they have the ability to easily respond to changing circumstances.

When Birchbox, a business covered in Entrepreneurial Marketing and Sales, first entered the cosmetics sales market through an innovative business model, the founders were able to fund their startup through venture capitalists who saw a great opportunity to tap into a new model of selling cosmetics. After it had been in business for a while, Birchbox grew not only in customers and employees, but also in competitors. The company struggled with cash flow as it grew its customer base and struggled to keep a healthy profit due to its tight margins from selling other brands' items. After talks of selling to QVC and Walmart, Birchbox sold its ownership to an internal investor who provided the cash for the company to continue to innovate its products and digital processes, and to add more cosmetic partners.¹

As we can see from the Birchbox example, business operations are impacted by various internal factors such as increases in the customer base, employee growth, as well as changes in marketing needs and external factors, which include fierce competition that can curtail the venture's productivity, impact competitive advantage, or limit its access to key resources. In the case of Birchbox, cash flow was necessary for product innovations and digital marketing changes to combat their competition.

To counteract some of this, dependencies can be formed with others in a network of enterprises. This can aid in circumventing the impact of external factors such as an increase in competition in their respective market, limited ability to obtain credit for capital resources, shortages of the raw materials needed to produce their goods, or human resources to meet demanded service and production levels.

For example, many businesses within a particular industry are dependent on the same purchasers, vendors, raw materials, or other environmental resources. The resource dependence theory (RDT) model posits that forming networks such as mergers, vertical integrations, and joint ventures, or engaging in joint political activities, can help mitigate dependencies among member groups.² This classic model remains relevant today.

As Launch for Growth to Success discussed, mergers occur when two companies have the same specific goal and create a contract to become one company, with the shared goal usually of gaining new customers, growing market share, improving purchasing power, or reaching new markets.

In vertical integration, a company acquires members of its supply chain, which helps gain economies of scale, improve deliveries of inventories, reduce costs, and may also stifle competition.

A joint venture (see Business Structure Options: Legal, Tax, and Risk Issues) can be less taxing to the companies involved, as each of them retains their identities and management teams while pooling their assets to create synergy through a new project or engagement in political activities. Being able to gain control over their external environment through these alliances is essential to aid a small business toward growth and sustainability.

In the case of Birchbox, there could be a time when a cosmetics brand and Birchbox could merge to create a new line of products, or Birchbox could acquire one of its cosmetics brands in vertical integration. However in more recent years, cooperative (“coop”) arrangements have emerged to help small businesses share resources collaboratively based on a common interest and trust. For example, Community Supported Agriculture is a popular way for farmers and other commodity growers to gain selling power through their combined efforts.³ In particular, Red Hen Bakery, a small artisanal cheese making company in Ontario, has supported its business by partnering with both local pig farmers and craft breweries to help manufacture their cheeses. They also sell vouchers to customers in advance to help manage seasonality.

In another example, farmers have turned to commercial aerial drones to help assess their crops’ viability and optimize their use of fertilizers, irrigation, and other resources. Consulting firms have emerged to provide these monitoring services, despite the constraints that the Federal Aviation Administration (FAA) imposes on commercial drones. These common interests have helped them lobby the Farm Bureau and other trade associations to accelerate FAA permits for this type of commercial use.

Exercise – Auntie Anne’s Pretzels and Strategic Partnership

Visit Auntie Anne’s Pretzels to learn more about their story.

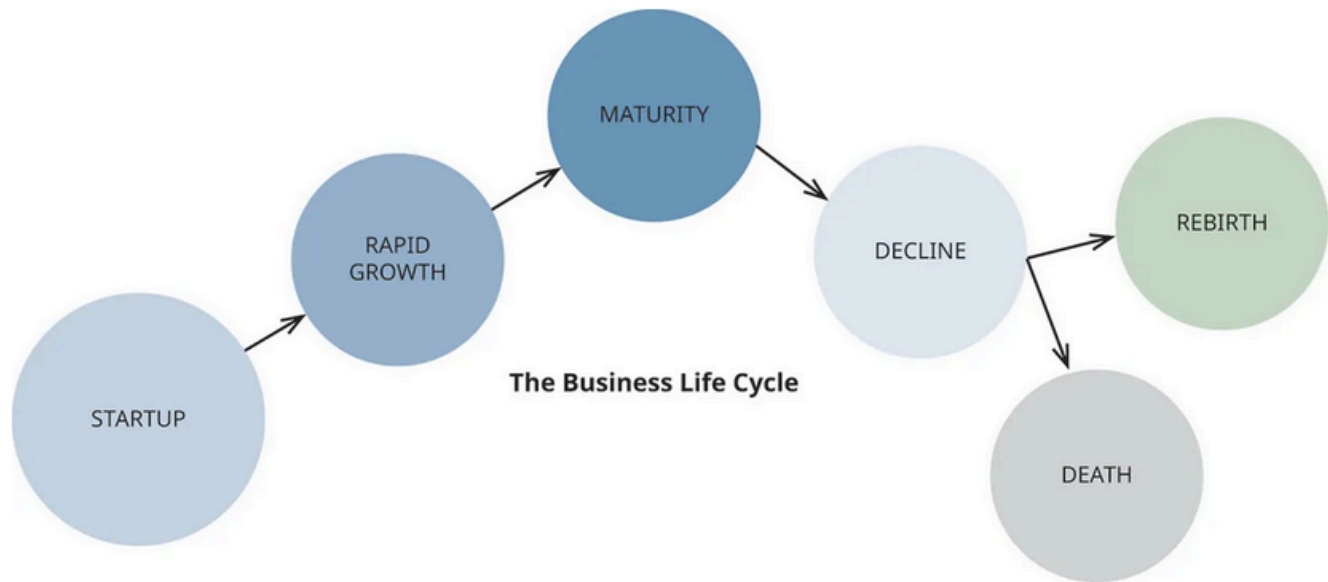
- Write a summary on how Anne Beiler leveraged relationships in the initial launch of her business.
- What strategies did Beiler use to identify strategic partners, resources and processes to protect her profitability?

2. Pfeffer and Salancik. *The External Control of Organizations: A Resource Dependence Perspective* (Stanford: Stanford University Press, 1978).

3. “The Growth of Community Supported Agriculture. Morning AgClips. February 7, 2018. <https://www.morningagclips.com/the-growth-of-community-supported-agriculture/>

RESOURCES NEEDED BASED ON LIFE CYCLE

Entrepreneurs need to identify and plan for their resource needs and costs for all stages of the venture's life cycle. Evaluating the cost of the enterprise at each phase for both a good and a service helps the entrepreneur assess its feasibility. Business life cycle phases are startup, growth, maturity, and decline/rebirth.



Entrepreneurs and business owners should plan for resource needs and their associated funding across all phases of the business life cycle. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.

STARTUP PHASE

The startup phase is an exciting and exploratory time for the entrepreneur. In this phase, ventures are defining their identity, growing their customer base, learning more about their target market and how best to serve it, how to develop the products that will meet demand, and how to hire the people that will make it all happen. At this time, resources are often scarce, and the entrepreneur may be bootstrapping to keep costs low. This means that the entrepreneur might be working from home to save on rent and utilities, and may have only a part-time employee or none at all. The product may be created on a single piece of equipment that can produce on only a small scale. When a product is first developed, there are also costs to consider. These include costs of raw materials, production, packaging, and personnel for the production, or what is commonly known as cost of goods sold. Recall that the cost of goods sold is the accumulated costs of creating a product (materials, direct labor) or a service (direct labor). At introduction, there is packaging, marketing, promotions, and shipping, and, if inventory is maintained, warehousing.

Any sales revenue is immediately re-invested into the business with the aim of developing a cycle of growth. The entrepreneur at this point may forgo a salary while the business takes off and may also wear many hats to keep the ball rolling instead of hiring employees.

Advisory boards are crucial during this phase, as they bring current information to the table to inform entrepreneurs of trends, changes, or regulatory adjustments within the industry that could affect their enterprise. An advisory board is a group of knowledgeable people who aid an organization to make strategic decisions about

the business and its issues without having the power to vote or make any legal decisions. Having access to key contacts, networks of professionals, and public resources are key to having a current toolkit from which to draw information to inform decision-making and resource management.

In the case of Christina's Confections, she started baking goods at home with her own oven. She did quite a bit of bootstrapping and used her savings to buy ingredients, utensils, packaging materials (boxes and containers), marketing materials (flyers, brochures, business cards), and a basic website, and to pay a part-time employee. For two years, Christina didn't collect a salary so she could save money for the next phase, which is growth.

GROWTH PHASE

During the growth phase, the business has been around for a few years, its identity has been developed, its customer base has grown, sales are accelerating, and there is a need for more resources to sustain this growth. Resource needs can take the form of cash to invest in new equipment, new materials, more marketing, or new personnel. Additional equipment may be needed to help with a higher output, or perhaps the current location is too small to produce at a larger scale. The location might not be big enough for customers, or to welcome guests, so a new building may be required. More material might also be needed to create more products due to higher demand, and more people may need to be hired for production. There may be a need for management and administration to expand as the organization grows, too. Departments may now evolve and require processes to coordinate efforts between functions such as production, human resources, and marketing.

During the growth phase, the entrepreneur might need to change marketing strategy, advertising, production, or even packaging to keep up with demand.

Let us revisit Christina's Confections bakery. Two years into operations, she needs to identify a larger location for her bakery. She now has ten employees and has several corporate accounts she services for special events. She recently partnered with a neighborhood catering company and has been retained to provide the baked goods for their catered events. These changes mean that Christina will need to obtain funding for the expansion, locate a space near her existing location, or expand on the location she is currently leasing. Part of her consideration at this point is determining if it is feasible for her to purchase a location, which would allow her to gain all the benefits of facility ownership as she often works long hours and needs flexibility for access. The ideal location would be one in which she could reside above the storefront so she can incorporate living expenses into her monthly expenses.

MATURITY PHASE

In maturity, when the product has perhaps saturated the market and there may be lower-cost alternatives, the entrepreneur has to deal with competition as sales level off and more companies are fighting for customers' dollars. At this point, spending resources in branding becomes very important, as customers have many choices available to them and having a reputable image and uniqueness as well as a brand that inspires brand loyalty helps businesses attract them.

As needs change with this growth, the entrepreneur must reconsider the resources, operationalize how these are used, and determine what efficiencies may be gained by retaining certain resources and outsourcing others. Outsourcing is the activity of hiring an outside company or third party to perform a specific task, job, or process, or to manufacture goods. This is common in human resources, where many companies outsource their workforce to reduce costs and focus on retaining tasks they excel at.

For example, if you are a digital marketing company and have several web design projects you are working on, outsourcing can help you pass some of the most challenging tasks in the design or coding process to another company, while your venture focuses on the steps in the process that are your company's strengths. Similarly, another company could seek to use your company's resources if they believe your company has a greater proficiency for specific tasks.

DECLINE/REBIRTH PHASE

During the decline phase of a business, if there is to be rebirth, resources must account for making changes to the product so it can have its renaissance. In Christina's case, if the traditional bakery industry were to decline, she could decide to use different ingredients and equipment to make a new kind of cake that uses only fruit and vegetables, or something completely different that would ensure the business would still be unique enough to come back to the life cycle. Most companies that have lasted many years in business have gone through this cycle several times and have been able to reinvent themselves. Small bakeries, clothing chains, and car manufacturers have been able to "come back" within industries that are easy to fail in due to their decline. Also, many tech companies such as Apple, Nintendo, and Polaroid were once in the decline phase, but their ability to shift allowed them to have a rebirth.

Summary of Resources for Each Phase of Business

Business Phase	Resources Needed
Startup	Initial capital, basic equipment, inventory, few employees, facility (home or location), cost of goods sold, marketing materials, mentorship
Growth	More capital, additional employees/departments, marketing, additional equipment, inventory
Maturity	Branding, outsourcing
Decline/Rebirth	New equipment/technology, new products, new patents, equity funding for possible merger

HUMAN RESOURCES

As you begin your entrepreneurial journey, you will realize that you cannot do everything on your own. You will need people to help. In the beginning, you may need office assistance or production assistance, and, initially, they could be part-time hires. As you grow, though, you will realize that you need to have a more sophisticated understanding of how to build a skilled workforce. Human resources are the people needed to support the current and future growth of the venture, and help the company increase production and the provision of services, as well as help with the administrative tasks required to operate the business. Employees add value to the enterprise in that they help the business generate revenue. Having the proper staff is a constant process that must have procedures in place and starts with having a plan set out to recruit and hire the people with the skills that match your venture's needs. In addition to hiring, a small business owner can consider getting human resource help through partner firms, outsourcing, and even outside consultants who are not actual employees of the company but provide support or specialized services for the company. Building Networks and Foundations discusses building a team. Here, we focus on the essentials of the human resourcing process.

First, figuring out why you need the help is an important step in assessing the needs of the company. Usually, entrepreneurs will need some sort of part-time help managing an office, manufacturing a product, or producing a service. The need and the outcome must be greater than the cost of hiring someone. This assessment ensures that current revenue can cover the addition of another person's compensation. For example, you may need to hire a part-time assistant who would cost \$15,000 to \$30,000 a year. If having that part-time assistant frees you

up to sell \$50,000 of product, then it is financially worth hiring that person. In addition, if you hire a salesperson at \$40,000 to \$50,000 per year, including benefits, and they sell \$100,000 a year for you, then it is worth hiring that person because they are generating profit. Keep in mind that many entrepreneurs start with virtual assistants, bookkeepers, designers, web developers, or managers who can vary in price and only work when you need them. Using sites such as UpWork to hire freelancers to cover a portion of your business allows you access to dozens to hundreds of choices to find a resource that works for you, often at lower costs than hiring someone on staff.

Once you establish that hiring new employees is a need and a smart financial choice, you need to create a job description to attract the right candidates. This contains a statement of the employee's tasks and responsibilities, the processes used, and the desired outcomes. It will also include the parameters of how the job will be done, the environment, the hours, and the skills and experience necessary to perform well.

In preparation for determining your hiring needs and creating job descriptions, the following steps will guide you on topics and decisions to consider. After determining your resource needs, the remainder of the steps can occur in varying order depending on your specific situation.

Step 1: Determine Resourcing Needs

Understanding the needs of your business in terms of job functions is the first step to hiring. Defining the work that needs to be done based on your business strategies can help guide your business needs. If you are a business consultant and need help managing the office, you can make a list of all the needs of the upkeep of the office. This can include answering phones, setting appointments, attending customers, making copies, paying bills, and ordering materials.

You will also need to determine whether you need full-time or part-time people, and what the budget is to clarify the direction of your hiring. Making a list of the tasks or goals for the business and estimating the time that it will take to finish them can help decide to hire a part-time or full-time person.

Keep in mind that needs may change, so even if you made a plan, the execution may vary, and you may need to make changes. By determining your costs and the benefits of those costs, you can figure out how many people you can bring on to accomplish the goals set in your business plan or marketing plan. If your plan calls for having sales of \$100,000 the first year, you might want to hire one part-time employee at \$25,000 who can help you achieve that goal. If your goal is to have sales over \$1 million, then you likely might need more employees.

Figuring out what skills and experience your team should have is a good starting point for developing the job description, and setting the salaries and benefits you will offer. Once you set your descriptions and post them, whether online, at a job fair, or in a newspaper, you will see the applications coming in. If your industry calls for more sophisticated experience and skills, you may also want to hire a staffing agency to help you with the hiring.

Step 2: Hire a Team

Hiring a team of employees can be a daunting task, but if you first focus on understanding the needs of your business and the amount of time required to perform those tasks, this step will be a lot easier. It involves setting up the job description, deciding on a salary and benefits to pay, posting it on various job websites such as Indeed.com, careerbuilder.com, or monster.com, and any industry job portal that may be important to reach qualified people. Oftentimes professional networking—such as online sites like LinkedIn or local groups like your

chamber of commerce—may result in additional leads. The alumni center at your local university or community college may also be a place to connect with qualified candidates. Technology schools or trade schools are excellent sources to find skilled workers looking for that first full-time job after earning certification or licensing.

Once posted, you must decide how long to advertise the position. Also consider that the interview process can take a few days, weeks, or months, depending on how many people you are hiring and the quality of your prospects. If you are satisfied with the process, then you select the employee(s) and inform them of your selection. But before you extend an offer, you might want to conduct a background check first and then offer and welcome them into your team. Conducting background checks, including criminal checks, should be a routine procedure in the hiring process. A formal job offer should never be made until the results of the background checks have been received and reviewed. If a potential candidate accepts a job offer and you are then required to withdraw that offer because results of a background check disqualify the candidate, many problems will be unnecessarily created.



Hiring the right employees for your business will ensure that they will help you start and grow the company. Credit: Job interview hiring hand shake by Tumisu" via Pixabay, CC0.

