**CHAPTER 1**

**INTRODUCTION TO ENTREPRENEURSHIP**

**LEARNING OBJECTIVES**

After studying this chapter students should be ready to:

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| 1. | Describe entrepreneurship, corporate entrepreneurship, and the characteristics of entrepreneurial firms. |
| 2. | Discuss three main reasons people decide to become entrepreneurs. |
| 3. | Identify four main characteristics of successful entrepreneurs. |
| 4. | Explain five common myths regarding entrepreneurship. |
| 5. | Discuss the three types of start-up firms. |
| 6. | Discuss the changing demographics of entrepreneurs in the United States. |
| 7. | Discuss the positive effects of entrepreneurship and entrepreneurial firms on economies and societies. |
| 8. | Explain the entrepreneurial process. |

**CHAPTER OVERVIEW**

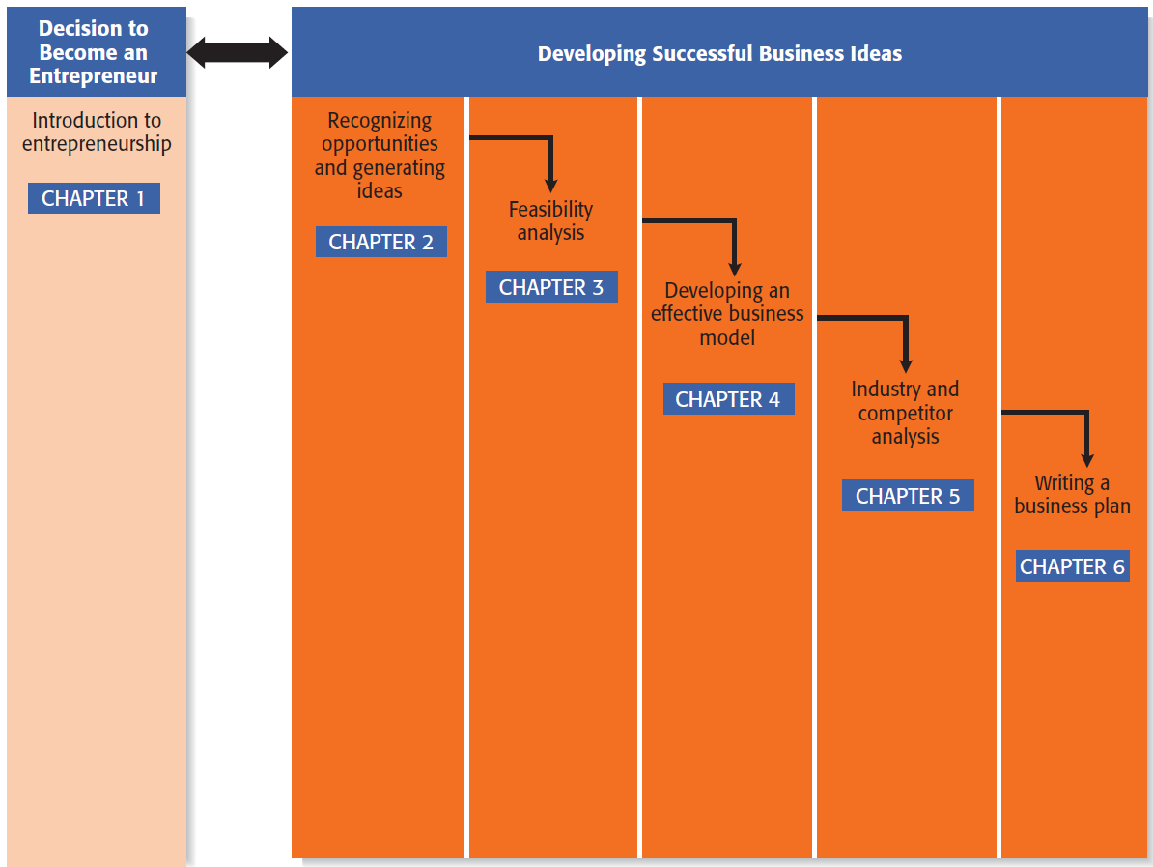
This chapter (1) introduces the book, (2) provides an overview of the entrepreneurial process, and (3) introduces a conceptual model that shows how the entrepreneurial process typically unfolds. The model, which is shown at the top of the next page, depicts the entrepreneurial process as a 10-step process, beginning with the decision to become an entrepreneur. The chapters of the book follow the model. We hope that this approach provides your students a nice visual way of understanding how the entrepreneurial process unfolds.

