

TENTH EDITION

NEW VENTURE CREATION

Entrepreneurship for the 21st Century



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STEPHEN SPINELLI JR. | ROBERT J. ADAMS JR.

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ENTREPRENEURSHIP FOR THE 21st CENTURY

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ENTREPRENEURSHIP FOR THE 21st CENTURY

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NEW VENTURE CREATION: ENTREPRENEURSHIP FOR THE 21st CENTURY, TENTH EDITION

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DEDICATION

Jeff Timmons—Professor, Scholar, Mentor, Friend

Jeff Timmons is the original author of this textbook. He passed away a few years ago, just after completing the final edits on the eighth edition. His presence remains a powerful influence in this edition.

Jeff's commitment to higher education and to entrepreneurship was a statement of his belief in humanity. He believed goodness and achievement were inherent in everyone. And he believed that entrepreneurship classes were a perfect vehicle to refine and amplify purposeful study and action that would lead to a better life and a better world.

Always striving for the betterment of the human condition, Jeff's contributions to entrepreneurship in the classroom and in practice changed the playing field. He embraced both the academic and the entrepreneur and made both better through collaboration. Thousands of students and teachers have been affected by his work and the world continues to be a better place because of him.

ABOUT THE AUTHORS

Jeffrey A. Timmons (December 7, 1941–April 8, 2008): **In Memoriam**

Director, Price-Babson College Fellows Program at Babson College; AB, Colgate University; MBA, DBA, Harvard University Graduate School of Business

Success magazine (September 1995), in a feature article, called him “one of the two most powerful minds in entrepreneurship in the nation.” Michie P. Slaughter, former president of the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation, calls him “the premier entrepreneurship educator in America.” In 2007, *Forbes Small Business* called Dr. Timmons one of the country’s best entrepreneurship educators.

In 1985, he designed and launched the Price-Babson College Symposium for Entrepreneurship Educators (SEE), aimed at improving teaching and research by teaming highly successful entrepreneurs with “an itch to teach” with experienced faculty. This unique initiative was in response to a need to create a mechanism enabling colleges and universities to attract and support entrepreneurship educators and entrepreneurs and help them create lasting collaborations that would enhance the classroom experience for their students. There is now a core group of over 2,000 entrepreneurship educators and entrepreneurs from over 350 colleges and universities in the United States and 38 foreign countries who are alumni of the Price-Babson College Fellows Program. *INC.* magazine’s “Who’s Who” special edition on entrepreneurship called Jeff Timmons “the Johnny Appleseed of entrepreneurship education” and concluded that this program had “changed the terrain of entrepreneurship education.”

In 2003 Dr. Timmons worked with Professor Steve Spinelli to conceive a sister program to the SEE program which would be available for engineering schools with an interest in entrepreneurship.

They partnered with colleagues at the new Olin College of Engineering on the Babson campus, President Rick Miller, Provost David Kerns, Dean Michael Moody and Professors John Bourne, Ben Linder, Heidi Neck, and Stephen Schiffman to win a 3-year National Science Foundation grant to design, develop, and deliver such a program.

During the past decades, Dr. Timmons helped launch several new initiatives including the Babson-Kauffman Entrepreneurship Research Conference, the Kauffman Foundation/CEL Challenge Grant, the Price Challenge Grant, business plan competitions, and a president’s seminar. He provided leadership in developing and teaching in initiatives that assist Native Americans seeking economic self-determination and community development, most notably through, entrepreneurship education programs at the nation’s several Tribal Colleges. In April 2001, Professor Timmons was recognized for these efforts in a citation voted by the legislature of the State of Oklahoma naming him Ambassador for Entrepreneurship.

A prolific researcher and writer, he wrote nine books, including this textbook first published in 1974. *New Venture Creation* has been rated by *INC.*, *Success*, and *The Wall Street Journal* as a “classic” in entrepreneurship, and has been translated into Japanese, Portuguese, and Chinese.

Stephen Spinelli, Jr.

President, Philadelphia University

The majority of Dr. Spinelli’s professional experience has been in entrepreneurship. He was a founding shareholder, director, and executive of Jiffy Lube International. He was also founder, chairman, and CEO of American Oil Change Corporation. In 1991, he completed a sale of Jiffy Lube to Pennzoil Company. Dr. Spinelli has led the Entrepreneurship Division at Babson and taught full-time. He has not

abandoned his business roots. He continues to consult with regional, national, and international companies; serves as a Director at several corporations; and participates as an angel investor with investments in more than a dozen startups.