Step 3: Create an Employee Handbook

If you're starting your business from scratch with no sales, it is likely that you will only need one or two part-time people to help you with your business. An employee handbook at this time may not be necessary; however, once you have ten or more employees, and your business begins growing, you will want to create company employment policies and rules for all employees to follow. You could also create this handbook at the inception of your business. This handbook is a road map that may include rules about how to act as representatives of the business, attire expectations, hours required to work, proper etiquette, legal and regulatory compliance for full- or part-time employees, and sanctions for when these rules are not followed. Most companies today also need to create policies around social media use and statements made online via social media. Listing any benefits such as earned vacation, paid time off for jury duty, holiday pay, personal time off, and price discounts for employees and family members should also be included. Sometimes in filings for unemployment, the state workforce commission will require a copy of the employee handbook to help determine what the former employee is entitled to receive. Having written policies in a handbook and following them can save a lot of time and protect against conflicts with employees.

Link to Learning

Some companies have begun to create funny and memorable handbooks to entice employees to read them and understand them.

Step 4: Secure Independent Contractors, if Necessary

As covered in Building Networks and Foundations, sometimes looking outside of your business to get help can be a good idea while building or growing your venture. Independent contractors are people who provide work without being part of the payroll for the contracting business. They may perform work similar to employees, but they are not employees of the company; therefore, the business does not have to pay for benefits or withhold taxes. However, these workers set their own time for work, can come and go as they need to, use their own equipment to complete assigned tasks, and can perform the work in their own way, as a service provided. You may want to consult with an accounting expert in tax issues before beginning work with independent contractors.

Link to Learning

Take a look at this checklist to determine whether a human resource should be considered an employee or an independent contractor according to CRA. The distinction carries important legal implications, and the burden is on the employer to make the correct classification. Failure to classify workers correctly can be an expensive mistake.

Step 5: Establish Benefits

When designing a position and hiring people, another important consideration is the benefit plan you will offer. Common benefits include contributing to or providing health insurance costs, paid vacation time and sick days, providing access to retirement accounts and contributing to them on the employee's behalf, and insurance—including life, long- and short-term disability, and accident insurance. In addition, you might want to offer stock options to provide employees with a piece of your business and entice them to work for a company that they own. Each of these benefits is subject to state or federal regulations, or both. Seeking advice from professionals on these issues would be a valuable use of the entrepreneur's time and money. Getting these employee benefits wrong can doom a company quickly.

Link to Learning

Visit the Society for Human Resource Management site for examples of benefits and how to implement them to learn more.

Once employees are on board, there is an ongoing process of training, promoting, and managing them, as well as developing relationships that will be key to the success of the enterprise. In the evaluation of human resources, you may need to consider these questions:

- Are the skill levels that I need available in the region where I plan to operate?
- What is the prevailing wage for the human resources I need?
How much can I afford to pay employees at this phase in my business?
- Are independent contractors the best option or are employees a better fit?
- Will I need to provide ongoing formal training or maintain certifications or licensures for my staff or are employees responsible for these items themselves?
- How can I be competitive with other business to attract the talent I need?
- Will I need to provide benefits such as vacation, retirement plans, health insurance, or life insurance?

EDUCATIONAL, SUPPORT, AND MENTORSHIP RESOURCES

Entrepreneurs need to be mindful not only of the resources needed to operate the business, but also of the resources needed to support them in their challenging role of being an entrepreneur. Ongoing education and mentorship are key supports. When entrepreneurs are asked what topics they need learn more about when starting and growing a business, often they request more educational support in management, leadership, communication, financial, and marketing education. Many owners are experts at their craft but don't know how to manage the business itself and must take courses or earn certificates to gain that "how to run a business" knowledge. Local chambers of commerce and other organizations provide training sessions, workshops, and educational programs in marketing, communication, management, and leadership. Other needs include finance, accounting, and software use. The SBA has a learning center where business owners can learn about many topics from how to write a business plan to the legal requirements and financing options that apply to their venture.⁴ One important topic they address is digital marketing, a training most entrepreneurs need in this day and age. The Small Business Development Center and SCORE are organizations that also provide myriad workshops at no cost or for a very small fee.

Although some entrepreneurs do have business degrees and a few have advanced degrees, they still need to keep abreast of trends and changes in their industry. They have to continually educate themselves through various forms of research, by attending conferences, and through programs available through the chambers and other organizational networks. Maintaining a subscription to a major industry newspaper or trade magazine can be extremely beneficial. Another common trend is for starting entrepreneurs to work in the industry of their business to acquire the skills and knowledge necessary before they embark on their journey. For example, if you want to open a digital marketing business, you might first gain some experience by working for a digital marketing company prior to opening the business. However, you should make certain you abide by any noncompete or similar clauses in your employment contracts.

As we have seen throughout the text, being an entrepreneur is no easy task. It requires many hours to start and grow a business, not to mention the daily stressors from challenges that arise from interactions with employees, customers, and suppliers. High-performing entrepreneurs must have a good support system to help them overcome the ups and downs that owning a business might bring.

Having friends and family members who are supportive of the venture is important because these are people the owner trusts with personal and work issues on a daily basis. Their support is key to the success of the entrepreneur as they listen and understand the frustrations of being in business and may also help with the business itself. By the same token, the entrepreneur needs to spend time with friends and family to bring work-life balance to their lives.

Having mentors who have gone through similar issues and can listen and advise is a great advantage to entrepreneurs. Mentors act as counselors to the business and are genuinely interested and happy to help the business owner. Most mentors have been through similar challenges and have great knowledge and passion about the industry in which they work. SCORE can be a strong network for finding a mentor. This program is a partner of the SBA and provides free education and mentors to business owners. The mentors are volunteers who have many years of experience and now want to help other businesses for free. You can go to their website (<https://www.score.org/>) and type in your zip code or industry to find a mentor near you. Doreen Graves is an

4. US Small Business Administration. "Learning Center." n.d. <https://www.sba.gov/learning-center>

example of a marketing mentor in northeast Mississippi who feels that she is not only a mentor to her mentees, but a support system and confidante, as they share with her their most personal stories of struggle, family values, and business dreams. She feels fortunate to have the power to help them.⁵

Exercise – Take a SCORE Course

Go to SCORE (Senior Core of Retired Executives) and take a look at Become a SCORE Volunteer. It outlines four ways to donate your time:

- Mentor: Offer confidential business mentoring services, either in person or online
- Subject matter expert: Provide focused knowledge based on your professional skills or industry
- Workshop presenter: Lead local workshops, seminars and events to help entrepreneurs meet their goals and achieve success
- Chapter support role: Share your skills in marketing, tech, finance, fundraising and more to help expand the outreach of SCORE

Which of these roles do you see yourself fitting into some day and why?

Key Terms

advisory board

group of advisors that helps an organization make strategic decisions about the business, and brings certain knowledge and experience that can bring a new perspective on issues without having the actual authority to vote or govern

copyright

grants the creator of a work the exclusive right to reproduce the work, typically for a specified period of time

decision tree

flowchart diagram used to explore the outcomes of different decisions

economic factors

inflation, interest, employment, and currency exchange, rates, (among many other factors) that impact the business owner's pricing of goods or services, the demand for such services, and the cost of production

funding sources

monetary resources used by the entrepreneur in the operation of the initial startup and early business

human resources

people hired by the entrepreneur to perform various duties in the business, provide customer service, or produce the goods

independent contractors

(also, freelancer) people or businesses that provide work similar to an employee without being part of the payroll for the contracting business, and who pay their own taxes and pay for their own benefits

intangible resources

assets that cannot be seen, touched, or felt, such as intellectual property, patents, designs, and processes

line of credit

lending of funds in exchange for a promise to repay

outsourcing

hiring an outside company or third party to perform a specific task, job, or process, or to manufacture goods

PEST

framework that can be used to distinguish political, economic, sociocultural, and technological factors influencing access to needed resources

political factors

stem from changes in politics, such as the policies of a new presidential administration or congressional legislation, as well as of state and local offices

pre-launch costs

cost of all the resources needed to open the business to the public

quota

specific number of units allowed into a country; sometimes quotas are limited to one source, such as one country, and sometimes the limit is placed on aggregate quantity regardless of source(s)

resource dependence theory (RDT) model

creating networks with business partners through mergers, vertical integration, joint ventures, or engaging in joint political activities to slow dependency among member groups

service mark

word, phrase, symbol, or graphic that identifies the origin or source of a service

sociocultural factors

changes in how society is moving and the direction of that movement as it relates to a customer base and potential new markets

tangible resources

assets that have a physical form as they can be seen, touched, and felt

tariffs

taxes or duties that are added to imported goods from another nation

technological factors

technological equipment and tools the enterprise needs to be sure it operates efficiently

trademark

registration that provides the owner the ability to use a name, symbol, jingle, or character in conjunction with a specific product or service, and prevents others from using those same symbols to sell their products

Summary

9.1 TYPES OF RESOURCES

Determining which resources a venture needs is essential to its success. Assets are types of property that benefit the person or company in possession of them. They can be tangible or intangible. Tangible resources can be seen, touched, and felt. They may include raw materials, land, facilities, buildings, machinery, computers, supplies, furniture, information technology, and vehicles.

Intangible resources cannot be seen, touched, or felt. They include intellectual property such as designs, formulas, art, written work, brands, and inventions that can be protected by patents, trademarks, and copyrights.

Entrepreneurs oftentimes have novel ideas about how to provide a service or how to create a better product. These ideas are important to safeguard so other competitors don't copy those same characteristics of a product, process, machine, piece of writing, or any other of the works cited earlier. A way to protect them is to ensure that you have a patent, trademark, or copyright so others cannot benefit from your work. It is always beneficial to do a check before applying for one of the protections and make sure that the invention hasn't been created before. Searching the USPTO website and hiring an attorney will ensure you are the first one to register your idea and help you through the lengthy and often expensive process of protecting a new idea.

Funding sources are essential to starting and scaling a business. These include an entrepreneur's own savings, bank loans, venture capitalists, angel investors, crowdfunding, and friends and family. It is important to consider the pros and cons of your financing options in relation to your resource needs in order to plan for short- and long-term needs.

9.2 USING THE PEST FRAMEWORK TO ASSESS RESOURCE NEEDS

Business owners need to know what resources they need before launching. The PEST framework can help you become aware of outside forces that affect the procurement of resources you need to succeed. PEST looks at the political, economic, sociocultural, and technological factors that affect resource costs and availability. Different businesses require different resources, so going through a checklist of basic needs, finding the associated costs, splitting them into one-time costs and ongoing costs, and adding them up will ensure the entrepreneur is aware and ready to document for an investor or bank the resources needed.

9.3 MANAGING RESOURCES OVER THE VENTURE LIFE CYCLE

The life cycle of the business requires resource allocation and planning at each stage. These stages include the startup phase, growth phase, maturity phase, and decline/rebirth phase. There are instances where a business has failed because the owner failed to re-assess shifting resource needs caused by changes in the marketplace and the overall environment. Research is an ongoing process, and keeping an eye on the external environment allows a business to be able to shift on time.

Resource dependence theory (RDT) is a model that explores creating networks with other companies through mergers, vertical integration, and joint ventures. RDT can help counteract the effects of competing with each other by optimizing collaboration.

Human resources include the labor that produces a product or service, and provides administrative support and customer service. Having good employees adds value to the enterprise because they help generate sales and profit. Education in marketing, management, and leadership are important topics to engage in as a business owner as well as having personal support from mentors.

Review Questions

1. What types of tangible, intangible, and funding resources exist? Give examples of each.
2. What is an example of a tangible resource and an intangible resource?
3. What is the PEST tool? How can entrepreneurs use it to their advantage before launching a business?
4. Why is it important to figure out costs before launching a business?
5. What are examples of costs that must be taken into consideration before opening a business?
6. What is the difference between one-time costs and monthly costs? How much should an entrepreneur have of monthly costs in advance?
7. Define the resource dependence theory.
8. What is the life cycle of a business and how do resource needs and their associate costs shift over time?

Discussion Questions

1. Discuss how a small business can be bootstrapped at its inception. What kind of costs can the entrepreneur avoid or lower with tenacity and sweat equity?
2. If you were to start a small business, what would it be and what kind of resources would you need to get started?
3. Which do you think are more difficult to protect: tangible or intangible resources and why?
4. Discuss how political factors can impact a business.
5. What are some examples of sociocultural factors that may affect a business?
6. Explain how economic factors can increase the price of a product.
7. When is it a good time to hire an independent contractor and when is it a good time to hire an on-staff employee?
8. Explain how resource dependence theory helps a venture grow.
9. Discuss the steps required in hiring new employees. What sorts of factors must you think of before you hire a new team?
10. Discuss the importance of having personal resources, such as a strong support system, when starting a venture.

Case Questions

1. Christina has always wanted to open a small neighborhood bakery, Christina's Confections. She is currently working out of her home, earning income making cakes and baked goods for weddings, parties, and other special occasions. She would like to find a location for her bakery, as she believes there is a market, and she would like to expand her business to a retail operation. She has some money saved and her credit is good, but she is concerned that obtaining a loan will be challenging. Sales have been consistently increasing, and she now has one part-time employee, but she thinks that with a retail location she will need to hire an additional two people on a part-time basis. If she does hire staff, she will need to consider the cost of labor, how many hours she would need each of these staff, and the tasks she would need them to perform at this stage in her business operation. As a result, she will need to consider their wages as a cost of labor on top of all the other supplies, insurance, rent, advertising, point-of-sale equipment, and various other costs she did not have when she was operating out of her home. She needs to figure out how she will make money and how she will finance or pay for her new start-up costs in the retail location.
Christina needs to evaluate all the resources she would need for this enterprise and create a checklist so that she can determine if the time is right for her to take this important step with her bakery. As she progresses through the process, the questions get more specific and the answers become much more detailed. Review Christina's resource needs and make a list of them.
2. Continuing with the case question on Christina's Confections, go over the list of resources that you created. Review your list using the unit on Types of Resources. Now that you have additional information, decide if it is a good list; if not, add or delete items that are necessary for her to run her business. What additional resources did you come up with? What can she do to ensure she can cover all her expenses?
3. Consider Christina's Confectionaries bakery example and focus on the maturity phase of her business. Describe how Christina can develop her brand to distinguish her from other bakeries and what kind of costs she can expect to incur while doing this.

10.1 Business Structures: Overview of Legal and Tax Considerations

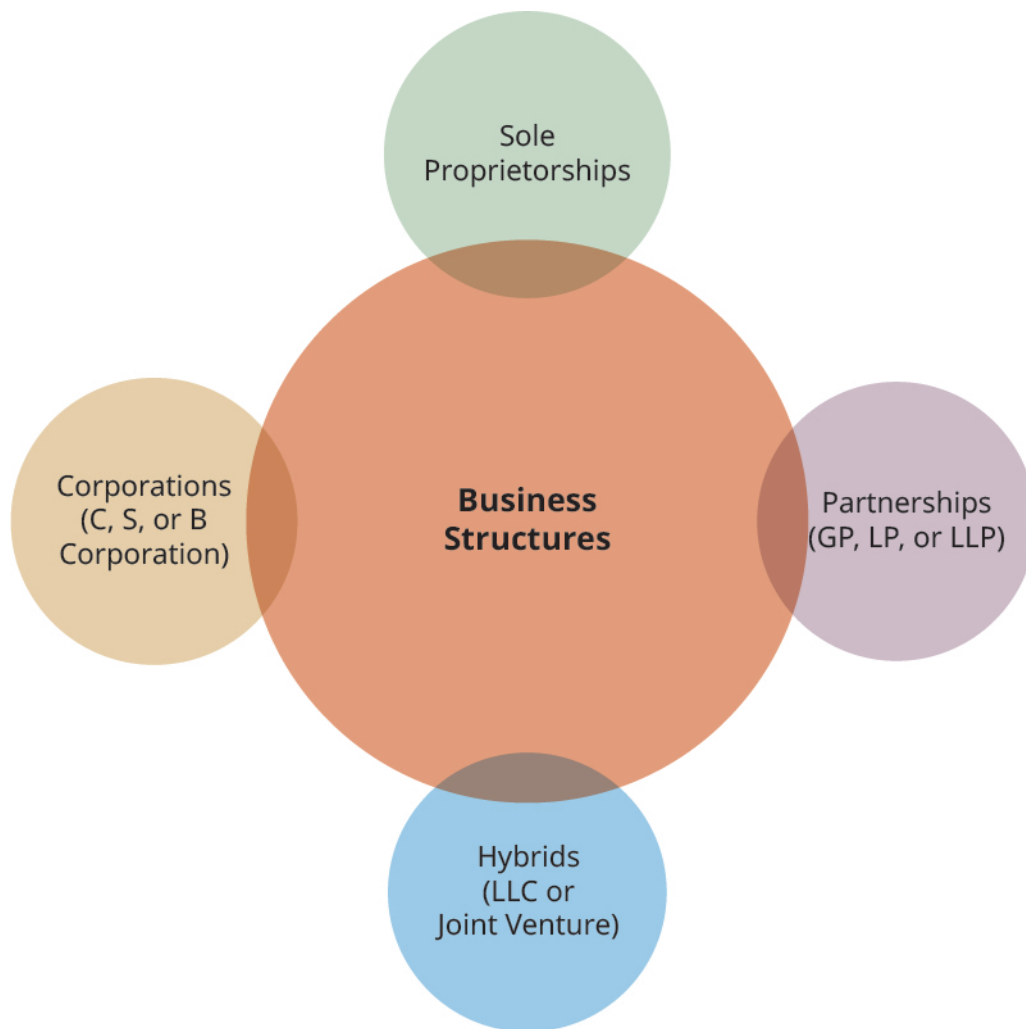
Learning Objectives

By the end of this section, you will be able to:

- Understand why a business's purpose is an important role in the initial business structure decision
- Identify major types of business structures (corporation, LLC, partnership, sole proprietorship, joint venture)
- Distinguish between for-profit and not-for-profit purposes and structures

The structure of a new business creates the legal, tax, and operational environment in which the business will function. In order to choose a business structure, entrepreneurs need to have a clear understanding of the type of business they seek to establish, the purpose of the business, the location of the business, and how the business plans on operating.

