Chapter 1

The Foundations of Entrepreneurship

Great things are done by people who think great thoughts and then go out into the world to make their dreams come true.

—Anonymous

Follow the grain in your own wood.

—Howard Thurman

LEARNING OBJECTIVES

Upon completion of this chapter, you will be able to:

1. **DEFINE** the role of the entrepreneur in business—in the United States and across the world.
2. **DESCRIBE** the entrepreneurial profile and evaluate your potential as an entrepreneur.
3. **DESCRIBE** the benefits and drawbacks of entrepreneurship.
4. **EXPLAIN** the forces that are driving the growth of entrepreneurship.
5. **EXPLAIN** the cultural diversity of entrepreneurship.
6. **DESCRIBE** the important role small businesses play in our nation's economy.
7. **DESCRIBE** the 10 deadly mistakes of entrepreneurship and explain how to avoid them.
8. **PUT** failure into proper perspective.
9. **EXPLAIN** how entrepreneurs can avoid becoming another failure statistic.

Learning Objective

1. Define the concept of the entrepreneur in business—in the United States and across the world.

THE WORLD OF THE ENTREPRENEUR

Welcome to the world of the entrepreneur! Across the globe, growing numbers of people are realizing their dreams of owning and operating their own businesses. Although the level of entrepreneurial activity in the United States is down from record levels a few years ago, entrepreneurship continues to thrive in our nation. Every year, American entrepreneurs start between 3 million and 4.5 million businesses, and the level of interest in pursuing entrepreneurship as a career remains high among people in all age groups.[1] Eighty-four percent of those who launch businesses are doing so for the first time.[2] This entrepreneurial spirit is the most significant economic development in recent business history. Around the globe, these heroes of the new economy are reshaping the business environment, creating a world in which their companies play an important role in the vitality of the global economy. With amazing vigor, their businesses have introduced innovative products and services, pushed back technological frontiers, created new jobs, opened foreign markets, and, in the process, provided their founders with the opportunity to do what they enjoy most.

Interest in entrepreneurship has never been higher than it is at the beginning of the twenty-first century. A recent study by Ernst & Young found that 78 percent of influential Americans believe that entrepreneurship will be *the* defining trend of this century. Which entrepreneurial opportunity topped their list? No surprise here: the Internet.[3] The future of entrepreneurial activity looks incredibly bright, given that the past two decades have seen record numbers of entrepreneurs launching businesses. Many of the world's largest companies continue to engage in massive downsizing campaigns, dramatically cutting the number of managers and workers on their payrolls. This flurry of "pink slips" has spawned a new population of entrepreneurs: "castoffs" from large corporations (in which many of these individuals thought they would be lifetime ladder-climbers) with solid management experience and many productive years left before retirement.

This downsizing has all but destroyed the long-standing notion of job security in large corporations. As a result, members of Generation X (those born between 1965 and 1976) and Generation Y (those born between 1977 and 1994) no longer see launching a business as being a risky career path. Having watched large companies lay off their parents after many years of service, these young people see entrepreneurship as the ideal way to create their own job security and success! They are eager to control their own destinies.

The downsizing trend among large companies has created a more significant philosophical change. It has ushered in an age in which "small is beautiful." Twenty-five years ago, competitive conditions favored large companies with their hierarchies and layers of management; today, with the pace of change constantly accelerating, fleetfooted, agile, small companies have the competitive advantage. These nimble competitors can dart into and out of niche markets as they emerge and recede; they can move faster to exploit market opportunities; and they can use modern technology to create within a matter of weeks or months products and services that once took years and all of the resources a giant corporation could muster. The balance has tipped in favor of small, entrepreneurial companies. Howard Stevenson, Harvard's chaired professor of entrepreneurship, says, "Why is it so easy [for small companies] to compete against giant corporations? Because while they [the giants] are studying the consequences, [entrepreneurs] are changing the world."[4]

One of the most comprehensive studies of global entrepreneurship shows a significant gap in the rate of new business formation among the nations of the world when measured by total entrepreneurial activity or TEA (see Figure 1.1). The study found that 10.5 percent of the adult population in the United States is working to start a business. Thailand and India led the world in entrepreneurial activity with 18.9 percent and 17.9 percent respectively, whereas only 1.8 percent of adults in Japan were trying to launch companies. The study also concluded that these different rates of entrepreneurial activity may account for as much as one-third of the variation in the rates of economic growth among these nations.[5]

The United States and many other nations are benefiting from this surge in global entrepreneurial activity. Eastern European countries, China, Vietnam, and many others whose economies were state controlled and centrally planned are now fertile ground for growing small businesses. Even in stately Great Britain, where the total entrepreneurial activity index is a meager 5.4, entrepreneurship is becoming more popular.

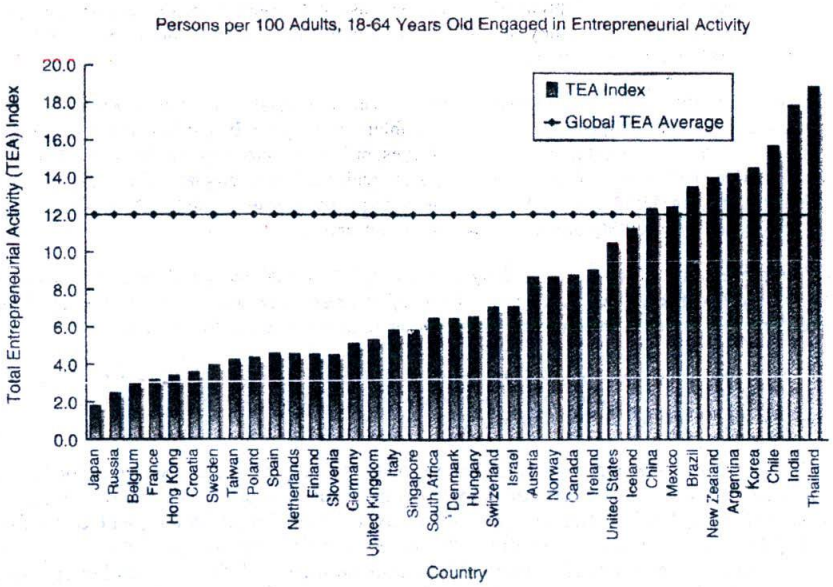


FIGURE 1.1
Entrepreneurial Activity Across the Globe

Source: 2002 Global Entrepreneurship Monitor.

A Company Example

When attorney Chantelle Ludski went to London to practice international corporate law, she decided to transform her love of the food business into reality by launching a restaurant with a partner. Soon she decided to pursue an M.B.A. at the London Business School and noticed a tremendous business opportunity: The campus she attended had no coffee shop, and students were clamoring for one! As she developed her business plan, Ludski decided to make her shop unique by offering only organically grown coffee and foods. Ludski used part of her student loan to fund her start-up. Since ***fresh!*** *opened for business, the company has added other retail locations and a wholesale warehouse that supplies one of the largest supermarkets in the United Kingdom. Ludski is now exploring franchise plans for the United Kingdom. "There are more people in the UK who are thinking of starting their own businesses than there were 10 years ago," she says.*[6]

Wherever they may choose to launch their companies, these business builders continue to embark on one of the most exhilarating—and one of the most frightening—adventures ever known: launching a business. It's never easy, but it can be incredibly rewarding, both financially and emotionally. One writer calls it "life without a safety net—thrilling and dangerous."[7] Still, true entrepreneurs see owning a business as the real measure of success. Indeed, entrepreneurship often provides the only avenue for success to those who otherwise might have been denied the opportunity.

Who are these entrepreneurs, and what drives them to work so hard with no guarantee of success? What forces lead them to risk so much and to make so many sacrifices in an attempt to achieve an ideal? Why are they willing to give up the security of a steady paycheck working for someone else to become the last person to be paid in their own companies? This chapter will examine the entrepreneur, the driving force behind the American economy.

WHAT IS AN ENTREPRENEUR?

2. Describe the entrepreneurial profile.

An **entrepreneur** is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Although many people come up with great business ideas, most of them never act on their ideas. Entrepreneurs do. Researchers have invested a great deal of time and effort over the last few decades trying to paint a clear picture of "the entrepreneurial personality." Although these studies have identified several characteristics entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success. We now turn to a brief summary of the entrepreneurial profile.[8]

entrepreneur—*one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them.*

1. *Desire for responsibility.* Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources and use those resources to achieve self-determined goals.

2. *Preference for moderate risk.* Entrepreneurs are not wild risk takers but are instead calculating risk takers. Unlike "high-rolling, riverboat" gamblers, they rarely gamble. Their goals may appear to be high—even impossible—in others' eyes, but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable. They usually spot opportunities in areas that reflect their knowledge, backgrounds, and experiences, which increases their probability of success. One writer observes:

   Entrepreneurship is not the same thing as throwing darts and hoping for the best. It is about planning and taking calculated risks based upon knowledge of the market, the available resources or products, and a predetermined measure of the potential for success.[9]

   In other words, successful entrepreneurs are not as much risk takers as they are risk eliminators, removing as many obstacles to the successful launch of their ventures as possible. One of the most successful ways of eliminating risks is to build a solid business plan for a venture.

3. *Confidence in their ability to succeed.* Entrepreneurs typically have an abundance of confidence in their ability to succeed. They tend to be optimistic about their chances for success. In its recent *National Small Business Poll*, the National Federation of Independent Businesses (NFIB) found that business owners rated the success of their companies quite high—an average of 7.3 on a scale of 1 (a total failure) to 10 (an extreme success).[10] This high level of optimism may explain why some of the most successful entrepreneurs have failed in business—often more than once—before finally succeeding.

4. *Desire for immediate feedback.* Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking for feedback. "I love being an entrepreneur," says Nick Gleason, cofounder of CitySoft Inc., a Web-page design firm based in Cambridge, Massachusetts. "There's something about the sheer creativity and challenge of it that I like."[11]

5. *High level of energy.* Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a start-up company. Long hours and hard work are the rule rather than the exception, and the pace can be grueling.

A Company Example

For example, when Colin Angle and Helen Greiner, MIT graduates whose joint interest in robotics brought them together to form a business venture, ***iRobot****, they and their six employees routinely spent 18 hours a day creating software and assembling prototype robots. Their hard work has paid off, however; their company has become the leader in the field of robotics. iRobot has developed a multitude of robots for a wide variety of market segments, ranging from My Real Baby ("an interactive, robotic, artificially-intelligent, emotionally-responsive baby doll") for kids and Roomba (an automatic vacuum cleaner) for busy homeowners to the MicroRig (a device that takes sensors to the bottom of oil wells) for industry and Ariel (a robot capable of removing obstacles on land and underwater) for the military.*[12]

6. *Future orientation.* Entrepreneurs have a well-defined sense of searching for opportunities. They look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future. "As you grow a company, your goals become more ambitious and expansive," says Beth Cross, cofounder of Ariat International Inc., a maker of quality footware for equestrians.[13]

   Entrepreneurs see potential where most people see only problems or nothing at all, a characteristic that often makes them the objects of ridicule (at least until their ideas become huge successes). Whereas traditional managers are concerned with managing available *resources*, entrepreneurs are more interested in spotting and capitalizing on *opportunities*. The United States leads the world in the percentage of opportunity entrepreneurs, those who start businesses because they spot an opportunity in the marketplace, compared to necessity entrepreneurs, those who start businesses because they cannot find work any other way.[14]

serial entrepreneurs—*entrepreneurs who repeatedly start businesses and grow them to a sustainable size before striking out again.*

Serial entrepreneurs, those who repeatedly start businesses and grow them to a sustainable size before striking out again, push this characteristic to the maximum.

