“Good management is the art of making problems so interesting and their solutions so constructive that everyone wants to get to work and deal with them.”

Paul Hawken, Environmentalist, Entrepreneur, Author

OBJECTIVES

• Place entrepreneurship in today’s context.
• Understand what differentiates an entrepreneur from others.
• Classify different types of entrepreneurs.
• Explore what control means to you and the choices it affects.
• Learn the master-case story and context.
• Understand your strengths and limitations.
• Understand the spider-web model for small companies.
• Learn how to network and use mentors.
• Learn how to contain stress.
• Describe the five stages in the entrepreneurial process from opportunity analysis to scaling the venture.
• Learn the key growth issues for an entrepreneur.

CHAPTER OUTLINE

Introduction
Profile: Wayne McVicker—A Typical Entrepreneur
An Entrepreneurial Perspective
Commonly Shared Entrepreneurial Characteristics
Types of Entrepreneurs
The Need to Control
The Spider-web Model
Finding Early Mentors
Introduction

No sector of the economy is as vital, dynamic, and creative as entrepreneurship. For the past thirty years, the impact of entrepreneurs and small-business owners in the creation of new ventures has been felt in virtually all the world’s mature as well as developing economies. The startling growth of entrepreneurial ventures forms the heart of our changing economic system as more employees work for these owners than for any other sector of the economy. In the United States today, the number of employees in small and entrepreneurial ventures is growing faster than in any other sector of the labor force, and there is no sign of a reversal in this trend. The Global Entrepreneurship Monitor states that as much as one-third of the differences in economic growth among nations may be due to differences in entrepreneurial activity. A key factor affecting the U.S. economy is the annual creation of 600,000 to 800,000 new companies, which produces many new jobs.\(^1\) Entrepreneurship—the process of planning, organizing, operating, and assuming the risk of a business venture—is now a mainstream activity. Starting a business is never easy; it requires a special blend of courage, self-confidence, and skills—all of which determine the success or failure of an enterprise. The Internet has fundamentally changed the way entrepreneurs can flourish. It not only provides up-to-date market and technology information but also offers many useful support networks to entrepreneurs. Chapter 5 is devoted entirely to how you can access resources in many ways through “crowd-sourcing.” Business schools everywhere \textit{teach} the fundamentals of entrepreneurship, which were not even part of the curriculum until the 1990s.\(^2,3\)

Throughout this text, you’ll read about entrepreneurs from many types of businesses. Their stories will help you explore possible paths for building your own successful career. You’ll also have the opportunity to assess your present career profile and strategy and contrast them with the approaches these entrepreneurs have developed. The career choices and paths you take are deeply embedded not only in relationships but also in individual characteristics and valued outcomes. The path you follow will be based on a collected set of skills, knowledge, abilities, and experiences, as well as the recognition of unique opportunities. At the end of this chapter, we lay out
the five-stage roadmap that every entrepreneurial start-up must navigate before success is achieved. Often, it is difficult to even see the road, let alone know where you are. But keeping the roadmap in mind will help you in your decision making along the way.

Profile: Wayne McVicker—A Typical Entrepreneur

Wayne McVicker, originally trained as an architect, first had the idea of starting a company while working for Varian Corporation in California. The idea to create a new and transparent way to market complex medical equipment did not get much support within Varian, so together with another employee, Jeff Kleck, he started Neoforma. (Interestingly, more than 60 percent of ideas for start-ups come when working for someone else!) They did this with full knowledge of their employer. At first McVicker worked out of his home, while still full time at Varian, but eventually he untied the knot. Using loans from family members, his home equity, and retirement and college funds, he started building the company. He was fortunate to meet Jack Russo, a local attorney who took Wayne and his partner under his wing. Jack gave them a little money and introduced them to some local successful entrepreneurs who eventually invested in Neoforma. The company grew rapidly, continually putting Wayne and Jeff under stress to find money, people, and advisors. They made a number of common mistakes, including wrong hires, chasing fruitless initiatives, not delegating tasks, and gradually losing control of their company as venture capitalists and new managers entered the picture. Despite these trials and tribulations, the passion that Wayne and Jeff had to make health care better carried the company through to a public sale of stock and an eventual purchase by a group of large healthcare companies. After a short breather to get over the years of intense activity and stress, the founding partners started another company, Attainia, to do an even better job at opening up the healthcare market. Using the lessons learned from Neoforma, they were better equipped to avoid most of the start-up traps. Recently, Jeff and Wayne have handed over the management of Attainia to Jack McGovern and are exploring new start-up opportunities. (See the Appendix to this chapter for more on Wayne and Neoforma.) The Neoforma story is used as a master-case throughout this book. The case can be found on the book web site together with video clips of interviews with the key persons in the case.

An Entrepreneurial Perspective

The word entrepreneur came into English use in the seventeenth century from the French word entreprendre, which refers to individuals who “undertook” the risk of new enterprise. Early entrepreneurs were also “contractors” who bore the risks of profit or loss, and many were soldiers of fortune, adventurers, builders, and merchants. Early references to the entrepreneur spoke of tax contractors—individuals who paid a fixed sum of money to a government for the license to collect taxes in their region. Tax entrepreneurs bore the risk of collecting individual taxes. If they collected more than the sum paid for their licenses, they made a profit; if not, they lost money.

Today the definition of entrepreneurship includes more than the mere creation of a business; it also includes the generation and implementation of an idea. Understanding this team concept is critical if you wish to be a successful entrepreneur. The idea of a sole individual being able to take on enormous risks, attempt innovations, leap without the appropriate background research, and succeed by working long hours and persevering at all costs is no longer relevant in today’s global economy. Entrepreneurs also communicate effectively not only to their teams but also to external “stakeholders” such as investors, bankers, and corporate partners, who are necessary components of their growth path.
Commonly Shared Entrepreneurial Characteristics

Entrepreneurs share a number of characteristics. Often these seem to be paradoxical or even mutually exclusive, which highlights their first key attribute:

- They have the ability to deal with ambiguity. They are comfortable with making decisions based on apparently conflicting and incomplete information. They do not need to nail down every detail, yet they can apply analytical skills when appropriate and necessary. They are also comfortable in complex situations; indeed, they can spot opportunities from what may seem to others a chaotic environment, often using an innate intuitiveness to extract patterns not obvious to competitors. Operating in fuzzy-edged gray areas is natural to them.