For example, a business that plans to qualify as a nonprofit—Section 501(c) of the Internal Revenue Code—will be treated differently from a business that aims to earn a profit and distribute the profits to its owners. Therefore, the first step in any entrepreneurial endeavor is to establish the nature and purpose of the business.



There are several basic business structures: sole proprietorships, partnerships, corporations, and hybrid forms. Partnerships may be structured as a general partnership (GP), a limited partnership (LP), or a limited liability partnership (LLP). Hybrids are usually formed as a limited liability company (LLC) or a joint venture (JV). The designations of "C" and "S" corporations refer to which chapter of the Internal Revenue Code they appear in; B corporations are structured to meet standards of serving certain social purposes. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

One of the most important initial decisions an entrepreneur must make, from a legal perspective, is the legal organization of a business, called the business structure or entity selection. The choices are varied, with several basic entities, each with several variations, resulting in multiple permutations.

Many business ventures, regardless of humble beginnings, may have the potential to evolve into significantly larger business ventures. This is what makes the initial decisions so important. The founders should think through every step of business development, beyond the inception or formation, and consider the possible paths of the business. How an entrepreneur organizes the business, or which business structure they choose, will have a significant impact on both the entrepreneur and the business.

Business structure options include traditional choices such as corporations, partnerships, and sole proprietorships, and hybrid entities such as limited liability companies (LLCs), limited liability partnerships (LLPs), and joint ventures (JVs). Each structure carries different requirements to set up, different requirements to fulfill (such as taxes and government filings), and varying ownership risks and protections. Entrepreneurs should consider these factors as well as the expected business growth in selecting a structure, while being aware that the structure can and should change as the business venture grows.

For example, if you think you want to share authority, responsibilities, and obligations with other people, your best choice would likely be a partnership, in which other people contribute money and help manage the business. Alternatively, if you prefer to manage the business yourself, a better choice for you might be a single-member LLC, assuming you can borrow money from a lender if needed. Conversely, if you think your idea is so popular that you may grow rapidly and want the ability to raise capital by selling interests in your business through equity or debt, then a corporation would be your best choice. You should obtain legal and tax advice about your structure.

Exercise – Becoming an Informed Entrepreneur

If you are an entrepreneur with an idea for a startup, ask yourself if you are ready to make important decisions.

- How much do you know about taxation, incorporation, or liability?
- If you don't know at least some of the basics, you may have to depend on a lot of advice from accountants and attorneys, and that is very expensive.
- If you spend too much money on advice, you have too little left for something else such as advertising and marketing

ESTABLISHING A BUSINESS PURPOSE

A clear understanding of the business purpose helps direct the entrepreneur toward the most appropriate business structure. The business purpose is the reason the entrepreneur forms the company and determines who benefits from it, whether it is the entrepreneur, customers, or some other entity. (The business purpose is different from a business mission or vision.) Drafting the expectations of the entrepreneur and how the business will operate, with a careful analysis of how the business will generate cash flows, realize profits, and to whom the business will owe its primary obligations, is the start of determining the appropriate business structure. A written business plan will help the entrepreneur develop the best legal structure in which the business is to operate because the legal structure of the business should be tied to the nature of the business.

Once the entrepreneur is clear on the nature and purpose of the business, consideration of the business structure follows. The first consideration is whether the entity is being created to produce a profit for its owners or shareholders, or whether it will be structured as a not-for-profit entity. A second factor is the state of incorporation, as state law defines each business's creation, with different states permitting different types of entities and various legal protections. Additional considerations include how the structure facilitates bringing in new investors, allows the owners to transfer profits out of the business, and supports a potential subsequent sale of the entity. Taxation is also a crucial aspect of business success, and the business structure or entity directly affects how it is taxed.

Exercise – Drafting a Business Purpose

Can you write an outline of a business purpose?

Try this: Your university's tutoring center is crowded, and those students who need extra help are struggling to find it. You have decided to start a new company to match those students with student tutors at your university. Who determines how much a tutor can charge? Is it a set price, a surge pricing model like Uber, or is it up to the tutor? How much of a profit do you make? In essence, you must determine the purpose of your business.

FOR-PROFIT VERSUS NOT-FOR-PROFIT BUSINESSES

Owners form businesses for one of two purposes: to make a profit or to further a social cause without taking a profit. In either case, there are multiple options in terms of how a business is structured. Each structure carries its own tax consequences determined by the owners' financial requirements and how the owners want to distribute profits. The structure, in turn, determines the appropriate income tax return form to file.

Characteristics of For-Profit Businesses

A for-profit business is designed to create profits that are distributed to the owners. There are multiple entity structures used in for-profit business entities including corporations, LLCs, partnerships, and sole proprietorships. Many for-profit business owners seek some form of limited liability, and thus form a corporation or an LLC, each of which carries with it specific legal attributes. Additionally, for-profit business entities are subject to a variety of local, state, and federal taxes and filings. Liability and tax issues will be discussed later in this chapter.

For-profit businesses are commercial entities that generally earn revenue through the sales of products or services, whereas nonprofits are organized for social purposes. Nonprofits are allowed to provide assets or income to individuals only as fair compensation for their services. For-profit businesses can be either privately owned (such as an LLC) or publicly owned and traded (such as a corporation). Publicly held and traded corporations sell stock or interests, and must abide by special rules to protect shareholders, whereas privately owned businesses may be less regulated. Regulations may vary by state and by type of incorporation.

Characteristics of Not-for-Profit Organizations

A not-for-profit organization (NFPO) is usually dedicated to serve the public interest, further a particular

social cause, or advocate for a common shared interest. They must follow particular regulations regarding eligibility, government lobbying, and tax-deductible contributions. In financial terms, a not-for-profit organization uses its surplus revenues to achieve its ultimate objective, rather than distributing its income to the organization's shareholders, partners, or members. Common examples of not-for-profits include educational organizations such as schools, colleges, and universities; public charities such as the United Way; religious organizations such as places of worship; foundations; trade organizations; and issue-advocacy groups. Other organizations also considered NFPOs include nongovernmental organizations, civil society organizations, foundations that provide funding for various activities, and private voluntary organizations.¹

1. International Center for Not-for-Profit Law (ICNL). "What Is the Difference between 'Non-Profit' and 'Not-for-Profit'?" 2013. <http://www.icnl.org/contact/faq/index.html#difference>

Nonprofits are usually tax-exempt as categorized by the US Internal Revenue Service (IRS), meaning they do not pay income tax on the money they receive for their organization. These types of organizations are created under state law (but also subject to federal and local laws) and are typically created for the common good.

To operate as a not-for-profit business, most states require that the entrepreneur create a corporation that has the specific purpose of acting in the public interest. This type of corporation does not have owners but has directors charged with running the organization for the public good, subject to bylaws. Some states only require a minimum of one director, whereas other states may require three or more directors. This is an important consideration for an entrepreneur because the nonprofit corporation will need the approval of all of the directors, and not just one person for its creation. Careful vetting of the directors is the best policy of any entrepreneur since directors have a duty to the corporation.

Because state laws vary, a not-for-profit corporation created for the common good in one state needs permission from another state to operate in that state. The permission is typically an approval from the other state's secretary of state memorialized in the form of official documents or permits. When operating in different states, the entrepreneur needs to make sure that the business follows all laws, rules, and regulations for each state.

Another issue to consider is the creation of a not-for-profit business organization for a particular purpose. One example of a special-purpose organization is an alumni organization, usually incorporated as a 501(c)(3) nonprofit, which incorporates to raise money for a college or university for a specific reason, such as student scholarships. Alternatively, a booster club may incorporate to receive donations for a single function, such as the women's soccer team. These organizations may need additional approvals prior to the creation or start of operations, depending upon state and local legal requirements. Each state typically has different requirements; depending on the federal tax regulation under which the entrepreneur is attempting to qualify, there may be additional federal regulations. This is why the entrepreneur needs to fully understand the purpose of the business they are starting and the legal operating environment before selecting the business structure. While NFPOs play an important role, most entrepreneurs form for-profit businesses; therefore, the remainder of this chapter will focus primarily on for-profit business entities.

ENTREPRENEUR IN ACTION

Dan Price



Gravity Payments has led the way in exploring how employee and C-level salaries function for the company in terms of profits, living wages, and ethical considerations related to those issues. (credit: modification of photo provided by Gravity Payments)

Profit versus Non-Profit? The Approach Used by Gravity Payments' Entrepreneur Dan Price is a little of both. Sometimes, a business may be a for-profit company yet act in a way that some may think exhibits a not-for-profit philosophy. Most startups must address their business purpose. In other words, is the primary purpose of the business to enrich the owners or is it to spread the benefits of success to the workers?

The history of Gravity Payments illustrates this issue. In 2011, an employee earning \$35,000 a year told his boss at Gravity Payments, a credit-card payment business, that his earnings were not sufficient for a decent life in expensive Seattle. The boss, Dan Price, who cofounded the company in 2004, was somewhat surprised, as he had always taken pride in treating employees well. Nevertheless, he decided his employee was right. For the next three years, Gravity gave every employee a 20 percent annual raise. Still, profit continued to outgrow wages, so Price announced that over the next three years, Gravity would phase in a minimum salary of \$70,000 for all employees. He reduced his own salary from \$1 million to \$70,000 to demonstrate the point and help fund the company-wide salary increase. The following week, 5,000 people applied for jobs at Gravity, including a Yahoo executive who took a pay cut to transfer to a company she considered fun and meaningful to work for.

Price recognized that low starting salaries were antithetical to his values and to what he felt was a large part of his business purpose. A majority of the initial cost of his approach to employee salaries was absorbed by making less profit, yet revenue continues to grow at Gravity, along with the customer base and the workforce. Price believes that managers should measure purpose, impact, and service as much

10.2 Corporations

Learning Objectives

By the end of this section, you will be able to:

- Distinguish between C Corporations, S Corporations, and B Corporations
- Distinguish between privately and publicly held corporations
- Explain how corporations are taxed

A corporation is a complex business structure created by filing the appropriate documents with the state of incorporation (Figure 7.4). They are created when the original incorporators (owners) file a formal document called the articles of incorporation, or other similar documentation, with a state agency, often the secretary of state's office or the state division of corporations. Corporations operate as a separate legal entity apart from the owners. The owners are called shareholders and can be individuals, other domestic or foreign corporations, LLCs, partnerships, and other legal entities. Corporations may be for-profit or not-for-profit, as discussed previously.

**STATE OF [STATE]
CERTIFICATE OF INCORPORATION
A STOCK CORPORATION**

The undersigned Incorporator, desiring to form a corporation under pursuant to the General Corporation Law of the State of [State], hereby certifies as follows:

1. The name of the Corporation is _____.
2. The Registered Office of the corporation in the State of [State] is located at _____ (street), in the City of _____, County of _____ Zip Code _____. The name of the Registered Agent at such address upon whom process against this corporation may be served is _____.
3. The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of [State].
4. The total amount of stock this corporation is authorized to issue is _____ shares (number of authorized shares) with a par value of \$ _____ per share.
5. The name and mailing address of the incorporator are as follows:
Name _____
Mailing Address _____
_____ Zip Code _____

By: _____
Incorporator

Name: _____
Print or Type

This is a sample short form of the document that is filed with the Secretary of State's Office to form a corporation. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.

Incorporating a company means that the corporation operates as an entity that has some of the same rights as an individual. For example, individuals and corporations can sue and be sued, and corporations have the rights to own property, to enter into and enforce contracts, to make charitable and political donations, to borrow and lend money, and to operate a business as if the corporation were an individual. Most states require a corporation to be registered in that state in order to conduct business operations and to enter into and defend lawsuits in that state, especially if the business was incorporated in a different state. Registration is not the same as forming the initial corporation; it is simply the process of filing informational documents by entities that have already been incorporated in another state. States also tax the operations or sales a corporation makes in the state in which it has certain operations.

OVERVIEW OF CORPORATIONS

Corporations are the only type of entity that the law allows to sell shares of stock. No other entity, like an LLC or a partnership, may do so. Those individuals or other entities that buy stock become shareholders and own the corporation. Some corporations have millions of shareholders, and others have as few as one. State incorporation laws vary: Some require at least three shareholders, but others allow a one-owner business to incorporate. Thus, an entrepreneur may start a company as the sole owner of the company and later incorporate and sell shares of stock or bonds to other investors in the company.

Corporations sell, or issue, stock to raise capital, or money, to operate their businesses. The holder of a share of stock (a shareholder) purchases a piece of the corporation and has a claim to a part of its assets and earnings. In other words, a shareholder is now an owner of the corporation. Thus, a share of stock (also called equity) is a type of security that signifies proportionate ownership in the issuing corporation. Stocks are bought and sold predominantly on stock exchanges, although there can also be a private sale between a seller and a buyer. These transactions have to conform to a very complex set of laws and government regulations (e.g., the Federal Securities Acts of 1933/34), which are meant to protect investors.

Use of a corporation allows the entrepreneur to shield themselves, and other owners, from personal liability for most legal and financial obligations. The benefit of limited liability is one of the primary reasons entrepreneurs incorporate. However, the administration of a corporation requires more formality than other types of entities, such as sole proprietorships and partnerships. A corporation must follow the rules for such entities. The requirements include maintaining bylaws, holding annual shareholder and director meetings, keeping minutes of shareholder and director major decisions, ensuring that officers and directors sign documents in the name of the corporation, and importantly, maintain separate bank accounts from their owners and keep detailed financial and corporate records. A failure to follow the rules could lead to the loss of limited liability, known as “piercing the corporate veil.”

Exercise – Piercing the Corporate Veil of Limited Liability

As we have discussed, entrepreneurs should generally form a separate legal entity to limit personal liability arising from business obligations, such as contracts. Incorporating or organizing as an LLC can limit owners' personal liability to the extent of their investments. This liability shield is not without exception, however: in particular, a situation called “piercing the corporate veil.” A recent 2018 case example (Woodruff Construction, LLC v. Clark, No. 17-1422 [Iowa Ct. App. Aug. 15, 2018]) demonstrates this point.