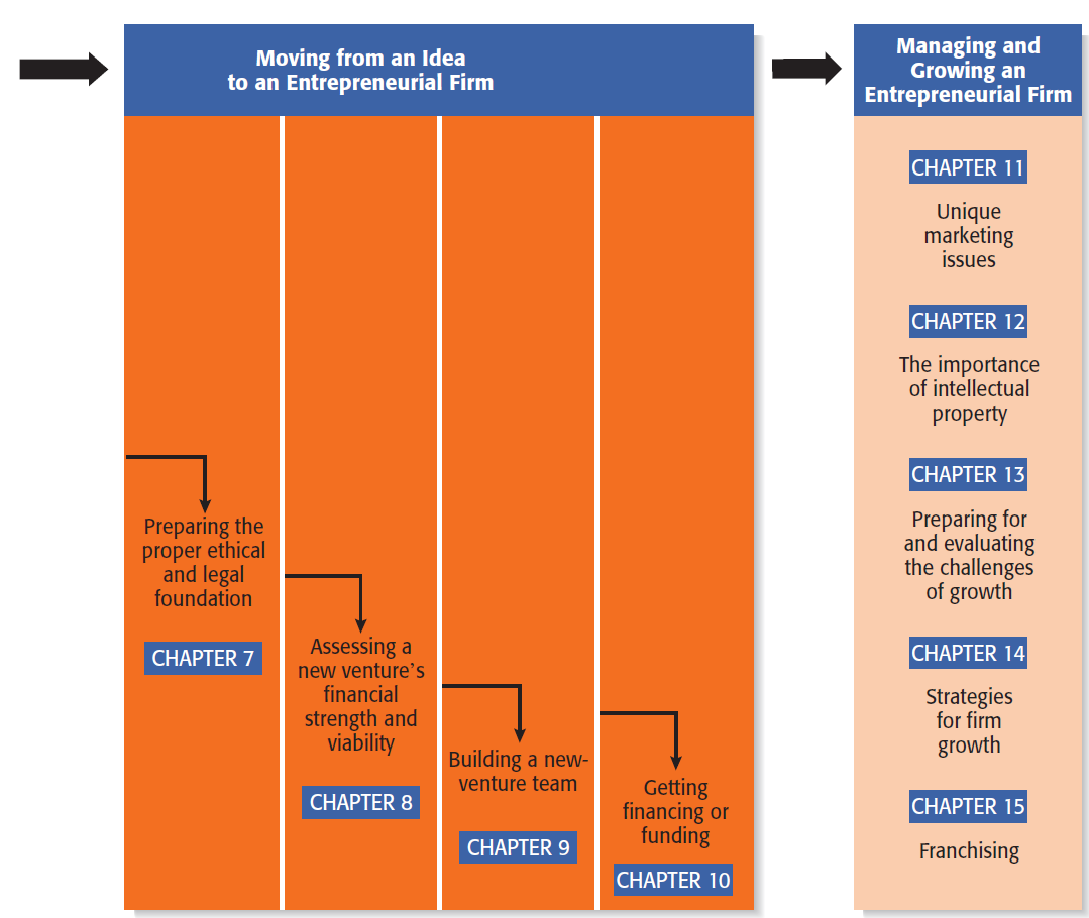
The chapter focuses on why people become entrepreneurs, the characteristics of successful entrepreneurs, the changing demographics of entrepreneurs, and the importance of entrepreneurship to the economy and society. The three boxed features, which appear in every chapter, are introduced. The chapter ends with a brief discussion of each of the major sections of the book.

The chapter, like the rest of the book, is written in an upbeat yet realistic manner.

**Basic Model of the Entrepreneurial Process**

**The Model Parallels the Chapters in the Book**





**CHAPTER OUTLINE**

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1. Introduction to Entrepreneurship
2. What is Entrepreneurship and Why Is It Important?
3. Why Do People Become Entrepreneurs?
4. Be Their Own Boss
5. Pursue Their Own Ideas
6. Pursue Financial Rewards
7. Characteristics of Successful Entrepreneurs
8. Passion for the Business
9. Product/Customer Focus
10. Tenacity Despite Failure
11. Execution Intelligence
12. Common Myths About Entrepreneurs
13. Myth 1: Entrepreneurs Are Born, Not Made
14. Myth 2: Entrepreneurs are Gamblers
15. Myth 3: Entrepreneurs Are Motivated Primarily by Money
16. Myth 4: Entrepreneurs Love the Spotlight
17. Types of Start-Up Firms
18. Changing Demographics of Entrepreneurs
19. Women Entrepreneurs
20. Minority Entrepreneurs
21. Senior Entrepreneurs
22. Young Entrepreneurs
23. The Positive Effects of Entrepreneurship and Entrepreneurial Firms

A. Economic Impact of Entrepreneurial Firms

B. Entrepreneurial Firms’ Impact on Society

C. Entrepreneurial Firms’ Impact on Larger Firms

1. The Entrepreneurial Process
2. Decision to Become an Entrepreneur (Chapter 1)
3. Developing Successful Business Ideas (Chapters 2-6)
4. Moving from an Idea to an Entrepreneurial Firm (Chapters 7-10)
5. Managing and Growing an Entrepreneurial Firm (Chapters 11-15)

**CHAPTER NOTES**

1. Introduction to Entrepreneurship

* There is tremendous interest in entrepreneurship around the world.
* While the highest rates of entrepreneurial start-up activity occur in low-income countries, where good jobs are not plentiful, the rates are also impressive in high-income countries. According to the GEM Study, 1 out of every 8 (12.7%) of American adults is actively engaged in starting a business or is the owner/manager of a business that is less than three-and-a-half years old.

1. What Is Entrepreneurship and Why Is It Important?

* Entrepreneurship is defined as the process by which individuals pursue opportunities without regard to resources they currently control for the purpose of exploiting future goods and services.
* We want to note here that established firms with an orientation toward acting entrepreneurially practice corporate entrepreneurship.
* All firms fall on a conceptual continuum that ranges from highly conservative to highly entrepreneurial.

1. Why Do People Become Entrepreneurs?
2. Be Their Own Boss. Many entrepreneurs want to be their own boss because either they have had a long-term ambition to own their own business or they have become frustrated working in traditional jobs.
3. Pursue Their Own Ideas. Some people are naturally alert, and when they recognize ideas for new products or services, they have a desire to see those ideas realized.
4. Realize Financial Goals. People start their own firms to pursue financial rewards. This motivation, however, is typically secondary to the first two and often fails to live up to its hype.
5. Characteristics of Successful Entrepreneurs
6. Pasion for the Business. The number one characteristic shared by successful entrepreneurs is passion for the business. This passion typically stems from the entrepreneur’s belief that the business will positively influence people’s lives.
7. Product/Customer Focus. An entrepreneur’s keen focus on products and customers typically stems from the fact that most entrepreneurs are, at heart, craftspeople.
8. Tenacity Despite Failure. Because entrepreneurs are typically trying something new, the failure rate associated with their efforts is naturally high. Developing a new business may require a certain degree of experimentation before a success is attained. Setbacks and failures inevitably occur during the process. The litmus test of entrepreneurs is their ability to persevere through setbacks and failures.
9. Execution Intelligence. The ability to effectively execute a business ideas means developing a business model, putting together a new venture team, raising money, managing finances, leading employees, and so on.
10. Common Myths About Entrepreneurs
11. Myth 1: Entrepreneurs are Born, Not Made. This myth is based on the mistaken belief that some people are genetically predisposed to be an entrepreneur.
12. Myth 2: Entrepreneurs are Gamblers. Entrepreneurs are usually moderate risk takers, as are most people.
13. Myth 3: Entrepreneurs are Motivated Primarily by Money. It is naïve to think that entrepreneurs don’t seek financial rewards. As discussed previously, however, money is rarely the primary reason entrepreneurs start new firms.
14. Myth 4: Entrepreneurs Should be Young and Energetic. While it is important to be energetic, investors often site the strength of the entrepreneurs (in terms of business experience, skill, and talent) as their most important criterion in the decision to fund a new venture.
15. Types of Start-Up Firms
16. Salary-Substitute Firms. Are small firms that afford their owner or owners a similar level of income to what they would earn in a conventional job.
17. Examples of salary-substitute firms are dry cleaners, convenience stores, restaurants, accounting firms, and hairstyling salons.
18. Lifestyle Firms. Provide their owner or owners the opportunity to pursue a particular lifestyle and earn a living while doing so.
19. Examples of lifestyle firms include ski instructors, goal pros, and tour guides.
20. Entrepreneurial Firms. Bring new products and services to market by creating and seizing opportunities.
21. Examples of entrepreneurial firms are Google, Facebook, and Zynga.
22. Changing Demographics of Entrepreneurs
23. Women Entrepreneurs. Why men are still more likely to start businesses than women, the number of women-owned businesses is increasing. According to a study commissioned by American Express and OPEN, there were 8.6 million women-owned businesses in the United States in 2013.