- They are self-starters, optimists, perseverant, energetic, and action-oriented. What to others may seem a fatal blow is an opportunity for entrepreneurs to learn, pick themselves up, and see a new opportunity. Threats are turned into great new ideas.

- They are persuasive leaders, people-oriented, natural networkers, and communicators. Habitual entrepreneurs involve many people—both inside and outside the organization—in their pursuit of an opportunity. They create and sustain networks of relationships rather than going it alone, making the most of the intellectual and other resources people have to offer, all the while helping those people to achieve their goals as well. They lead by example rather than dictating.

- They are often creative and highly imaginative.

- They passionately seek new opportunities and are always looking for the chance to profit from change and disruption in the way business is done.

- They tolerate risk, but great entrepreneurs temper risk with reality.

- They work with urgency but balance this with a focus on long-term goals, too.

- They focus on execution—specifically, adaptive execution. People with an entrepreneurial mind-set execute; that is, they move forward instead of analyzing new ideas to death.

- They are open to change and do not hang on to old plans when they are not working. But they pursue only the very best opportunities and avoid exhausting themselves and their organizations by chasing every option. Even though many habitual entrepreneurs are wealthy, the most successful remain ruthlessly disciplined about limiting the number of projects they pursue.

These skills clearly conflict with the old idea of an entrepreneur being a loner coming up with new, out-of-context inventions in the basement without having the personal skills to create a valuable and exciting business.

`“As professors of entrepreneurship, we are often asked if it is possible to ‘teach’ someone to be an entrepreneur. My response is that you can’t teach someone to acquire the drive, the hunger, the passion, and the tenacity to pursue an entrepreneurial path. However, give me someone who has such ‘fire in their belly’ and we can help them to develop critical entrepreneurial skills which will guide them along their journey.”`

Alex Denoble
Professor of Management and Director of Academic Entrepreneurship Program, San Diego State University Entrepreneurial Management Center

Entrepreneurs possess recognizable skills, many of which are embedded within us all. Understand these to uncover hidden traits, and develop them sufficiently to become a successful entrepreneur.

Many entrepreneurial skills do not apply only to starting a company, but have broader applications to other career paths and, indeed, to the way one deals with many of the personal challenges in one’s life. As the world becomes more complex and job security in large organizations is no longer the norm, the ability to create and successfully build your own opportunities
is vital. Therefore, even if you do not decide to start your own company (at least not yet), the lessons learned throughout this book will help you in whatever you do.

**Types of Entrepreneurs**

Until recently, people tended to think of the world of work in distinct categories. Most people worked either in someone else’s business or in their own. The distinction between being an employee and being an entrepreneur was clear.

The rapid changes in the economy over the past two decades have blurred the lines between traditional employment and entrepreneurship. What counts now are portable skills and knowledge, meaningful work, on-the-job learning, and the ability to build effective networks and contacts, whether through teams or through the Internet. Many people now follow less predictable and even zigzagging career paths.

The distinction between managing your own operations and working for others has become blurred. Owning your own business may be a lifetime pursuit or just one part of your career. Some people, called *serial entrepreneurs*, start, grow, and sell several businesses over the course of their careers. In any case, to be successful, you must develop the appropriate skill sets, strategic plans, and management team to enhance your possibilities of survival.

There are several different approaches to identifying entrepreneurial types. Ray Smilor, in his book *Daring Visionaries*, recognizes three kinds of entrepreneurs: aspiring, lifestyle, and growth entrepreneurs.

1. **Aspiring entrepreneurs** dream of starting a business; they hope for the chance to be their own bosses, but they have not yet made the leap from their current employment into the uncertainty of a start-up.

2. **Lifestyle entrepreneurs** have developed an enterprise that fits their individual circumstances and style of life. Their basic intention is to earn an income for themselves and their families.

3. **Growth entrepreneurs** have both the desire and the ability to grow as fast and as large as possible. These firms are the most dynamic job generators in the economy.

Within these categories, there are three subtypes that have grown in importance over the last few years. So important, in fact, that we include three “special topic” chapters on the book website for students who wish to specialize in these areas:—Chapter 12, Social Entrepreneurship; Chapter 13, Technology Entrepreneurship; and Chapter 14, Family Businesses—Important and Different.

*Social entrepreneurs* are individuals with innovative solutions to society’s most social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change. Rather than leaving societal needs to the government or business sectors, social entrepreneurs find what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to take new leaps. They often seem to be possessed by their ideas, committing their lives to changing the direction of their field. They are both visionaries and ultimate realists, concerned with the practical implementation of their vision. Social entrepreneurs present ideas that engage communities that have aligned aspirations.

*Technology entrepreneurs* have ideas triggered by developments in science and engineering. They usually have a strong education in those fields, an advantage that opens up opportunities for them that others might not see. Building ventures around new technology requires specialist knowledge in economics, markets, and social science, in addition to the purely business skills
that other entrepreneurs master. Technology entrepreneurs must understand where their ideas fit into a complex environment, and learn that the best technical solutions do not always end up as the leader in the marketplace. The reorientation from “technology push” to “market-pull” is hard to make; more on this in Chapter 13.

Family-owned businesses comprise nearly 90 percent of U.S.-based companies and employ over 60 percent of the workforce. Such companies have unique management and governance issues and these are explored fully in Chapter 14.

