**Chapter 1: The Entrepreneurial Life**

**Chapter Outline**

**Spotlight: BlueAvocado**

**(http://www. blueavocado.com)**

1. **Small ‘Size but Large Significance**

***LO1: Explain the importance of small business and entrepreneurship in our society.***

* 1. **U.S. Small Business Administration reports the following:**
		1. As of 2009, there were almost 6 million businesses in the U.S. with employees. Of these businesses, 90% had fewer than 20 employees, and companies with fewer than 500 employees accounted for almost all the firms- 99.7%
		2. The companies with fewer than 500 employees hired almost 50% of all employees, accounted for 43% of all the salaries paid to employees, and in 2007, generated 38% of all business revenues.
		3. Small enterprises hire 43% of all high-tech employees (scientists, engineers, computer programmers, and others).
		4. In any quarter from 1992 to 2010 when there were job increases in the economy, small businesses, with fewer than 500 workers outperformed large firms in net job creation in about three out of four quarters.
		5. Many small companies have been going global, representing 97.3% of all exporters.
		6. For the 10 years ending in 2010, one of the most dramatic trends has been the increase in minority business owners, which is up 86% for both Hispanics, and Asian Americans and 13% for blacks, as compared to only 5% for whites.
		7. The growth in self-employed individuals with college degrees, both baccalaureate and master’s degrees, increased 32% from 2000 to 2010.
		8. About one-fourth of the 23.5 million military veterans in the United States are interested in starting or buying their own business.
		9. As shown in Exhibit 1/1. the industries where small businesses are more prevalent include services, constructions, retail trade, health care, and hospitality.
		10. While small businesses have historically played a major role in the economy over the past decreased, the more recent recession was particularly difficult for them. The number of startup declined from 670,058 from 2006 to 597,074 in 2008, with bankruptcies increasing from 19.605 in 2006 to 60,837 in 2009. This has not been an easy time for small firms.
1. **Small Business, Entrepreneurship, and Education**

***LO2: Distinguish between the terms small business and entrepreneurship and explain how the terms are related.***

* 1. **Small Business and Entrepreneurship: The Same or Different?**
		1. High Potential Ventures or Gazelles- the few businesses that have phenomenal prospects for growth.
		2. Attractive Small Firms- these businesses offer substantial financial rewards for their owners.
		3. Microbusiness or Lifestyle Business- the least profitable types of small businesses and provide modest returns to the owners. These types of businesses permit an owner to follow a desired lifestyle.
			1. *For the purposes of this textbook a small business meets the following criteria, at least in spirit:*
				1. Compared to the largest firms in the industry, the business is small; in most instances, the business has fewer than 100 employees.
				2. Except for its marketing function, operations are geographically localized
				3. Financing for the business is provided by no more than a few individuals
				4. The business may begin with a single individual, but it has the potential to become more than a “one-person-show” and may eventually grow to be a mid-sized company or even a large firm.
1. **Who are the Entrepreneurs and What Do They Do?**

***LO3: Explain the basic characteristics of an entrepreneurial opportunity and the entrepreneur, give examples, and describe several different kinds of entrepreneurship.***

* + 1. Entrepreneurial Opportunity- an economically attractive and timely opportunity that creates value both for prospective customers and for the firm’s owners.
		2. Entrepreneur- a person who relentlessly pursues an opportunity, in either a new or an existing enterprise, to create value while assuming both the risk and the reward for her or his efforts.
		3. Bootstrapping- entrepreneurs who work to do more with less.
	1. **Entrepreneurial Opportunities: Three Success Stories**
		1. Table Occasions (El Paso, Tx)
			1. Stewart and Claudia Narvaez ,married couple and co-founders
			2. Table-decorating business started in 2006
			3. Transformative business that offers a wide range of concepts
			4. Dedicated business owners who spend every day doing what they love.
		2. Blank Label (Boston, MA)
			1. Fan Bi, owner
			2. Came up with the idea for affordable custom shirts during his study abroad program at Babson College.
			3. Despite obstacles, Fan Bi partnered with Danny Wong and brought the business online where overhead expenses were lower and potential market was larger.
			4. Since going online in 2010 they’ve gone from generating $345,000 in their first year to over $1.1milling in 2011.
		3. Tender Greens (Pasadena, CA)
			1. Erik Oberholtzer, Matt Lyman, David Dressler; co-owners
			2. Restaurant that serves organic, farm-fresh, “slow food” at affordable prices. A casual walk-up dining environment, where guests can watch meats grilling and meals being prepared behind a glass partition as they walk through the line.
			3. Opened in 2006 and now operates in seven locations across California.
			4. First year profits were $3million. 2011 sales were $16.7million.
1. **Desirable Qualities of an Entrepreneur: No Big Ego Required**