1. Minority Entrepreneurs. There has been a substantial increase in minority entrepreneurs in the United States. In 2007 (the most recent stats available), there were 5.8 million minority-owned firms.
2. In 2007, there are about 1.9 million African American-owned firms, 1.5 million Asian American-owned firms, and 2.3 million Hispanic-owned firms.
3. Senior Entrepreneurs. The number of seniors (those 50 years of age and older) starting businesses is substantial and growing. In 2012, 20 percent of new businesses were started by people between 50 and 59 years old.
4. Young Entrepreneurs. A desire to pursue an entrepreneurial career is high among young people. According to a recent Gallop survey, about 4 in 10 kids in grades 5-12 say they plan to start their own businesses.
5. The Positive Effects of Entrepreneurship and Entrepreneurial Firms
6. Economic Impact of Entrepreneurial Firms. For two reasons, entrepreneurial behavior has a strong impact on an economy’s strength and stability.
7. Innovation. Innovation is the process of creating something new, which is central to the entrepreneurial process. Small innovative firms are 16 times more productive than larger innovative firms in terms of patents per employee.

1. Job creation. According to the SBA, small businesses create a substantial number of net new jobs in the United States. Firms with 500 or fewer employees create 65 percent of new jobs on an annual basis.

1. Entrepreneurial Firms’ Impact on Society. The innovations of entrepreneurial firms have a dramatic impact on society. Think of all the new products and services that make our lives easier, enhance our productivity at work, improve our health, and entertain us. Many of these products and services were conceived and brought to market by entrepreneurial firms.

1. Entrepreneurial Firms’ Impact on Larger Firms. In addition to the impact of entrepreneurial firms have on the economy and society, entrepreneurial firms have a positive impact on the effectiveness of larger firms.
2. For example, some entrepreneurial firms are original equipment manufacturers, producing parts that go into products that larger firm’s manufacturer and sell.
3. Thus, many exciting new products are not solely the result of the efforts of larger companies with strong brand names. They were produced with the cutting-edge component parts or research development efforts provided by entrepreneurial firms.
4. The evidence shows that many entrepreneurial firms have built their entire business models around producing products and services that help larger firms be more efficient or effective.
5. The Entrepreneurial Process

* Figure 1.3 in the book (and reproduced earlier in this review) models the entrepreneurial process. This process is the guide or framework we use to develop this book’s contents.

1. Decision to Become an Entrepreneur (Chapter 1). As discussed earlier, people become entrepreneurs to be their own boss, to pursue their own ideas, and to realize financial rewards.
2. Developing Successful Business Ideas (Chapters 2-6). Many new businesses fail not because the entrepreneur didn’t work hard but because there was no real opportunity to begin with.
3. Developing a successful business idea includes opportunity recognition, feasibility analysis, developing an effective business model, industry and competitor analysis, and writing a business plan.
4. Moving from an Idea to an Entrepreneurial Firm (Chapters 7-10). This is critical stage in the entrepreneurial process.
5. This section deals with preparing the proper ethical and legal foundation, assessing a new venture’s financial strength and viability, building new venture team, and getting financing or funding.
6. Managing and Growing an Entrepreneurial Firm (Chapters 11-15). Given today’s competitive environment, all firms must be managed and growth properly to ensure their ongoing success. This is the final stage of the entrepreneurial process.
7. This section deals with unique marketing issues, the importance of intellectual property, preparing for an evaluating the challenges of growth, strategies for growth, and franchising.

**BOXED FEATURES: QUESTIONS FOR CRITICAL THINKING**

Note: Each boxed feature in the textbook is followed by four questions. The questions can be used for individual or group assignments or can be used to stimulate classroom discussion. The following are suggested answers for the questions at the end of each boxed feature.