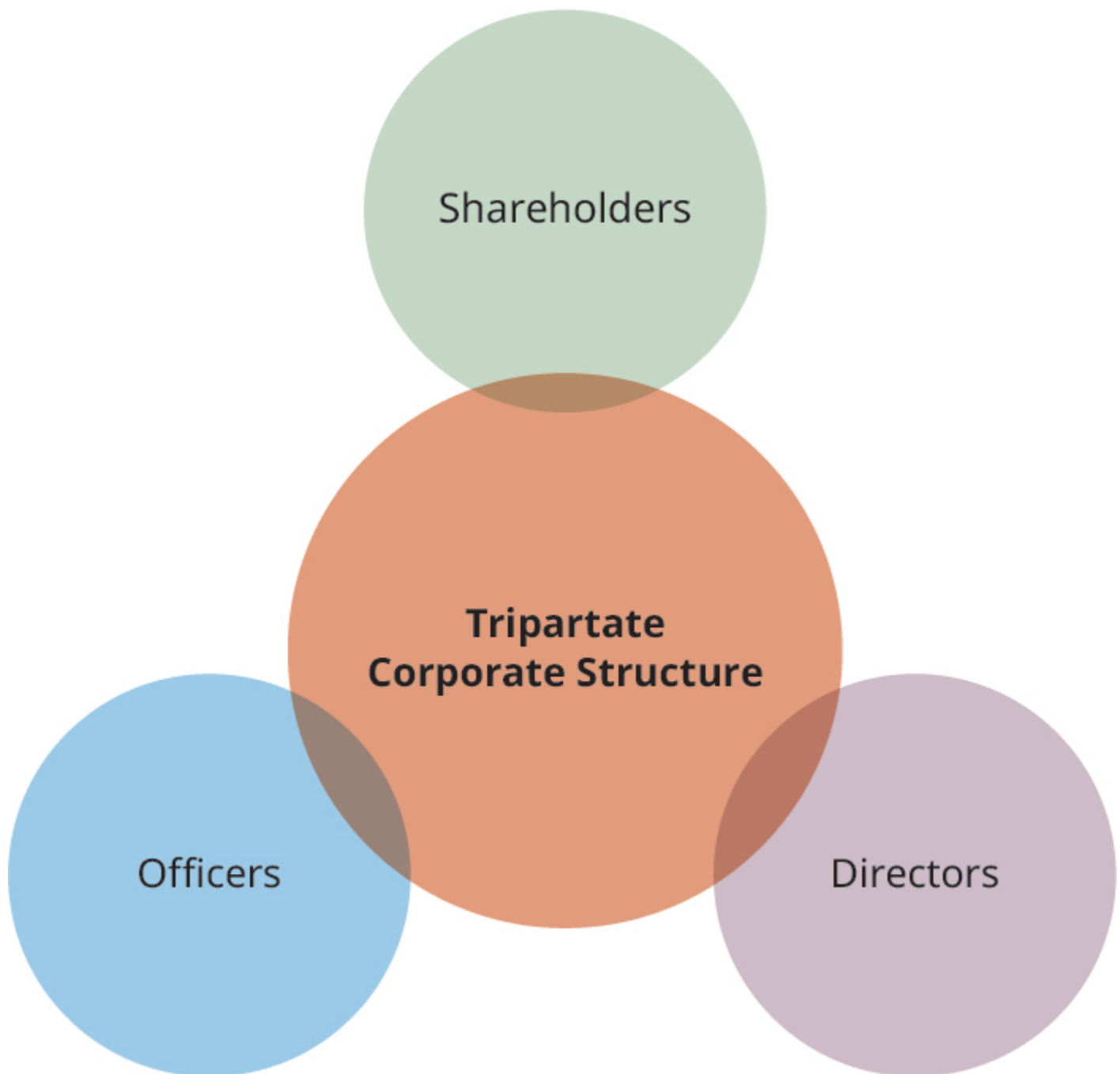
Factual Overview: The defendant was the sole owner of a corporation and entered into a contract to remove sludge for the plaintiff at a waste treatment facility. The defendant never completed the work. The plaintiff sued and won a \$400,000 judgment against the corporation for breach of contract. However, the plaintiff was not able to collect from the corporation due to insufficient assets. The plaintiff then asked the court to pierce the veil of the corporation, which would allow recovery from the corporate owner's personal finances.

Piercing the Veil: Evidence showed that although the defendant kept a separate bank account for the corporation, he had commingled its funds with his personal finances, which is a distinct violation of fiduciary duty. He used the bank accounts for the corporation interchangeably with other bank accounts. Furthermore, the defendant did not follow required corporate formalities because he had no bylaws or resolutions, no voting records, and no documentation of or minutes from shareholder meetings.

Finding: The court allowed the plaintiff to pierce the corporate veil. This means that the defendant, the sole owner of the corporation, had to pay over \$400,000 out of his personal funds. (Note: Although it is true that LLCs have fewer formal requirements, this case would likely have had the same result if the owner were an LLC because the rules are essentially the same for piercing the veil of limited liability.)

Critical Thinking Question: How can you protect yourself from this happening to you?

Most corporations use a three-part (or tripartite) approach to ownership and management. After the corporation is created and operations start, the shareholders typically elect a board of directors, and the board has oversight responsibilities for the operations of the company. The board then appoints officers who are responsible for the day-to-day operations of the corporation.



In a tripartite approach, three groups are involved in owning and managing a corporation. Shareholders elect directors who appoint officers. Shareholders are owners, and directors/officers may be, and typically are, shareholders. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.

For small organizations, state law allows shareholders to directly manage a company without using a board of directors. This type of corporation is a closed corporation or a closely held corporation, and is common for entrepreneurial startups. State incorporation law, coupled with federal tax law under the IRS, regulates

the formation and operation of a closely held corporation. The basic rules state that, generally, a closely held corporation is a corporation that has more than 50 percent of the value of its outstanding stock owned (directly or indirectly) by five or fewer individuals at any time during the last half of the tax year.¹

C CORPORATIONS, S CORPORATIONS, AND B CORPORATIONS

The categorization of corporations as either C corporations or S corporations is largely a tax distinction. An S corporation is a “pass-through” entity, where shareholders report and claim the business’s profits as their own and pay personal income taxes on it. Alternatively, the government taxes a C corporation at the corporate level, and then levies taxes again on the owners’ personal income tax returns if corporate income is distributed to the shareholders as dividends.

Conversely, the distinction between B corporations and C or S corporations is not one based on taxes at all, but rather on purpose and approach. A certified B corporation is a business that meets a very high standard of social and environmental performance, public transparency, and accountability to balance profit with social purpose. B corporations can also be C corporations or S corporations.

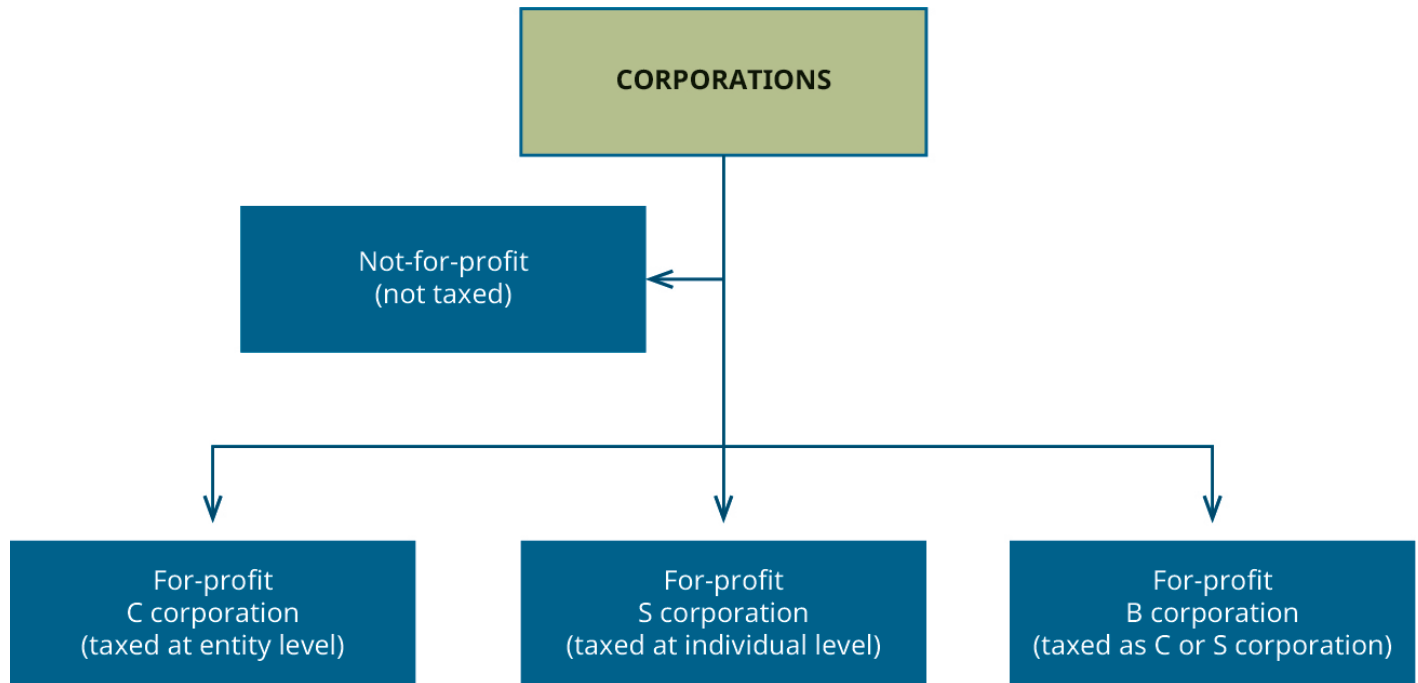
THE UNIQUE NATURE OF B CORPORATIONS AND/OR BENEFIT CORPORATIONS

A new form of nontraditional, for-profit corporation is the benefit corporation, which may or may not also be a B corporation. While B corporations and benefit corporations share some common goals, B corporations go through a certification process. Becoming a certified B corporation is a formal process that involves compliance with various standards and an audit of this compliance (managed by the B corporation organization).² The essence of these new B corporations is that “they recognize the imperative to do no harm and create positive impact throughout the value chain.”³ According to the B corporation organization, these certified businesses are legally required to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment. As of 2019, there are approximately 3,000 certified B corporations in sixty-five countries, covering 150 different industries.⁴ The B corporation certification is somewhat like a seal of approval for businesses voluntarily trying to be socially responsible. A benefit corporation is a corporation recognized by a governmental agency under state law (about thirty states now recognize benefit corporations with legal requirements of higher purpose, accountability, and transparency) but does not carry the certification of a B corporation. However, in terms of purpose as related to corporate social responsibility, the two entities are very similar.

The benefit corporation’s objective is directed toward maximization of benefits for all stakeholders, meaning that the company benefits any person with an interest or concern in the business. It does not only maximize stockholder profits. Maximization of stakeholder benefits is directed through the corporate charter of a benefit corporation. The state of incorporation directs how benefit corporations are created, but generally, this “new governance model broadens the perspective of traditional corporate law by incorporating concepts of purpose, accountability, and transparency with respect to all corporate stakeholders, not just stockholders.”⁵ This means

1. US Internal Revenue Service. Publication 542 Corporations. n.d. <https://www.irs.gov/faqs/small-business-self-employed-other-business/entities/entities-5>
2. Certified B Corporations. n.d. <https://bcorporation.net/>
3. Network for Business Innovation and Sustainability. “B Corporations, Benefit Corporations, and Social Purpose Corporations: Launching a New Era of Impact-Driven Companies.” October 2012. http://nbis.org/wp-content/uploads/2012/10/ImpactDrivenCompanies_NBIS_Whitepaper_Oct2012.pdf
4. Certified B Corporations. n.d. <https://bcorporation.net/>
5. Morris, Nichols, Arsht, and Tunnel. The Public Benefit Corporation Guidebook. n.d. <http://news.mnat.com/rv/ff00272e4c8b3699806e25d24c48a286df5bf926>

that the use of this type of business structure needs to be carefully considered by the entrepreneur because the responsibility of the business will include consideration of the stakeholders outlined in the corporate charter, not just the profit maximization for the shareholders.



Corporations, S corporations, and B corporations are all types of for-profit corporations, in contrast to a not-for-profit corporation. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.

B Corporation Certification

In order to become a certified B corporation, a company must go through an external audit of compliance with each of the requirements of the B corporation. The B corporation website explains the process for becoming a B corporation. This involves three specific steps:

- Verified Performance
- Legal Accountability
- Public Transparency

Go to the B Corporation website to learn what requirements they need to meet to be allowed to display the following B corporation logo.



Credit: modification of Runa B Corp Label by Lelepanne/Wikimedia Commons, CC0.

PRIVATELY HELD VERSUS PUBLICLY HELD CORPORATIONS

Terminology relating to whether a company is publicly or privately owned can sometimes be confusing. For example, large corporations such as Exxon or Amazon are private corporations, but their stock is publicly held. This means that any member of the investing public can own stock in the corporation. A true public corporation is, in reality, a quasi-governmental entity, an entity owned or sponsored by the government.

Government-owned corporations include the US Postal Service, the Corporation for Public Broadcasting, AmeriCorps, and Amtrak. Government-sponsored corporations include Freddie Mac and Fannie Mae, mortgage-related entities. A privately held corporation, common in Europe, is a company that does not allow members of the investing public to own stock. The founder's family or friends, or perhaps a private group of investors such as a venture capital firm, may hold it. Examples include Facebook before it went public in 2012, or Cargill or Mars.

Publicly Traded Corporations

A publicly held corporation is, as described, an entity in which members of the investing public own the stock. A term commonly applied to such corporations is a publicly traded corporation, meaning that the stock can be bought and sold in the public marketplace, such as the New York Stock Exchange. A publicly traded corporation has more access to investors and thus more capital, but it must operate under a formal set of rules established by the Securities and Exchange Commission and Congress, assuming the shares are sold publicly in the United States. Audits of publicly traded companies also have to follow the rules of the Public Company Accounting Oversight Board (PCAOB). "The PCAOB oversees the audits of public companies and broker-dealers in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports."⁶ Following the SEC and PCAOB rules emphasizes investor protection but can be complex, as it increases both startup and operating costs for the venture due to increased regulation and reporting.

A publicly traded company is required to have a board of directors with a dual mandate to both consult with management regarding the strategic direction of the company and oversee company performance. The board of directors does not manage the company, and the members are separate from management.⁷ The board will have numerous committees to assist in its functionality, and one of the committees is the audit committee. The audit committee of a publicly traded company must hire an outside auditor approved by the PCAOB to audit the books of the publicly traded company. Further, the chief executive officer and chief financial officer of the publicly traded company must sign a certification of earnings report, guaranteeing their truthfulness. The rules and regulations with which compliance is required are more demanding for a publicly traded company than for a privately held or closely held company.

Closely Held Corporations

A closely held corporation, also known as a close corporation, is the same as a privately held corporation for the purposes of securities laws. However, the concept has a secondary meaning related to management structure. A close corporation is also a management structure for a corporation that is often selected by small companies that use the less-formal management style of a general partnership yet retain the limited liability of a corporation. In essence, there are fewer formalities for a close corporation, and it allows greater control for the small group of shareholders.

6. PCAOB. "Protecting Investors Through Audit Oversight." n.d. <https://pcaobus.org/>

7. Stanford Business Graduate School: Corporate Governance Research Initiative. Board of Directors, Duties and Liabilities. n.d. <https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/cgri-quick-guide-03-board-directors-duties-liabilities.pdf>

A close corporation is required to have an annual shareholder meeting and keep corporate minutes. All of this detail is required to be recorded in the corporate records, even if there is just one shareholder. Sole proprietors using a corporation as a business structure must follow the rules regarding corporations in the state in which they were incorporated. Some states may even dissolve a corporation that does not have an annual meeting or keep proper corporate records. When a corporation is dissolved, the shareholders become personally liable for corporate debts, and shareholders' limited liability is lost. Managing a closely held company requires the entrepreneur to follow state guidelines while operating the corporation accordingly.

The shares of a closely held corporation are not traded on the open market and typically have just a few shareholders. Closely held corporations have fewer reporting requirements than publicly traded companies and typically are not required to have audited financial statements, unless the corporate charter says otherwise. Audited financial statements are costly and are required for publicly traded companies. The audited financial statements help investors buying and selling stock in the stock market value shares and are not necessarily needed for a closely held corporation. However, it is difficult to value a closely held corporation because there is no ready market for the ownership shares.

NOT-FOR-PROFIT CORPORATIONS

Nonprofit corporations are created in one a state but may operate or solicit donations in other states. A nonprofit corporation operating or soliciting donations in multiple states needs to register to operate as a nonprofit corporation in every state in which it operates.

Not-for-profit corporations are organized in a similar fashion to for-profit corporations, with a board of directors and officers, but they have no shareholders, stock, or owners. The stakeholders of a non-for-profit corporation play an important role, monitoring overhead and allocation of funds. Since most of the funds are donations and are tax deductible, public watchdogs may monitor the financial statements of federally tax- exempt organizations. The fact that the Internet provides easy access to financial data related to federally tax- exempt nonprofits provides watchdog organizations easy access to financial data and the ability to analyze the operations and compensation for the nonprofit's organizers and employees.

ENTREPRENEUR IN ACTION

Bombas: Achieving Profit and Nonprofit Goals

In a 2017 interview with Robin Roberts of ABC News, Bombas socks (Figure 7.8) co-founder David Heath said: "Back in 2011, I came across a quote on Facebook that said...that socks were the number one most requested clothing item in homeless shelters."⁸ So he decided to start a new company that was an overnight success, boosted by an appearance on Shark Tank in 2014. He created his company, Bombas, with co-founding entrepreneur Randy Goldberg. They founded their company with the goal of giving back to the community by donating socks to the homeless, with its actual product idea as a secondary goal.⁹ They have donated over 25 million items through more than 2,500 partners across the country.¹⁰

8. ABC News. "Q&A: Entrepreneurs behind the Socks Company Bombas Share Their Career Advice." August 2, 2017.

<https://abcnews.go.com/Business/qa-entrepreneurs-socks-company-bombas-share-career-advice/story?id=48954057>

9. Mara Leighton. "B Corps Are Businesses Committed to Using Their Profit for Good—These 12 Are Making Some Truly Great Products." Business Insider. June 6, 2019. <https://www.businessinsider.com/b-corp-charitable-business-2018-8?IR=T&r=US>

10. Bombas. "Giving Back." n.d. <https://bombas.com/pages/giving-back>



Figure 7.8 This is a pair of Bombas socks. (credit: modification of “Bombas Socks” by Tony Webster/Flickr, CC BY 2.0)

Bombas is now a successful sock company that uses a business entity as a way to address the shortage of sock donations in homeless shelters. Heath and Goldberg spent two years inventing pairs of high-quality socks with extras such as reinforced foot beds and anti-blister tabs, coupled with contoured seaming. For these entrepreneurs though, it was not just about sock technology, it was about doing something meaningful at the same time—a combination of profit and nonprofit goals. Therefore, they made a commitment to those in need, and since 2013, the company has donated more than 10 million pairs of socks to homeless shelters, due to their buy one, give one model of marketing socks.