Spinelli and Adams research on entrepreneurial characteristics on “desirable and acquirable attitudes and behaviors” uncovered six descriptions:

* + - Commitment and determination
		- Leadership
		- Opportunity obsession
		- Tolerance of risk, ambiguity, and uncertainty
		- Creativity, self-reliance, and adaptability
		- Motivation to excel

***Attitudes and behaviors to avoid:***

* + - Overestimate what you can do
		- Lack an understanding of the market
		- Hire mediocre people
		- Fail to be a team player
		- Be a domineering manager
		- Fail to share ownership in the business in an equitable way
1. **Founders versus Other Entrepreneurs**
	* 1. Founders are “pure” entrepreneurs who bring new or improved products or services to market
		2. Franchisees differ due to having less independence
		3. Franchises-Differ from other business owners in the degree of their independence. Because of the guidance and constraints provided by contractual arrangements with franchising organizations, franchisees function as limited entrepreneurs. (Chapter 5 present more information on franchisees.)
2. **Entrepreneurial Teams**
	* 1. Two or more people who work together as entrepreneurs on one endeavor
		2. Able to use talents, skills and resources of team
3. **Social Entrepreneurs**
	* 1. Entrepreneurial activity with an embedded social purpose. In other words, one who comes up with innovative solutions to society’s most pressing needs, problems, and opportunities.
4. **Where Are the Women Entrepreneurs**
	* 1. An increasing number of women are starting and growing profitable businesses.
5. **Be a Small Business Owner Who Thinks and Acts Like an Entrepreneur**
	1. What type of opportunity do you want to pursue? Think and act entrepreneurially.
6. **Owning a Business Begins With You**

***LO4: Describe the importance of understanding your motivations and perceptions related to owning a small business.***

* + 1. Before you choose to enter the small business game, you need to think carefully about whom you want to be and how owning a business will help make you that person.
		2. Understanding clearly why you want to own a small business and what motivates you are vital to eventually achieving fulfillment through your business.
			1. Starting a business may provide an escape from a bad situation.
				1. Reluctant entrepreneur- a person who becomes an entrepreneur as a result of severe hardship.
			2. *Corporate Refugees – a* person who becomes an entrepreneur to escape an undesirable situation
1. **Know Your Entrepreneurial Motivations**
	1. Personal fulfillment
		1. Making a difference in others’ lives, particularly customers, employees, and in the community
		2. Having a sense of belonging and working with others in a common cause.
	2. **Personal satisfaction-**
		1. Working with an enterprise that is intellectually challenging.
		2. Having a passion for the company’s products or services
		3. Receiving recognition and respect.
	3. **Independence**
		1. Being my own boss where I can make things happen.
		2. Controlling my own future.
	4. **Financial rewards**
		1. Creating personal financial wealth based on sound decisions and hard work. When businesses are profitable, everyone benefits.
	5. **Understanding Your Paradigm**
		1. Knowing your motivation is important but it’s not enough. You also need to understand if your perceptions of what it takes to be successful in business are accurate.
		2. According to Stephen Covey having a positive attitude or working harder is not enough. Instead, we have to change how we fundamentally see a situation, or what he calls a paradigm shift.
			1. Michael Gerber describes three paradigms (personalities)
				1. The Technician Personality- a steady worker, experiences at doing what he or she knows best.
				2. The Manager Personality- pragmatic, assuming responsibility for the planning, order, and predictability of the business.
				3. The Entrepreneur Personality- This personality does not look at the work that a business does, but instead the entrepreneur examines how the business does what it is intended to do.
2. **The Competitive Edge of Entrepreneurs**