**What Went Wrong?**

Prim: How a Lack of Passion and Resolve Can Kill a Business

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| 1. | Why is passion such a critical part of entrepreneurial success? Prim’s founders were apparently passionate about building a company but not passionate about  the laundry business specifically. In what ways is this combination problematic?  Answer: The number one characteristic shared by successful entrepreneurs is a passion for their business. The passion typically stems from the entrepreneur’s belief that the business will positively influence people’s lives. Prim’s founder may have mistakenly developed a passion for starting a business rather than a passion for the business they started. This is problematic because once the initial excitement of starting the business was over (and the business started experiencing challenges), the founders were left with the day-to-day grind of running the business and may have found that they weren’t as interested in the (laundry) business as they originally thought they would be. One way to check whether one’s passion is real is to work in the industry your firm will participate in (over an extended period of time, if possible) to see if you like it. Some franchise organizations, for example, require prospective franchisees to work in one of the company’s franchise outlets for a period of time, just to ensure that they like the work before they become franchisees.  As illustrated throughout the book, starting a business is a rewarding yet challenging process. There will be many ups and downs. A person’s passion for the business that he or she starts it what sustains one during the challenging periods. |
| 2. | How could Prim’s co-founders have better anticipated that laundry services would eventually see Prim as siphoning off their own business and be reluctant to work with them?  Answer: Students will vary in terms of their answer to this question. One thing Prim’s co-founders could have done prior to starting the business is complete a thorough feasibility analysis. This topic is addressed in Chapter 3. By talking to laundry services in advance, the founders may have gained an awareness that their business model was not viable. |
| 3. | Rather than employ its own drivers to pick up and deliver laundry for its customers, Prim relied on the use of third-party delivery services. In what ways do you think this approach could have limited Prim’s growth in other markets?  Answer: Prim was not developing core competencies in the logistics of its operations. At its heart, Prim was a pick up and delivery service. It picked up it’s customers laundry, took the laundry to a laundry service to have washed and folded, and then returned the laundry to the customer. If Prim had developed unique capabilities in performing this taks, it could have extended its pick up and delivery service to other industries. Instead, Prim outsourced this service so it developed no core competencies in this area. |
| 4. | San Francisco, the city in which Prim launched, has several innovative laundry services. These services include LaundryLocker, where you drop your clothes in a public locker, Sfwash, a delivery service where you pay by the pound, and Sudzee, which requires special lockable bags. Spend some time studying LaundryLocker (<https://laundrylocker.com>), Sfwashy (<https://sfwash.com>), and Sudzee (<http://sudzee.com>). Select the service that you think has the most potential and explain the rationale for your selection. Compare the service to Prim’s approach.  Answer: Laundry Locker’s customers place their laundry in a locker and the customers is notified by text when the laundry is finished and returned to the locker (within two business days). Swash picks up your laundry (at your home or business) and returns it to the same address. The pick and delivery times are done within agreed upon windows of time. Sudzee offers two options. It offers home pickup and return, similar to Sfwashy. It also offers a service where customers can place their laundry in a large secure container in a Sudzee bag. Sudzee will notify the customer when the laundry is done. The laundry can be retrieved from the container via a secure four digit code. Pricing seems to be similar across the companies. Sudzee seems to be the best--capturing the advantages of both Sfwash, which offers a pickup and delivery service, and Laundry Locker, which offers a dropoff and retrieval service as explained. It also beats out Prim, which only offered the pickup and delivery service. |

**Savvy Entrepreneurial Firm**

Pandora: What’s Possible When an Entire Company Has “Tenacity?”

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| 1. | How do you think Westergren was able to persevere through 300 rejections before an investor finally said yes to Pandora’s attempts to raise additional money?  Answer: Westergren founded Pandora in 1999, so the company was his baby. While the case doesn’t give us much insight into Pandora’s lean years, Westergren must have been passionate about Pandora and its service to stick it out through the years. He was the first person to go without pay, so he led by example. Only passion and belief can explain how he persevered through 300 rejections. |
| 2. | If you had been a Pandora employee during the time the firm was essentially broke, would you have agreed to work for no money? Westergren provided two reasons that the employees present at the time were willing to work without pay. Would these reasons have been good enough for you? Explain your answer.  Answer: Students will vary in terms of how they answer this question. Most students will say that if they believed in Pandora and they had a close knit relationship with the others involved they would have been able to stick it out. A belief that Pandora would ultimately raise money also gave the employees hope—it was the light at the end of the tunnel. |
| 3. | Think of a time in your life where you showed tenacity and the tenacity produced positive outcomes. Briefly relate the story and what you learned from the experience to your classmates.  Answer: Students will vary in terms of their answers to this question. Ask students to reflect on occassions when they’ve had to be very tenacous to achieve a particular goal, and ask them if they think they could repeat that behavior in a new business context. Also, discuss the keys to remaing tenacious. Most students will say it is much easier to remain tenacious when one is passionate about the goal that they’re trying to achieve or the stakes are very high. |
| 4. | What lesson or lessons can other entrepreneurial startups learn from Pandora’s story?  Answer: There are three primary lessons to be learned. First, tenacity pays. If Westergren had given up after 299 rejections, Pandora may not exist today. Second, a belief that things will work out is a powerful belief. Pandora’s employees could see the merits of the service, and the quality of the work they were doing, so it wasn’t a stretch for them to believe that others would eventually see the positive attributes too. Finally, developing cohension amongst a group is key. Ultimately, Pandor’s employees stuck it out because they were doing it for each other. |

**Partnering for Success**

Start-Up Incubators and Accelerators: A New Way of Gaining Access to Mentors, Partners, Investors, and Other Critical Start-Up Resources

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| 1. | If you were starting a new venture, do you think you would benefit from participating in a business incubator or accelerator program? If so, what do you think the primary benefits would be?  Answer: Most students will say they would benefit from participating in a business incubator of accelerator program. The obvious benefits are gaining access to mentors and advisors. Start-up incubators and accelerators are also fertile places for entrepreneurs to meet potential co-founders, business partners, and equity investors. |
| 2. | Find an example of a start-up incubator or accelerator at the college or university you are attending or in the town you live in or a nearby city. Describe the program. Which one of the Austin, Texas, programs does it most resemble?  Answer: Answers will vary for this question. Many university entrepreneurship programs support a start-up incubator or accelerator, as do many towns and cities. The incubators and accelerators will vary in terms of the programs and terms they offer, but the benefits are similar across locations. |
| 3. | If a student has a promising business idea, what can s/he do while in college to improve his or her chances of being accepted into a well-regarded incubator or accelerator program?  Answer: Answers will vary to this question. Most students will say that involvement in the following college activities will boost their chances of being accepted into an incubator:   * Coursework in entrepreneurship. * Participation in entrepreneurship-related activities, such as pitch competitions and business plan competitions, and winning awards in those activities. * Participating in a college or university-sponsored incubator. * Networking (to the extent that the student could ask several high-profile entrepreneurs or investors to write letters of support). * Make good headway on a business idea, so the student is partway down the runway prior to apply for admittance to the incubator. |
| 4. | Make a list of the types of business partnerships that participants in a business incubator or accelerator program are likely to fashion.  Answer: There are a number of partnership opportunities that are likely to emerge from participating in an accelerator program. They include:   * Identifying a potential co-founder for a business. * Identifying potential channel partners. * Identifying potential investors. * Identify potential advisory board members and other mentors and advisors. |