One of the major mistakes entrepreneurs make when starting out is not to closely question what they want to be “when they grow up.” Choosing the path of a lifestyle company creates certain advantages and disadvantages that must be carefully considered. If the goal is to employ maybe twenty or thirty people, to create a comfortable lifestyle for yourself and family members, and to retain control of the company, then the lifestyle path is for you. However, this imposes certain limitations on how you can fund the company. This path eliminates the possibility of selling part of the company for cash to pay for growth. A lifestyle company will not provide a way for investors to get a return on their investments through the sale of their ownership positions in the company. Not being honest with yourself at an early stage about control and lifestyle issues will lead to serious and unpleasant conflicts with investors if you take money from them and do not provide them a way to “exit” their investment.

Growth entrepreneurs, on the other hand, are much less driven by control or lifestyle. They recognize that to grow quickly, they will have to sell parts of their companies to raise cash. These investors will apply various levels of control. The aspirations of the founder and the investors are aligned; they both want to build a valuable company and sell it either to an established company or to the public via an IPO (initial public offering). The entrepreneur is willing to trade control for growth and wealth creation.

There is a third route, however—a lifestyle company that manages to grow fairly rapidly without taking in outside investors. These companies are a hybrid between the lifestyle company and the high-growth equity-financed company. We call these “growth bootstrapped” companies. In most cases, entrepreneurs do not plan it this way. They may start off as a lifestyle company and find that they can generate enough interest for their products or services that they can grow using the cash that they generate from sales. Or they may be in a place where there is little or no access to equity funds or their business does not match the industry knowledge and interests of investors.

It is important for you to think carefully as you decide if control and lifestyle are what drive you or if it is growth, visibility, wealth, or perhaps fame that fuels your ambition. Moving between these two different paths is difficult for reasons explored further in Chapter 8.

The Need to Control

The first decision that an entrepreneur should make is whether personal lifestyle and control are more important than growth and eventual wealth creation. If you believe that the idea for a new business is your baby, identify with it, believe you are the best person to grow the opportunity,
and cannot conceive of handing the reins over to someone else, then a lifestyle choice is best. On the other hand, if you wish to grow the opportunity into something that is going to change the world and share the responsibility rather than control the venture, then a different set of options are open. Understanding how important control is will affect your willingness to share the management responsibilities and fundamentally impact your financial options.

**Partners:** Many well-known and highly successful companies were started by two or more partners: for example, Jobs/Wozniak at Apple, Hewlett/Packard at HP, Brin/Page at Google, and Allen/Gates at Microsoft. Studying successful companies shows that there is a lower chance of failure when there is more than one founding partner. This is not surprising, as one person is unlikely to have all the experience or personal attributes that are required to meet all the challenges. As we will see in the Neoforma master-case, Wayne and Jeff complement each other in ways that enable them to weather some heavy storms. On the other hand, having a partner who turns out to be incompatible can be fatal to the company.

Additionally, right from the beginning, any value that is created is immediately halved if there are two founders. There is a balance between increased likelihood of success and dividing the eventual wealth or cash flow. You should carefully consider on which side of this divide you feel more comfortable. Exercises at the end of this chapter and Chapter 8 will help you think through this process. If you feel that sharing the opportunity with a partner is best, you must carefully consider what personal values and ambitions are needed in a partner. Once an outline profile is prepared, the chances of meeting the right partner increase.

**Hired Managers:** Unfortunately, many companies fail because the founders do not confront their management limitations. It is one thing to have an idea, a passion, and the ability to get to the first sale of a product; it is another to build a strong organization with all the trappings of a larger company—human resources policies, structured training, international cash management, distribution channel development, and so on. The personal attributes of those who create the original idea and have the risk profile and passion to get a company off the ground are usually very different from the skills that are required as the company matures. It is rare indeed to find a first-time entrepreneur who can take it all the way. It is so rare, in fact, that most venture capitalists refuse to invest in companies in which the founder is not open to the idea of stepping aside at the appropriate time. You need to be brutally honest about your own limitations. First-time entrepreneurs have little or no experience and are often too optimistic about their own capabilities. In many cases, they can provide the vision and passion for a new opportunity but soon become overwhelmed as the company begins to take control of them, rather than the other way around. Bringing in new managers with more experience can often be a painful but necessary step; learn when to hand over to others before it is too late.

In the master-case, Wayne and Jeff accept from the very start that they are not the ones to take it all the way and, in fact, work hard to find their replacement. Even so, they have a really hard time handing their baby over to a stranger. There are two issues here: (1) Can you personally accept that it is time to step aside? (2) Can you do this without undermining your replacement? We have seen many companies fail from the inability of the entrepreneur to confront these issues. They take the company down with them still in the captain’s cabin. Certainly, if you are someone...
wanting to retain control, you should pay careful attention to your abilities to manage growth and seek guidance when the time calls for it.

**Financing Options:** If control is more important to you than wealth creation through sharing, you will have to limit your financing options to the so-called bootstrapping methods, bank loans, and the emergence of crowd-funding and forgo using true investors to provide funding for your company. This limitation may well restrict the growth rate of your business but can retain your ability to make all the key decisions, both good and bad. These two fundamentally different financing options are so important that we break Chapter 8 into two distinct parts to deal with them.

**Opportunity Selection:** If control of your own company is important to you and you are somewhat risk averse, you would be better off starting with a smaller opportunity. If, on the other hand, you are someone who is comfortable with sharing decisions and ownership, you may follow a more ambitious plan in which you intend to grow your company quickly with the help of one or more partners, outside investors, and advisers.