***LO5: Describe five potential competitive advantages of small entrepreneurial companies compared to large firms.***

* 1. **Customer Focus-** Business opportunities exist for those who can produce products and services desired by customers. Having a small number of customers and a close relationship with them makes customer service a powerful tool for entrepreneurial businesses.
	2. **Quality Performance**- Quality is mostly independent of firm size, but it there is an advantage, it most often goes to the smaller business.
	3. **Integrity and Responsibility**- In order to maintain a strong competitive advantage, it is essential that you add to good customer service and excellent product quality a solid reputation for honesty and dependability.
	4. **Innovation**- Innovation, both in products or services and in competitive strategies, is within the reach of the small business in ways that were not thought possible a few years ago. Thomas Friedman (*The World Is Flat*) indicates that “anything can now be done from anywhere in the world”. Large businesses tend to emphasize the improvement of existing products sidetracking creative ideas that don’t meet that criteria. Bhide indicates that small businesses are more capable of taking inventions or innovations developed elsewhere and putting them into use. Smaller firms have less bureaucracy to deal with than small businesses.
	5. **Special Niche**- Almost all small businesses try to shield themselves from competition by targeting a specific group of customers who have an identifiable but very narrow range of product or service interest and comprise what is classed a niche market.
1. **Building an Entrepreneurial Legacy**
	1. Upon final exit from the business questions of reflection occur. An entrepreneurial legacy is established- this becomes everything that one has left behind.
2. **Where to From Here**
	1. End of Part 1 (Chapter 2) discusses the fundamental values of the entrepreneur
	2. Parts 2 and 3 look at a firms basic strategy, the various types of entrepreneurial ventures, and initial planning required for startups
	3. Parts 4 through 6 deal with marketing and management of a growing business, including its human resources, operations, and finances.

## **SUGGESTED Answers to end-of-chapter discussion questions**

1. ***The three stories discussed at the beginning of the chapter are to some extent exceptions to the rule in the amount of success the entrepreneurs experienced. What then is their significance in illustrating entrepreneurial opportunity? Are these stories misleading?***

These examples provide dramatic illustrations of the substantial success one might achieve. Realistically, we recognize that only a few ventures are so spectacularly successful, that many others experience moderate success, that others are only marginally successful, and that a few fail. Many entrepreneurs find fulfilling lives in successful, independent careers without becoming multimillionaires. The success stories in the text show the great entrepreneurial opportunities available in this country. They suggest that we may go as far as our desires, abilities, preparation, and divine providence permit.

1. ***What is meant by the term* entrepreneur*?***

*Entrepreneur* is a French term that dates back to the early eighteenth century. It refers to an individual who founds or starts a business firm. (The term also includes partnerships and entrepreneurial teams.) In this book we extend the definition to include owner-managers who operate firms started by others. The characteristics of risk-taking and innovation are associated with the image of the entrepreneur.

1. ***Consider an entrepreneur you know personally. What was the most significant reason for his or her following an independent business career? If you don't already know the reason, discuss it with that person.***

Answers will vary, of course. Some students should know some entrepreneurs—parents, friends, or employers—quite well. The instructor might ask students first to explain the basis of their relationship with the entrepreneur and then to discuss their perceptions of that person’s motivations.

1. ***What do you believe would be the two most desirable and undesirable qualities of an entrepreneur?***

Answers will vary, of course.