Dr. Spinelli is the quintessential “pracademic”—a business practitioner turned academic. Having successfully harvested Jiffy Lube, Dr. Spinelli enrolled in the Imperial College of Science Technology and Medicine (London, UK), receiving his PhD in Economics in 1995. Dr. Spinelli’s expertise is in startup and growth management. His research has focused on an understanding of strategic entrepreneurial relationships. He is the author of more than two dozen journal articles, book chapters, academic papers, and teaching case studies. He is also the author of seven books including *Franchising: Pathway to Entrepreneurship* (Prentice-Hall, 2003). His latest book, *Disrupt Together: How Teams Consistently Innovate* (co-edited with Heather McGowan) was on Amazon’s “Hottest New Releases” list in December 2013. A superb educator, he served as a key member of the faculty of the Price-Babson College Fellows Program’s Symposium for Entrepreneurship Educators (SEE) for 12 years, in addition to his teaching in the undergraduate, graduate, and executive education programs. In 2007 Forbes named him one of USA’s best entrepreneurship professors. Dr. Spinelli is a shining example of the many contributions that entrepreneurs can make to an academic institution. He has led the internationalization of SEE to Chile, Argentina, Costa Rica, China, and Europe. In 2003 Dr. Spinelli founded the Babson Historically Black Colleges and Universities case writing consortium. This group is dedicated to writing entrepreneurship teaching cases focused on African American entrepreneurs.

He has been a leading force in curriculum innovation at Babson and, with his colleagues in Entrepreneurship Division, continually defines and delivers new initiatives. In 1999, he led the design and implementation of an Entrepreneurship Intensity Track for MBAs seeking to launch new business ventures upon graduation. Building on this highly successful initiative, he led the design and development of ACE—an accelerated honors curriculum for aspiring entrepreneurs in Babson’s undergraduate program. Dr. Spinelli’s presentation to the United States Association for Small Business and Entrepreneurship (USASBE) resulted in the naming of the F.W. Olin Graduate School of Business as the 2002 National Model MBA program.

As Philadelphia University’s President since 2007, DR. Spinelli led the transformation of the University around the theme of innovation. In 2010 Philadelphia University’s new Design, Engineering, and Commerce transdisciplinary curriculum won

the Core77 award for the most innovative new curriculum in the United States.

Dr. Spinelli has been a strong voice for entrepreneurship. He has been a keynote speaker for Advent International’s CEO Conference, the MCAA National Convention and Allied Domecq International’s Retailing Conference, the Entrepreneur’s Organization at MIT and many others; he has been called to testify before the US Senate Subcommittee on Small Business and Entrepreneurship. He is often quoted as an expert in the field in such leading publications as *The Wall Street Journal*, *Forbes*, *The Financial Times*, *Success* magazine, and *INC*. He also serves as a director for several regional and national not-for-profits and community-based associations.

President Stephen Spinelli was touted as a new model of college president in a front page story on May 17, 2008, in the *Philadelphia Inquirer*. He calls Philadelphia University a 126-year-old startup, a university with the entrepreneurial zeal that drives an innovative curriculum and applied research.

Robert J. Adams, Jr.

Rob Adams is on the faculty of The University of Texas at Austin where he teaches entrepreneurship in the MBA and MSTC programs and is the Director of Texas Venture Labs. He is a former software executive, entrepreneur, and institutional fund manager. He has served on many corporate boards and has founded or financed more than 40 companies, which have launched more than 100 products and raised significant amounts of capital in both private and public markets.

Prior to his appointment at The University of Texas, he was in the venture capital industry, ultimately founding AV Labs, a fund affiliated with Austin Ventures. Prior to the venture business, he was a software operating executive for two decades. This career included positions in sales, marketing, and general management. He was with Lotus (NYSE: IBM), joining the company shortly after its public offering. Adams was their first corporate sales representative and went on to be instrumental in the development and launch of both 1-2-3 for Macintosh and Lotus Notes. He founded and was CEO of Business Matters, a venture backed developer of financial modeling products that was acquired. He was an executive with Pervasive Software (NASDAQ: PVSU), a company he helped take public.

Dr. Adams holds a Bachelor of Science degree in Industrial Engineering from Purdue University, where he received their Outstanding Engineer Award, a Masters of Business Administration from Babson College’s Olin School of Management, and a PhD in Management from Capella University. He has taught in the MBA programs of The Acton

School of Business, Babson College, and The University of Texas at Austin and is the recipient of numerous teaching awards.