**The Spider-web Model**

The skills needed to run a small company with few resources are completely different from those required in a larger firm. In the early stages, the organization is more like a fragile spider’s web, as shown in Figure 1-1; an attack that breaks one or two of the supporting threads could be fatal. An established company is more as a fortress with many specialized and organized troops ready to defend the enterprise, but a start-up has no legal department to deal with lawsuits, no head office to write checks, no cleaning service to clear the drains, and so on. The entrepreneur has to do it all, particularly in the first attempt, with no experience of being a multitasking, always-on-duty spider!

![A Fragile Spider’s Web](image-url)
Finding Early Mentors

If the entrepreneur has limited experience and limited internal resources, then help from outside is necessary. Entrepreneurs must learn to be good listeners and find good advisers who can help make difficult decisions. Entrepreneurs need to develop networking skills and uncover and penetrate networks of possible partners, mentors, customers, investors, and others. Of course, the Internet has become a great place to immerse yourself into social networks through such web sites as MySpace, Facebook, and LinkedIn. Chapter 5 expands on this theme. However, the interactions that such virtual media elicit can be rather superficial and lack some important factors required to establish personal business networks. Networks function largely on trust, which takes time to develop and often requires lengthy, face-to-face discourse in a variety of situations. This trust becomes one of your personal assets and can be used to navigate networks through recommendations.

There has been a lot of interest over the past few years in trying to understand the dynamics of network growth. Much of this work has been triggered by the Internet, which has fundamentally changed the way interconnectivity operates. The concept of “scale-free networks” has evolved. In order to understand the implications of this concept, consider the following pair of easily recognized maps.

The U.S. interstate roadmap is typical of a network in which connectivity is made only to nearest neighbors. As shown in Figure 1-2, the network can grow incrementally because each link is a link between more or less equal intersections. The airline map is fundamentally different. Although having a similar number of nodes, some, the hubs, have a much higher connectivity than others. If I wanted to meet someone by chance, then standing at any of the interstate intersections would have a nearly equal probability. However, the chances are very different between, say, the airport concourses in Atlanta, Georgia, and College Station, Texas. Networks that are characterized by a...
Managing Stress

Being a 24/7 entrepreneur running from one broken spider thread to another can easily distract you from making rational decisions. You become emotional rather than practical when choosing your actions. This is not helped by the fact that starting a company is not just a job; it is a passion, a dedication, even a life. The company can easily become all consuming, the only thing you think about, day and night. The swings from ecstasy to despair shown in Figure 1-3 come all too often and unexpectedly. Not surprisingly, therefore, every entrepreneur—without exception—has experienced conflicts between his or her personal life and the company. It is too easy to become so completely engrossed in the venture that you neglect your friends and family, and your own physical and mental health. This is dangerous as you lose balance in your judgments, forget to

FIGURE 1-3
The ups and Downs of a Start-Up
seek ideas and mental stimulation except within the confines of the company, and allow emotion rather than logic to guide decisions. In the worst case, you bury yourself in an isolated cocoon away from the social comforts that could actually help you through the periods of stress. You need some tools to help you avoid this common trap:

• Before taking action, ask yourself, “How can I work smarter, not harder?”
• Get advice on time-management techniques.
• Plan some personal time with friends and family and stick to them.
• Try to have your workplace at least twenty minutes from home. This seems to be the right time span for you to mentally unlatch yourself from the company.
• Find someone you trust outside the company with whom you can discuss stressful situations to help you tone down emotional content.
• If you have a business partner, work on ways you can help each other through the tough times. Take time to talk before the relationship breaks down.
• Think about your own behavioral patterns and build in some slack time just to think.
• Force yourself to listen to friends and family about their lives; don’t talk about just the company all the time. They may have interesting things to talk about, too.
• Delegate whenever possible, even if you think you are the only person in the world able to do the work.
• Try to see the funny side when things look really bad.

Contact your local chapter of SCORE (www.score.org) to find a retired, experienced executive who will help you on many of these issues for free and plug you into a valuable network. Balancing your personal and business lives is similar to walking a tightrope, and it is very easy to fall off.

The Five-Stage Entrepreneurial Process

Entrepreneurs can increase their chances of success if they understand, follow, and implement the basic five-stage entrepreneurial process described in this section. These five stages, summarized in Figure 1-4, form the backbone of the entrepreneurial process. Each of the key stages includes a main focus activity, discusses tactics for completing tasks, and identifies the estimated amount of time required for each stage. Costs are provided for each activity, which can be used to plan budgets. We will also analyze the risks inherent in each stage and make suggestions for reducing potential problems.

Stage 1: Conducting Opportunity Analysis

The basic objective of this stage is to define the criteria that would make a business opportunity worthwhile. In this stage, the founder identifies the opportunity and creates a vision for the company. If there is no vision for the venture, the new idea is just a dream. Chapter 2 discusses the role of innovation in the economy and how entrepreneurs can learn to innovate new business
The Five-Stage Entrepreneurial Process

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Conducting Opportunity Analysis (Chapters 2, 3, and 4)</th>
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<tbody>
<tr>
<td></td>
<td>• Innovate and create the vision</td>
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<td></td>
<td>• Develop a business model to maximize value retention</td>
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<td></td>
<td>• Conduct market analysis and research</td>
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<td>• Evaluate the competition</td>
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<td>• Research pricing and sales strategies</td>
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<th>Stage 2</th>
<th>Developing the Plan and Setting up the Company (Chapters 6 and 7)</th>
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<td></td>
<td>• Set goals and objectives</td>
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<td></td>
<td>• Start writing the plan</td>
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<td></td>
<td>• Determine pricing, market, and distribution channels</td>
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<td>• Prepare a concise business plan</td>
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<tr>
<th>Stage 3</th>
<th>Acquiring Financial Partners/Sources of Funding (Chapters 5 and 8)</th>
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<td></td>
<td>• “Bootstrap” the company</td>
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<td></td>
<td>• Secure early-stage funding</td>
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<td>• Secure growth funding</td>
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<tr>
<th>Stage 4</th>
<th>Determining the Resources Required and Implementing the Plan (Chapters 9 and 13)</th>
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<tr>
<td></td>
<td>• Manage the finances</td>
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<td>• Determine value of licenses, patents, and copyrights</td>
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<td>• Prepare the organization for growth</td>
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<th>Stage 5</th>
<th>Scaling and Harvesting the Venture (Chapters 10, 11, and 14)</th>
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<tr>
<td></td>
<td>• Communicate the opportunity</td>
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<td>• Discuss options and alternatives</td>
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<td>• Sell or merge</td>
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<td>• Transfer ownership to your family</td>
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<tr>
<td></td>
<td>• Go public</td>
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<td>• Form a strategic alliance</td>
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FIGURE 1-4
The Five-Stage Entrepreneurial Process