1. ***The motivators/rewards of profit, independence, and personal fulfillment are the reasons that individuals enter entrepreneurial careers. What problems might be anticipated if an entrepreneur were to become obsessed with one of these rewards—for example, if he or she had an excessive desire for profit, independence, or a particular life-style?***

A balanced perspective is needed. While each reward can give a strong motivation to build a good business, each also has some potential for creating havoc in an unbalanced life. An excessive desire for profit can lead to attempts to make short-run gains at the expense of long-run customer or employee relationships. It may also tempt one to lower ethical standards and to neglect family relationships. An excessive desire for independence may make one difficult to deal with in interpersonal relationships. Some degree of perceived interdependence between employer and employee contributes to mutual respect and cooperative relationships. An excessive desire for a satisfying way of life may dull one’s sensitivity to cost and profit issues. An entrepreneur must achieve a profit goal in order to be able to afford a life-satisfaction goal.

1. ***How do different personalities affect our effectiveness in running our own small business?***

Our personalities and desires shape our callings. There is something embedded in each of us that, without robbing us of our freedom, nonetheless prods or tugs us in the optimal directions.

1. ***What do you believe would be the advantage of having an entrepreneurial team when starting a business*?**

Individual entrepreneurs frequently have weak spots in education or experience. An entrepreneurial team makes it possible to cover such weaknesses by using individuals with varied talents and backgrounds.

1. ***Explain how customer focus and innovation can be special strengths of small businesses.***

Small businesses are generally less bound by bureaucracy and corporate policies and usually maintain closer relationships with their customers. In other words, their flexibility affords them the ability to focus on their customers and meet their needs, which naturally generates customer loyalty. At the same time, small firms often grow out of the innovative ideas of their entrepreneurial founders, and therefore this mindset is likely to prevail in the small business.

1. ***Explain the concept of an entrepreneurial legacy.***

A legacy refers to what one leaves behind or passes on to others – to one’s heirs and to others. An entrepreneurial legacy refers to the entrepreneurial aspect, the business side, of one’s legacy, and thus is concerned with what the business experience has meant to all those affected. This includes the tangible elements such as financial resources passed on to heirs and others and also the intangible elements such as the impact of the entrepreneurial experience on family relationships and the example of entrepreneurial integrity or avarice given to the community.

1. ***Explain the following statement: "One can climb the ladder to success only to discover it is leaning against the wrong wall."***

Entrepreneurial achievements are varied, and the way we measure them also varies. If an entrepreneur concentrates too much on achieving financial goals, for example, that person may fail dismally in other areas of life such as family relationships. The statement points to the need to have one’s goals properly defined and to have one’s efforts properly forecasted.

# **SUGGESTED ANSWERS TO YOU MAKE THE CALL EXERCISes**

***Situation 1***

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

Whether this is entrepreneurial depends on one’s definition. The owner may or may not be a founder—the key issue in some definitions of a “true” entrepreneur. In this text, we use a looser definition of entrepreneur, which could include this owner-manager regardless of whether he founded the business. The venture is apparently not the high-growth, high-potential type. It may well be what we have called an “attractive small company.”

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

This question calls for opinions and permits some discussion of the conflicting values and rewards in business. Some may feel the owner is insufficiently motivated to grow and even to serve his own family properly in that way. Others will see the family values and careful growth as appropriate. The question permits the instructor to discern the general orientation of students in a class. How many, after discussion, will give a vote of commendation to this owner? You might ask students to guess the owner’s age.

***What kinds of problems is this owner trying to avoid?***

The owner is apparently avoiding or reducing problems related to inadequate customer service and product/service quality—areas of difficulty in a rapidly growing business. Also, the personnel and management functions (e.g., delegation, finding qualified key people) are simplified by slow growth. Slow growth may either postpone a transition to professional management or permit a more orderly transition to it.

***Situation 2***

1. ***What information would you want to help make your decision?***

Answers will vary but should include discussion about the economic viability of this opportunity as well as the timeliness of it. As a senior manager with a large corporation his position he may enjoy taking a risk with this startup provided he has a financial contingency plan should the startup company fail.