A Company Example

Patrick Brandt has been an entrepreneur his entire life, owning a lemonade stand as a kid and a lawn care service in college. In 1996, Brandt launched Cyberpix, an e-commerce service that allowed photographers to catalog and distribute their work online. Even though Cyberpix ended in failure, Brandt's entrepreneurial spirit kept him going. In 1999, he launched ***Skywire Technology****, a company that invests in promising new technology businesses, and Skywire Software, a software development company.*[15]

7. *Skill at organizing.* Building a company "from scratch" is much like piecing together a giant jigsaw puzzle. Entrepreneurs know how to put the right people together to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their visions into reality.

8. *Value of achievement over money.* One of the most common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To the contrary, *achievement* seems to be entrepreneurs' primary motivating force; money is simply a way of "keeping score" of accomplishments—a symbol of achievement. One business researcher says, "What keeps the entrepreneur moving forward is more complex—and more profound—than mere cash. It's about running your own show. It's about doing what is virtually impossible."[16]

Other characteristics frequently exhibited by entrepreneurs include:

High degree of commitment. Entrepreneurship is hard work, and launching a company successfully requires total commitment from an entrepreneur. Business founders often immerse themselves completely in their companies. Most entrepreneurs have to overcome seemingly insurmountable barriers to launch a company and to keep it growing. That requires commitment.

Tolerance for ambiguity. Entrepreneurs tend to have a high tolerance for ambiguous, ever-changing situations, the environment in which they most often operate. This ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources. Based on his research, entrepreneurial expert Amar Bhidé says that entrepreneurs exhibit "a willingness to jump into things when it's hard to even imagine what the possible set of outcomes will be."[17]

Flexibility. One hallmark of true entrepreneurs is their ability to adapt to the changing demands of their customers and their businesses. In this rapidly changing global economy, rigidity often leads to failure. As our society, its people, and their tastes change, entrepreneurs must be willing to adapt their businesses to meet those changes. When their ideas fail to live up to their expectations, successful entrepreneurs change them!

A Company Example

In 1917, Ed Cox invented a presoaped steel-wool scouring pad that was ideal for cleaning pots and used it as a "calling card" in his sales calls. Although his efforts at selling pots proved futile, Cox noticed how often his prospects asked for the soap pads. He quickly forgot about selling pots and shifted his focus to selling the scouring pads, which his wife had named ***S.O.S.*** *("Save Our Saucepans"), and went on to start a business that still thrives today.*[18]

Tenacity. Obstacles, obstructions, and defeat typically do not dissuade entrepreneurs from doggedly pursuing their visions. They simply keep trying. "The economy gets good and bad," says Nancy Koehn, a Harvard professor who studies entrepreneurs, "but entrepreneurs will always be with us."[19]

What conclusion can we draw from the volumes of research conducted on the entrepreneurial personality? Entrepreneurs are not of one mold; no one set of characteristics can predict who will become entrepreneurs and whether or not they will succeed. Indeed, *diversity* seems to be a central characteristic of entrepreneurs. One researcher of the entrepreneurial personality explains, "Entrepreneurs don't fit any statistical norm . . . Most are aberrant or a bit odd by nature."[20]

As you can see from the examples in this chapter, *anyone*—regardless of age, race, gender, color, national origin, or any other characteristic can become an entrepreneur (although not everyone should). There are no limitations on this form of economic expression. Entrepreneurship is not a mystery; it is a practical discipline. Entrepreneurship is not a genetic trait; it is a skill that most people can learn. The editors of *Inc.* magazine claim, "Entrepreneurship is more mundane than it's sometimes portrayed. . . . You don't need to be a person of mythical proportions to be very, very successful in building a company."[21]

THE BENEFITS OF ENTREPRENEURSHIP

3-A. Describe the benefits of entrepreneurship.

Surveys show that owners of small businesses believe they work harder, earn more money, and are happier than if they worked for a large company. Before launching any business venture, every potential entrepreneur should consider the benefits of small business ownership.

Opportunity to Create Your Own Destiny

Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them. Entrepreneurs want to "call the shots" in their lives, and they use their businesses to make that desire a reality.

A Company Example

*After spending years in the construction business, **Doug Danforth** decided to pursue his dream of opening a flower shop in his hometown of Green Bay, Wisconsin. "I had managed two floral shops years before I went into the construction business, and I liked it a lot," he says. Danforth scraped together $900 of his own money, convinced family members to put up a small amount of cash, and launched his shop, which he has built into a thriving business. "I wanted to control my own destiny," he says. "I knew I wanted to be my own boss."*[22]

Like Doug Danforth, entrepreneurs reap the intrinsic rewards of knowing they are the driving forces behind their businesses.

Opportunity to Make a Difference

Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Whether it is providing low-cost, sturdy housing for families in developing countries or establishing a recycling program to preserve the Earth's limited resources, entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living.

A Company Example

*Tony Golobic, CEO of **GreatAmerica Leasing Corporation**, a company that leases everything from computers to X-ray machines, is using the resources of his company to give back to his hometown of Cedar Rapids, Iowa. Golobic, an immigrant from Slovenia whose first job in the United States was as a janitor, established a computer center that provides both computer access and instruction for local kids. The company also provides a bus to transport kids to the center from nearby schools.*[23]

Opportunity to Reach Your Full Potential

Too many people find their work is boring, unchallenging, and unexciting. But not entrepreneurs! To them, there is little difference between work and play; the two are synonymous. Entrepreneurs' businesses become their instruments for self-expression and self-actualization. They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm, and vision. Owning a business gives them a sense of empowerment. Barbie Dallman, who left the security (and the hassles) of corporate life at age 30 to start a résumé service, says, "Starting my own business was a spiritual awakening. I found out what was important to me—being able to follow my own interests."[24]

Opportunity to Reap Impressive Profits

Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. Most entrepreneurs never become super-rich, but many of them do become quite wealthy. In fact, nearly 75 percent of those on the *Forbes* list of the 400 richest Americans are first-generation entrepreneurs![25] According to research by Thomas Stanley and William Danko, self-employed business owners make up two-thirds of American millionaires. "Self-employed people are four times more likely to be millionaires than people who work for others," says Danko.[26] The typical

millionaire's business is not a glamorous, high-tech enterprise; more often, it is something much less glamorous—scrap metal, welding, auctioneering, garbage collection, and the like.

When Michael Dell started a business selling custom-made PCs and components in his dorm room at the University of Texas, reaching the list of the most wealthy people in the United States was only a dream. Yet, Dell has realized that dream. ***Dell Computer*** *sells more than $50 million worth of computer products on the Internet each day, and the financial wealth he reaps from the success of his company keeps Dell near the top of* Forbes *list with a net worth of $16.5 billion!*[27]



A Company Example

Michael Dell, founder and CEO of the Dell Computer Corporation.

Table 1.1 offers a brief profile of some of the wealthiest Americans in history.

Opportunity to Contribute to Society and Be Recognized for Your Efforts

Often small business owners are among the most respected and most trusted members of their communities. Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers whom they have served faithfully over the years. Playing a vital role in their local business systems and knowing that their work has a significant impact on how smoothly our nation's economy functions is yet another reward for small business managers.

Opportunity to Do What You Enjoy and Have Fun at It

A common sentiment among small business owners is that their work really isn't work. Most successful entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. They have made their avocations (hobbies) their vocations (work) and are glad they did! These entrepreneurs are living Harvey McKay's advice: "Find a job doing what you love, and you'll never have to work a day in your life." The journey rather than the destination is the entrepreneur's greatest reward.

A Company Example

Mike Becker transformed his passion for nostalgia-based toys into a successful business venture, ***Funko Inc.*** *Becker invested $35,000 of his own money to resurrect the bobblehead, a toy that was popular in the 1950s and 1960s. His first product was a bobblehead of the restaurant icon Big Boy, but the company's sales took off when Becker landed the rights to distribute Austin Powers bobbleheads after the first hit movie. Since its founding in 1998, Funko has sold more than 1.5 million bobbleheads to small gift, novelty, and collectible stores across the country. "As long as I'm doing what I want to do and we're making a profit" says Becker, "I can't imagine anything better."*[28]

Not only has Becker found a way to make a living, but more importantly, he is doing something he loves!

THE POTENTIAL DRAWBACKS OF ENTREPRENEURSHIP

3-B. Describe the drawbacks of entrepreneurship.

Although owning a business has many benefits and provides many opportunities, anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks. Individuals who prefer the security of a steady paycheck, a comprehensive benefit package, a two-week paid vacation, and the support of a corporate staff probably should not go into business for themselves. Some of the disadvantages of entrepreneurship include the following:

TABLE 1.1

Wealthiest Americans in History

Source: Adapted from "The World's Richest People," *Forbes*, February 26, 2003, www.forbes.com/lists/2003/02/26/billionaireland.html; "Richest Americans in History," *Forbes ASAP*, August 24, 1998, p. 32; Rachel Emma Silverman, "Rich & Richer: Fifty of the Wealthiest People of the Past 1,000 Years," *Wall Street Journal Reports: The Millenium*, January 11, 1999, pp. R6–R10.

Who	Comment	Business	Wealth as a % of the U.S. Economy*
John D. Rockefeller (1839–1937)	America's first billionaire. Created America's most powerful monopoly, the Standard Oil Company.	Oil	1.53%
Cornelius Vanderbilt (1794–1877)	Known as the "Commodore." Borrowed $100 from his mother at age 12 to start what became the Staten Island Ferry.	Railroad and shipping	1.15%
John Jacob Astor (1763–1848)	A German-born immigrant who began as a fur trader.	New York real estate	0.93%
Stephen Girard (1750–1831)	Largest investor in the First Bank of the United States. Once loaned the U.S. Treasury $8 million to finance the War of 1812.	Shipping and banking	0.67%
Andrew Carnegie (1835–1919)	A "rags to riches" story. Started as a bobbin boy and went on to found U.S. Steel.	Steel	0.60%
Bill Gates (1955–)	Dropped out of Harvard and launched Microsoft Corporation with Paul Allen. Wealthiest man in the world today.	Computer software	0.43%
Alexander Turney Stewart (1803–1876)	Founded the first department store in the United States.	Retail	0.56%
Frederick Weyerhauser (1834–1914)	Made his fortune as America's demand for lumber exploded.	Timber	0.55%
Larry Ellison (1944-)	Started Oracle Corporation with $2,000 of his own money. (Now second largest maker of computer software behind Microsoft.)	Computer software	0.15%
Michael Dell (1965-)	Started Dell Computer from his dormitory room at the University of Texas. Sales now exceed $35 billion a year.	Computers	0.11%

* Calculated by dividing person's total wealth by the U.S. GDP at the time of death, or if person is still living, by 2001 GDP.

Uncertainty of Income

Opening and running a business provides no guarantees that an entrepreneur will earn enough money to survive. Some small businesses barely earn enough to provide the owner-manager with an adequate income. In a business's early days the owner often has trouble meeting financial obligations and may have to live on savings. The steady income that comes with working for someone else is absent. The owner is always the last one to be paid.

Risk of Losing Your Entire Investment

The small business failure rate is relatively high. According to recent research, 35 percent of new businesses fail within two years, and 54 percent shut down within four years. Within six years, 64 percent of new businesses will have folded. Studies also show that when a company creates at least one job in its early years, the probability of failure after six years plummets to 35 percent![29]

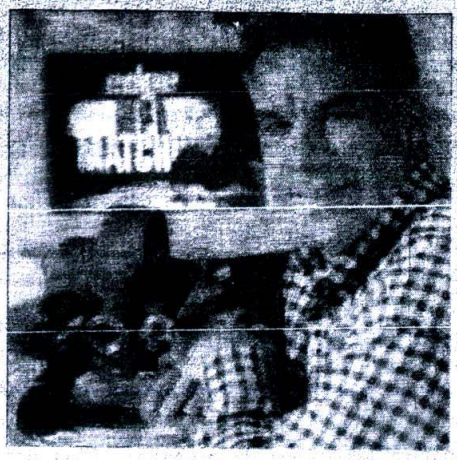
YOU Be the Consultant . . .