concepts, as well as how you screen these business ideas and opportunities. The opportunity has to be embedded in a sustainable business model. All entrepreneurs must create a business model or framework that enables the new company to retain the value of its efforts. Otherwise, they can be quickly eroded by competition such that profits decline. Using a number of stimulating examples, Chapters 3 and 5 illustrate how it is possible to apply innovation to the overall business, not just to new products or services, and how to create a sustainable, highly profitable business that will retain its value and be an attractive opportunity for investors and, eventually, purchasers. In these chapters, we show how the Internet can be used to build value and how information on customers’ behaviors can be mined to build barriers to competitors.

We’ll also discuss various techniques that are used to evaluate the different categories of opportunities. Specifically, we’ll look at the following:

- Evaluating business ideas (determining the idea’s value and relevant factors, as discussed in Chapter 2)
- Protecting the idea (screening questions for patent protection and using an appropriate legal contract, as shown in Chapter 13)
- Building the vision, conducting market analysis to sustain a competitive advantage, and learning how to think big (as discussed in Chapters 3 and 4)
- Preparing a competitive analysis is covered in Chapter 4. Here, we describe how to undertake competitive analyses, determine marketing strategies, develop a pricing scheme for your products or services, and use the Internet to identify and engage with customers.
The entrepreneurial process

This stage usually takes at least a year because it details the pricing and sales strategies required. For example, Bill Gates and Paul Allen were in college when they saw a computer on the cover of *Popular Mechanics* magazine, which set their plan in motion. It took them more than two years to complete the business planning process that led to the creation of Microsoft, an undeniably successful venture.

**Stage 2: Developing the Plan and Setting up the Company**

In this stage, some ideas are discarded, and strategies are documented and converted to an outlined business plan. The focus at this stage is not on producing a fully fledged business plan but on documenting the main concepts for the company and the route planned for its growth. Increasingly tools such as the Business Model Canvas in Chapter 3 are being used to convey the key elements of a business plan. A fuller business plan is a vital yet dynamic document for the company; however, rarely does a newly formed company precisely follow its original plan. In addition, any plan must be tailored to the audience for which it is intended. For example, when raising money from investors or banks, one version might be required; when selling the company either to another corporation or to the public, other versions are needed; and, of course, a plan is needed to guide your management team as the company grows. There is a trend toward shorter, more concise business plans that helps when producing versions for specific audiences. Because the business plan is such a vital tool for the entrepreneur, we have devoted a full chapter to just this topic (Chapter 6). Chapter 7 describes how many entrepreneurs dedicate thought and planning to starting their businesses and determining the structures of the companies. Others establish their companies without much regard to how the business should be structured. Regardless of the amount of forethought, one of the most important decisions to make is how to legally structure a business. The legal form of the business proprietorship—C-Corporation, S-Corporation, partnership, or limited liability company (LLC)—should be determined in light of the business’s short-term and long-term needs. We’ll examine the pros and cons of each of these business structures as well as how to prepare a checklist to start a business.

**Stage 3: Acquiring Financial Partners/Sources of Funding**

Armed with a well-conceived plan, the next challenge is to focus on acquiring funding either through bootstrapping, finding financial investors and partners, or using crowd-funding. In most cases, entrepreneurs may not be aware of the many financing options available that would best meet the needs of the business. Therefore, it is important to know the expectations and requirements of various sources of funds.

Crowd-funding is one option that entrepreneurs should examine and this topic is covered in detail in Chapter 5. Chapter 8 has two parts: each addressing one of the two fundamentally different types of companies. Part A focuses entirely on funding a closely held company in which the founder(s) wish to remain fully in control of the company. Control restricts the company from certain sources of money, and the entrepreneur must creatively bootstrap the company to keep ownership positions from outsiders. Bootstrapping is a vital skill for all entrepreneurs; therefore, this part is also valuable even if the intention is to seek outside owners by selling equity, or shares, in the company at a later stage. This second form of financing is discussed in detail in Part B. Early-stage funding sources include self-funding, family and friends, angels, banks, and government sources. We’ll discuss these and other options used to raise capital in both parts. Each potential source has certain criteria for providing financing, and these criteria are the focus of this stage. To increase the chances of success, we’ll specify what sources are available for early-stage funding and discuss the requirements of financial partners. Part B also discusses sources for
growth funding. We’ll look at using private placements, attracting venture capital, and securing sources of debt financing. The chapter ends with different valuation methods and how much of the company to sell, at what price, and for what percentage of the deal. We’ll also explain the risks involved in financing in terms of timing and the emotional stress and patience required.

Stage 4: Determining the Resources Required and Implementing the Plan

For those companies that have a unique technology, or business model, it is important to understand how these can be protected. Chapter 13 is a special-topic chapter on technology entrepreneurship. It explores the value of intellectual property and how to file patents, trademarks, and copyrights to gain a competitive advantage in the marketplace. The chapter provides an explanation of these forms of intellectual property (IP) and guides you toward effectively developing, protecting, and promoting your own IP.