***2. What would keep you from joining the startup company?***

Several things could keep one from leaving the familiarity of a high level corporate

job but it is dependent on one’s tolerance for risk. This above all else will have the largest impact on ones decision. Other factors would include:

* Lack of financial track record of the startup
* Unfamiliarity with the management / startup team
* Unfamiliarity with the scope work
* Uneasiness about the role of a startup “entrepreneur” compared with the comfortable role of a corporate executive.

***3. How does the timing in our career affect your decision?***

This is predicated on age. It’s easier to take risks like this when one is young and in the early years of a career. As we age, these kinds of risks are less attractive because should they fail, it will be difficult to obtain a steady corporate job at ones pervious level of pay and status.

***4. Why might you accept the offer?***

The thrill of something new, profit potential, and the opportunity to try something that stretches one’s wealth of knowledge would be exciting.

***5. What terms would you want to negotiate if you are inclined to take the offer?***

An employment contract that stipulates compensation including an equity position. Job conditions and position opportunities would also need to be addressed.

***Situation 3***

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

This is a win-win situation for everyone. The utility companies win because they get paid in a timely fashion and don’t have to incur the cost of collecting past due utility bills. The apartment owners win because the utility bills remain in the tenants name and the owners don’t incur the risk of incurring past due utility bills. The tenants win because they don’t have to take on the task of collecting payment from their roommates. The owners of Simple Bills win because they make money by providing a low-cost, low-overhead service to their customers.

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

While these entrepreneurs may not want to give away ownership of their business for fear of losing profits, they fail to see the bigger picture. By bringing in investor capital, they will be able to grow the business into something much bigger. By growing the business bigger (from say a $1 million company to a $100 million dollar company), their profits will be bigger. If the owners retain 60% control of the business, wouldn’t it be better to have 60% of $100 million rather than 100% of $1 million? Indeed, by including investors, the company has the opportunity to grow into something much larger, and more quickly, rather than by bootstrapping this operation.

1. ***What strategy would you suggest for growing the business, assuming new investors are brought in?***

As a high-potential venture, this company may want to seek our angel capital financing. Depending on how large Simple Bills wants to grow (state-wide versus nation-wide) will determine the type of financing these owners will pursue. A nation-wide growth plan would require venture capital financing while a smaller growth plan could utilize angle capital.

1. ***If you choose to raise funds, whom might you seek as investors?***

Have students think outside the box and consider contemporary fund raising strategies such as Kickstarter.com, or other types of online investor resource networks.

***Situation 4***

* 1. ***Is work-life balance for everyone?***

No it is not. Work-life balance is an individual preference and a value. People are spurred into action by what motivates them. Whatever that driving force is will chart the course for how they balance their passion (work, exercise, education) with their other life obligations.

* 1. ***Is work-life balance simply a preference, or is it a necessity?***

Answers will vary on this as this is based on opinion. Most will argue that it’s a preference. Health professionals would largely argue that it should be a necessity.

Balance is always the best course of action.

* 1. ***As an entrepreneur, would there be areas in your life that you would place at a higher priority than growing a business? Explain.***

Answers will vary as this is based on individual preferences.

**SUGGESTED SOLUTION TO CASE 1: DASHLOCKER**

1. ***How did Hennessy’s background prepare him for starting a business? What entrepreneurial qualities does he embody?***

Hennessy’s background as a research analyst for a hedge fund certainly would not have directly prepared him to operate a dry cleaning company, especially knowing what works and what does not work. However, his research skills probably served him well in researching the opportunity. This experience also would have contributed to his ability to analyze financial statements. He also spent a year studying customers’ laundry habits by operating a traditional dry cleaning business in East New York.