A Pigskin Revolution

In 1962, Ed Sabol was selling coats in his father-in-law's Philadelphia clothing business, and he was miserable. "It was like going to the dentist every morning," he recalls. Ed's passion was using the Bell & Howell movie camera (a precursor to today's digital video camera) that his mother-in-law gave him as a wedding present to film his son Steve at practically everything he did, especially his high school football games. When local high schools saw the quality of Ed's films, they asked Sabol to film their games too. Then Sabol read a newspaper article about a local company, Tira, that had paid $1,500 for the rights to film the 1961 National Football League (NFL) championship game. (The Super Bowl had not been invented yet!) Sabol resolved to win the rights to the 1962 game, even though his football-filming experience was limited to his son's high school games. He called NFL commissioner Pete Rozelle and submitted what proved to be the winning bid of $3,000.

It was a good move for both Rozelle and Sabol. More than 40 years later, Rozelle still considers the 1962 championship game between the Green Bay Packers and the New York Giants to be the best football film ever made. Filming the game made it clear to Sabol that producing films of football games was what he was meant to do. Using the skills he had learned as a coat salesman, Sabol pitched to Rozelle the idea that the NFL needed its own film company to produce highlight films for the 14 teams that made up the league at that time. "We'd call it NFL Films," says Sabol. "He loved the idea." Sabol agreed to produce the highlight films in exchange for $12,000 from each team that would provide the capital to fund NFL Films. His assignment was to preserve the history of the game and to promote NFL football to the nation's sports fans. "In the early 1960s, baseball was the number one sport, college football number two, and boxing number three," recalls Ernie Accorsi, a 30-year NFL veteran. Then "pro football took over the country, and NFL Films had a lot to do with it."

What set NFL Films apart from its rivals was applying cinematography to capturing the power, the finesse, and the spirit of the game rather than merely documenting the action. Sabol dramatized the game by using theatrical music, slow motion, multiple angles, and intense close-ups. Ground-level shots from strategically positioned cameramen, the sounds of players smashing into one another, and artful editing gave viewers the feeling of being in the middle of the action. John Facenda, known as "The Voice of Doom," provided the poetic voiceovers that elevated every film to the level of majestic drama. Sabol's approach to NFL games was more like that of legendary Hollywood film director Billy Wilder than a newsman capturing shots for the evening sports segment. NFL



Steve Sabol and the camera his Dad used to launch NFL Films.

Sources: Adapted from Ilan Mochari, "Archive," *Inc.*, November 2002, p. 124; David Lidsky, "This Is NFL Films," *FSB*, September 2002, pp. 45–50; NFL Films, www.nflfilms.com.

Films' creative approach to the game has garnered the company 82 Emmy Awards to date, making it the most honored filmmaker in sports. "Imagine what would happen if Cezanne, Picasso, or Monet took a look at the NFL," says one newspaper columnist. "The result would be NFL Films."

When Ed Sabol retired from NFL Films in 1987 at the age of 71, his son, Steve, took over as company president and has carefully guided the company to new heights. For years, Steve was the creative and artistic genius behind the company, carefully building a culture of innovation and creativity among employees. Explaining his management philosophy, Steve says, "Leadership is the liberation of talent. We put people in positions to be as creative as they possibly can." At one time, Steve awarded a member of the NFL Films team $1,000 for the most spectacular failure of the year. "We weren't celebrating failure, but ingenuity, the willingness to take risks," he says.

Experienced cinematographers who document a game's action and drama are a key part of the company's success. NFL Films sends at least two cinematographers to every game, and the entire crew shoots more than 1,000 miles of 16-mm film each season! (Nearly 30 crew members cover the Super Bowl, using more than 25 miles of film for that one game.) "Trees" are those in charge of stationary cameras positioned high above the action and are responsible for capturing every play in the game. "Moles" are crew members who move around the field with handheld cameras, shooting from the players' perspective. They must have the ability to understand the flow of the game and to anticipate where the best shots will be.

"Weasels" cover everything except the on-field action. They find the drama on the sidelines with players and coaches and sometimes film the fans in the stands or in the parking lots. NFL Films now produces more than 400 hours of original programming each year for broadcast over a variety of channels.

Innovation remains an important part of NFL Films' continued success. The company recently moved into a 200,000-square-foot facility containing the latest in video technology that will enable it to stay at the forefront of filmmaking. NFL Films has come a long way since its humble beginnings, but in many ways it remains a family business—one that revolutionized the way America watches football.

1. Identify the entrepreneurial traits that Ed Sabol and his son Steve exhibit.

2. How would you characterize the Sabols' philosophy, beliefs, and values? How important are a business founder's philosophy, beliefs, and values to a small business as it grows?

3. What factors have led to NFL Films' success?

Before "reaching for the golden ring," entrepreneurs should ask themselves if they can cope psychologically with the consequences of failure:

What is the worst that could happen if I open my business and it fails?

How likely is the worst to happen? (Am I truly prepared to launch my business?)

What can I do to lower the risk of my business failing?

If my business were to fail, what is my contingency plan for coping?

Long Hours and Hard Work

Business start-ups often demand that owners keep nightmarish schedules. According to a recent Dun & Bradstreet survey, 65 percent of entrepreneurs devote 40 or more hours per week to their companies (see Figure 1.2). In many start-ups, six- or seven-day workweeks with no paid vacations are the norm. In fact, one study by American Express found that 29 percent of small business owners had no plans to take a summer vacation. The primary reason? "Too busy."[30] These owners feel the pressure because they know that when the business closes, the revenue stops coming in, and customers go elsewhere. "You must have stamina to see it through," says Chantelle Ludski, founder of London-based fresh!, an organic food company. "I put in many 16-hour workdays. Holidays and time off are things that go out the window!"[31]

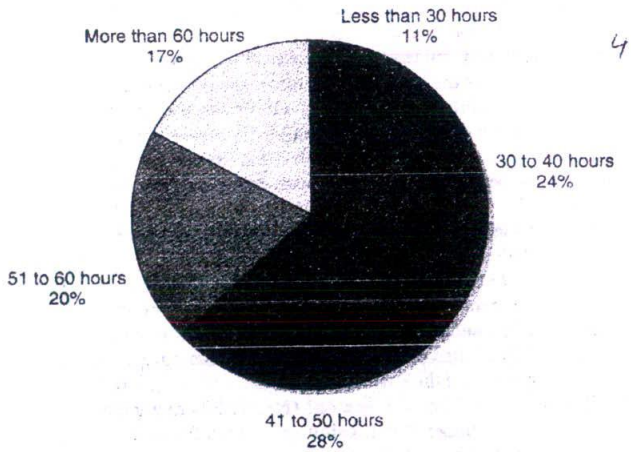


FIGURE 1.2 Number of Hours per Week Entrepreneurs Devote to Their Businesses

Sources: Adapted from *Dun & Bradstreet 21st Annual Small Survey Summary Report*. 2002. p. 35.

Lower Quality of Life Until the Business Gets Established

The long hours and hard work needed to launch a company can take their toll on the remainder of the entrepreneur's life. Business owners often find that their roles as husbands or wives and fathers or mothers take a back seat to their roles as company founders. Part of the problem is that half of all entrepreneurs launch their businesses between the ages of 25 and 39, just when they start their families (see Figure 1.3). As a result, marriages, families, and friendships are too often casualties of small business ownership. "The traits that make you a successful entrepreneur are not the things you can turn off when you walk in the door at home," says one entrepreneurial researcher, describing how owning a business often conflicts with one's family and social life.[32]

High Levels of Stress

Starting and managing a business can be an incredibly rewarding experience, but it also can be a highly stressful one. Entrepreneurs often have made significant investments in their companies, have left behind the safety and security of a steady paycheck, and have mortgaged

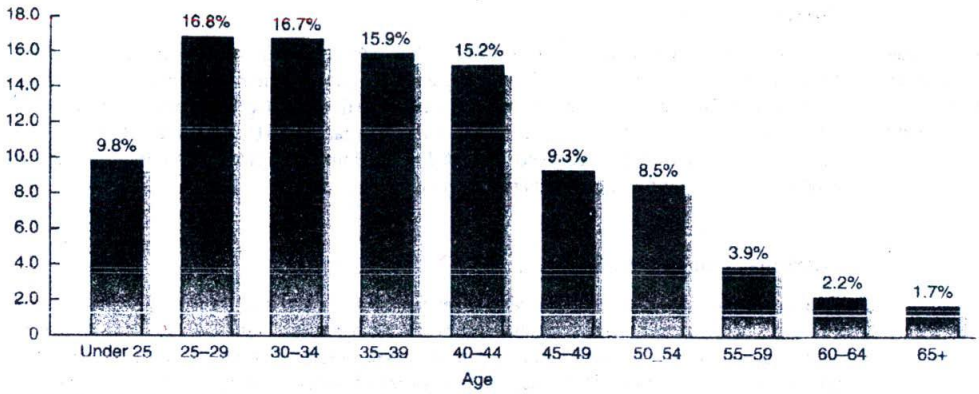


FIGURE 1.3 Owner Age When Business Formed

Source: National Federation of Independent Business and Wells Fargo Bank, 1999.

everything they own to get into business. Failure may mean total financial ruin, and that creates intense levels of stress and anxiety! Sometimes entrepreneurs unnecessarily bear the burden of managing alone because they cannot bring themselves to delegate authority and responsibility to others in the company, even though their employees are capable.

A Company Example

Jo DeMars, founder of ***DeMars and Associates****, a company that manages warranty disputes and arbitration for automakers, guided her company's growth for 13 years by micromanaging every aspect of it. Both DeMars and the company paid a price, however. "I was burned out and exhausted," she says. Because she was so focused on day-to-day issues, DeMars was neglecting the company's strategic management. Her solution was to take a four-month sabbatical and to allow her management team (and a trusted consultant) to run the company, which thrived in her absence. Now back at the helm, DeMars encourages employees to make daily decisions while she focuses on broader issues, such as writing the company's first comprehensive business plan and creating a new division.*[33]

Complete Responsibility

It's great to be the boss, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. Many business owners have difficulty finding advisors. A recent national small business poll conducted by the National Federation of Independent Businesses found that 34 percent of business owners have no one person to turn to for help when making a critical business decision.[34] When there is no one to ask, the pressure can build quickly. The realization that the decisions they make are the cause of success or failure has a devastating effect on some people. Small business owners discover quickly that *they* are the business.

Discouragement

Launching a business is a substantial undertaking that requires a great deal of dedication, discipline, and tenacity. Along the way to building a successful business, entrepreneurs will run headlong into many different obstacles, some of which appear to be insurmountable. In the face of such difficulties, discouragement and disillusionment are common emotions. Successful entrepreneurs know that every business encounters rough spots along the way, and they wade through difficult times with lots of hard work and an abundant reserve of optimism.

BEHIND THE BOOM: WHAT'S FEEDING THE ENTREPRENEURIAL FIRE?

What forces are driving this entrepreneurial trend in our economy? Which factors have led to this age of entrepreneurship? Some of the most significant ones include the following:

4. Explain the forces that are driving the growth of entrepreneurship.

Entrepreneurs as Heroes

An intangible but very important factor is the attitude that Americans have toward entrepreneurs. As a nation we have raised them to hero status and have held out their accomplishments as models to follow. Business founders such as Bill Gates (Microsoft Corporation), Mary Kay Ash (Mary Kay Cosmetics), Jeff Bezos (Amazon. com), Michael Dell (Dell Computer Corporation), and Ben Cohen and Jerry Greenfield (Ben & Jerry's Homemade Inc.) are to entrepreneurship what Tiger Woods and Kurt Warner are to sports.

Entrepreneurial Education

Colleges and universities have discovered that entrepreneurship is an extremely popular course of study. Disillusioned with corporate America's downsized job offerings and less promising career paths, a rapidly growing number of students see owning a business as an attractive career option. Today more than 1,500 colleges and universities offer courses in entrepreneurship and small business to some 15,000 students. Many colleges and universities have difficulty meeting the demand for courses in entrepreneurship and small business.