Entrepreneurs are asked to plan operations and evaluate decisions using financial accounting information. An understanding of managing financial operations will contribute to the success of the entrepreneurial business. Chapter 9 discusses financial statements; how to analyze these statements; and how to prepare budgets, ratios, and cash flow forecasts.

This chapter also covers the important issues regarding people management. Finding, interviewing, training, incentivizing and managing, and, yes, even firing, are important skills you need to build a culture for success.

Stage 5: Scaling and Harvesting the Venture

Chapter 10 provides you with a vital skill that all entrepreneurs need, namely, how to communicate an opportunity concisely and compellingly to new employees, investors, partners, and customers. An idea has no value unless others understand its potential, become excited about being involved, and are willing to participate enthusiastically in the venture. Here, you will learn about the different forms of communications, including video methods as well as how to prepare for a presentation, and what is expected at each stage of relationship development.

Finally, Chapter 11 highlights the methodology, procedures, and options available for entrepreneurs to scale the venture or consider an exit strategy. We’ll discuss how to sell an equity stake to a partner, sell the business, transfer ownership to family members or employees, merge with another company, and implement a leveraged buyout. We’ll also discuss planning for a public offering that offers an option to sell a portion of the venture and scale the business for growth.

The objective of this chapter is to help entrepreneurs identify the best exit plan and be in a strong position to manage the process. Also, in Chapter 11, we tie together each of the issues covered in the book to show how they interact holistically in an actual company with tools and examples for you to learn true CEO skills.

The Growth of Entrepreneurial Companies

Despite the growing prominence of entrepreneurship, understanding of its key features and development stages lags. Mainstream media coverage frequently emphasizes the most unusual successes, creating misconceptions about the nature and evolution of most successful entrepreneurial firms. In theory, entrepreneurship includes several sub-disciplines, including small businesses, businesses owned by women, high-technology start-ups (refer to Chapter 13),
home-based businesses, family-owned businesses (refer to Chapter 14), and those focused on a social mission (refer to Chapter 12). Businesses in these groupings have received the most intensive study.

Relatively little research has been done, however, on the distinctive features of growth companies. This is an important point because in many aspects entrepreneurial companies are indistinguishable from small businesses until they enter a “growth” phase, during which they are transformed into an almost entirely different entity. An entrepreneurial firm is one that grows large enough to influence the environment and, thus, become a pacesetter. Yet we cannot use growth alone to evaluate the real pacesetters, as 86.7 percent of all U.S. businesses employ twenty or fewer people. The past fifteen years have been years of tremendous growth for entrepreneurial companies and for the individuals who make them thrive. During this time, entrepreneurs such as Bill Gates, Andy Grove, Steve Jobs, Meg Whitman, and Jeff Bezos have captured the public imagination and dominated the business news.

The reasons for this trend in entrepreneurship are clear. Each year at least 700,000 new businesses are started in the United States, and of these, a small portion turn out to be the fast-growth companies that propel the economy forward. Each year, this small set of businesses creates a disproportionate share of the new jobs and fuels the economy in numerous ways.

The Growth Period

Most businesses “start small and stay small.” On the one hand, the business may not offer any productivity improvement and, therefore, may have no significant potential for entrepreneurial growth. On the other hand, even if a business does have growth potential, the business owner may prefer to grow it to only a certain point. As we mentioned earlier, not all entrepreneurs want to grow their businesses. Many entrepreneurs work toward the goal of growing the business to a certain level to provide a relatively steady stream of income and employment. The true challenges for these entrepreneurs and small-business owners are to avoid burnout from the daily operations and keep the entrepreneurial spirit that drove them into business in the first place.

What distinguishes an entrepreneurial company from a small business is the ability of the venture owner to maneuver successfully through the transition stages necessary to handle distinctive periods of growth. In many cases, the growth period comes right from the start and is part of the initial vision for the company. In other cases, the growth period comes later or appears to arrive out of the blue. Each year, a certain number of small businesses make the transition to become entrepreneurial growth companies. One thing these growth companies usually have in common is an entrepreneurial mindset.

Entrepreneurship Roller Coaster

Of course, life is not so predictable that you can follow each step in this book without being confronted with surprises, challenges, and disappointments. Indeed, one of the most important attributes of a successful entrepreneur is the ability to keep going under duress. Figure 1-3, adapted from Commercializing New Technologies by K. Jolly from an original chart from R. J. Skaldic, shows the ups and downs of a typical start-up from the original vision or idea through to commercial success. The challenge for the entrepreneur is to manage the periods of despair as well as celebrate the ecstatic events. As you follow the Neoforma story, you will be able to clearly identify many “ups and downs.”
So Why Become An Entrepreneur?

With such a roller coaster life, you might ask, “Why undertake such an uncertain journey?” People become entrepreneurs for many reasons. Some people are attracted to the perceived independence and freedom from the politics and restrictions of corporations. Being able to do your own thing, make your own decisions, and exert greater control over your working environment are attractive alternatives to the conformity—real or imagined—associated with life in a big company. Some may hit a plateau, see that they are blocked from further promotions, or recognize that they are not progressing as rapidly as they would like, and these conditions become motivating factors. We even tell our students that they should view being fired not as a negative, but as the trigger to start something exciting. Other people believe that building a company can provide them with opportunities for sustained growth and mobility. For others, starting their own company provides them with the flexibility they seek in their lives. And of course, for many, entrepreneurship offers a vehicle for creating huge financial rewards.

Use the Master-Case To Develop Management Skills

The failure rate of start-ups is very high. According to Timmons and others, the failure rate of new companies is 24 percent within the first two years and 80–90 percent within the first ten years. However, most companies fail not from focusing on a bad idea or even having insufficient funds; they fail because the founders are confronting complex management decisions without experience or knowledge of the tools to make them. Throughout the book, we include sections on management issues that are aimed at providing you with an understanding of the unique personal challenges that an entrepreneur faces, especially in their first company adventure. You will examine your own strengths and, yes, weaknesses, and learn management skills to deal with the major decisions you will have to make.