**REVIEW QUESTIONS**

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| 1-1 | What are the characteristics of firms with  higher entrepreneurial intensity and how  would you manage this?  Answer: Entrepreneurial firms are seen to be proactive innovators and are not averse to taking calculated risks. In order to be proactive, fast decisions have to be made, hence bureaucracy or levels in the organizations will have to be cut. |
| 1-2 | What key insights does the GEM study provide us about entrepreneurship?  Answer: The key insight provided by the GEM study is that entrepreneurial activity is taking place across the world. In addition, while the highest rates of entrepreneurial start-up activities occur in low-income countries, where good jobs are not as plentiful, the rates are also impressive in high-income countries like France, United Kingdom, and the United States. The GEM study also identifies whether its respondents are starting a new business to take advantage of an attractive opportunity or because of necessity to earn an income. The majority of people in high-income countries are drawn to entrepreneurship to take advantage of attractive opportunities. The reverse is true of people in low-income countries, who tend to be drawn to entrepreneurship primarily because of necessity. |
| 1-3. | What does evidence show us about the rate of failure associated with entrepreneurial ventures?  Answer: One criticism of entrepreneurship, which is often repeated in the press, is that the majority of new businesses fail. It simply isn’t true. The often used statistic that 9 out of 10 businesses fail in their first few years in an exaggeration. For example, evidence suggest that the three-year survival rate for entrepreneurial ventures established in Denmark is 53.5%, while it is up to 66.9 percent in other parts of Europe. Historically, survival rates of entrepreneurial firms launched in the United States have been as high as 50% after four years. |
| 1-4. | What is entrepreneurship?  Answer: The standard definition for entrepreneurship is that it’s “the process by which individuals pursue opportunities without regard to resources they currently control.” It can occur at the individual level, the team or group level, or at the corporate level. There are other definitions of entrepreneurship. Fred Wilson, a venture capitalist, define entrepreneurship as “the art of turning an idea into a business.” Both definitions focus on behaviors. In general, entrepreneurship is associated with the task of identifying opportunities and putting useful ideas into practice. |
| 1-5. | In what ways in an entrepreneur who just launched a restaurant different from someone who just took a job as the general manager of a restaurant owned by a major restaurant chain?  Answer: Entrepreneurial firms, which are the focus of this book, bring new products and services to market by seizing opportunities. The person who just launched a restaurant is bringing a new product or service to market, and is assuming the risk associated with doing that. The person who just took a job as the general manager of a restaurant isn’t bringing something new to market. While the person is assuming employment risk, he/she isn’t assuming the risk of owning a business. |
| 1-6. | What are the three main attributes of firms that pursue high levels of corporate entrepreneurship?  Answer: Entrepreneurial firms are typically proactive, innovative, and not adverse to taking risks, |
| 1-7. | What are the three primary reasons people become entrepreneurs?  Answer: The three primary reasons that people become entrepreneurs and start their own firms are to (1) be their own boss, (2) pursue their own ideas, and (3) realize financial rewards. |
| 1-8. | Of the three primary reasons people become entrepreneurs, which one is given most commonly and why?  Answer: Be their own boss. |
| 1-9. | What are the four primary traits and characteristics of successful entrepreneurs?  Answer: Passion for the business, product/customer focus, tenacity despite failure, and execution intelligence. |
| 1-10. | Why is passion such as important characteristic of successful entrepreneurs?  Answer: The passion that an entrepreneur feels for his or her business typically stems from a belief that the business will positively influence people’s lives. It is important that this passion exist because the process of starting and building a new firm is demanding. |
| 1-11. | What is it about passion that makes it particularly compatible with the entrepreneurial process?  Answer: Passion is particularly important because although rewarding, the process of starting a firm or building a business is demanding. Absent passion, the demands would outweigh the potential rewards for people who are not passionate about what they’re doing. |
| 1-12. | What are the skills and abilities required to effectively execute a business idea?  Answer: In order to execute a business idea, intelligent execution is required. Intelligent execution includes putting together a new venture team, raising money, establishing partnerships, managing finances, leading and motivating employees. It also includes the ability to translate thought, creativity, and imagination into positive results. |
| 1-13. | What are the startup types available  to someone looking to start their own  business?  Answer: Salary-substitute firms are small firms that enable the entrepreneur to earn an income that is similar to what they would earn when working for an employer. Lifestyle firms enable the entrepreneur to follow a certain lifestyle and earn a living while doing so. Meanwhile, entrepreneurial firms allow the owner to bring new product and service to the market. |
| 1-14. | What are the five common myths of entrepreneurship?  Answer: The five common myths of entrepreneurship are as follows:  Myth 1: Entrepreneurs are born, not made.  Myth 2: Entrepreneurs are gamblers. Myth 3: Entrepreneurs are motivated primarily by money.  Myth 4: Entrepreneurs should be young and energetic.  Myth 5: Entrepreneurs love the spotlight. |
| 1-15. | How would you debunk the myth that entrepreneurs are motivated primarily by money?  Answer: Pursuing profit can be distracting as entrepreneurs need to pay attention to other factors such as growth and sustainability. Entrepreneur needs to ensure that his business has continued growth and is able to sustain for a long time. This will bring more profits and financial stability to the entrepreneur. |
| 1-16. | What are the four distinctive parts of the entrepreneurial process and what is the relationship among the parts?  Answer: The four distinct parts of the entrepreneurial process are as follows:  Part 1: Decision to become an entrepreneur.  Part 2: Developing successful business ideas.  Part 3: Moving from an idea to an entrepreneurial firm.  Part 4: Managing and growing an entrepreneurial firm.  Each part is intimately interrelated and interdependent with each other. |
| 1-17. | How would you characterize the risk-taking propensity of most entrepreneurs?  Answer: Entrepreneurs are moderate risk takers, as are most people. |
| 1-18. | How do entrepreneurial firms have a positive impact on larger firms? (LO7)  Answer: Some small entrepreneurial firms are suppliers to large manufacturing firms. For example, some entrepreneurial firms are original equipment manufacturers, producing parts that go into products that larger firms manufacture and sell. Hence, they have an impact on these large firms. Some small firms are raw material suppliers to larger firms, and some provide specific services to larger firms such as cleaning services. |
| 1-19. | What did Joseph Schumpeter mean by the term creative destruction?  Schumpeter argued that entrepreneurs develop new products and technologies that over time make current products and technologies obsolete. Schumpeter called this process creative destruction. Because new products and technologies are typically better than those they replace and the availability of improved products and technologies increases consumer demand, creative destruction stimulates economic activity. |
| 1-20. | In general, what effects does entrepreneurship have on economies and societies throughout the world?  Answer: Entrepreneurship has a positive effect on both economies and societies throughout the world. For two reasons, entrepreneurial behavior has a strong impact on an economy’s strength and stability. The reasons are innovation and job creation. According to the Small Business Administration Office of Advocacy, small innovative firms are 16 times more productive than larger innovative firms in terms of patents per employee. Small firms also create a substantial number of new jobs in the United States. In regard to the impact of entrepreneurial firms on societies, the new products and technologies created by entrepreneurial firms have a dramatic impact. Think of all the new products and services that make our lives easier, enhance our productivity at work, improve our health, and enter us. Many of these products and services were created by entrepreneurial firms. |
| 1-21. | What are the changes to the demographic makeup of entrepreneurs in the United States that are described in this chapter?  Answer: Over the past 10 years, the demographic makeup of entrepreneurial firms has changed in the United States and around the world. Of the 27.5 million businesses in the United States, a growing number are owned by women, minorities, seniors, and young people. The changing demographic makeup of entrepreneurs is changing for two reasons. First, the United States itself is changing, and is becoming a much more diverse society. As a result, the changing demographic makeup of entrepreneurs reflects society as a whole. Second, pursuing an entrepreneurial career is an exciting career choice, which is open to people across all demographic groups. As the ability to enter an entrepreneurial career becomes available to a larger number of people, it is not surprising that people across all demographic groups would be drawn to this alternative. |