Demographic and Economic Factors

Nearly two-thirds of entrepreneurs start their businesses between the ages of 25 and 44, and much of our nation's population falls into that age range. Plus, the economic growth that spanned most of the 1980s and 1990s created a significant amount of wealth among people of this age group and many business opportunities on which they can capitalize.

Shift to a Service Economy

The service sector produces 92 percent of the jobs and 85 percent of the gross domestic product (GDP) in the United States, which represents a sharp rise from just a decade ago. Because of their relatively low start-up costs, service businesses have become very popular among entrepreneurs. The booming service sector continues to provide many business opportunities, and not all of them are in high-tech fields.

A Company Example

For example, Christopher Kelly and Michele Fitzgerald, two part-time actors, launched ***L.A. Bike Tours*** *in 1999 to appease their passion for film-related trivia and Hollywood legends. The entrepreneurs offer tours of Hollywood, Beverly Hills, and Venice Beach—all on bicycles! More than just the average "see-the-stars'-homes" tours, L.A. Bike Tours offers customers interesting, fact-filled, leisurely paced tours of the region's most alluring sites. "There's something about being out in the open that's so different from being in an enclosed vehicle," says Fitzgerald. "It makes you feel more a part of the experience." Some tours have special themes, such as the Marilyn Monroe tour, which focuses on the life of the famous actress, and the Death and Despair tour at Halloween that features some of Hollywood's ghastliest stories. Although sales started slowly, Kelly and Fitzgerald's specialty travel business has tapped into one of the fastest-growing segments of tourism, and sales are climbing.*[35]

Technological Advancements

With the help of modern business machines such as personal computers, laptop computers, fax machines, copiers, color printers, answering machines, and voice mail, even one person working at home can look like a big business. At one time, the high cost of such technological wizardry made it impossible for small businesses to compete with larger companies that could afford the hardware. Today, however, powerful computers and communication equipment are priced within the budgets of even the smallest businesses. Although entrepreneurs may not be able to manufacture heavy equipment in their spare bedrooms, they can run a service- or information-based company from their homes very effectively and look like any *Fortune* 500 company to customers and clients.

Independent Lifestyle

Entrepreneurship fits the way Americans want to live—independent and self-sustaining. People want the freedom to choose where they live, the hours they work, and what they do. Although financial security remains an important goal for most entrepreneurs, many place top priority on lifestyle issues such as more time with family and friends, more leisure time, and more control over work-related stress.

E-Commerce and the World Wide Web

World Wide Web—*the vast network that links computers around the globe via the Internet and opens up oceans of information to its users. A major business opportunity for entrepreneurs.*

The proliferation of the **World Wide Web**, the vast network that links computers around the globe via the Internet and opens up oceans of information to its users, has spawned thousands of entrepreneurial ventures since its beginning in 1993. Online commerce is growing rapidly (see Figure 1.4), creating many opportunities for Web-savvy entrepreneurs. Travel services, computer hardware and software, books, music, videos, and consumer electronics are among the best-selling items on the Web, but entrepreneurs are learning that they can use this powerful tool to sell just about anything! Approximately 57 percent of small businesses use the Internet for business-related purposes, but only 33 percent have Web sites. Those that do have Web sites reap benefits quickly. The most commonly cited benefit of launching a Web site is additional customers; in fact, after launching a site, 41 percent of small companies reported an increase in sales. Fifty-five percent of small companies with Web sites report that their sites are either breaking even or are earning a profit.[36] These "netpreneurs" are using their Web sites to connect with their existing customers and, ultimately, to attract new ones. "Small businesses that use the Web to market their products and services outperform those that don't," says an executive at Verizon, which sponsors an annual small business Internet survey. "The promise of the Internet is starting to pay off."[37]

A Company Example

*The Web has stimulated growth at **Timbuk2 Designs**, a small San Francisco company that makes customized carrying cases for bicycle messengers. The company's original business plan called for customers to design their own bags at bicycle shops across the country. Because Timbuk2 could charge extra for custom-designed bags that included unique features, accessories, and colors, profit margins were attractive. Most stores that sold Timbuk2 bags, however, wanted only to stock its basic bags in standard colors. In 1999 founder Rob Honeycutt and president Brennan Mulligan decided to abandon the idea of offering customized bags through retail outlets. They concluded that the best way to reach the company's target customers who wanted customized bags was through the Web. When the company introduced a "Build Your Own" feature on its Web site, sales exploded. More than 30 percent of Timbuk2's total sales and 50 percent of its gross profit come from its Web site. "For us, (e-commerce) is the best thing that's ever happened," says Mulligan.*[38]

International Opportunities

No longer are small businesses limited to pursuing customers within their own borders. The shift to a global economy has opened the door to tremendous business opportunities for entrepreneurs willing to reach across the globe. Although the United States is an attractive market

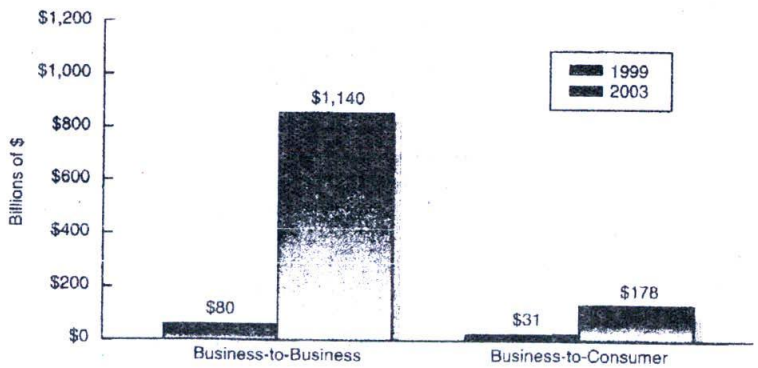


FIGURE 1.4 Online Commerce

Source: International Data Corporation.

for entrepreneurs, approximately 95 percent of the world's population lives outside its borders. World-altering changes such as the crumbling of the Berlin Wall, the collapse of Communism, and breaking down trade barriers through trade agreements have changed the world order and have opened more of the world market to entrepreneurs. Today, small businesses can have a global scope from their inception. Small companies comprise 97 percent of all businesses engaged in exporting, yet they account for only 30 percent of the nation's export sales.[39] Most small companies do not take advantage of export opportunities, often because their owners don't know how or where to start an export initiative. Although terrorism and global recessions have slowed the growth of international trade somewhat, global opportunities for small businesses have a long-term positive outlook.

Although going global can be fraught with dangers and problems, many entrepreneurs are discovering that selling their products and services in foreign markets is really not that difficult. Small companies that have expanded successfully into foreign markets tend to rely on the following strategies:

- Researching foreign markets thoroughly.
- Focusing on a single country initially.
- Utilizing government resources designed to help small companies establish an international presence.
- Forging alliances with local partners.

A Company Example

*From its founding in 1966, **Kelley Manufacturing Company**, a Tifton, Georgia–based maker of peanut harvesting equipment, focused almost exclusively on the domestic market. Then, in 1999, the managers at the employee-owned business decided that the time was right to explore global markets. The company's export strategy has succeeded, and Kelley now sells its products on four continents, making it the world's largest manufacturer of peanut harvesting equipment.*[40]

Learning Objective
5. Explain the cultural diversity of entrepreneurship.

THE CULTURAL DIVERSITY OF ENTREPRENEURSHIP

As we have seen, virtually anyone has the potential to become an entrepreneur. Indeed, diversity is a hallmark of entrepreneurship. We now explore the diverse mix of people who make up the rich fabric of entrepreneurship.

Young Entrepreneurs

Young people are setting the pace in starting businesses. Disenchanted with their prospects in corporate America and willing to take a chance at controlling their own destinies, scores of young people are choosing entrepreneurship as their primary career path. A study by Babson College found that members of Generation X (those born between 1965 and 1976) are three times more likely than those in other age groups to launch businesses. Members of this generation are responsible for about 80 percent of all business start-ups, making Generation X the most entrepreneurial generation in history![41] There is no slowdown in sight as this generation flexes its entrepreneurial muscle. Generation X might be more appropriately called "Generation E."

Even teenagers and those in their early twenties (the Millenium Generation, born after 1982), show high levels of interest in entrepreneurship. Young entrepreneur camps are popping up all around the country to teach youthful business-building wannabes how to launch and run a business, and many of them are fulfilling their dreams.

A Company Example

*Tyler Dikman was just 15 years old when he started **CoolTronics**, a Tampa, Florida–based computer supply company, after he learned how to fix computers in an internship at Merrill Lynch. When he launched his company, Tyler "didn't even have a car. My clients would pick me up," he recalls. As his business grew, Tyler took over his father's study and turned it into the company headquarters. "The living room became shipping dock A," he says. Now in college, Tyler continues to run the business, which has sales of more than $1 million.*[42]

Because of young people such as Tyler, the future of entrepreneurship looks very bright.

YOU Be the Consultant . . .

Never Too Young

When Erica Gluck was just seven years old, she wanted to earn her own money so badly that she threatened to sell her teddy bears on the sidewalk. Instead, she approached the owners of a pasta shop where she and her family often shopped and asked if she could sell their pasta at weekend farmers' markets near San Diego. "I really loved [their pasta]," Erica says, "and I wanted everyone else to try it." She bought 120 packages at $1.25 with the intent of selling them for twice their cost. "We figured the worst that could happen is that we'd be eating pasta every night for a month," recalls Erica's mother, Mary. Their supply sold out quickly, and a new business, Erica's Pasta, was born. The company has expanded over the years and now sells pesto, olive oils, and hearth-baked breads in addition to pasta. Erica's parents now work for the business full-time, and Erica helped her father, Chris, write a pasta cookbook that includes kid-friendly recipes that the company sells through a separate division called Pasta Press. Erica's little sister Katie has created her own business as well: Katie's Koop, which sells fresh eggs at the farmers' markets. Both girls give 10 percent of their earnings to their church, save 50 percent, and spend the rest. "We would never have done this if it weren't for Erica," admits Mary.

While a junior in college, Adam Witty got the inspiration for his business after repeatedly watching his busy father's Orlando Magic tickets go unused when his schedule changed unexpectedly at the last minute. "I remember seeing Dad throw away Magic tickets because he couldn't attend the game, and he couldn't find anyone else on such short notice to use them," says Witty. He launched TicketAdvantage, a Web-based company that provides an online matching service for ticket holders and ticket buyers. Using TicketAdvantage's secure transaction system, single-game ticket buyers can purchase from season ticket holders seats that would normally not be available. In addition to the National Basketball Association, Witty's company has partnered with almost every major sports organization, including the Women's National Basketball Association, the National Football League, Major League Baseball, Major League Soccer, the National Hockey League, the National Collegiate Athletic Association, the Arena Football League, and National Association of Stock Car Automobile Racing. Witty developed the concept for TicketAdvantage in his Clemson University dorm room and used the resources of the university's Spiro Center for Entrepreneurial Leadership to polish his idea.

Budding entrepreneurs at the University of Maryland can take advantage of a special program the school designed to "create a culture for entrepreneurship." The university's Hinman Campus Entrepreneurship Opportunities program provides space in a specially outfitted dormitory for 100 students who want to build their own companies. Students not only share living space with other like-minded entrepreneurial types, an ideal setting for encouraging start-ups, but they also have access to amenities such as a professionally appointed conference room, wireless Internet access, smart whiteboards, ample computer facilities, videoconferencing equipment, copiers, and a phone system that rings simultaneously home and cellular phones so that no one misses an important business call. Weekly presentations from entrepreneurs, venture capitalists, attorneys, and others help students define their business ideas and develop their business plans. Two hundred students applied for the 100 available spots in the dorm with its incubator-like business environment. The program, which won the Price Institute Innovative Entrepreneurship Educators Award, is working. Twenty of the students already have launched companies, including a medical software company and a textbook sales business. "It's often over those late-night pizzas where the best ideas are born," says one official. One student entrepreneur in the program agrees, "A lot of it is the community. Being around people in the program inspires one to think about other opportunities out there. What I've learned here is how to plan, how to make a business actually work."