The socks that Bombas donates to the homeless are not cheap throw-away token socks. Rather, they have been designed for their homeless wearers, for example, with antimicrobial treatment to prevent bacteria if they cannot be washed as frequently and reinforced seams for durability, since the homeless do not have the money to keep buying new ones.¹¹

In essence, the company makes customers, and the company partners with the homeless.

- Is Bombas really paying for this project to help the homeless or is the customer?
- Is Bombas just facilitating the good idea and customers are paying for it, or do you think Bombas is also contributing some of its profit?

11. Mara Leighton. “B Corps Are Businesses Committed to Using Their Profit for Good—These 12 Are Making Some Truly Great Products.” Business Insider. June 6, 2019. <https://www.businessinsider.com/b-corp-charitable-business-2018-8?IR=T&r=US>

Watch This is the Impact Socks, Shirts and Underwear Can Make from Bombas on Vimeo that explains what they do as part of their B corporation commitment.



One or more interactive elements has been excluded from this version of the text. You can view them online here: <https://pressbooks.nsc.ca/entrepreneurship/?p=336>

OVERVIEW OF CORPORATE TAXATION

All for-profit corporations are subject to income tax at the federal level, and usually at the state level as well. Regardless of tax elections, both C- and S corporations are subject to taxation.

Tax planning is a major issue for most corporations and may explain some key decisions, such as where they are located. That could involve decisions about which state the corporate headquarters are in, or even in which nation the headquarters are located. This is because tax laws may vary significantly by both state and nation.

The current federal income tax rate for corporations in 2019 is 21 percent, down drastically from 35 percent, which was the rate prior to 2018. Many states add a state-level income tax, ranging from 2 percent to 12 percent, while some states such as Texas do not have a corporate income tax in an effort to attract corporations to the state.¹²

Taxation of C Corporations

C corporations pay corporate income taxes on profits made. Individual shareholders are also subject to personal income taxes on any dividends they receive. Most attorneys and accountants refer to this concept as the double taxation disadvantage. However, the historical tax disadvantage has been recently reduced because of the decrease in the income tax rate paid by C corporations by the Tax Cuts and Jobs Act.¹³ This decrease, in turn, reduces the double tax disadvantage. Further, the ability to retain and reinvest profits in the company at a lower corporate tax rate is an advantage.

A C corporation does come with a degree of added formality, or as some may refer to it, red tape. According to most states' corporation laws, as well as federal tax and securities laws, the corporation must have company bylaws and must file annual reports, financial disclosure reports, and financial statements. They must hold at least one meeting each year for shareholders and directors where minutes are taken and maintained to display transparency. A C corporation must also keep voting records of the company's directors and a list of the owners' names and ownership percentages.

Despite the tax implications, the C corporation structure is the only one that makes sense for most large US businesses because it allows for the wide-scale sale of a large amount of stock to the general investing public without limits. A C corporation can have an unlimited number of shareholders that are individuals or other business entities, and are either US citizens or foreign nationals.

12. Tax Foundation. "State Corporate Income Tax Rates and Brackets for 2019." 2019. <https://taxfoundation.org/state-corporate-rates-brackets-2019/>

13. US Internal Revenue Code of 1986. 131 Stat. 2054.

Taxation of S Corporations

As previously discussed, the S corporation is a corporate entity in which the firm's profit is passed through its stockholders (shareholders), usually in proportion to their investment—this is known as pass-through taxation. Essentially, this amounts to tax management by the corporate owners. The IRS taxes the corporate profits at the personal income tax rates of the individual shareholders. S corporations (S stands for “small”), also called subchapter S corporations, must comply with several important restrictions with which entrepreneurs must comply.

S corporations have a limit on shareholders. Unlike with C corporations, the Internal Revenue Code limits the number of S corporation shareholders to 100 or fewer, and owners can only be individuals, (or estates and certain types of tax-exempt entities). Additionally, the individual shareholders must also be US citizens or legal permanent residents. Furthermore, S corporations may only have one class of stock, whereas C corporations may have multiple classes. For example, in a C corporation, there might be voting shares, nonvoting shares, common shares (the type most people buy), and preferred shares (which are repaid first in the event of bankruptcy).

10.3 Partnerships and Joint Ventures

Learning Objectives

By the end of this section, you will be able to:

- Describe the ownership structure of a partnership
- Describe the ownership structure of a joint venture
- Summarize the advantages and disadvantages of partnership and joint venture structures

A partnership is a business entity formed by two or more individuals, or partners, each of whom contributes something such as capital, equipment, or skills. The partners then share profits and losses. A partnership can contract in its own name, take title to assets, and sue or be sued.

A joint venture is, in essence, a temporary partnership that two businesses form to gain mutual benefits, such as sharing of expenses and to work toward shared goals and the associated potential revenue. Joint ventures share costs, risks, and rewards. A joint venture, for example, can help speed up expansion of your business by gaining access to additional equity, new markets, or new technology. Partnerships and joint ventures share many similarities, but they do have some important differences.

OVERVIEW OF PARTNERSHIPS

State law governs the formation and operation of all partnerships. It would be too lengthy to cover the laws of all fifty states; therefore, this section contains some generalizations that may vary according to jurisdiction. Federal law has very limited applicability to partnerships, primarily in the area of federal income taxation. A general partnership is created when two or more individuals or entities agree to work together to operate a business for profit. A partnership generally operates under the terms of a written partnership agreement, but there is no requirement that the agreement be in writing. In many instances, the only requirement is that two or more parties come together to operate a business for profit.

Entrepreneurs need to be careful because a general partnership can be informally created by the actions of two or more people or entities pursuing a business for profit while sharing management duties. State courts may deem these actions the creation of an informal or even formal partnership. For this reason, if two entities or people come together to pursue a joint business operation or strategy, the parties should document the pursuit of the business venture in a written agreement. Many state laws require that some forms of a partnership use a formal written partnership agreement or articles of partnership. If the venture is of a shorter duration, it might

be better to enter into an agreement documenting a joint venture. In either case, the entrepreneur needs to have a clear understanding of the exact business relationship before embarking on a new venture, and a partnership agreement can and should outline those details.

A partnership agreement addresses many important topics, including the monetary investment of each partner, their management duties and other obligations, how profits or losses are to be shared, and all the other rights and duties of the partners.

Partnerships can take many forms, including general partnerships (GPs), limited partnerships (LPs), limited liability partnerships (LLPs), and, in some states, limited liability limited partnerships (LLLLPs). All states require the registration of any limited liability entity. In GPs, liability of the owners is considered “joint and several,” meaning that not only is the partnership entity liable, so too is each general partner.

The liability of partners, therefore, may be limited by the creation of an LP. A limited partnership requires at least one general partner and one or more limited partners. A limited partner’s liability is typically capped at their investment, unless they take on the duties of a general partner. The general partner is personally liable for all of the operations of the LP.

LPs have been around for many years and allow investors to provide funding for a business, while limiting their investment and personal risk. LPs are commonly used in businesses that require investment capital but do not require management participation by LP investors. Examples include real estate where the LP buys commercial real estate, making and funding movies or Broadway plays, and drilling oil and gas wells.

Some states have relatively recently started to allow variations on the LP structure and offer businesses the option of forming a related type of partnership entity. These limited liability partnerships are common with businesses such as law firms and accounting firms. The partners are licensed professionals, with limited liability for financial obligations related to contracts or torts, but full liability for their own personal malpractice. The primary difference between LLCs and LLPs is that LLPs must have at least one managing partner who bears liability for the partnership’s actions. An LLP’s legal liability is the same as that of an owner in a simple partnership. Entities that are formed with a founding partner or partners—commonly law firms, accounting firms, and medical practices—often structure as an LLP. In this situation, junior partners typically make decisions around their personal practice but don’t have a legal voice in the direction of the firm. Managing partners may own a larger share of the partnership than junior partners.

The final type of partnership is a limited liability limited partnership (LLLLP), which allows the general partner in an LP to limit their liability. In other words, an LLLP has limited liability protection for everyone, including the general partner who manages the business.

Advantages and Disadvantages of General Partnerships

The GP is a very common business structure in the US. It is created when two or more individuals or entities come together to create, own, and manage a business for profit. A GP is not technically required to have a written agreement, or to file or register with the state government. However, GPs should have their business structures described in writing, so that the entities working together have an understanding of the business and the business relationship.

When a GP is created, one partner is liable for the other partner’s debts made on behalf of the partnership, and each partner has unlimited liability for the partnership’s debt. This creates a problem when one partner disagrees with the source or use of funds by another partner in terms of capital outlay or expenses. Each partner in a

GP has the ability to manage the partnership; if something negative happens such as an accident (called a tort) that injures people and produces liability—like a chemical spill, auto accident, or contractual breach—each of the partners is personally liable with all of their personal assets at risk. Also, the partners are liable for the taxes on the partnership, as a GP is a pass-through entity, where the partners are taxed directly, but not at the partnership level.

It should be noted that GPs may be a useful structure in certain situations because they are relatively easy and inexpensive to form. The expanding use of LPs, LLPs, and LLLPs is discussed in the preceding text, but the popularity of GPs has been on the decline. However, as long as the business does not have a high likelihood of liability-producing accidents or situations, a GP can work. An example might be two partners offering graphic design or photographic services. However, due to the different risks associated with them, GPs are often not the best choice of business entity. Other types of entities offer the protection of limited liability and are thus better choices in most circumstances.

Taxation of Partnerships

Partnerships are considered pass-through entities, whether they are GPs, LPs, or LLPs. Therefore, the partnership's profits are not taxed at the entity level, like with a C corporation, but the profits are passed through to the partners, who claim the income on their own tax returns. The partners pay income taxes on their share of distributed partnership profits (disclosed on a Schedule K-1 form from the partnership to the individual partners). Thus, there is no such thing as a partnership tax rate.

If the entity is a joint venture that is organized and run as a partnership, then it is taxed the same way, even if the partners are corporations. The profits are distributed, and each corporation pays its own taxes. If, in the alternative, the joint venture formed a separate distinct corporation, then it pays taxes as a corporation.

Link to Learning

See the University of Richmond Law School's good summary of the pros and cons of GPs to learn more.

JOINT VENTURES: BUSINESS ENTITIES DOING BUSINESS TOGETHER

A joint venture occurs when two or more individuals or businesses agree to operate a for-profit business venture for a specific purpose. A joint venture is similar to a legal partnership but different in terms of purpose and duration. Usually, joint ventures are used for a single purpose and a limited period. One example of a joint venture involved BMW and Toyota working together to research how to improve the batteries in electric cars, a single purpose, over a period of limited duration, envisioned to be ten years.

Companies enter into a joint venture often to avoid the appearance of the creation of a partnership, because partnerships tend to create long-term obligations between the partners, while a joint venture is a limited business enterprise. Typically, two business entities operate a business together on a joint project. The joint venture agreement allows the entities to pursue a specific business objective while keeping their other business operations and ventures separate.

A joint venture is not recognized as a taxable entity by the IRS. The entrepreneur can use a joint venture agreement to develop a business enterprise, and if the business enterprise is successful, a new entity can be created to take over the operations of the joint venture and move the business to the next level. For this reason, a joint venture

can be a good way test a business concept. If successful, then the operations and assets can be rolled into another entity that supports investment from outside investors. The use of a joint venture also allows the parties to test drive the relationship between the entities: to develop a business venture with less risk.

Joint ventures can involve parties that are large or small, or from private or public sectors, or they can involve a combination of types of entities, most often resulting in a joint venture that is formed as a corporation or LLC. For example, the public company Google and the private entity NASA formed a joint venture to improve Google Earth. Likewise, a joint venture might be something smaller, such as an arrangement between a freelance IT engineer, a graphic designer, and a social media consultant to create a new cell phone app. Figure 10.9 summarizes the relationships of the businesses in a joint venture.

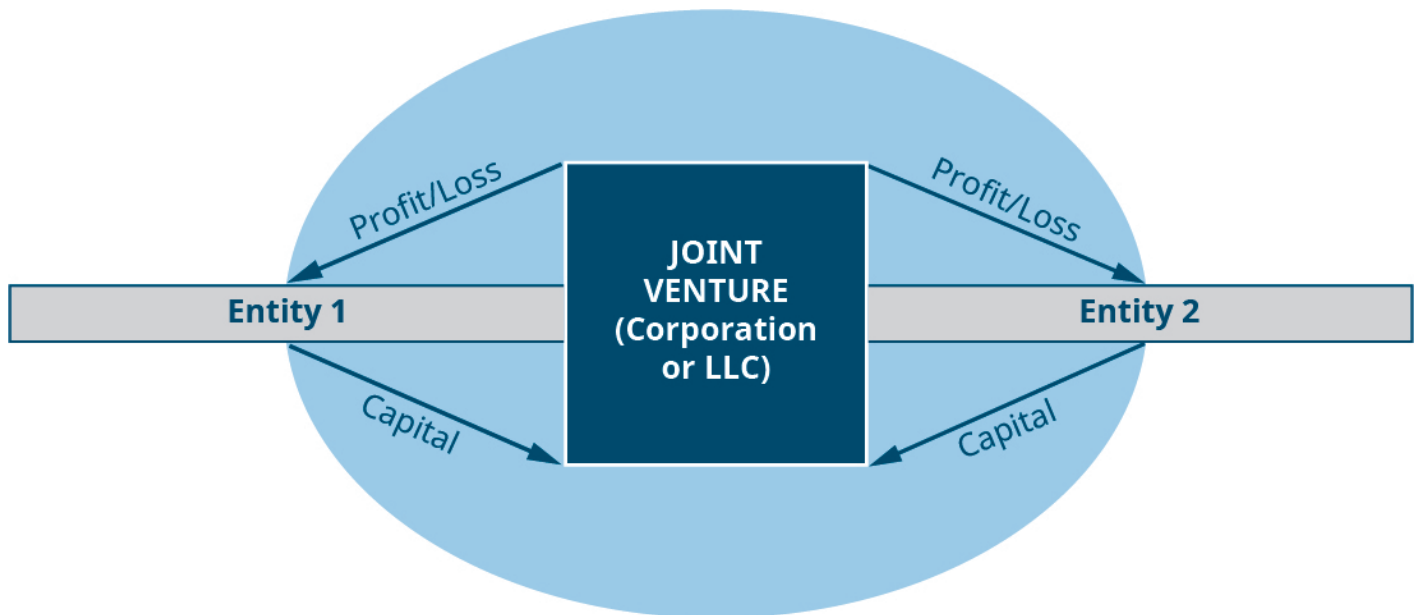


Figure 10.9 Joint ventures are separate business entities, most often owned and operated by two other business entities. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.

Exercise – Challenges Facing Small Farmers

Sometimes, small businesses are at a disadvantage due to size. We can see an example of this disadvantage in the field of agriculture. The cost of new agricultural equipment is very high, and land may be prohibitively expensive. These costs put small farms under pressure to compete by increasing the size of their operations.

- If you owned a small farm and were looking to expand, how could you use a joint venture?

10.4 Limited Liability Companies

Learning Objectives

By the end of this section, you will be able to:

- Describe the ownership structure of a limited liability company
- Explain how limited liability companies are taxed
- Summarize the advantages and disadvantages of the limited liability company structure

A limited liability company is a hybrid of a corporation and a partnership that limits the owner's liability. The big advantage that LLCs have over GPs is in the protection of owners from personal liability. Thus, an LLC is similar to a corporation in that it offers owners limited liability.

The advantage that LLCs have when compared to corporations, especially for entrepreneurs, is that they are easier to form and less cumbersome to operate because there are fewer regulations and laws governing LLC operations. Although LLCs tend to be easier to create, they still require a filing of articles of formation with the state and the creation of an operating agreement. Owners of an LLC can be individuals and other business entities. The entrepreneur can use the flexibility of an LLC to create a business structure suitable to the operational and tax needs of the business.

In 1977, Wyoming was the first state to allow the LLC format—most states started allowing them in the early 1990s. In contrast, corporations have been around since the early nineteenth century. LLCs now significantly outnumber corporations, with some estimates indicating that four times as many LLCs are formed as corporations¹, with the total number of LLCs nearing 20 million compared to about 2 million corporations. Each state may permit varying types of LLCs, with different types of formation agreements and operating agreements.