**APPLICATION QUESTIONS**

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| 1-22. | After rereading the opening case, identify all of the effective or smart moves Zach Schau and his co-founders made in the early days of building Pure Fix Cycles.  Answer: The following is a list of smart or effective moves that Zac Schau and his co-founders made in the early days of building Pure Fix Cycles:   * Identified a problem (high performance bikes are too expensive) and then conducted research to determine why that is the case (it’s the gears). This experience got Schau and his co-founders thinking there was a void in the market. * Found a solution to the problem of high performance bikes being too expensive. Take some of the costs out of process of building a bike by producing a fixed-gear, single-speed bike, or “fixie.” * Built a prototype of the bike and used family connections to find an overseas manufacturer to produce it. * Entered a business plan competition. Used the winning to pay for a second production run of the bike. * All four co-founders settled in the Los Angeles area to work on Pure Fix Cycle full time. * Built the bikes in a manner than enabled them to sell the bikes at an attractive price-point. * Created several styles of bikes and gave them distinct names and looks. * Created a novelty bike—the Glow line-that glows in the dark. * Founders realized that Pure Fix Cycles is facing an increasingly competitive marketplace. * To prepare for growth and competition, accepted investor funding and hired an experienced CEO. |
| 1-23. | You have been invited by a local community college to talk to the students on how to develop entrepreneurial skills. However, some of your colleagues are against the idea as they believe that entrepreneurial skills can only be acquired through life experiences and first- hand knowledge. Prepare a speech on the key elements of being a successful entrepreneur to convince both students and your colleagues.  Answer: The speech may include the following key elements:- 1)passion for business whereby the entrepreneur believes that the business will positively influence people’s lives; 2) product/customer focus whereby the entrepreneur involves diligently to spot product opportunities and to see them through to completion; 3) tenacity despite failure whereby the entrepreneur should understand that developing a new business idea may require a certain degree of experimentation before a success is attained; and 4) execution intelligence in developing a business model, putting together a new venture team, raising money, establishing partnerships, managing finances, leading and motivating employees. |
| 1-24. | As a business lecturer, Peter has asked  students in his class to present in groups  a few business ideas that they are planning  to pursue after their graduation. One  particular group has caught his attention.  Their business idea on developing an  ecotourism center in their neighborhood  seems possible and realistic. It might be a  good opportunity for them to take this to  the next level. However, when Peter spoke to them it became clear that they had many miscoceptions about being entrepreneurs and were afraid to pursue thisas a career. How can Peter ease their fears and convince them to follow their dreams?  Answer: Peter should advise them that there are many myths such as a) entrepreneurs are born, not made; b) entrepreneurs are gamblers; c) entrepreneurs are motivated primarily by money; d) entrepreneurs should be young and energetic; and e) entrepreneurs love the spotlight. However, he should share with them the benefits and joy of being entrepreneurs such as being their own boss, they will be able to pursue their own ideas and able to reap financial rewards. |
| 1-25. | One question that is often asked by people thinking about launching an entrepreneurial venture is “what should first-time entrepreneurs know before they launch?” Based on information featured in Chapter 1, what should entrepreneurs know before they commit to launching their firm?  Answer: Students will vary in terms of their answer to this question. A lot of things have to go right for a business start to be successful. Each step in the entrepreneurial process must be accomplished with a degree of proficiency. As a result, first-time entrepreneurs should acquaint themselves with each step in the process prior to launching a business. The front-end of the entrepreneurial process is particularly important. Special care should be devoted to completing the steps involved with “Developing Successful Business Ideas” in a deliberate and thoughtful manner. |
| 1-26 | A friend came up to you for advice. She  has been contemplating for some time  now to start a new venture. She has been  employed in the corporate sector for the  past 15 years, and has finally decided to  pursue her dream of being self-employed  and start a wellness center with a focus  on healthy living. However, she is still a  little confused. She is looking to learn the  positive effects of entrepreneurship. Help  her decide why she should undertake this  process?  Answer: You can explain to her that normally people want to be their own boss as they sometimes feel frustrated being employed. When a person is self-employed, they have more flexibility to work on their own. Moreover, some may want to pursue their own ideas as they want to see their idea become a reality. Finally, there are some entrepreneurs who pursue financial rewards as they might be able to make more money compared to being employed. These financial rewards may motivate them as the rewards may enable them to go for holidays, spend more time with their family or pick-up an expensive hobby. |
| 1-27. | A group of new students in your entrepreneurship class was heard arguing that being an entrepreneur positively affects the entrepreneur in question only. They do not believe that an entrepreneur somehow benefits the society and the nation as well. They do not understand that creative destruction stimulates economic activity and increases the productivity of all elements of a society. Explain to them the positive effects of entrepreneurship and entrepreneurial firms on economies and societies.  Answer: The positive effects of entrepreneurship and entrepreneurial firms on economies and societies occur when these new products and technologies improve, increase consumer demand, and stimulate economic activity**.** The new products and technologies may also increase the productivity of all elements of a society. An entrepreneur develops new products and technologies that over time make current products and technologies obsolete. For example, in this new era, the smartphone has somehow replaced the need to carry a diary, Walkman, alarm clock, DVD player and laptop for example. This is known as creative destruction and has benefitted the society and the nation as a whole. |