Think you're too young to be an entrepreneur? No way! Tyler Dikman, who started a computer supply company at age 15, says, "I wish I would have started the business earlier. You can what-if yourself forever, but I do wish I had started when I was 13."

1. In addition to the normal obstacles of starting a business, what other barriers do young entrepreneurs face?

2. What advantages do young entrepreneurs have when launching a business?

3. What advice would you offer a fellow college student about to start a business?

4. Work with a team of your classmates to develop ideas about what your college or university could do to create a culture of entrepreneurship on your campus or in your community.

Sources: Julie Sloane, "Most Likely to Succeed," *FSB*, November 2002, p. 22; Ellen McCarthy, "A Dorm for Dreamers," *Washington Post*, October 30, 2002, p. E1; "Hinman CEOs Living-Learning Entrepreneurship Program," www.hinmanceos.umd.edu; Teresa Hopkins, "The Winning Ticket," *Clemson World*, Summer 2002, pp. 12–13; Glenn D. Bridges, "Clemson Program Incubates Future Business Leaders," *GSA Business*, February 25, 2002, p. 6; Janet Bodnar, "No Kidding," *Kiplinger's Personal Finance Magazine*, September 2001, pp. 110–113.

Women Entrepreneurs

Despite years of legislative effort, women still face discrimination in the workforce. However, small business has been a leader in offering women opportunities for economic expression through employment and entrepreneurship. Increasing numbers of women are discovering that the best way to break the "glass ceiling" that prevents them from rising to the top of many organizations is to start their own companies. Nearly 6 percent of adult women now own their own businesses.[43] In fact, women are opening businesses at a rate about twice that of the national average.[44] Women entrepreneurs have even broken through the comic strip barrier. Blondie Bumstead, long a typical suburban housewife married to Dagwood, now owns her own catering business with her best friend and neighbor Tootsie Woodly! Although about 69 percent of women-owned businesses are concentrated in retailing and services (as are most businesses), female entrepreneurs are branching out rapidly into previously male-dominated industries. According to the Center for Women's Business Research, the fastest growing-industries for women-owned companies are construction, agribusiness, transportation, communications, and utilities.[45]

Although the businesses women start tend to be smaller than those men start, their impact is anything but small. Women-owned companies employ more than 9.2 million workers and generate sales of more than $1.15 trillion a year! Women own about 28 percent of all privately held businesses in the United States, a number that grew by 37 percent between 1997 and 2002.[46] Although their businesses tend to grow more slowly than those owned by men, women-owned businesses have a higher survival rate than U.S. businesses overall. Female entrepreneurs today are more likely than ever to be highly educated and to have managerial experience in the industries in which they start their companies.[47]

A Company Example

Darlene Ryan, president of ***PharmaFab Inc.****, a pharmaceutical manufacturer, is typical of this new generation of women entrepreneurs. Ryan holds bachelor's degrees in mathematics and German as well as an M.B.A. in accounting and finance; she is also a certified public accountant. Ryan, who was recently honored as a finalist for Entrepreneur of the Year, has taken her company from $395,000 in annual sales to more than $20 million in just six years!*[48]

Minority Enterprises

Another rapidly growing segment of the small business population is minority-owned businesses. Hispanics, Asians, and African Americans, respectively, are the minority groups most likely to become entrepreneurs. Like women, minorities cite discrimination as a principal reason for their limited access to the world of entrepreneurship. Minority-owned businesses have come a long way in the past decade, however, and their success rate is climbing.

A Company Example

While working for IBM, Erika Amoako-Agyei accepted an assignment in West Africa, where she was introduced to contemporary African art. "The work was uniquely African but very sophisticated," she says. She and her husband Nathaniel met many of the artists and began building their own collection. Three years later, the couple returned to the United States and decided to launch ***Gold Coast Imports****, a company that would bring this unique art to the U.S. market. Financed by personal savings and a small bank loan, the business struggled early on but became profitable in just its second year. Today the company imports art from 26 countries and counts basketball star Penny Hardaway among its customers. The company recently was featured on MTV Cribs, which led to a boost in sales.*[49]

A recent study by the Small Business Administration (SBA) reported that minorities now own 15 percent of all businesses.[50] Minority-owned businesses generate $591 billion in annual revenues and employ more than 4.5 million workers.[51] The future is promising for this new generation of minority entrepreneurs, who are better educated, have more business experience, and are better prepared for business ownership than their predecessors.

Immigrant Entrepreneurs

The United States has always been a "melting pot" of diverse cultures, and many immigrants have been drawn to this nation by its promise of economic freedom. Unlike the unskilled "hud-

tled masses" of the past, today's immigrants arrive with more education and experience. Although many of them come to the United States with few assets, their dedication and desire to succeed enable them to achieve their entrepreneurial dreams.

A Company Example

Don Chang came to the United States from South Korea when he was 24 and took on a variety of low-level jobs, including some in the garment industry, to support himself. After learning to speak English, Chang decided to get into the garment business himself and used his $11,000 savings to purchase a troubled clothing store in Los Angeles. He worked long hours each day as the store's chief salesperson, buyer, manager, and janitor. Chang's company, ***Forever 21****, now has 135 stores in 23 states and Canada that sell inexpensive, chic fashions for girls and young women.*[52]

Part-Time Entrepreneurs

Starting a part-time business is a popular gateway to entrepreneurship. Part-time entrepreneurs have the best of both worlds: They can ease into business for themselves without sacrificing the security of a steady paycheck and benefits. Approximately 15 million Americans are self-employed part-time. A major advantage of going into business part-time is the lower risk in case the venture flops. Many part-timers are "testing the entrepreneurial waters" to see whether their business ideas will work, whether there is sufficient demand for their products and services, and whether they enjoy being self-employed. As they grow, many part-time enterprises absorb more of the entrepreneur's time until they become full-time businesses.

A Company Example

Joe Carmen decided to keep his job at a technology firm when he started his online guitar string company, ***StringThis! Inc.*** *Carmen created a Web site and filled customer orders in the evenings and on weekends. Two years after start-up, however, Carmen transformed his business into a full-time venture when his company downsized and he was laid off. Carmen rewrote his business plan and made a few adjustments in the way he ran the business. Within a year, he received a lucrative offer to sell the business and accepted it. He is now planning the launch of his next business, which will be a full-time venture.*[53]

Home-Based Businesses

Home-based businesses are booming! Fifty-three percent of all businesses are home based, but about 80 percent of them are very small with no employees.[54] Several factors make the home many entrepreneurs' first-choice location:

- Operating a business from home keeps start-up and operating costs to a minimum.
- Home-based companies allow owners to maintain a flexible lifestyle and workstyle. Many home-based entrepreneurs relish being part of the "open-collar workforce."
- Technology, which is transforming many ordinary homes into "electronic cottages," allows entrepreneurs to run a huge variety of businesses from their homes.

In the past, home-based businesses tended to be rather unexciting cottage industries such as crafts or sewing. Today's home-based businesses are more diverse; modern home-based entrepreneurs are more likely to be running high-tech or service companies with millions of dollars in sales. The average home-based entrepreneur works 61 hours a week and earns an income of just over $50,000. Studies by Link Resources Corporation, a research and consulting firm, suggest that the success rate for home-based businesses is high: 85 percent of such businesses are still in operation after three years.[55]

A Company Example

Over the years, Andy Wiese noticed that his beloved dogs made a mess of his cars whenever he took them for rides, so the German-born entrepreneur began designing and building car beds and barriers in his home. He soon realized that he could sell his products to dog lovers and that home was the ideal location from which to launch the business. Although the business has grown significantly since its launch in 1986, Wiese, his wife Melissa, and their twin daughters continue to run ***Meblo, Inc.*** *from their five-acre home in northern California. The Weises outsource all of the manufacturing operations to companies in California, England, and China, but company headquarters, warehouses, and shipping facilities are all home based.*[56]

Table 1.2 offers 18 "rules" home-based entrepreneurs should follow to be successful.

TABLE 1.2

Follow These Rules for a Successful Home-Based Business

Sources: Lynn Beresford, Janean Chun, Cynthia E. Griffin, Heather Page, and Debra Phillips, "Homeward Bound," *Entrepreneur*, September 1995, pp. 116–118; Jenean Huber, "House Rules," *Entrepreneur*, March 1993, pp. 89–95; Hal Morris, "Home-Based Businesses Need Extra Insurance," *AARP Bulletin*, November 1994, p. 16; Stephanie N. Mehta, "What You Need," *Wall Street Journal*, October 14, 1994, p. R10; Jeffery Zbar, "Home Free," *Business Start-Ups*, June 1999, pp. 31–37.

Rule 1. Do your homework. Much of a home-based business's potential for success depends on how much preparation an entrepreneur makes before ever opening for business. The library is an excellent source for research on customers, industries, competitors, and the like.

Rule 2. Find out what your zoning restrictions are. In some cities, local zoning laws make running a business from home illegal. Avoid headaches by checking these laws first. You can always request a variance.

Rule 3. Choose the most efficient location for your office. About half of all home-based entrepreneurs operate out of spare bedrooms. The best way to determine the ideal office location is to examine the norms of your business and your clients. Avoid locating your business in your bedroom or your family room.

Rule 4. Focus your home-based business idea. Avoid the tendency to be "all things to all people." Most successful home-based businesses focus on a particular customer group or on some specialty.

Rule 5. Discuss your business roles with your family. Running a business from your home means you can spend more time with your family . . . and that your family can spend more time with you. Establish the rules for interruptions up front.

Rule 6. Select an appropriate business name. Your first marketing decision is your company's name, so make it a good one! Using your own name is convenient, but it's not likely to help you sell your product or service.

Rule 7. Buy the right equipment. Modern technology allows a home-based entrepreneur to give the appearance of any *Fortune* 500 company—but only if you buy the right equipment. A well-equipped home office should have a separate telephone line, a computer, a laser or inkjet printer, a fax machine (or board), a copier, a scanner, and an answering machine (or voice mail), but realize that you don't have to have everything from Day One.

Rule 8. Dress appropriately. Being an "open-collar worker" is one of the joys of working at home. But when you need to dress up (to meet a client, make a sale, meet your banker, close a deal), go to it! Avoid the tendency to lounge around in your bathrobe all day.

Rule 9. Learn to deal with distractions. The best way to fend off the distractions of working at home is to create a business that truly interests you. Budget your time wisely. Your productivity determines your company's success.

Rule 10. Realize that your phone can be your best friend . . . or your worst enemy. As a home-based entrepreneur, you'll spend lots of time on the phone. Be sure you use it productively.

Rule 11. Be firm with friends and neighbors. Sometimes friends and neighbors get the mistaken impression that because you're at home, you're not working. If someone drops by to chat while you're working, tactfully ask that person to come back "after work!"

Rule 12. Take advantage of tax breaks. Although a 1993 Supreme Court decision tightened considerably the standards for business deductions for an office at home, many home-based entrepreneurs still qualify for special tax deductions on everything from computers to cars. Check with your accountant.

Rule 13. Make sure you have adequate insurance coverage. Some homeowner's policies provide adequate coverage for business-related equipment, but many home-based entrepreneurs have inadequate coverage on their business assets. Ask your agent about a business owner's policy (BOP), which may cost as little as $300 to $500 per year.

Rule 14. Understand the special circumstances under which you can hire outside employees. Sometimes zoning laws allow in-home businesses, but they prohibit hiring employees. Check zoning laws carefully.