When evaluating the use of an LLC as the structure for your business, it is important to know that there are some constraints on the use of an LLC. In most states, a nonprofit business cannot be an LLC. Additionally, most states do not permit banks or insurance companies to operate as LLCs.

OVERVIEW OF LLCs

The owners of an LLC are called members. The owner (if a single-member LLC) or owners often run the company themselves. These are called member-managed LLCs. The daily operations of the LLC can also be delegated to a professional manager, which is called a manager-managed LLC. If the original organizer of the LLC chooses, they

1. Scott A. Hodge. "The U.S. Has More Individually Owned Businesses Than Corporations." Tax Foundation. January 13, 2014. <https://taxfoundation.org/us-has-more-individually-owned-businesses-corporations/>

can organize an LLC in which the owners (members) will have little or no management responsibility because it has been delegated to a professional manager. These options when drafting an LLC's operating agreement allow an LLC to operate in different ways, so that an entrepreneur can develop a business structure best suited to the needs of the business.

As long as the members (owners) do not use the LLC as an alter ego and/or commingle personal funds with LLC funds, the LLC provides the corporate shield of limited liability to the investors. If the LLC is operated to protect a sole proprietor, this might become an issue if the sole proprietor commingles funds. Commingling funds or assets gives rise to the sole proprietor or other members of a multi-owner LLC being liable for all of the debts of the LLC. Generally, the ownership of an LLC is represented by percentages or units. The term shares is not used in operating agreements because LLCs cannot sell shares of stock like a corporation can; thus, owners are not technically shareholders.

TAXATION OF LLCs

Entrepreneurs are able to make decisions regarding the taxation of LLCs. The government can tax the business as a corporation or as an individual. This choice may involve more than simply a tax rate decision; it might involve ownership and management issues, as well other financial considerations. However, this section will focus on the tax decision aspect of the issue.

A multi-owner LLC's default taxation is as a partnership, meaning profits pass through and are taxed on the owner's federal tax return. However, LLCs can elect to be taxed as either a partnership or a corporation. Single-member LLCs can also be taxed as a sole proprietorship or as a corporation. The fact that an LLC can select its method of taxation as either a C corporation, S corporation, or partnership allows the entrepreneur flexibility in creating the business structure of their choosing. Note, however, that tax laws change. For example, the Tax Cuts and Jobs Act of 2017 may make formation as an S corporation more attractive to some entrepreneurs than formation as an LLC, at least as far as taxation is concerned. You should seek advice from a tax accountant to ensure that you are able to make decisions based on the most current regulations.

10.5 Sole Proprietorships

Learning Objectives

By the end of this section, you will be able to:

- Describe the ownership structure of a sole proprietorship
- Explain the advantages and disadvantages of operating as a sole proprietor

A sole proprietorship is a business entity that is owned and managed by one individual and has very little formal structure and no mandatory filing/registration with the state. This type of business is very popular because it is easy and inexpensive to form. The owner, called a sole proprietor, is synonymous with the business and is therefore personally liable for all debts of the business. Sole proprietors do not pay separate income tax on the company, instead reporting all losses and profits on their individual tax returns.

OVERVIEW OF SOLE PROPRIETORSHIPS

Entrepreneurs solely operating their own businesses are called sole proprietors. According to the Tax Foundation, there are more than 23 million sole proprietorships in the US, far more than any other type of business entity.¹ This statistic means that the sole proprietorship is by far the most common business structure, even though the business is not legally separate from its owner. The primary reason that many entrepreneurs choose the sole proprietorship format is that they do not have to make a choice, get professional advice, or spend any money. An entrepreneur who just starts doing business is automatically a sole proprietorship unless they elect to become a different type of entity and file that paperwork. An entrepreneur who becomes a sole proprietor does not necessarily have to go to an attorney or an accountant, or file any documents, making a sole proprietorship quick, easy, and cheap to form and operate.

Another development related to the decision to be a sole proprietor is the rapid growth of the gig economy. Some individuals prefer to work on their own rather than become a full-time employee. Being a gig worker falls somewhere between being a business owner and being an employee, so many gig workers, ranging from drivers for a ride-sharing company to instructional designers, operate as de facto contractors who are sole proprietors. However, there remains a debate about whether these gig workers should be deemed sole proprietors. Recently, California passed a new law, signed by Governor Gavin Newsom, which extends wage and benefit protections to

1. Scott A. Hodge. "The U.S. Has More Individually Owned Businesses Than Corporations." Tax Foundation. January 13, 2014. <https://taxfoundation.org/us-has-more-individually-owned-businesses-corporations/>

many thousands of workers who were previously self-employed sole proprietors working in the gig economy. The new law is based on the presumption that when workers are misclassified as independent contractors rather than as employees, they lose basic benefits such as a minimum wage, paid sick days, and health insurance.

The sole proprietorship is the simplest method to operate a business—often under the owner’s name—and the owner is typically taxed directly by the IRS by attaching a Schedule C (Profit or Loss) form to the owner’s individual tax return. In order to document one’s income, instead of being provided a Form W-2 from one’s employer, many self-employed individuals receive one or more 1099-MISC (Miscellaneous Income) forms from clients, which typically demonstrate that the taxpayer is operating a sole proprietorship. Sole proprietors are allowed to deduct their business expenses related to their income and, as both employer and employee, are required to pay the full amount of employment taxes for Social Security and Medicare.

An owner can also operate under a DBA or “doing business as” filing. A DBA is filed at the relevant state or local government office where the sole proprietor wants to operate under an assumed name. Technically, this is not a new organization: It is just a different name. Any business entity may file for a DBA to operate under an assumed name, and many individuals operate under a DBA to indicate the type of services they are providing, such as Smith’s Roofing Company. It is not uncommon for an individual to name a sole proprietorship using LLC or Co. in its name; however, an individual operating under a DBA or assumed name is not provided any of the protections provided to a corporation or LLC, even if Inc. or LLC is used in the assumed name. A sole proprietor needs to consider the impact of using an assumed name prior to creating a DBA.

Advantages and Disadvantages of Sole Proprietorships

The sole proprietor is personally liable for everything. A sole proprietor is the investor, owner, and manager of the business enterprise. The sole proprietor is personally liable for all of the taxes and any unpaid debts of the business venture. The sole proprietor also has no business to sell and can sell only assets related to the business. The sole proprietorship is the easiest business to start but has almost no differentiation from the individual starting the business.

Taxation of Sole Proprietorships

A sole proprietorship is not taxed as an entity. All profits pass through to the owner who pays individual income taxes on all profits earned. It does not matter whether the owner takes the money out of the business or leaves it in the business; all profits are taxed to the individual owner. This is an area that requires significant planning and may be a potential disadvantage, depending on how the individual owner’s personal rate compares to the corporate rate.

OTHER LOW-RISK ENTRY STRUCTURES IN ENTREPRENEURSHIP

Over the past decade, various alternatives to traditional employment have become popular, leading many to become entrepreneurs rather than employees. The US Bureau of Labor Statistics reported that, in 2019, there are 55 million people in who are “gig workers,” which is more than 35 percent of the US workforce. That percentage is expected to increase to 43 percent by 2020.² This offers both an opportunity and a challenge. There is a modicum of security when one is an employee of a company, which may not exist in the same way for someone who is freelancing or working as a contractor. There are many examples today of people becoming small entrepreneurs.

2. Quora. “What Are the Pros and Cons of the Gig Economy?” Forbes. January 8, 2019. <https://www.forbes.com/sites/quora/2019/01/08/what-are-the-pros-and-cons-of-the-gig-economy/#3e1dc24e1388>

This process goes by a variety of names, such as the sharing economy, the gig economy, the peer economy, or the collaborative economy. Maybe it means driving for a company such as Lyft, Uber, or GrubHub, or perhaps offering services through TaskRabbit, UpWork, or LivePerson.

Offering your services in this new manner is not controlling of what type of entrepreneurial enterprise you want to be. You can do most of these types of things as a sole proprietor, an LLC, or an S corporation.

According to the Tax Foundation, over the past thirty-five years, the number of C corporations has declined significantly, while the total number of pass-through businesses including LLCs, S corporations, partnerships, and sole proprietorships has tripled to over 30 million. According to estimates, there are only 1.7 million C corporations, whereas there are 7.4 million LLCs, partnerships, and S corporations, and a whopping 23 million sole proprietorships.³ The explanation for these statistics is really quite simple. LLCs have quickly become one of the most popular business structures due to ease of formation and operation. Likewise, sole proprietorships are quick, easy, and low cost compared to corporations, which are more difficult and expensive to form and operate. The choice is open and depends on the variables discussed in this chapter.

ENTREPRENEUR IN ACTION

Nic & Luc Jam⁴

In an interview with the Balance, entrepreneur Leroy Bautista summarized his path to becoming a small business owner. He worked in high-end restaurants and successful catering companies for two decades before he was laid off during the economic downturn. Bautista didn't sulk or settle for a lousy job. Rather, he saw it as a chance to finally do what his coworkers and friends had been telling him to do: go out on his own, making his sauces and vinaigrettes, and selling them at local markets. It was out of necessity that the Nic & Luc company was born.

Originally selling just a few flavors, he now sells almost twenty flavors. For many small businesses, the word "local" is used as a marketing ploy, but for Nic & Luc, it is part of the business purpose and a core value. Bautista thinks it is important to support other local businesses like himself.

This is not a story that someone like Bezos or Gates might tell: It is much more basic, but it demonstrates how people at all levels are becoming business owners. Each one of them, including Leroy Bautista in this story, must make decisions about mundane things such as taxes, and liability; it can't be all about jam.

3. Scott A. Hodge. "The U.S. Has More Individually Owned Businesses Than Corporations." Tax Foundation. January 13, 2014. <https://taxfoundation.org/us-has-more-individually-owned-businesses-corporations/>

4. Alton, Larry. "4 Small Business Success Stories for New Entrepreneurs." The Balance Small Business. February 5, 2019. <https://www.thebalancesmb.com/small-business-success-stories-to-learn-from-4151885>

10.6 Additional Considerations: Capital Acquisition, Business Domicile, and Technology

Learning Objectives

By the end of this section, you will be able to:

- Describe the capital acquisition opportunities available to different types of business structures
- Explain how the advantages and disadvantages of where a business is registered should inform the decision of where to create a business domicile
- Understand the role technology considerations may play in selecting a business structure

In addition to the main entity selection topics already discussed, such as ownership structure and taxation, there are other considerations that entrepreneurs might want to consider. For example, when choosing a business format, a founder would be interested in how to raise capital to use in the business.

Another issue to consider includes where to form a new business, since formation is largely a state issue, and there are fifty different states from which to choose. This has the potential to affect multiple aspects of one's business, including income and sales tax issues, government regulation, and litigation situs (location). For example, some states, such as Wyoming and South Dakota, have no corporate income or gross receipts tax at all; other states, such as California and New York, do have a state corporate income tax. For more information on the variation between all 50 states, see the following website operated by Cornell Law School: <https://www.law.cornell.edu/wex/corporations>.

CAPITAL ACQUISITION

Once an entrepreneur has created a business plan, the next requirement is to capitalize the business venture. If the entrepreneur wants to start out small, a sole proprietorship is all that is needed, although even for small businesses, this structure carries a high degree of risk. Basically, the entrepreneur can simply start working on the business venture. If the entrepreneur's business venture is larger, raising capital becomes a major issue. This can be done through bank loans or investors.

Entrepreneurs eventually need capital to grow their business. Capital typically comes in the form of cash. Entrepreneurs need to consider the business structure they select for raising cash in the future if they plan to grow their business. Banks, family members, friends, or others can lend cash to an entrepreneur. These types of loans may not give the lenders ownership rights in the company. The lenders may take a lien on the assets of

the business venture but do not necessarily have the right to run the business. Management is typically left to the owners when borrowing funds, but when a company receives investment funds, the investor also receives an equity share in the business and may be involved in management.

Owners and investors may want to have the right to operate the business or may want the investment structured in such a fashion so that the investors only participate in the profits or losses of the business, but do not operate the business. Depending upon the type of the business and the expectations of the entrepreneur and possible owners, this needs to be considered before creating a company. An entrepreneur raising capital needs to consider what participation is desired from investors and the timing of the needed capital. Remember, investors become owners, whereas lenders are not owners.

Capital is required at every step of a business. There can be lines of credit to finance operations as receivables are collected, and there can also be long-term borrowing for purchases of big-ticket assets required to operate the business. The difference between a loan and an investment is that the loan principal and interest must be paid back. However, an investment allows the investor to participate in the profits and losses of the business, but does not need to be repaid because investors can get a return on their investment by selling their interest in the business. Finding a good balance between how much ownership the entrepreneur wants to relinquish versus how much of the profits need to be paid to finance the business is key. The entrepreneur needs to determine this balance as the company grows. For example, Amazon started as a Washington state corporation named Cadabra, Inc., operating out of Jeff Bezos' garage, and then through several transactions became the world's largest online retailer incorporated as a Delaware corporation with its ownership shares AMZN traded on the NASDAQ.

Growing companies will have different rounds of outside investment. Never consider that the first outside investment received will be the last investment. There will be more than one round of financing in most companies. As the investment and financing changes, there will be changes in the corporate structure of the business venture. Just like Amazon, a company can start in one's garage and then go on to be a company listed on a major stock exchange with a worldwide reach. Each step of the way takes careful planning (see Entrepreneurial Finance and Accounting).

Legal and tax issues are directly related to the agreements between entrepreneurs and their investors. The written agreements should spell out the corporate structure with specific details of the arrangement between the two. The business structure will drive the tax circumstances of the investment, business, and owners. This may change with new investors, so agreements should be flexible. Many times, a new investment in the same business may be created in which the new business structure purchases the assets of the old business structure. This event will change all of the agreements evidencing the structure of the venture.

Agreements describing how the owners share in profits and losses, and how the owners share in making decisions about the business venture can and do change. Many owners and entrepreneurs desire that their company become a publicly held corporation. This is a company with its ownership shares traded on a public exchange. The ease of buying and selling shares on a public exchange typically increases the value of the company. Therefore, many investors desire that shares ultimately become publicly traded. A company may start as a sole proprietorship, become an LLC, and then be converted into a corporation with its ownership shares traded on a public stock exchange. In the circumstance where the company is growing, the business structure will change over time.

Many publicly traded companies start as a privately held corporation before going public through an initial public offering (IPO). A recent example is Spotify, which in a 2018 IPO raised \$9.2 billion.¹ A closely held corporation, which is essentially the same as a privately held company, has no public market for its stock. The owners, as

1. Samuel Stebbins. "The Top 26 Largest Company IPOs of the Year." USA Today. December 7, 2018. <https://www.usatoday.com/story/money/business/2018/12/07/top-ipos-2018-26-biggest-companies-went-public-year/38611947/>

members or shareholders, have more control over the directions of the company, until the company is taken public.

The assets of a closely held company can be sold to a company that is publicly traded, such as a reverse merger, or can be used to create a company that will pursue an IPO. Both of these are complicated endeavors that require audited financial statements, the assistance of lawyers and outside accountants, and the use of an investment bank. Each step of the way, the entrepreneur gives up some equity and control in the company in exchange for investment money to help the company grow. Most small companies becoming public will (but are not required to) list on a stock market like the Nasdaq SmallCap market or the Nasdaq National Market System. This development provides the company direct access to international capital markets and many new investors.

The issues that investors tend to look at include transferability or sale of their ownership interest, ability to raise additional capital, and protection of the investors' assets outside of the investment. If the entrepreneur is unconcerned about investment from outsiders, these considerations are not as important. Another issue is the ability to raise capital through banks or by using the SBA to guarantee a loan through a participating bank. The first step in getting an SBA loan is determining that the "business is officially registered and operates legally."² This means that the borrowing business is a company that is registered in a state to do business.

An entrepreneur can borrow up to \$4.5 million (the SBA limit³), to fund operations. However, the first step is to create a proper business entity to which the bank can loan the money or in which an investor can invest.

The typical entities to which banks lend money and investors invest money are partnerships, LLCs, or corporations. To create these entities, an entrepreneur needs to file the appropriate paperwork within a given state.

In addition to traditional sources of funding, including borrowing, taking on partners, and selling stock through an underwriter, there is a relatively new source of capital for small business entrepreneurs that is an important addition to the capital acquisition options for startups. Equity crowdfunding involves a startup raising capital through the online sale of securities to the general public.

In 2012, Congress enacted new legislation called the Jumpstart Our Business Startups (JOBS) Act, which amended US securities laws to enable small businesses to use a variation on a technique known as crowdfunding (see Entrepreneurial Finance and Accounting). Crowdfunding is already in use as a way to donate money to consumers and businesses through web portals such as GoFundMe, but those sites do not offer SEC-compliant sales of securities in a business, as the JOBS Act now permits. Emerging growth companies (EGCs) seeking capital are now able to raise equity capital more easily and at a lower cost. This new type of funding should help level the playing field for EGCs and is viewed by many as a way of democratizing access to capital.