**YOU BE THE VC EXERCISE**

Note: The “You Be the VC Exercise” is short for “You Be the Venture Capitalist.” Each “You Be the VC” feature provides an example of a real-life entrepreneurial firm. Each firm is young and its business concept hasn’t been fully proven or developed. As a result, an effective way to use these exercises is to ask students to read them (and study the firm’s Web site if you’d like to extend the exercise), and say, “You Be the VC.” If you were a venture capitalist, would you offer this firm funding? Why or why not?”

We have used these exercises and have found that they stimulate fascinating classroom discussion. By evaluating these young firms, students are forced to think about the same issues that venture capitalists think about. The exercises also make good individual and group assignments.

There are two “You Be the VC” exercises at the end of each chapter of the textbook. We provide our take on each of the “You Be the VC” exercises as shown below.

**YOU BE THE VC 1.1**

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| --- |
| **Company:** Wello (www.wello.com)  **Business Idea:** Create an online platform that allows people to connect with personal trainers via live, interactive video, and participate in one-on-one group training sessions. |

**You Be the VC Scorecard**

**Wello**

([www.wello.com](http://www.wello.com))

|  |  |
| --- | --- |
| **Item** | **Score/Comments** |
| Strength of New Venture Team | 1 2 **3** 4 5  Wello was started by two Standard MBA Students, Ann Scott-Plante and Leslie Silverglide. Scott is a former Bain and Co consultant while Silverglide is a former gymnast and entrepreneur. Both are passionate about fitness and healthy living.  The balance of the management team consists of sports enthusiasts that have backgrounds in technology companies. |
| Strength of the Opportunity | 1 2 **3** 4 5  The strength of the opportunity is unclear. Although there is a growing awareness of health and fitness in the U.S., that doesn’t always translate into success for health and fitness oriented firms. The question we have is what is the primary motivator for people exercising? If it’s fitness, then Wello may offer a practical alternative for busy people. If it’s social (people enjoy going to the gym and working out with their friends) then it seems that Wello misses on that dimension. Also the idea that people that travel can work out from a hotel room, via Wello, doesn’t fully resonate with us. There are just too many times we passed by fitness centers in hotels that are mostly empty. That makes us wonder if travelers are really in the mood to work out. |
| Strength of the Industry | 1 2 **3** 4 5  The fitness industry is experiencing moderate growth. The fastest-growing portion of the industry is low-price 24 hour fitness centers like Snap Fitness and 24 Hour Fitness. |
| Strength of Business Model | 1 2 **3** 4 5  Wello is essentially a peer-to-peer platform. It’s the go-between that connects people that want to work out online, with people who are willing to lead the workouts. Wello makes money by taking a commission on the money that flows through its site. There are two primary challenges to this model. The challenge is building a sufficient critical mass for both sides of the business—people who want online workouts and people who are willing (and qualified) to lead them. Having looked at Wello’s site over a period of months, it seems that it’s been slow going in terms of building a sufficient critical mass on both sides. |
| Average Score: 3.0/5.0 |  |

**Decision**: We would not fund Wello for two reasons. First, we’re not confident that people, at scale, will log onto a Web site and work out with an online trainer. The reason isn’t a hesitation to utilize the Internet, the reason is that we believe working out is at least partially a social activity, and Wello’s format loses much of that. Also, we just don’t buy the notion that busy travelers will utilize Wello to get a workout in while traveling. As mentioned, we’ve just seen too many empty hotel fitness centers. The second reason that we’re hesitate is Wello’s two-sided business model. It must build a critical mass of both exercisers and people who are willing and qualified to lead workout for its site to work. We’ve watched the site over a period of time and don’t see those critical masses emerging.

**YOU BE THE VC 1.2**

|  |
| --- |
| **Company:** Brain Sentry (www.brainsentry.com) |
| **Business Idea**: Create a device that helps coaches, athletic trainers, officials, and parents recognize when an athlete has received a blow to the head strong enough that it may have caused a concussion. |
|  |

**You Be the VC Scorecard**

**Brain Sentry**

([www.brainsentrycom](http://www.brainsentrycom))

|  |  |
| --- | --- |
| **Item** | **Score/Comments** |
| Strength of New Venture Team | 1 2 3 4 **5**  Co-founder and CEO Greg Merril has been developing award winning sensor-based medical and consumer electronic products for over 25 years. He has served as founding CEO for two previous VC-backed fast growth health-related product companies.  Co-founder Sam Medile is a successful entrepreneur and former University of Maryland scholarship football player. He is also an active angel investor.  Balance of management team consists of former athletics and successful businesspeople and entrepreneurs.  Two member advisory board includes an MD, who is a former team physician for the Pittsburg Stealers and a current consultant to the NFL’s players association and an individual who if a former professional tennis player and a former national sales manager for a health care company. |
| Strength of the Opportunity | 1 2 3 **4** 5  Football is a popular sport in America, which is played at the middle-school, high school, college and professional levels. The threat of concussions is a growing problem. In fact, some people claim that the growing number of concussions among players at all age groups threatens the future of the game. The same is true for hockey and lacrosse. As a result, there is a growing sense of urgency to find solutions to the concussion problem in helmeted sports. |
| Strength of the Industry | 1 2 **3** 4 5  This is an unknown. While football, hockey and lacrosse teams spend money on routine safeguards for their players (uniforms, pads, salaries for trainers, physical therapy for players), there is no “industry” of products that focus specifically on concussion prevention, other than stronger football, hockey or lacrosse helmets. Thus, Brain Sentry is a first-mover in a nascent industry. |
| Strength of Business Model | 1 2 3 **4**  5  The business model is appealing. Brain Sentry will essentially sport a standard manufacturer/retailer business model. The appeal is recurring revenue. Once Brain Sentry wins a customer, the customer must come back to Brain Sentry once a year to replace the Brain Sentry monitor that is placed on each of their player’s helmets. |
| Average Score | 4.0/5.0 |

**Decision**: We would fund this firm. Brain Sentry’s management team is strong. It includes a nice mix of people with backgrounds in business, sports, finance and sales. We also like the fact that both of its co-founders have connections in the investment community. The opportunity that Brain Sentry is pursuing is also strong. The concussion problem in helmeted sports is a very real problem that must be addressed. Brain Sentry has positioned itself to be a solution to the problem. We also like the company’s business model. Once it wins a customer, it earns recurring revenue because the sensor that is placed on each helmet must be replaced once a year.