Rule 15. Be prepared if your business requires clients to come to your home. Dress appropriately. (No pajamas!) Make sure your office presents a professional image.

Rule 16. Get a post office box. With burglaries and robberies on the rise, you're better off using a "P.O. Box" address rather than your specific home address. Otherwise you may be inviting crime.

Rule 17. Network, network, network. Isolation can be a problem for home-based entrepreneurs, and one of the best ways to combat it is to network. It's also a great way to market your business.

Rule 18. Be proud of your home-based business. Merely a decade ago there was a stigma attached to working from home. Today, home-based entrepreneurs and their businesses command respect. Be proud of your company!



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Family Businesses

A **family-owned business** is one that includes two or more members of a family with financial control of the company. Family businesses are an integral part of our economy. Of the 25 million businesses in the United States, 90 percent are family owned and managed. These companies account for 60 percent of total U.S. employment, pay 65 percent of all wages, and generate 50 percent of the nation's GDP. Not all of them are small; 37 percent of the *Fortune* 500 companies are family businesses.[57]

family-owned business—*one that includes two or more members of a family with financial control of the company.*

"When it works right," says one writer, "nothing succeeds like a family firm. The roots run deep, embedded in family values. The flash of the fast buck is replaced with long-term plans. Tradition counts."[58] Despite their magnitude, family businesses face a major threat, a threat from within: management succession. Only 30 percent of family businesses survive to the second generation, just 12 percent make it to the third generation, and only 3 percent survive into the fourth generation and beyond. Business periodicals are full of stories describing bitter disputes among family members that have crippled or destroyed once thriving businesses.

To avoid such senseless destruction of valuable assets, founders of family businesses should develop plans for management succession long before they plan to retire.

A Company Example

For example, after he underwent quadruple heart bypass surgery at age 42, George Davenport, second-generation owner of ***D&D Motors****, a successful auto dealership established by Davenport's father in 1937, decided it was time to develop a management succession plan for the family business. "I've spent my whole life building this business," he says. "I'd roll over in my grave if they shut it down after I die." With the help of a family business consultant, the family created a comprehensive succession plan that addressed management as well as estate planning issues. Today, all three of Davenport's children hold offices in the company, each in charge of the area that best suits his or her skills.*[59]

Copreneurs

Copreneurs are entrepreneurial couples who work together as co-owners of their businesses. Unlike the traditional "Mom and Pop" (Pop as "boss" and Mom as "subordinate"), copreneurs "are creating a division of labor that is based on expertise as opposed to gender," says one expert.[60] Studies show that companies co-owned by spouses represent one of the fastest-growing business sectors.

copreneurs—*entrepreneurial couples who work together as co-owners of their businesses.*

Managing a small business with a spouse may appear to be a recipe for divorce, but most copreneurs say this isn't so. "There is nothing more exciting than nurturing a business and watching it grow with someone you love," says Marcia Sherrill, who, with her husband, William Kleinberg, runs Kleinberg Sherrill, a leather goods and accessories business.[61] Successful copreneurs learn to build the foundation for a successful working relationship before they ever launch their companies. Some of the characteristics they rely on include:

- an assessment of whether their personalities will mesh—or conflict—in a business setting.
- mutual respect for each other and one another's talents.
- compatible business and life goals—a common vision.
- a view that they are full and equal partners, not a superior and a subordinate.
- complementary business skills that each acknowledges and appreciates and that lead to a unique business identity for each spouse.
- the ability to keep lines of communication open, talking and listening to each other.

- a clear division of roles and authority, ideally based on each partner's skills and abilities, to minimize conflict and power struggles.
- the ability to encourage each other and to lift up a disillusioned partner.
- separate work spaces that allow them to escape when the need arises.
- boundaries between their business life and their personal life.
- a sense of humor.
- the realization that not every couple can work together.

Although copreneuring isn't for everyone, it works extremely well for many couples and often leads to successful businesses. "Both spouses are working for a common purpose but also focusing on their unique talents," says a family business counselor. "With all these skills put together, one plus one equals more than two."[62]

A Company Example

In 1995, Dennis and Susie Thompson left the security of their well-paying corporate jobs to operate a ***Great Harvest*** *bakery franchise. Their corporate jobs kept them so busy that they "never saw each other," says Susie, so they decided to run the bakery together. Early on, while the Thompsons were defining their roles and settling in to them, disagreements were common. Their business succeeded partly because the copreneurs established a clear division of responsibilities and stuck to it. Dennis handles production and operations; Susie is responsible for marketing and management. The couple has since opened a second franchise and credit their joint efforts for their success. "A lot of husbands and wives can't work together," says Dennis, "but for us it worked out great."*[63]

Corporate Castoffs

Concentrating on shedding the excess bulk that took away their flexibility and speed, many large American corporations have been downsizing in an attempt to regain their competitive edge. For more than a decade, one major corporation after another has announced layoffs—and not just among blue-collar workers. Companies are cutting back their executive ranks as well. Millions of people have lost their jobs.

These corporate castoffs have become an important source of entrepreneurial activity. Some 20 percent of these discharged corporate managers have become entrepreneurs, and many of those left behind in corporate America would like to join them. One study by Accountemps found that nearly half of the executives surveyed believed their peers would take the entrepreneurial plunge if they only had the money to do so. Four years before, just one-third of corporate executives were inclined to start their own companies.[64]

Many corporate castoffs are deciding that the best defense against future job insecurity is an entrepreneurial offense.

A Company Example

Between them, Tom Rogers and Gene Neill had 45 years of experience at a factory owned by one of the largest paper machinery companies in the world. Both assumed that they one day they would retire from the company; unfortunately, the corporation declared bankruptcy, and the factory closed, throwing hundreds of people out of work. Within days, Rogers and Neill became entrepreneurs, launching ***GT Flow Technology****, a company that occupies a small but profitable niche manufacturing a product called a headbox sheet that is an essential component in the paper-making process. "We had two choices," explains Neill. "We could go out and find other jobs with big companies, or we could try this." After banks refused their start-up loan requests, the corporate castoffs mortgaged their houses to raise the $80,000 they needed to launch GT Flow Technology. They repaid their mortgages within the first nine months of operation and earned a small profit in their first year in business. Both men agree that they are far better off owning their own company than they were working for the giant corporation.*[65]

Corporate Dropouts

The dramatic downsizing of corporate America has created another effect among the employees left after restructuring: a trust gap. The result of this trust gap is a growing number of dropouts from the corporate structure who then become entrepreneurs. Although their workdays may grow longer

and their incomes may shrink, those who strike out on their own often find their work more rewarding and more satisfying because they are doing what they enjoy. Other entrepreneurs are inspired to launch their companies after being treated unfairly by large impersonal corporate entities.

A Company Example

In the 1950s, Marion Kauffman was so successful as a salesperson for a pharmaceutical company that his pay exceeded that of the company president, who promptly cut Kauffman's sales territory. Kauffman managed to rebuild sales so that he once again earned more than the boss, who then cut Kauffman's commission rate. Outraged, Kauffman left to start his own business, ***Marion Laboratories****, which he sold to Dow Chemical Company in 1989 for $5.2 billion! Before his death in 1993, Kauffman established the Ewing Marion Kauffman Foundation in Kansas City, Missouri, to promote entrepreneurship.*[66]

Because they have college degrees, a working knowledge of business, and years of management experience, both corporate dropouts and castoffs may ultimately increase the small business survival rate. A recent survey by Richard O'Sullivan found that 64 percent of people starting businesses have at least some college education, and 14 percent have advanced degrees.[67] Better-trained, more experienced entrepreneurs are less likely to fail.

THE POWER OF "SMALL" BUSINESS

6. Describe the important role small businesses play in our nation's economy.

Of the 25 million businesses in the United States today, approximately 24.75 million, or 99 percent, can be considered "small." Although there is no universal definition of a small business (the U.S. Small Business Administration has more than 800 definitions of a small business based on industry categories), a common delineation of a **small business** is one that employs fewer than 100 people. They thrive in virtually every industry, although the majority of small companies are concentrated in the retail and service industries (see Figure 1.5). Although they may be small businesses, their contributions to the economy are anything but small. For example, small companies employ 51 percent of the nation's private sector workforce, even though they possess less than one-fourth of total business assets. Almost 90 percent of small businesses employ fewer than 20 workers. Because they are primarily labor intensive, small businesses actually create more jobs than do big businesses. In fact, small companies have created two-thirds to three-fourths of the net new jobs in the U.S. economy.[68]

small business—*one that employs fewer than 100 people.*

gazelles—*small companies that are growing at 20 percent or more per year with at least $100,000 in annual sales; they create 70 percent of net new jobs in the economy.*

David Birch, president of the research firm Cognetics, says that the ability to create jobs is not distributed evenly across the small business sector. His research shows that just 3 percent of these small companies created 70 percent of the net new jobs in the economy, and they did so across all industry sectors, not just in "hot" industries. Birch calls these job-creating small companies "**gazelles**," those growing at 20 percent or more per year with at least $100,000 in annual sales. His research also identified "mice," small companies that never grow much and don't create many jobs. The majority of small companies are "mice." Birch tabbed the country's largest businesses "elephants," which have continued to shed jobs for several years.[69]

Not only do small companies lead the way in creating jobs, but they also bear the brunt of training workers for them. One study by the Small Business Administration concluded that small businesses are the leaders in offering training and advancement opportunities to workers. Small companies offer more general skills instruction and training than large ones, and their employees receive more benefits from the training than do those in larger firms. Although their training programs tend to be informal, in-house, and on-the-job, small companies teach employees valuable skills, from written communication to computer literacy.[70]

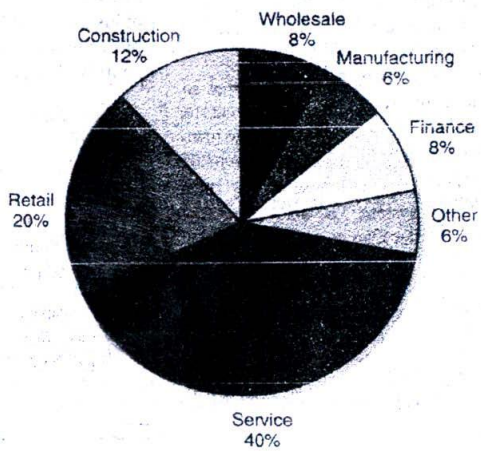


FIGURE 1.5 A Profile of Small Businesses by Industry

Source: U.S. Small Business Administration, 2002.

Small businesses also produce 51 percent of the country's private GDP and account for 47 percent of business sales.[71] In fact, the U.S. small business sector is the world's third largest economy, trailing only the entire U.S. economy and Japan![72] Small companies are incubators of new ideas, products, and services. Research conducted for the National Science Foundation concluded that small firms create four times more innovations per research and development (R&D) dollar than medium-sized firms and 24 times as many as large companies. In another study of the most important technological innovations introduced into the U.S. market, researchers found that, on average, smaller companies contributed 20 percent more of these innovations per employee than did large companies.[73] Traditionally, small businesses have played a vital role in innovation, and they continue to do so today. Many important inventions trace their roots to an entrepreneur, including the zipper, FM radio, the laser, air conditioning, the escalator, the lightbulb, the personal computer, and the automatic transmission.

Learning Objective

7. Describe the 10 deadly mistakes of entrepreneurship and explain how to avoid them.

THE 10 DEADLY MISTAKES OF ENTREPRENEURSHIP

Because of their limited resources, inexperienced management, and lack of financial stability, small businesses suffer a mortality rate significantly higher than that of larger, more established businesses. Figure 1.6 illustrates the small business survival rate over a 10-year period. Exploring the circumstances surrounding business failure may help to avoid it.