An example of success using this new method of financing for entrepreneurial startups is Betabrand. This San Francisco-based retail clothing company doubles as a crowdfunding platform. The company facilitates the use of its platform for crowdsourcing clothing concepts and prototypes, and their conversion into actual products by raising capital through their website.

[Link to Learning](#)

2. U.S. Small Business Administration. "Funding Programs." n.d. <https://www.sba.gov/funding-programs/loans>

3. U.S. Small Business Administration. "Loan Fact Sheet: The SBA Loan Guarantee Program: How It Works." October 2011. https://www.sba.gov/sites/default/files/SDOLoanFactSheet_Oct_2011.pdf

The Crowdfunder website connects to one of several different business-oriented equity crowdfunding websites. It offers EGCs or small business several avenues of funding, including equity, convertible notes, and debt. The primary advantage is the ability to raise equity capital without big fees, lots of federal regulations, and red tape.

BUSINESS DOMICILE: STATE AND LOCAL CONSIDERATIONS

There are multiple reasons why an entrepreneur may want to consider geographic location when forming and operating a business. Of course, one practical consideration is where the entrepreneur lives, at least in terms of operating a small local or regional business. However, there are other important considerations, such as differing formation/incorporation laws, widely varying levels of regulation, different types of permitting, and other relevant factors. As a rule, a corporation is considered a citizen of both its state of incorporation and the state of its principal place of business.

Link to Learning – Incorporating a business in Canada

Incorporating a company federally in Canada is a four-step process.
Read: How to incorporate a business in Canada .

The state where a person lives is not necessarily the state in which they must form and/or operate the business. For example, if a person lives in the New York City metro area, they might well have a choice of New York or New Jersey, or even Connecticut, Delaware, or Pennsylvania. The same may be true for the metro areas of other large cities. Additionally, even if a person lives in the middle of North or South Dakota, they might choose to start a business in another jurisdiction, such as Delaware, Alabama, or Wyoming, due to favorable formation regulations. The following section discusses the issue of choice of jurisdiction when forming a limited liability entity such as a corporation or an LLC.

Choice of State When Incorporating/Registering Your Business

Business entities seeking the protection of limited liability must be registered with a state. This typically includes corporations, LLCs, and LPs. Additionally, if a corporation seeks to sell stock to investors in a specific state (called an intrastate offering), it must be registered in that state. The first step is to select the type of entity to be created and then file the appropriate paperwork with the state. Each entity is typically created through the office of the secretary of state (or, in the case of Kentucky, Massachusetts, Pennsylvania, and Virginia, the secretary of the commonwealth), with each state having a different process for creating the entity. The Balance, a small business resource website, lists all state government offices in which to file the appropriate paperwork.

Forming a business in the state where the entrepreneur is physically located is generally the easiest way to create the entity through which the entrepreneur will conduct business. Some entrepreneurs choose to create their business entity in other states for privacy reasons or for tax savings. The entrepreneur will still have to file and pay taxes in every state in which the business operates and will have to register its presence in the state in which it is physically located. Some investors might prefer out-of-state incorporation, and the entrepreneur needs to remember that the corporation will be subject to taxes, filing requirements, and other fees imposed by each state of operation and the state of incorporation.

Delaware is a particularly popular state in which to incorporate due to the ease of regulations regarding ownership structure and business-friendly laws; Nevada and Wyoming are popular as well for the same reasons. The reason these states are popular is that initial fees are cheap, there are little or no renewal fees, and the states emphasize asset protection. While Delaware, Nevada, and Wyoming offer good reasons to incorporate, they are not best choice for every business. If a business incorporates in one state but does business primarily in another, in all likelihood, it may very well have to pay the second state's fees and/or taxes in addition to those of the first state. Entrepreneurs need to consider cost and ease of operations when determining the state in which to create their business entity.

Multistate Taxation

Most businesses have a website and are glad to sell products to any buyer, regardless of where the buyer is located. Amazon is an example of a company that capitalized on the concept of Internet sales. Amazon collects sales tax from all forty-five states that have a statewide sales tax because it owes tax in every state and city in which it operates.

Multistate taxation is not something that most small businesses consider, but it is an issue that can arise in many different circumstances. For example, professional basketball players may be taxed by the state, or even the city, in which they play. This means that an NBA player could owe taxes in over 20 states if he went to every game. Just sitting on the bench in 20 different states could trigger multistate taxation, and, if the team plays in other countries, foreign taxes could also be owed. This is true for every sport and every business that operates in multiple states or other countries. It is not only multibillion-dollar corporations that are affected, but small businesses and individuals as well.

Most online multistate businesses now collect and pay sales taxes in those states with a sales tax. This was not always the case, however. For years, Amazon and other online retailers sold products without collecting any state or local sales taxes at all. The legal requirement that companies did not have to collect sales taxes in a state unless they have a “physical presence,” such as warehouses, offices, and/or employees, gave online companies carte blanche to ignore state and local taxes for many years.”⁴ Until the 2018 US Supreme Court decision in *South Dakota v. Wayfair*, states generally did not require online sellers to collect and remit sales tax to the state. However, this case changed the rules by creating the concept of an economic nexus, a virtual connection with a state based on sales volume or number of transactions. This now means, in most states, that if your business meets a threshold of \$100,000 in sales in that state, it may now require you to collect sales tax on online transactions. Therefore, your online business may have to collect and remit sales tax to as many as forty-five states (five states do not have a sales tax). All entrepreneurs need to develop an understanding of how the Internet and the related tax laws and regulations will affect their planned business operations.

Creating a company in another state will no longer automatically avoid multistate taxes and regulations.

TECHNOLOGY CONSIDERATIONS

Most new entrepreneurs have some familiarity with technology, whether something as basic as social media or more advanced as extensive website development skills. However, most small businesses face challenges in the areas of information technology security and compliance with legal and regulatory requirements.

4. “Amazon’s Local, State and Federal Tax Issues Explained.” n.d. <https://itep.org/amazons-local-state-and-federal-tax-issues-explained/>

Not all small businesses face these challenges. They are most common in companies that handle private information, such as health records or credit card data. The storage and protection of this type of information must comply with government regulations. For example, a small government IT contractor that deals with any type of classified governmental information would need to ensure classified information was protected per regulations and not at risk of exposure. In the healthcare field, recent hacks of patient health data, some of which are handled by small businesses such as a solo practice physician's office, demonstrate the challenges of data protection. It is a significant challenge for companies with relatively small budgets to protect data. Technology security adds large costs and requires skilled personnel, for any business, large or small. Figure 10.10 summarizes the choices of business structure discussed throughout this chapter.

Entities	Owners	Liability	Taxes	Formation	Management	Capital
C Corporation	Unlimited number of shareholders allowed	No personal liability of shareholders for liabilities of corporation	Taxed on profits, shareholders also taxed on dividend	Articles of Incorporation, Bylaws, Resolutions, Stock Certificates	Board of Directors, Officers	Shareholders purchase stock, which creates capital for the corporation
S Corporation	100 shareholders allowed	No personal liability of shareholders for liabilities of corporation	Not taxed as corporation; profits are passed through to shareholders who pay taxes	Articles of Incorporation, Bylaws, Resolutions, Stock Certificates, IRS S Corp election form	Board of Directors, Officers; if close corporation, owners can manage directly without a board	Shareholders purchase stock, which creates capital for the corporation
Sole Proprietor	One owner	Total personal liability for liabilities of business	Owner pays taxes	Usually no government filing required; DBA form needed if using an assumed name	Owner manages business	Owner puts in own capital and/or borrows from bank
General Partnership	Unlimited number of general partners	General partners have personal liability	Profits passed through to general partners who pay taxes	Usually no government filing required; General Partnership Agreement	General partners have equal management rights unless they agree otherwise	Partners contribute capital
Limited Partnership (LP)	Unlimited number of general and limited partners	General partners have personal liability; limited partners do not have personal liability	Entity not taxed; profits passed through to partners who pay taxes	Limited Partnership Certificate, Limited Partnership Operating Agreement	General partner can manage the business; limited partners do not participate in management	General and limited partners contribute capital
Limited Liability Company (LLC)	Unlimited number of members allowed	Member does not have personal liability	Taxed as a partnership	Articles of Organization or Formation, Operating Agreement	Managed by members collectively or managed by a single member	Members contribute capital

Figure 10.10 The characteristics of different business entities [C-Corporation, S-Corporation, Sole Proprietor, General Partnership, Limited Partnership (LP), and Limited Liability Company (LLC)] are provided in terms of owners, liability, taxes, formation, management, and capital. Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license

10.7 Mitigating and Managing Risks

Learning Objectives

By the end of this section, you will be able to:

- Explain Enterprise Risk Management and how a company uses it
- Describe litigation and financial risks
- Describe common insurance needs

Risk management is key to operating any business in a profitable fashion. There are many risks facing an entrepreneur when starting and operating a new business venture. The trick is to eliminate risks that will hurt the venture, while taking on risks that will provide for long-term profitability. The risks facing the entrepreneur need to be initially identified as part of developing a business plan and revisited regularly in ongoing operations. Preparation for adverse events affecting a new business venture is necessary, but being too pessimistic or allowing fear of adverse events to stop an entrepreneur from taking any risk will keep a business venture from achieving its greatest potential and profit.

It is important that an entrepreneur develop an understanding of the risks of the business environment. The risks include liability risks stemming from contracts and torts, sometimes referred to as operating risks, regulatory compliance risks, financial risks, and strategic risks, including taxation. Understanding how the business structure is used to operate the business venture allows the entrepreneur to develop a plan to manage business growth and understand business risk.

ENTERPRISE RISK MANAGEMENT

Profitable ventures develop a strong enterprise risk management program, which is an integrated, cross-disciplinary approach to monitoring risk. An organization needs to look at both long-term and short-term risks at all levels of the organization, and these risks need to be evaluated from all stakeholders' perspectives and developed into an entity-wide program.

Enterprise risk management attempts to address the specific risks discussed in the preceding section by implementing a risk program that enables a business to identify and manage risk. Specifically, a business will go through a process that involves a multistage process of risk identification, risk assessment, and risk abatement. Examples of risks that businesses face include those from natural causes, economic causes, and human causes.

Natural causes of risk include disasters such as hurricanes and flooding, as well as earthquakes or other catastrophes that result in loss of life and property, as well as business interruption. For example, a business in New Orleans could be flooded by a hurricane. This results in damage to facilities and products, and threatens the lives of workers. In order to counter such causes, businesses need to plan ahead for business continuity, take out comprehensive insurance coverage, and have an evacuation/shut-down plan in place.

Economic causes of risk include global events leading to rising prices of raw materials, currency fluctuation, high interest rates, and, of course, competition from other companies in the same industry. An example of this would be unpredictable trade wars with China, leading to tariffs.

Human causes of risk refer to actions by employees, contractors, and those persons over which a company has control. These events can include torts stemming from negligence at work, labor strikes, shortages of qualified trained workers, and corporate mismanagement. An example of this type of risk would include embezzlement of money by an internal financial executive.

The use of a comprehensive approach allows a business entity to review and combine all risks into a functional perspective that allows the entrepreneur to evaluate risks and integrate new risks as different opportunities become more important to the business venture. Businesses sometimes use a risk matrix to assess or characterize the probability and impact of risk (Figure 10.11). The use of such a tool can help a business quantify risk and decide whether to undertake an activity based on its level of risk.

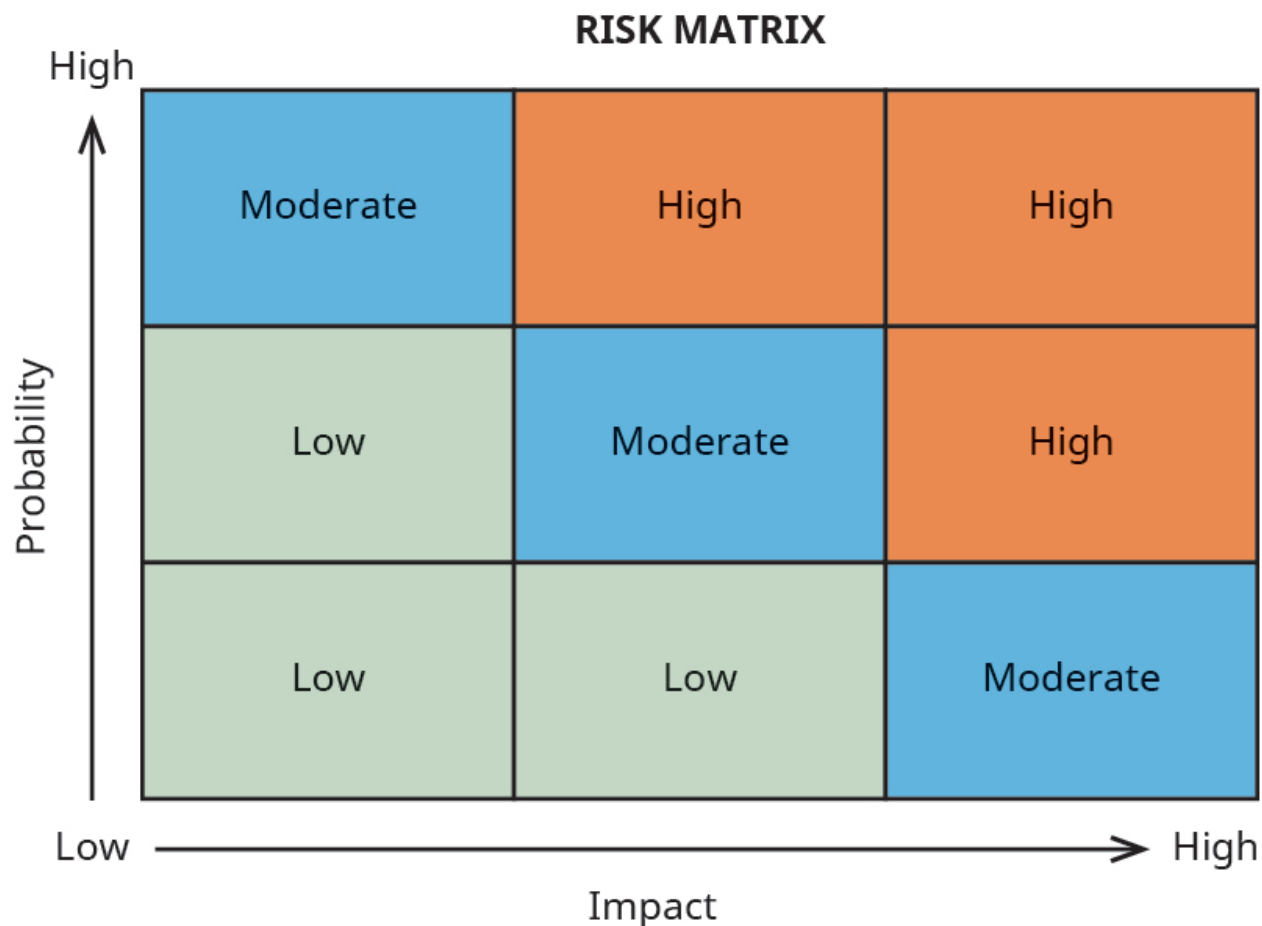


Figure 10.11 A risk matrix can be a useful tool to assess the likelihood and severity of risk that a venture may have.

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Risk appetite is important for a business venture to consider, both when creating its business structure and during ongoing operations. Table 10.1 shows an overview of the considerations a business venture should entertain in both its creation and operation.

Table 10.1 Risk Appetite¹

Risk Item	Consideration
Existing risk profile	Current level and distribution of risks across the business and across risk categories
Risk capacity	Amount of risk the business can support while pursuing its objectives
Risk tolerance	Amount of variation the business can tolerate while pursuing its objectives
Risk attitude	Management's attitudes toward growth, risk, and return

This is the basic approach to evaluating a new venture's appetite for risk. Determining and understanding the risks facing a new venture should start during the preparation of the business venture's written business plan and should continue through the operations of the venture.

LINK TO LEARNING

The Committee of Sponsoring Organizations of the Treadway Commission, also known as COSO, deals with risk management. The mission statement of the COSO is "to provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations."

LEGAL RISK AND PROTECTION

Business operations of any sort need to follow business regulations and laws. The failure to follow business regulations may lead to fines, lawsuits, or even criminal penalties. Legal risk stems primarily from a breach of contract and/or the commission of a tort. Common examples of this type of risk includes product liability lawsuits. These lawsuits are frequently very expensive class action lawsuits or regulatory investigations of dangerous products. There are many famous case examples including automobiles, asbestos, pharmaceutical drugs, breast implants, and airplanes.

Other lawsuits stem from contracts, including borrowing money from a bank. The business has an obligation to pay it back, or it breaches a covenant within a contract. Other common types of contracts are those used in selling services and products, leasing real estate, and other similar contractual obligations.