Starting a company can be very stressful, with tremendous demands on your time and energy. This can take a toll on your personal life and affect friends and family in ways that are painful. You need to be honest with yourself and those near you so that the appropriate balance between your personal lifestyle and your new company can be struck.

In order to give you a real-life feel for the management ups and downs within a typical entrepreneurial start-up, we partnered with Wayne McVicker, who, with his cofounder, Jeff Kleck, started and grew a company called Neoforma until it was eventually sold. The two founders agreed to have us create a set of video interviews that we have arranged to illustrate different stress points of managing a start-up. The videos as well as brief synopsis of this master-case can be found at the book web site. (The synopsis is found under the Chapter 1 content section.) Throughout the book, you will be asked to revisit Neoforma to help you acquire key management skills by studying the master-case, viewing interviews, and working on exercises.
The definition of an entrepreneur has evolved over time as the surrounding economic structures have become more complex. Today, entrepreneurship is defined as the process of creating something different by devoting the necessary time and effort; assuming the accompanying financial, psychic, and social risks; and receiving the resulting monetary rewards and personal satisfaction. Before embarking on an entrepreneurial journey, you should take some time to reflect on your own attributes, particularly your need to be in control. This will help you identify an opportunity and create a plan of action that is suited to you and increase the likelihood of success. The entrepreneurial process consists of five stages: (1) conducting opportunity analysis, (2) developing the plan and setting up the company, (3) acquiring financial partners and sources of funding, (4) determining the resources required and implementing the plan, and (5) scaling and harvesting the venture.

The study of entrepreneurship has relevance today not just because it helps entrepreneurs better fulfill their personal needs, but because of the economic function of new ventures. More than increasing national income by creating new jobs, entrepreneurship acts as a positive force in economic growth and social benefits by serving as the bridge between innovation and application.

**STUDY QUESTIONS**

Q.1 What are the three types of entrepreneurs? With which do you most identify?

Q.2 What is the difference between technology and social entrepreneurs?

Q.3 Describe five common entrepreneurial personal attributes.

Q.4 If you start a company, will you expect to always be in control, or will you be willing to share control with others if that will help the company grow and make all the participants wealthier? Describe your reasons for your choices.

Q.5 What is the spider-web model? How does it apply to start-up companies?

Q.6 What are the five stages of the entrepreneurial process?

Q.7 What are the growth issues entrepreneurial companies face?

**EXERCISES**

1.1 Some argue that entrepreneurship is largely based on chance and many people do not become entrepreneurs because they are never lucky enough to be in the right place at the right time. Alternatively, entrepreneurs are believed to create their opportunities by engineering situations that heighten the chance they find an opportunity. What is your view? Give examples to illustrate your answer.

1.2 Entrepreneurs often use networks to extend their “opportunity space.” You never know when and how a network will be valuable or what sort of network you might need. Indeed, valuable networks can be created only when you are not looking for immediate benefit. How can you develop your own network before it may be useful?

1.3 Incompatible partners can destroy a company, yet good partners are invaluable. Taking a partner as an equal when you start a company immediately halves your potential upside. Is this worth it? You are considering starting a company. How would you find the ideal partner, and what would be his or her experience, personality, ambitions, and values?

**Master-Case Exercises:** If you have not yet read the master-case on the web site, do so. Then read the diary entries Months 14, 15, 18, 23, 24, 26, 30, 33, and 39.

Either as a team or as an individual produce a presentation on each of the following questions for class discussion. Only one or two slides for each are required to state the key points, which will then be expanded in the class.

**Master-case Q 1:** Map the networks that Wayne and Jeff had, starting from how they met, found investors, grew the company, and started again. How does your personal network link to them? Could you use this network?

**Master-case Q 2:** Despite the Internet, networks seem to require proximity and an entrepreneurial infrastructure. Why do you think this is so? Why are places such as Buck is found in entrepreneurial infrastructures? Do you know places such as this? How would you...
uncover them? On the book’s web site read diary entries Prequel and Months 0, 21, 23, 24, 33, 45, and 46 and view the video selection, “Balance: Your Business or Your Life?”

Master-case Q 3: This was an extremely stressful and risky period for Wayne and Jeff as well as for the other key members of Neoforma. Why would they go through this again? Would you classify Wayne, Jeff, and Denis as “serial entrepreneurs?” Why do you think such persons repeatedly subject themselves to the uncertainties and the stress of starting companies? (Hint: See W. Baumol’s views on entrepreneurs at https://www.sba.gov/sites/default/files/files/sb_econ2005.pdf.)

Master-case Q 4: Anni and Wayne started out with a dream that nearly became a nightmare for their family. Chart the key events in the story of Neoforma that threatened their personal relationship. What lessons can be learned from these events regarding how to balance work passion and personal lives?

On the book web site, read the diary entries Prequel and Months 0, 2, 19, 29, 57 and view the video selection, “The Mindset, the Passion: Do You Have What It Takes?”

Master-case Q 5: Entrepreneurship is sometimes discussed as the ability to deal with these apparent conflicts:

- **Ambiguity—Planning.** Start-up companies are usually exploring new opportunities where data, details, and the environment may be largely unknown. Yet without a plan, managers do not have a basis on which to make decisions. Yet the discipline of a business plan that is required is rarely followed.

- **Creativity—Discipline.** Many, though not all, start-up companies are based on a new idea or an innovative solution to an existing need. However, if everyone is creating new things all the time, then nothing will actually get done.

- **Urgency—Patience.** Entrepreneurs are driven people. Yet real advances take longer than planned—always.

- **Flexibility—Organization.** The need to respond rapidly to changing circumstances, new ideas, opportunities, and threats with limited resources requires a great deal of flexibility and the ability to change direction quickly. But as the start-up grows, it is impossible for the founders to control everything and make all the decisions. An organizational structure must be put in place, which inevitably begins to prevent just the flexibility that is needed for success.