He is an internationally recognized speaker on innovation, commercialization, and entrepreneurship. He speaks frequently on his pioneering work in Market Validation and has keynoted the *Inc. 500* business conference, international venture conferences, and consults for numerous global 500 companies. His work has been covered in *Business Week*, *Forbes*, *Fortune*, *Money*, *The New York Times*, *The Wall Street Journal*, *Washington Post*, on Bloomberg Radio, Public Television and public radio's nationally syndicated "Marketplace" program.

He is the author of *A Good Hard Kick in the Ass: Basic Training for Entrepreneurs* (Random House/Crown, 2002), and *If You Build It Will They Come?*

Three Steps to Test and Validate Any Market Opportunity (Wiley, 2010).

He provides expert testimony on technology related business issues and has consulted on economic development and early stage company investment and its impact on economies for governments including Canada, Chile, Costa Rica, India, Malaysia, New Zealand and Thailand. In the United States he has advised the White House and the Department of Commerce.

Adams is a Fellow at the IC² Institute; a University of Texas based foundation that runs the Austin Technology Incubator and has held visiting professor positions at the University of Auckland, Thammasat University and the University of Manitoba. He is an avid downhill skier and runner and lives in Austin, Texas.

PREFACE

A Book for a New Generation of Entrepreneurial Leaders—Worldwide

The entrepreneurship revolution in America over the past 50 years has had an extraordinary impact on the cultural and economic landscape in the United States. While there will always be opportunities for improvement and innovation, America's opportunity-driven style of entrepreneurship has sparked an entrepreneurial revolution around the globe.

Technology has certainly played a major role in this global phenomenon. In 2001 there were almost 500 million Internet users; in 2007 that number more than doubled to 1.1 billion. Four years later Internet users in the world total over 2 billion. In the United States an iPod is sold *every 8 seconds*. Entrepreneurship and the Internet continue to flatten the world at a staggering pace, spawning fertile fields of opportunities.

In our roles as students, teachers, researchers, observers, and participants in this stunning revolution, we see that global adoption of the entrepreneurial mind-set is growing exponentially. That new venture mind-set, which increasingly places a premium on sustainable models, is now affecting strategies at global corporations and in the not-for-profit world as well. The golden age of entrepreneurial reasoning, value creation and capture, and philanthropy has arrived.

An Edition for an Era of Uncertainty and Extraordinary Opportunity

The new millennium is being defined as much by worldwide challenges and uncertainty as it is by the enormous opportunities afforded by technology,

global communications, and the increasing drive to develop socially, economically, and environmentally sane and sensible new ventures. As with past generations, entrepreneurs in this arena face the ultimate and most demanding juggling act: how to simultaneously balance the insatiable requirements of marriage, family, community, and new ventures.

A Book about the Entrepreneurial Process: The Basis for a Curriculum as Well as a Course!

New Venture Creation is about the actual process of getting a new venture started, growing the venture, successfully harvesting it, and starting again.

There is a substantial body of knowledge, concepts, and tools that entrepreneurs need to know—before, during, and after taking the startup plunge—if they are to get the odds in their favor. Accompanying the explosion in entrepreneurship has been a significant increase in research and knowledge about the entrepreneurial process. Much of what was known previously has been reinforced and refined, whereas some traditional knowledge has been challenged. Numerous new insights have emerged. *New Venture Creation* continues to be the product of experience and considerable research in this field—rooted in real-world application and refined in the classroom.

The design and flow of this book are aimed at creating knowledge, skills, and awareness. In a pragmatic way—through text, case studies, and hands-on exercises—students are drawn in to discover critical aspects of entrepreneurship, and what levels of competencies, know-how, experience, attitudes, resources, and networks are required to pursue

different entrepreneurial opportunities. There is no substitute for the real thing—actually starting a company. But short of that, it is possible to expose students to many of the vital issues and immerse them in key learning experiences, such as critical self-assessment and the development of a business plan.

The exciting news is that you can learn from other people's experiences, know-how, and wisdom; you do not have to learn it all by doing it yourself. By fully engaging the material in this book—the required analysis, thinking, and practice with the cases, exercises, assignments, and discussions both in and out of the classroom—you can significantly compress your learning curve, reduce your ultimate risk and pain, and gain a lot more from your subsequent hands-on experiences.