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A Chilly Idea

When 25-year-old Willis Carrier invented the air conditioner in 1902, he originally did not intend it to make humans more comfortable. Instead, he saw practical application for his device in manufacturing operations that needed to control heat and humidity. Carrier's first customer was a frustrated printer whose presses turned out blurry color images because the heat and humidity in the plant caused the paper's dimensions to change, which misaligned the colored inks. Other early adopters included a textile mill in Belmont, North Carolina, that had problems with the heat generated by the weaving process that made its cotton yarns fuzzy and hard to weave and a candy maker whose chocolate melted in the summer.

In 1922, the Carrier Engineering Company, which Carrier and six friends formed in 1915 with $32,600 they scraped together, developed the centrifugal chiller, the first practical method of air conditioning large spaces. It wasn't until 1924 that Carrier began to market the centrifugal chiller for applications other than manufacturing. The company's first customer of air conditioning for human comfort was the J.L. Hudson Department Store in Detroit, Michigan. The store was famous for its bargain sales in the basement of its building and for the many shoppers who fainted as the heat from the throng of customers overwhelmed the crude ventilation system. The store's basement sales became even more popular after Carrier's air-conditioning system cooled the basement—and soon the rest of the store as well. Air conditioning caught on among the general public after the owner of three Houston movie theaters installed units, enabling patrons to enjoy a respite from the sweltering summer heat. Soon theaters nationwide adopted the idea, often advertising "Air Conditioning" in bigger letters on their marquees than the name of the movie! Government buildings began to install air conditioning, including the House of Representatives in 1928, the Senate in 1929, the White House in 1930, and the U.S. Supreme Court in 1931. It wasn't until after World War II that sales of small units designed for homes took off.

Throughout the 1950s, Carrier air conditioners became smaller and more powerful, opening new markets for cooling train cars, buses, ocean liners, and even cars. Carrier units were used to cool a special traveling display for Gargantua, a large gorilla that attracted huge audiences throughout Europe and the United States. Today, Carrier systems control the climate in the Sistine Chapel, the Library of Congress, and George Washington's historic Mount Vernon home as well as in millions of homes, factories, and businesses.

The company's first foreign sale was to a Japanese silk factory in 1907. Today the company sells its air-conditioning products in more than 171 countries around the globe and generates sales of $9 billion a year. Like many entrepreneurs throughout history, Willis Carrier could not have predicted the impact that his small company would have on the world when the idea for air conditioning hit him as he stood on a chilly, fog-shrouded platform waiting for a train. Yet, like many entrepreneurs, the world was never the same because of his ideas and his business. Geraud Davis, current president of Carrier Corporation, says, "A humble but determined man, he truly changed the way we work and live."

1. Was launching a business any easier in Willis Carrier's day than it is today? Explain.

2. Explain how Willis Carrier exhibited the entrepreneurial spirit.

3. Develop a list of other entrepreneurs whose products, services, or businesses changed the world. Select one that interests you and prepare a short report on him or her.

Sources: Adapted from Aaron Steetman, "Air Conditioning's 100th Anniversary," *Region Focus*, Fall 2002, p. 40; Mike Hofman, "Archive," *Inc.*, July 2002, p. 116; "Carrier History," Carrier Corporation, www.global.carrier.com/details/0,1240,CLI1_DIV28_ETI23,00.html

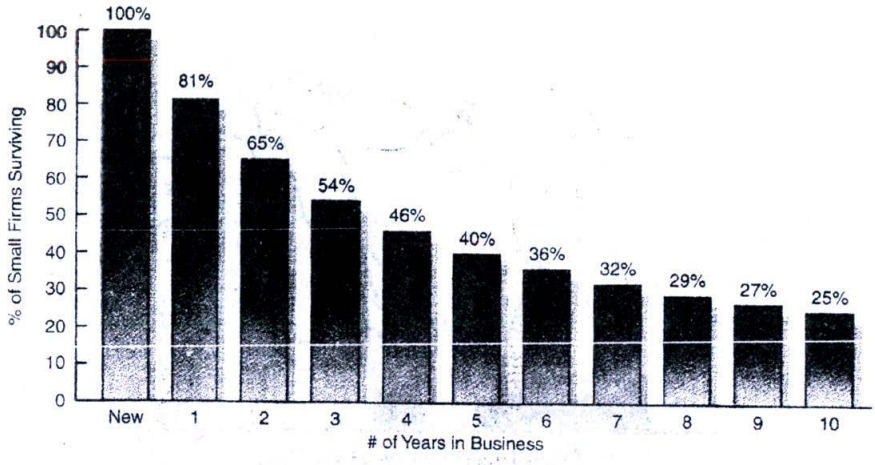


FIGURE 1.6 The Small Business Survival Rate

Source: NFIB Business Policy Guide 2003, p. 16.

Management Mistakes

In most small businesses, poor management is the primary cause of business failure. Sometimes the manager of a small business does not have the capacity to operate it successfully. The owner lacks the leadership ability, sound judgment, and knowledge necessary to make the business work. Many managers simply do not have what it takes to run a small enterprise. "What kills companies usually has less to do with insufficient money, talent, or information than with something more basic: a shortage of good judgment and understanding at the very top," says one business researcher.[74]

Lack of Experience

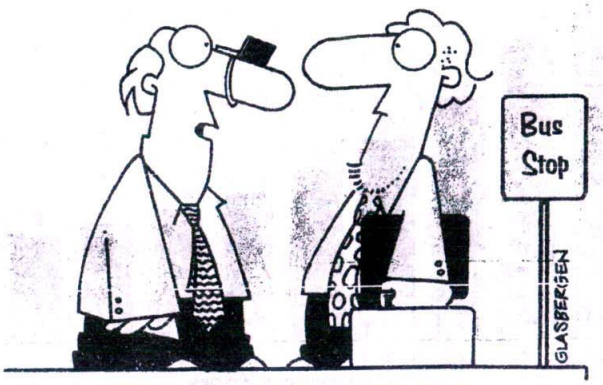
Small business managers need to have experience in the field they want to enter. For example, if an entrepreneur wants to open a retail clothing business, she should first work in a retail clothing store. This will provide practical experience as well as knowledge about the nature of the business, which can spell the difference between failure and success. One aspiring entrepreneur who wanted to launch a restaurant went to work for a national chain known for its high-quality management training program after he graduated from college. After completing the training program, he took on a variety of tasks—from cook to manager—in one of the chain's restaurants. He took advantage of every subsequent training opportunity the company offered and asked lots of questions. He began developing a business plan based on his idea for a restaurant, and after nearly five years, he left to start his own restaurant. He credits the knowledge and experience he gained during that time for much of his success in the business.

Ideally, a prospective entrepreneur should have adequate technical ability (a working knowledge of the physical operations of the business and sufficient conceptual ability); the power to visualize, coordinate, and integrate the various operations of the business into a synergistic whole; and the skill to manage the people in the organization and motivate them to higher levels of performance.

Poor Financial Control

Sound management is the key to a small company's success, and effective managers realize that any successful business venture requires proper financial control. Business success also requires having a sufficient amount of capital on hand at start-up. Undercapitalization is a common cause of business failure because companies run out of capital before they are able to generate positive cash flow. Many small business owners make the mistake of beginning their businesses on a "shoestring," which can be a fatal error. Entrepreneurs tend to be overly optimistic and often misjudge the financial requirements of going into business. As a result, they start off undercapitalized and can never seem to catch up financially as their companies consume increasing amounts of cash to fuel their growth.

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"I introduced the world's first nose-top computer 18 months ago. Sales are slower than originally anticipated."

Another aspect of adequate financial control is implementing proper cash management techniques. Many entrepreneurs believe that profit is what matters most in a new venture, but cash is the most important financial resource a company owns. Maintaining adequate cash flow to pay bills on time is a constant challenge for entrepreneurs, especially those in the turbulent start-up phase, or for established companies experiencing rapid growth. Fast-growing companies devour cash fast! Poor credit screening, sloppy debt collection practices, and undisciplined spending habits are common factors in many business bankruptcies. One Internet company that ultimately went bust spent valuable cash on frivolous items such as a $40,000 conference table and a huge office aquarium that cost $4,000 a month to maintain![75]

Weak Marketing Efforts

Sometimes entrepreneurs make the classic *Field of Dreams* mistake. Like Kevin Costner's character in the movie, they believe that if they "build it," customers automatically "will come." Although the idea makes for a great movie plot, in business, it almost never happens. Building a growing base of customers requires a sustained, creative marketing effort. Keeping them coming back requires providing them with value, quality, convenience, service, and fun—and doing it all quickly! As you will see in Chapter 6, "Building a Powerful Marketing Plan," small companies do not have to spend enormous sums of money to sustain a successful marketing effort. Creative entrepreneurs find innovative ways to market their businesses effectively to their target customers without breaking the bank.

Failure to Develop a Strategic Plan

Too many small business managers neglect the process of strategic planning because they think that it is something that only benefits large companies. "I don't have the time" or " We're too small to develop a strategic plan," they rationalize. Failure to plan, however, usually results in failure to survive. Without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive edge in the marketplace. Building a strategic plan forces an entrepreneur to assess *realistically* a proposed business's potential. Is it something customers are willing and able to purchase? Who are the target customers? How will the business attract and keep those customers? What is the company's basis for serving customers' needs better than existing companies? How will the business gain a sustainable edge over its rivals? We will explore these and other vital issues in Chapter 3, "Strategic Management and the Entrepreneur."

TABLE 1.3 *(continued)*

"Let's go with this location. I know it's 'off the beaten path,' but it's so much cheaper!" For some businesses, choice of location is not a crucial issue. However, if your company relies on customers coming into your place of business to make sales, do not settle for the cheapest location. There's a reason such places are cheap! It's better to pay a higher price for a location that produces adequate sales volume.

"Computer?! I don't know anything about computers. A legal pad and an adding machine are all I need to manage my business!" These days almost any business—no matter how small—can benefit from a computer. First, find the software that will help you maintain control over your business; then buy the computer that will run it. Don't forget to budget both time and money for training and support.

"We're so small here. Everybody knows what our goals and objectives are." Just because a business is small doesn't necessarily mean that everyone who works there understands where you are trying to take the company. Do not assume that people will read your mind concerning your company's mission, goals, and objectives. You must communicate your vision for the business to everyone involved in it.

"This business is so easy it can run itself." Don't fool yourself. The only place a business will run itself is downhill! You must manage your company, and one of the most important jobs you have as leader is to prioritize your business's objectives.

"Of course our customers are satisfied! I never hear them complain." Most customers never complain about poor service or bad quality. They simply refuse to do business with you again. More often than not, the service and level of "personal treatment" that customers receive is what allows many small businesses to gain an edge over their larger rivals. Unfortunately, it's also one of the most overlooked aspects of a business. Set up a system to get regular feedback from your customers.

"What do you mean we're out of cash? We've been making a profit for months now, and sales are growing." Don't confuse cash and profits. You cannot spend profits—just cash. Many businesses fail because their founders mistakenly assume that if profits are rising, so is the company's cash balance. To be successful, you must manage both profits and cash!

PUTTING FAILURE INTO PERSPECTIVE

8. Put failure into the proper perspective.

Because they are building businesses in an environment filled with uncertainty and shaped by rapid change, entrepreneurs recognize that failure is likely to be part of their lives, but they are not paralyzed by that fear. "The excitement of building a new business from scratch is greater than the fear of failure," says one entrepreneur who failed in business several times before finally succeeding.[79] Entrepreneurs use their failures as a rallying point and as a means of refocusing their business ventures for success. They see failure for what it really is: an opportunity to learn what does not work! Successful entrepreneurs have the attitude that failures are simply stepping-stones along the path to success.