- **Risk Taking—Risk Management.** Entrepreneurs are usually risk takers, yet too much risk does not create a successful organization and certainly may turn away investors.

- **Short Term—Long Term.** Every day presents a new challenge and possible change of direction, yet you must not lose sight of the ultimate goal.

How did the managers at Neoforma resolve these paradoxes?

Master-case Q 6: Managing a start-up requires a broad range of personal attributes, different from and more diverse than in a larger, more structured company. An entrepreneur must balance these often conflicting skills and traits. Pick eight from the list and show, with examples, how they were exhibited by Wayne and Jeff.

- Creative
- Analytical Ability
- Imaginative
- Comfortable in Networking
- Risk Taking
- Motivated to Achieve
- Highly Autonomous
- Leadership
- Persuasiveness
- Initiative Taking
The entrepreneurial process

- Commitment and Tenacity
- Tolerance for Ambiguity
- Unconventional
- Optimistic
- Intuitive
- Passionate in Enjoyment of Life
- Highly Energetic

Interactive Learning on the Web

Test your knowledge of the chapter using the book’s interactive web site.

Additional Resources

Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation
Ewing Marion Kauffman established the Ewing Marion Kauffman Foundation to pursue a vision of self-sufficient people in healthy communities. The foundation, with an endowment of more than $2 billion, is based in Kansas City, Missouri. It directs and supports innovative programs and initiatives that merge the social and economic dimensions of philanthropy locally and nationally.

For more information, visit the center’s web site at www.entrepreneurship.org.

National Dialogue on Entrepreneurship
In the summer of 2003, the Public Forum Institute began work under a grant from the Ewing Marion Kauffman Foundation to develop a National Dialogue on Entrepreneurship (NDE) to improve awareness of the value of entrepreneurship. The project is building on the forum’s extensive background in national dialogues on economic issues and, in particular, a series of events and activities since 2000 focusing on women and entrepreneurship.

For more information and to sign up for the newsletter, visit the web site at www.publicforuminstitute.org.

American Women’s Economic Development Corporation (AWED), New York. AWED, a premier national not-for-profit organization is committed to helping entrepreneurial women start and grow their own businesses. Based in New York City, AWED also has offices in southern California, Connecticut, and Washington, D.C. It has served more than 150,000 women entrepreneurs through courses, conferences, seminars, and one-on-one counseling provided by a faculty of expert executives and entrepreneurs.

Catalyst, New York. This national nonprofit research and advisory organization founded in 1962 has a dual mission: (1) to help women in business and the professions achieve their maximum potential and (2) to help employers capitalize on the talents of women. Under the leadership of Sheila W. Wellington, president, the Catalyst library at 120 Wall Street offers resources on women for background research.

The National Association of Women Business Owners (NAWBO), Washington, D.C. NAWBO propels women entrepreneurs into economic, social, and political spheres of power worldwide. NAWBO offers assistance in securing access to financial opportunities to meet, exchange ideas, and establish business ventures; educational programs, seminars, and leadership training; chapter programs, regional meetings, and national conferences; discounts on products and services; an international network of business contacts; visibility and clout in political arenas; and procurement opportunities.

Global Consortium of Entrepreneurship Centers (GCEC)
The Global Consortium of Entrepreneurship Centers (GCEC), formerly the National Consortium of Entrepreneurship Centers (NCEC), was founded in 1996. The intent of the organization is to provide a coordinated vehicle through which participating members can collaborate and communicate on the specific issues and challenges confronting university-based entrepreneurship centers. The GCEC current membership totals 200 university-based entrepreneurship centers ranging in age from well established and nationally ranked to new and emerging centers. Most of these centers have an outreach program to help
budding entrepreneurs and are an excellent starting point to learn about support systems in their regions as well as being a place for resources and guidance materials. More information can be found at http://www.national-consortium.org/.

**ADDITIONAL CASES FOR READING**

There are several magazines that provide cases and tips for entrepreneurs. Stories are an excellent way of transferring knowledge, and these sources will provide you with many practical ideas to help you on your way: Entrepreneur Magazine at www.entrepreneur.com; Inc Magazine at www.inc.com; and Minority Business Entrepreneur Magazine at www.mbemag.com.

**ENDNOTES**

1. Findings by the Entrepreneurial Research Consortium, a publicly and privately sponsored research effort directed by Dr. Paul Reynolds at Babson College, indicate that 7 million adults are trying to start businesses in the United States at any given time. The Global Entrepreneurship Monitor, a joint research initiative by Babson College and the London Business School and sponsored by the Kauffman Center for Entrepreneurial Leadership, was launched in September 1997 to analyze entrepreneurial activity, its impact on national growth, and those factors that affect levels of entrepreneurial activity.

2. See Dale Meyer, plenary address at USASH at February 15, 2001, “Changes in Entrepreneurship Curriculum.” Courses in entrepreneurship are now taught at nearly one thousand colleges and universities. Entrepreneurship education programs for youngsters in the K-12 age range now exist in more than thirty states. The YESS! Mini-Society entrepreneurship curriculum has been accepted by the U.S. Department of Education’s National Diffusion Network as being effective in both acquiring knowledge and improving attitudes toward school and learning. In addition, according to the Global Consortium of Entrepreneurship Centers, the number of U.S. universities having such centers has grown from 50 to more than 250 in less than ten years.


7. See Ray Smilor, Daring Visionaries (Holbrook, MA: Adams Media Corporation, 2001), xxiv–xxv. Smilor is the president of the Foundation for Enterprise Development and former vice president of the Kauffman Center for Entrepreneurial Leadership.


**The Small Business Administration**

This Federal Agency has a number of planning tools and links to resources at its website www.sba.org.