A worry is how long it will take for sports teams to address the concussion problem. They know it’s a problem, but may feel that the concussion protocols they’re currently using are “good enough,” at least until someone (like a court or players association) forces them to take more concrete action.

**CASES**

Case 1.1

GoPro: A Classic Entrepreneurial Tale

**DISCUSSION QUESTIONS**

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| 1-32. | Which of the characteristics of a successful entrepreneur, discussed in the chapter, do you see in Nick Woodman? To what degree do you think these characteristics have contributed to GoPro’s success?  Answer: All four characteristics of successful entrepreneurs—passion for the business, product/customer focus, tenacity despite failure, and execution intelligence—are seen in Nick Woodman, and these characteristics have no doubt contributed to GoPro’s success. His “passion for the business” can be seen in the extraordinary lengths he went to to develop GoPro’s products. An example is his willingness to move into a cottage in the redwood forest near Pesadero, California, early in the life of the company, to work nonstop testing fabrics, designing marketing materials, and writing patent applications. His tenacity can be seen in the manner in which he won early customers for GoPro, working the trade show circuit and visiting surf shops across the country. His product/market focus can be seen in the quality and uniqueness of the GoPro product, and the distribution channels Woodman as able to penetrate. Finally, execution intelligence can be seen throughout Woodman’s tenure as GoPro’s founder and CEO. |
| 1-33. | How does GoPro’s basic business idea “add value” in the lives of its customers?  Answer: GoPro allows sports enthusiasts to shoot video of themselves and others engaging in sports (such as surfing, skiing, or mountain biking) that they couldn’t have captured otherwise. That functionality allows individuals and groups to not only study their activities to make improvements, but to relive special moments when they accomplished something special (like catching a big wave and riding it for a superior length of time). The advent of social media made GoPro even more valuable to people. Not only could they relive special moments and accomplishments, but they could share them with others. |
| 3. | How do Nick Woodman’s entrepreneurial actions debunk the myth that most entrepreneurs are motivated by money?  Answer: When Nick Woodman started GoPro, he clearly did it for the love of filming extreme sports. While he may have had an expectation of making money, he couldn’t have known that GoPro would grow to the company it is today. |
| 4. | What are the most significant challenges GoPro faces in the future? Do you think GoPro will be able to meet the challenges or do you think the company’s future is in doubt? Explain your answer.  Answer: Students will vary in their answer to this question. Clearly, the company’s biggest challenge is that companies like Sony, Coleman, and Swann have started selling sports cameras that are similar to GoPro’s. As a result, the company will have to continue to differentiate its product and offer significance value at an attractive price-point to remain competitive. Most students will say that GoPro is up to the task. It has brand recognition, a large following, and basically invented the notion of sports cameras. It also has Nick Woodman. Most students will argue that GoPro will continue to innovate in its industry and remain a major force. |

**APPLICATION QUESTIONS**

Case 1.2

PatientsLikeMe: Allowing People with Serious Diseases to Connect With One Another and Exchange Support and Advice

**DISCUSSION QUESTIONS**

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| --- | --- |
| 1-36. | Of the reasons articulate in Chapter 1 that motivate people to start businesses, which of the three reasons was the primary motivation behind Jamie and Ben Heywood’s decision to launch PatientsLikeMe?  Answer: A desire to pursue their own ideas. Also, a desire to make a positive difference in people’s lives. |
| 1-37. | How do those who are leading PatientsLikeMe practice “execution intelligence?”  Answer: Answer: PatientsLikeMe seems to be almost singularly focused on execution intelligence. In looking at the site and how people with serious diseases are able to interact with one another, one gets the impression that a tremendous amount of thought and empathy for people with serious diseases was put into the way the Web site and user experience has been set up. Another sign of execution intelligence is the way PatientsLikeMe makes money. Rather than charging users for its service, it generates revenue by selling aggregated data that it collects from its online patients’ communities to medical companies. This lowers a barrier to participation (not having to pay a fee to use the service) which in the end makes its communities larger and richer. It also makes money by helping pharmaceutical companies enlist participants in drug trials and studies. This initiative is a win-win-win proposition. It’s a win for pharmaceutical companies via an efficient method for signing up participants for trials. It’s a win for patients with serious diseases, who are often eager to sign up for any initiative that might improve their condition or reverse their disease. And it’s a win for PatientsLikeMe in that it generates revenue. |
| 1-38. | What type of start-up firm is PatientsLikeMe?  Answer: PatientsLikeMe is an entrepreneurial firm. |
| 1-39. | What do you think about the concerns regarding PatientsLikeMe’s rapid growth and the worries expressed about the potential downsides of participating in its forums? How important and potentially damaging are these concerns?  Answer: Students will vary in their answer to this question. Most students will argue that PatientsLikeMe will successfully cope with its growth. Most students will also argue that the potential downsides of participating in PatientsLikeMe’s forums, which might include disclosing a preexisting condition and jeopardizing insurance coverage, won’t be a major issue. While some potential users may pause because of this reason, it’s hard to imagine that a large enough number of potential users would pause to jeopardize the viability of PatientsLikeMe’s service. Most people with debilitating diseases are very anxious to learn more about their disease and find successful coping mechanisms. The urge to satisfy these goals is likely to outweigh concerns about revealing preexisting medical conditions for the majority of users. |