Due to liability risks, business owners and investors are always looking for ways to limit their personal liability. Incorporation is a standard risk protection strategy for this potential problem, as are the use of other types of limited liability structures such as LLCs. This is one of the main advantages of properly operated corporations and LLCs, which allow for limited personal liability of owners and investors. Partners in GPs and sole proprietors are personally liable for all of the debts of the business, even beyond their own investment in the business.

However, a particular challenge for small business entrepreneurs is that even when they form a corporation or LLC, many lenders, landlords, and other entities providing credit to a small business circumvent the limited liability protection by requiring owners and investors to personally guarantee the debts of the business operations. This

1. Rittenberg, Larry and Frank Martens. "Committee of Sponsoring Organizations of the Treadway Commission (COSO)". Enterprise Risk Management, Understanding and Communicating Risk Appetite . January 2012. <https://www.coso.org/Documents/ERM-Understanding-and-Communicating-Risk-Appetite.pdf>

means that the owner who personally guarantees the credit will have to pay back the obligation if the business cannot. An owner can obtain insurance or borrow money for such guarantees. LLCs and corporations do protect their owners, shareholders, and members from a number of different tort claims, such as personal injury lawsuits and claims made directly against the organization.

FINANCIAL RISK AND PROTECTION

An entrepreneur needs money to launch a business, whether that comes in the form of loans from family, their own savings, or investors. The founder will be expected to put their own money at risk, whether in the form of a loan to their own business or equity in their own business. If they do not have any “skin in the game,” then others will not be interested in loaning them money. This means that if the business fails, it will have repercussions for the owner, even if they operate as a corporation or LLC. This is the essence of financial risk: starting a new business with insufficient funds to sustain operations over an extended period of time.

Any new business owner needs to have a sound financial strategy as a part of the overall business plan. This should show income projections, the liquid assets that will be required to break even, and the expected return on investment for all investors in the first five-to-ten-year timeframe. Failure to accurately plan could mean that the entrepreneur risks business closure and bankruptcy, and investors get nothing.

INSURANCE PROTECTION

Risk management and protection are enhanced with the purchase of different types of insurance, which involves spreading risk over a large number of people (policyholders). If a company is a corporation, it may need directors’ and officers’ liability insurance to indemnify the directors and officers if they get sued. Another insurance policy many companies get is called errors and omissions insurance, and this insurance coverage protects employees in negligence claims and cases if employee theft. Other types of insurance policies that most businesses carry include automobile insurance, health insurance, property insurance, and cyber/data breach insurance. Insurance coverage for a business venture needs to be specific to the business structure and its operations. Keep in mind that not all risks can be insured against—for example, a bad economy that leads to a loss of business or a bad decision by the owner to enter a market that does not work out.

INFORMATION TECHNOLOGY/CYBERSECURITY FOR SMALL BUSINESSES

According to the SBA, the risk of hacking, ransomware, and customer privacy are equally as significant for most small businesses as for larger ones. The SBA has set guidelines related to cybersecurity for entrepreneurs. The SBA recommends the ten-step action plan shown in Table 10.2.

Table 10.2 Small Business Administration Recommendations for Cybersecurity²

1	Protect against viruses, spyware, and other malicious code
2	Secure your networks
3	Establish security practices and policies to protect sensitive information
4	Educate employees about cyber threats and hold them accountable
5	Require employees to use strong passwords and change them often
6	Employ best practices on payment cards
7	Make backup copies of important business data and information
8	Control physical access to computers and network components
9	Create a mobile device action plan
10	Protect all pages on your public-facing websites and apps, not just the checkout and sign-up pages

MANAGING PAYMENT DATA

- If you operate a small business, are you prepared to deal with hackers who break into your website and steal credit card data from consumers who bought your products online?
- Small businesses running an e-commerce site must comply with the Payment Card Industry Data Security Standard. This is a regulation that could cause severe legal risk for entrepreneurs if your system is compromised, and credit card data are stolen.
- Consumers rightfully expect and demand a safe online experience when they visit your site. Have you paid an expert to evaluate your system and install the best security system? It may be costly, but perhaps not as expensive as the damages you could be ordered to pay by a court if credit card data are hacked.

2. Rebecca Martin. "Protecting Assets from Cyber Threats." News Tribune. November 7, 2016. <https://www.newstribune.com/news/business/story/2016/nov/08/protecting-assets-cyber-threats/647637/>

10.8 Key Terms

B corporation

business that meets a very high standard of social and environmental performance, public transparency, and accountability to balance profit with social purpose

business purpose

reason the entrepreneur forms the company and determines who benefits from it, whether it is the entrepreneur, customers, or some other entity

business structure

legal organization of a business; also called entity selection

C corporation

corporation taxed the corporate level, and then again on the owners' personal income tax returns if corporate income is distributed to the shareholders as dividends

capital

money raised for operating a business

corporation

complex business structure created by filing the appropriate documents with the state of incorporation

economic nexus

virtual connection with a state based on sales volume or number of transactions

enterprise risk management

integrated cross-disciplinary approach to monitoring risk

equity crowdfunding

raising of capital through the online sale of securities to the general public

financial risk

starting a new business with insufficient funds to sustain operations over an extended period of time

for-profit business

business structure designed to create profits that are distributed to the owners

general partnership

business created when two or more individuals or entities agree to work together to operate a business for profit

insurance

spreading risk over a large number of people (policyholders)

joint venture

temporary partnership in which two different enterprises combine for the purpose of mutual benefits such as sharing of expenses and to work toward shared goals and the associated potential revenue

legal risk

risk stemming primarily from a breach of contract, a regulatory violation, and/or the commission of a tort

limited liability company (LLC)

hybrid of a corporation and a partnership that limits the owner's liability

limited liability partnership (LLP)

business arrangement for professional partnerships, such as law firms or accounting firms, in which partners are licensed professionals, with limited liability for financial obligations related to contracts or torts, but full liability for their own personal malpractice

limited partnership (LP)

business arrangement that has at least one general partner and one or more limited partners

not-for-profit organization (NFPO)

business structure that is usually dedicated to furthering a particular social cause or for advocacy related to a common shared interest by using its surplus revenues to achieve its ultimate objective

partnership

business entity formed by two or more individuals, or partners, each of whom contributes something such as capital, equipment, or skills

privately held corporation

company that does not allow members of the investing public to own stock; instead, it is owned by the founder's family or friends, or a private group of investors

public corporation

quasi-governmental entity, a corporation owned or sponsored by the government

publicly held corporation

entity in which members of the investing public own the stock

S corporation

"pass-through" entity, also known as a small corporation, where shareholders report and claim the business's profits as their own and pay personal income taxes on it

sole proprietorship

business entity that is owned and managed by one individual that has very little formal structure and no mandatory filing/registration with the state

10.9 Summary

BUSINESS STRUCTURES: OVERVIEW OF LEGAL AND TAX CONSIDERATIONS

Being an entrepreneur carries with it the responsibility to make significant decisions, the first of which is to decide the business purpose: For example, who should benefit from the creation of the entity? The second important decision to make is whether you are going to be a for-profit or not-for-profit business. This decision is closely related to the business's purpose and is not necessarily controlled by how much revenue you think you might have but rather by who is going to "own" the entity and what it does with the profit it makes. A third decision to make is the type of business entity or structure. Choices include corporation, LLC, partnership, and sole proprietorship.

CORPORATIONS

When forming a corporation, there are numerous choices. One choice is whether to form a C- or S corporation. This is primarily a tax decision, with C corporations being taxed as corporations, and S corporations being taxed as partnerships. Which one is the best for you depends on a number of variables, including how many shareholders you aim to have and how much of the revenue you want to leave in the corporation versus take out of it in the form of dividends, considering possible double taxation issues. Another choice is whether you want to go through the process of becoming a certified B corporation through adherence to a number of social/sustainability guidelines. Finally, you must decide if you eventually want your equity (stock) to be publicly held, as it is in most large companies, or privately held, which may give you more control but limit access to capital.

PARTNERSHIPS AND JOINT VENTURES

Partnerships are a popular form of doing business. Within the structure of partnerships, there are multiple entities or structures. Making the choice can be rather complicated because an ill-informed choice could result in legal problems. Choices include a GP, LP, LLP, and LLLP, each with a different set of circumstances that might make it the right or wrong choice. The factors that would play a role in selecting which type of partnership to form include business purpose, management structure, taxation, and liability. In addition to partnerships, a related type of entity is a joint venture. Joint ventures can be combinations of two or more business entities that decide to come together for a limited period of time for a specified purpose.

LIMITED LIABILITY COMPANIES

LLCs have become, over the past twenty-five years, one of the most popular business entities for new startups. The phenomenal growth in LLCs is due to a straightforward equation: easy formation + easy operation + limited liability = popularity. LLCs offer entrepreneurs several qualities that they seem to like: They are low cost, low maintenance, protect the owner's personal assets from liability, and offer flexible taxation choices.

SOLE PROPRIETORSHIPS

The sole proprietorship structure or entity is the most common form of doing business in the US. It is easy and inexpensive to form, is directly managed by the owner, and is subject to minimal regulation in terms of its formation and/or operation. However, with these good points are also some drawbacks. The owner has unlimited personal liability for all business-related obligations, which makes using this form of business very risky. Additionally, the only way a sole proprietor can remain that way and get access to capital is to borrow money from the bank or a perhaps a family member. Sole proprietorships cannot sell stock like a corporation can nor can they take on more partners as in a partnership or LLC.

ADDITIONAL CONSIDERATIONS: CAPITAL ACQUISITION, BUSINESS DOMICILE, AND TECHNOLOGY

Multiple considerations play a role in the selection of the best business structure for each entrepreneur. This decision flows from the entrepreneur's vision of how the proposed business will operate and affects all aspects of business operations. The decision includes issues related to legal liability, taxation, and the ability to raise capital. This process may also include consideration of the best state to form and operate in, as a result of taxation, regulation, and other related matters.

MITIGATING AND MANAGING RISKS

Risk is part of the equation for any startup business. There is no way to protect against every risk. However, there is a way to identify risk, plan for it, manage it, mitigate against it, and protect against it to an extent. The key to understanding and dealing with risk is not to take a utopian approach to a business startup, thinking that it will never happen to you. Risk is omnipresent. Statistically, some unexpected things will happen. Thus, the best approach to risk is to consider and implement strategies to help you and your business deal with it such as incorporation, insurance, and monitoring.

10.10 Review Questions

1. A not-for-profit business _____.
 - a. is allowed to retain earnings for use within the organization
 - b. must distribute profits to shareholders
 - c. must turn over to the government any excess earnings
 - d. can pay dividends to shareholders

2. The term “for-profit corporation” means which of the following?
 - a. The business must make a profit or forfeit its status.
 - b. The business may make or lose money without changing its status.
 - c. The business is not allowed to sell stock to the public.
 - d. The business must have more than 100 shareholders.

3. Which of the following business structures often involve two or more businesses starting a new business together?
 - a. sole proprietorship
 - b. general partnership
 - c. joint venture
 - d. corporation

4. How is an S corporation taxed?
 - a. at the entity level as a corporation
 - b. at the owner level as if it were a partnership
 - c. at both the entity and owner levels
 - d. at a special lower rate of income tax

5. A public corporation is _____.
a. owned or sponsored by the government
b. owned by member of the investing public
c. owned by a combination of public and private investors
d. none of these choices are correct
6. A C corporation is taxed _____.
a. at the entity level
b. at the individual level
c. at both the entity and individual levels potentially
d. only at the state level, not federal
7. Limited liability partnerships (LLPs) _____.
a. are normally used for firms that consist of licensed professionals such as lawyers or accountants
b. can be used for partnerships that sell services but not goods
c. are used for firms that do business across state lines
d. require that the stock be owned by fewer than 100 shareholders
8. A joint venture _____.
a. must be a corporation
b. can choose to be any type of entity
c. must be either a partnership or a C corporation
d. None of these choices are correct
9. General partners have what type of liability?
a. limited
b. joint and several
c. joint only
d. personal only
10. Of all the business entity choices, LLCs are the most like _____.

- a. S corporations
- b. C corporations
- c. sole proprietorships
- d. joint ventures

11. LLC owners are called _____.

- a. members
- b. shareholders
- c. limited equity investors
- d. directors

12. LLCs offer flexible tax treatment, meaning _____.

- a. they can be taxed like corporation
- b. they can be taxed like partnerships
- c. they can be taxed like proprietorships
- d. All choices are correct.

13. Sole proprietorships offer limited liability _____.

- a. if you register it with the state
- b. if you elect to be taxed as a corporation
- c. if you have an SBA loan guarantee
- d. Sole proprietorships never have limited liability.

14. A sole proprietorship _____.

- a. pays taxes at the highest corporate rate
- b. pays taxes at the lowest corporate rate
- c. pays taxes at the individual rate
- d. None of these choices are correct.

15. Sole proprietorships _____.

- a. must register with the state

- b. are similar to general partnerships in terms of liability
 - c. are similar to LLCs in terms of liability
 - d. are not allowed by law to operate outside of the US
16. States can levy a sales tax on items sold online to a customer in a different state if _____.
 - a. the business has a nexus with that state
 - b. there is a contract between the business and the state comptroller
 - c. the items sold are over \$300
 - d. the business is one that only sells foreign-made items
17. As a general rule, LLCs, GPs, and SPs are taxed as _____.
 - a. corporations
 - b. not taxed
 - c. individuals
 - d. taxed twice, once as entity and once as individuals
18. Entrepreneurs can choose what state to incorporate in, and many choose _____.
 - a. New York
 - b. Delaware
 - c. California
 - d. Texas
19. Enterprise risk management includes _____.
 - a. identifying risk
 - b. risk assessment
 - c. risk abatement
 - d. All of the choices are correct.
20. A business owner can insure against all but which one of the following?
 - a. earthquakes
 - b. a bad economy

- c. flooding
- d. hurricanes

21. Examples of risk facing a business include _____.

- a. human risks
- b. economic risks
- c. natural risks
- d. All of the choices are correct

10.11 Discussion Questions

1. Distinguish between for-profit and not-for-profit entities.
2. What are the distinguishing characteristics of a B corporation?
3. Why would an entrepreneur choose to operate an S corporation rather than a C corporation?
4. What are the choices of entities for operating as a group of engineers?
5. How does a joint venture differ from the other business structures?
6. Distinguish between LLC and LLPs.
7. Why are there more sole proprietorships than any other business entity in the US?
8. What are the general guidelines used to determine where your business must pay sales taxes for sales made online?
9. Identify the common types of risks that a business may face.

10.12 Case Questions

1. The Big University football team, a member of the Southeastern Conference (SEC), brings in over \$100 million a year in revenue, including TV rights, ticket sales, and bowl games. Seats to a game cost well over \$100, and coaches are paid millions of dollars (more than anyone else at Big U, including the president). However, despite enormous revenues, universities and their football teams are considered not-for-profit organizations and pay no taxes on the \$100+ million their football programs bring in. Should a university football program be allowed to exist as a not-for-profit organization?
2. Jen started a new sustainability-oriented business six years ago, making single-serve coffee pods out of recyclable paper, rather than plastic. Her company, Jen's Pod, is now experiencing rapid growth. Jen started her company as an LLC but has been considering making a decision to incorporate. What are some of the advantages of changing to a C corporation?
3. You are headed off to college. Some close family members decide it would be a good idea to buy a house in the college town and then rent it out to students, with you also living there and actively managing it. Assuming you and your family buy it, what form of business would you select?
4. Jackson owns and runs a small computer repair business, a sole proprietorship, out of his home, with one employee. He also goes to small businesses at their locations, mostly cleaning viruses and doing other small maintenance tasks and repairs. A family physician's office calls him in for a repair. He sends his employee to do the repair. Unknown to him, his employee makes a copy of patients' personal information and sells it on the dark web. Jackson ends up being sued, and the plaintiffs ask the court to allow them to access Jackson's personal, nonbusiness bank account that also has his spouse's funds in the account. Can the plaintiffs take that money?

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Chapter 1	Chapter 1 Introduction to Entrepreneurship OpenStax
Chapter 2	Ch. 2 Introduction to Entrepreneurship OpenStax
Chapter 3	Ch. 5 Introduction to Entrepreneurship OpenStax
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chapter 6	Ch.7
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Chapter 10	Ch. 13 Introduction to Entrepreneurship OpenStax

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<https://pressbooks.nsc.ca/entrepreneurship/?p=486#oembed-10>

The Explainer: How to Be a Disruptor (Harvard Business Review)



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<https://pressbooks.nsc.ca/entrepreneurship/?p=486#oembed-11>

ARTICLES

2022 Top 30 Under 30 Innovators (Atlantic Business)

<https://atlanticbusinessmagazine.ca/award-programs/30-under-30/2022-top-30-under-30-award-winners/>

2021 TOP 30 UNDER 30 INNOVATORS (ATLANTIC BUSINESS)

<https://atlanticbusinessmagazine.ca/article/atlantic-canadas-30-under-30-innovators-2/>