In thinking about Hennessy’s entrepreneurial qualities, the instructor might have students return to the important qualities listed in chapter 1 of the text for entrepreneurs to possess, namely:

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

While the case does not provide much in the way of Hennessy’s qualities, it does give you a sense that he was opportunity driven. To be successful, an entrepreneur must clearly identify a problem needing a solution and how he or she can solve the problem at a price where there are enough customers willing to pay to make the opportunity profitable. Hennessy also demonstrated tenacity in spending a year to convince Laundry Locker, a similar firm in San Francisco, to license its technology to DashLocker. Finally, Hennessy gave up a career that in most cases has large financial rewards, which suggests that he has the capacity to tolerate risk.

1. ***What were Hennessy’s entrepreneurial motivations for founding DashLocker?***

Chapter 1 lays out four motivations for becoming an entrepreneur: personal fulfillment, personal satisfaction, independence, and financial rewards. DashLocker could potentially offer Hennessy the opportunity to satisfy all four motivations if done well. Specifically, Hennessy’s primary motivation was to solve an unmet need. He saw the opportunity as a way to change how people live. In his own way, he wanted to make *meaning* for customers. Not unimportant, he also wanted to make a difference by reducing the carbon footprint historically caused by laundry businesses.

1. ***What type of entrepreneurial opportunity did Hennessy identify and how did he capitalize on those opportunities?***

Hennessy wanted to change the way most New York City residents do their laundry and dry cleaning, primarily for 20- to 40-year old professionals who found current laundry services inconvenient to access. In other words, he provides convenience. He also saw growth potential in apartments, where a customer could pick up laundry while still in slippers. This could benefit the landlords as well by providing them a way to have a laundry facility for renters at a much lower cost and without the hassles they would encounter from operating a laundry facility. The landlords would also receive a commission, thus providing a win-win situation for everyone. Furthermore, he was capturing the opportunity with only modest resource requirements, and therefore smaller amounts of capital for him to invest. For instance, DashLocker owns no laundry and dry cleaning equipment. Instead, all items will be sent to a wholesale washing center. He also would have a low cost of operations, with few employees, and a minimum in operating expenses, such as rent and overhead, which means a low profit break-even point. But, to make the opportunity attractive in terms of profits, he will have to achieve large sales volumes. Growth is not only beneficial, but essential.

1. ***Describe DashLocker’s growth potential.***

DashLocker has good growth potential. He had five locations and believed he could grow exponentially by adding locations. The opportunity is scalable, which is an essential ingredient for any opportunity to create profits of any significance. The opportunity to move into apartments and other facilities, along with finding other services, such as shoe shining and a drop-off pick-up system for packages could be met through the same equipment.

1. ***Describe DashLocker’s competitive advantage.***

The firm’s competitive advantage would come from two sources: being the first mover in New York City and having the license to use Laundry Locker proven technology.

1. ***What impact does DashLocker have on society?***

As already noted, Dashlocker has the potential to change how a large part of the professional population in New York City lives.

1. ***What do you think about DashLocker’s social mission? What else could the company do to reduce its footprint? Should businesses be concerned with social entrepreneurship?***

Hennessy envisions a social mission for his business by using green, earth-friendly machines in the firm’s operations. Nothing is said on whether this decision imposes higher costs on the business. If not, then the choice is easy. Be environmentally friendly. If Hennessy faces higher costs, then he has to find a way to be competitive while incurring additional costs not faced by competitors. It can quickly involve tradeoffs, where your hope Hennessy can find a way to capture attractive profits and at the same time accomplish the stated social mission.

Nothing else is provided in the case that suggests other ways to fulfill a social mission. But there are always good options for making a difference in a firm’s community. It would require, however, that Hennessy, working with his employees, find ways to make the community a better place and touch the lives of others in positive ways. Such a goal is the right thing to do to the extent it is possible for the business. But there must be an intentional commitment to such a mission, because there will always be ways for a small business owner to rationalize not including a social dimension as part of the firm’s mission.

1. ***Visit DashLocker’s website*** [***http://www.dashlocker.com/***](http://www.dashlocker.com/) ***and explore the process of signing up for services. What recommendations would you give to Hennessy to make the process easier?***

No specific answer can be provided to this question.