Failure is a natural part of the creative process. The only people who never fail are those who never do anything or never attempt anything new. Baseball fans know that Babe Ruth held the record for career home runs (714) for many years, but how many know that he also held the record for strikeouts (1,330)? Successful entrepreneurs know that hitting an entrepreneurial home run requires a few strikeouts along the way, and they are willing to accept them. Failure is an inevitable part of being an entrepreneur, and true entrepreneurs don't quit when they fail. One entrepreneur whose business burned through $800 million of investors' money before folding says, "If you're an entrepreneur, you don't give up when times get tough."[80]

One hallmark of successful entrepreneurs is the ability to fail *intelligently*, learning why they failed so that they can avoid making the same mistake again. They know that business success does not depend on their ability to avoid making mistakes but to be open to the lessons each mistake teaches. They learn from their failures and use them as fuel to push closer to their ultimate target. Entrepreneurs are less worried about what they might lose if they try something and fail than about what they might lose if they fail to try.

Entrepreneurial success requires both persistence and resilience, the ability to bounce back from failure. Thomas Edison discovered about 1,800 ways not to build a lightbulb before hitting on a design that worked. Walt Disney was fired from a newspaper job because, according to his boss, he "lacked ideas." Disney also went bankrupt several times before he created Disneyland.

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If at First You Don't Succeed, So What!?

"Would you like for me to give you a formula for success? It's quite simple, really: Double your rate of failure. You are thinking of failure as the enemy of success. But it isn't at all. You can be discouraged by failure, or you can learn from it. So go ahead and make mistakes. Make all you can. Because remember, that's where you will find success."

—Thomas J. Watson
Founder, IBM

Thomas Watson understood what true entrepreneurs know: Failure is a necessary and important part of the entrepreneurial process and it does not have to be permanent. Some of the world's greatest entrepreneurs failed (some of them many times) before they finally succeeded. Henry Ford's first business, The Detroit Automobile Company, failed less than two years after Ford and his partners started it. Ford's second auto company also failed, but his third attempt in the then-new auto manufacturing business was, of course, a huge success. The Ford Motor Company, which is still controlled by the Ford family, is a major player in the automotive industry and is one of the largest companies in the world. Milton Hershey launched his first candy shop at age 18 in Philadelphia; it failed after six years. Four more attempts at building a candy business also failed before Hershey finally hit on success with the Lancaster Caramel Company, the business that was the parent of the famous Hershey Foods Corporation. Today, Hershey is the leading manufacturer of chocolate products in the United States and exports to more than 90 countries.

In post–World War II Japan, Masaru Ibuka and Akio Morita formed a partnership to produce an automatic rice cooker. Unfortunately, their machine burned the rice and was a flop. Their company sold just 100 cookers. Ibuka and Morita refused to give up, however, and created another company to build an inexpensive tape recorder that they sold to schools. Their tape recorder proved to be successful, and the company eventually became the consumer electronics giant Sony Corporation.

Rick Rosenfield and Larry Flax wrote a screenplay that never sold, started an Italian restaurant that went bankrupt, and developed a mobile skateboard park that quickly flopped. Then, in 1984, they tried the restaurant business again, launched the California Pizza Kitchen, and struck pay dirt! The California Pizza Kitchen is now a successful and well-recognized chain.

Gail Borden (1801–1874) also knew about failure because he had a great deal of experience with it. One of his first inventions, the Terraqueous Wagon, a combination of wagon and sailboat that was designed to travel on both land and water, sank on its first trial run. Several years later, returning to the United States from London where he had been promoting another invention, the condensed meat biscuit (a concoction of dehydrated meat and flour), Borden saw four babies die from tainted milk. Afterward, he dropped the meat biscuit to focus on making milk safer for human consumption. He knew that the key was to remove the water from the milk, but the challenge was to do so without affecting its taste. For two years, he worked without success, always ending up with scorched milk. Ultimately, Borden developed a vacuum condensation process that successfully removed the water from milk without adversely affecting its flavor. After three unsuccessful attempts, Borden finally won a patent for his process in 1856 and set up a manufacturing plant. It failed. A second attempt to produce condensed milk also failed. Undaunted, Borden convinced New York financier Jeremiah Milbank to invest in a new milk-processing venture, and this one succeeded! The New York Condensed Milk Company supplied much-needed nourishment to troops during the Civil War before becoming a staple in American households. Today, Borden Inc. is a multibillion-dollar conglomerate that still manufactures condensed milk using the same process that Borden developed 150 years ago. When he died in 1874, Gail Borden was buried beneath a tombstone that read, "I tried and failed; I tried again and succeeded."

1. Do the entrepreneurs described here exhibit the true entrepreneurial spirit? If so, how?

2. How do these entrepreneurs view failure? Is their view typical of most entrepreneurs?

3. James Joyce said, "Mistakes are the portals of discovery." What did he mean? Do you agree? Why is Joyce's idea important to entrepreneurs?

Sources: Adapted from "Gail Borden," www.famoustexans.com/GailBorden.htm; Jeffrey Shuman and David Rottenberg, "Famous Failures," *Business Start-Ups*, February 1999, pp. 32–33; Francis Huffman, "A Dairy Tail," *Entrepreneur*, August 1993, p. 182; Bob Gatty, "Building on Failure," *Nation's Business*, April 1987, pp. 50–51.

3-A. Describe the benefits of entrepreneurship.

Driven by these personal characteristics, entrepreneurs establish and manage small businesses to gain control over their lives, make a difference in the world, become self-fulfilled, reap unlimited profits, contribute to society, and do what they enjoy doing.

3-B. Describe the drawbacks of entrepreneurship.

Entrepreneurs also face certain disadvantages, including uncertainty of income, the risk of losing their investments (and more), long hours and hard work, a lower quality of life until the business gets established, high stress levels, and complete decision-making responsibility.

4. Explain the forces that are driving the growth of entrepreneurship.

Several factors are driving the boom in entrepreneurship, including entrepreneurs portrayed as heroes, better entrepreneurial education, economic and demographic factors, a shift to a service economy, technological advancements, more independent lifestyles, and increased international opportunities.

5. Explain the cultural diversity of entrepreneurship.

Several groups are leading the nation's drive toward entrepreneurship: women, minorities, immigrants, part-timers, home-based business owners, family business owners, copreneurs, corporate castoffs, and corporate dropouts.

6. Describe the important role small businesses play in our nation's economy.

The small business sector's contributions are many. Small business make up 99 percent of all businesses, employ 51 percent of the private sector workforce, create two-thirds to three-fourths of the net new jobs in the economy, produce 51 percent of the country's private gross domestic product (GDP), and account for 47 percent of all business sales.

7. Describe the 10 deadly mistakes of entrepreneurship and explain how to avoid them.

There are no guarantees that the business will make a profit or even survive. SBA statistics show that 64 percent of new businesses will fail within six years. The 10 deadly mistakes of entrepreneurship include management mistakes, lack of experience, poor financial control, weak marketing efforts, failure to develop a strategic plan, uncontrolled growth, poor location, lack of inventory control, incorrect pricing, and inability to make the "entrepreneurial transition."

8. Put failure into the proper perspective.

Entrepreneurs recognize that failure is a natural part of the creative process. Successful entrepreneurs have the attitude that failures are simply stepping stones along the path to success, and they refuse to be paralyzed by a fear of failure.

9. Explain how entrepreneurs can avoid becoming another failure statistic.

Entrepreneurs can employ several general tactics to avoid pitfalls. Entrepreneurs should know their businesses in depth, prepare a solid business plan, manage financial resources effectively, understand financial statements, learn to manage people, and try to stay healthy.

DISCUSSION QUESTIONS

1. What forces have led to the boom in entrepreneurship in the United States and across the globe?
2. What is an entrepreneur? Give a brief description of the entrepreneurial profile.
3. *Inc.* magazine claims, "Entrepreneurship is more mundane than it's sometimes portrayed . . . you don't need to be a person of mythical proportions to be very, very successful in building a company." Do you agree? Explain.
4. What are the major benefits of business ownership?
5. Which of the potential drawbacks to business ownership are most critical?
6. Briefly describe the role of the following groups in entrepreneurship: women, minorities, immigrants, part-timers, home-based business owners, family business owners, copreneurs, corporate castoffs, and corporate dropouts.
7. What is a small business? What contributions do small businesses make to our economy?
8. Describe the small business failure rate.
9. Outline the causes of business failure. Which problems cause most business failures?
10. How does the typical entrepreneur view the possibility of business failure?
11. How can the small business owner avoid the common pitfalls that often lead to business failures?
12. Why is it important to study the small business failure rate and the causes of business failures?
13. Explain the typical entrepreneur's attitude toward risk.
14. Are you interested in one day launching a small business? If so, when? What kind of business? Describe it. What can you do to ensure its success?

THE BUSINESS DISC

Launch *The Business Disc* and take the Entrepreneurial Attitude Survey. Your answers to the questions and scenarios will produce a score on the following six dimensions to assess your entrepreneurial characteristics:

1. creativity
2. self-reliance
3. drive, discipline, and determination
4. energy
5. risk-taking
6. communications

How did you score on the survey's six dimensions? Is your score much higher (or lower) in one particular area? Did the results surprise you? Is a high score on surveys such as this one a prerequisite for success as an entrepreneur? Explain. Do you think you would make a good entrepreneur? Explain. How well does your entrepreneurial score fit with the perceptions of those who know you best—family, friends, teachers, and others?

BUSINESS PLAN PRO

Business PlanPro

Most students using this textbook are committed to becoming entrepreneurs or they have been assigned the development of a business plan as an important part of the class. In either case you will discover that the Business Plan Pro is a software tool that will assist you in the process. At the end of each chapter there will be suggestions as to materials relevant in the chapter that should be added to the business plan being created with the help of your Business Plan Pro software. If you add material to the plan as you proceed through the textbook, you will find that the final business plan seems to come together more easily.

For this chapter please go to the section that asks if you are building a business plan for a "Start-Up" business or an "Ongoing" Business. Chose the one you plan to do.

The second step is to select if you are planning a "For-Profit" or "Not-For-Profit" business.

Third, will you be selling products, services, or both?

Fourth, do you manage inventories in the business you are developing this plan for?

Fifth, will the business sell or credit?

Sixth, does the business have a Web site?

Seventh, what Standard Industrial Classification System (SIC) does your business fit in? If you do not know, use the SIC code search to find the best fit for your business.

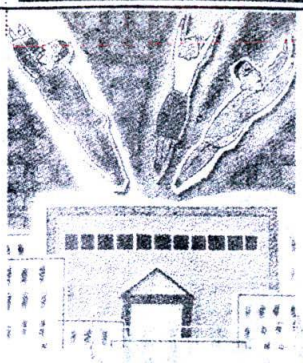
Eighth, choose a start date for the business. You might want to assume that for the class project business plan the start date is at the end of the term.

Ninth, choose the length of the term for the business plan. If your instructor wants you to build a business plan longer than three years, you will need to select the long-term business plan. If you are creating, this plan for a business you plan to actually start or acquire, our advice is to select the long-term business plan option.

Tenth, choose the name of your business and then, if the business is hypothetical, select a location, phone, fax and e-mail for the business. If it is an actual business, provide the correct information.

Eleventh, select a title for your business plan. Normally this will be the name of the business, (i.e. Betty Lou's Auto Parts)

That was not difficult at all and now you have established a document that you will continue to build throughout the term. If you change your mind about the type of business, it does not take but a few minutes to start again. This is a software tool that is included to assist you in converting what you are reading, discussing, and learning into the basics of a business.



1. Choose an entrepreneur in your community and interview him or her. What's the "story" behind the business? How well does the entrepreneur fit the entrepreneurial profile described in this chapter? What advantages and disadvantages does the owner see in owning a business? What advice would he or she offer to someone considering launching a business?

2. Select one of the categories under the section "The Cultural Diversity of Entrepreneurship" in this chapter and research it in more detail. Find examples of business owners in that category. Prepare a brief report for your class.

3. Search through recent business publications (especially those focusing on small companies) and find an example of an entrepreneur, past or present, who exhibits the entrepreneurial spirit of striving for success in the face of failure. Prepare a brief report for your class.