This book is divided into five parts. Parts I through IV detail the driving forces of entrepreneurship: opportunity recognition, the business plan, the founder and the team, and resource requirements. Part I describes the global entrepreneurial revolution and addresses the mind-set required to tackle this tremendously challenging and rewarding pursuit. Part II lays out the process by which real opportunities—not just ideas—can be discovered and selected. The chapters in Part II examine the type of opportunity around which higher-potential ventures can be built (with acceptable risks and trade-offs), sustainable enterprising, and opportunities for social entrepreneurship. Part III concerns entrepreneurial leadership, team creation, and personal ethics. Part IV addresses franchising as an entrepreneurial vehicle, marshalling resources, entrepreneurial finance, and fund-raising. In Part V, the book concludes with a discussion of strategies for success, managing rapid growth, and harvest issues.

Once you understand how winning entrepreneurs think, act, and perform, you can establish goals to emulate those actions, attitudes, habits, and strategies. The book addresses practical issues such as the following:

What are my real talents, strengths, and weaknesses? How can I exploit my talents and strengths and minimize my weaknesses? How can I recognize when an opportunity is more than just another good idea, and whether it is one that fits with my personal mind-set, capabilities, and life goals? Why do some firms grow quickly to several million dollars in sales but then stumble, never growing beyond a single product? What are the critical tasks and hurdles in seizing an opportunity and building the business? How much money do I need, and when, where, and how can I get it on acceptable terms? What financing sources, strategies, and

mechanisms can I bring to bear throughout the process—from pre-start, through the early growth stage, to the harvest of my venture?

What are the minimum resources I need to gain control over the opportunity, and how can I do this? Is a business plan needed? If so, what kind is required, and how and when should I develop one? For what constituents must I create or add value to achieve a positive cash flow and to develop harvest options? What is my venture worth, and how do I negotiate what to give up? What are the critical transitions in entrepreneurial management as a firm grows from \$1 million, to \$5 million, to over \$25 million in sales?

What are some of the pitfalls, minefields, and hazards I need to anticipate, prepare for, and respond to? What contacts and networks do I need to access and develop?

Do I know what I do and do not know, and do I know what to do about this? How can I develop a personal entrepreneurial game plan to acquire the experience I need to succeed? How critical and sensitive is the timing in each of these areas? Why do entrepreneurship and entrepreneurial leadership seem surrounded by paradoxes, well-known to entrepreneurs, such as these:

- Ambiguity and uncertainty versus planning and rigor.
- Creativity versus disciplined analysis.
- Patience and perseverance versus urgency.
- Organization and management versus flexibility.
- Innovation and responsiveness versus systemization.
- Risk avoidance versus risk management.
- Current profits versus long-term equity.

The *New Venture Creation* models are useful not only as a comprehensive textbook for a course in entrepreneurship, but also as a road map for a curriculum or departmental major in entrepreneurship.

The Tenth Edition: An Additional Offer, New Data, and More Succinct Presentation

This new edition of *New Venture Creation* is a significant update from the ninth edition. Rob Adams continues from the last edition as a co-author.

Professor Adams is another classic “pracademic” but with a twist. After being a successful entrepreneur Rob became a successful venture investor before becoming a professor. He continues to balance his life through involvement in the practice, finance, and teaching of entrepreneurship. He has also brought special attention to the impact and exploitation of technology in entrepreneurship.

A special effort has been made to include cases that capture the dynamic ups and downs new firms experience over an extended time. By grappling with decisions faced by entrepreneurs—from startup to harvest—this text offers a broad and rich perspective on the often turbulent and unpredictable nature of the entrepreneurial process.

We have continued to edit for conciseness in this new edition, continuing to streamline your reading experience and reducing the total volume of the text by another 20 percent since the last edition. This improves the flow of the discussion, which now has a greater emphasis on the practical application of entrepreneurship.

The new tenth edition of *New Venture Creation* contains the latest updates, including examples of entrepreneurs in action coping with the

post-Internet bubble era, the mortgage loan crisis of 2007, and the recession of 2008.

We have also added resources to the publishers’ website for this text. This includes additional cases and a concise Venture Opportunity Quick Screen in Excel form. We have found students use this more readily than paper and pencil. They tend to iterate and share among their team more dynamically.

As we head into the second decade of the 21st century, entrepreneurship has established itself as a form of strategy for companies of all sizes competing in the global economy. We are confident that a study of *New Venture Creation* will help you in your pursuit of success as a student, as an entrepreneur, and as a player on the stage of worldwide commerce!

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PART ONE

The Founder

At the heart of the entrepreneurial process is the founder: the energy, the soul, and the driving force behind the start-up. The founder is the passion behind finding an innovative solution to a compelling market problem.

So what does an entrepreneur need to know to beat the odds and be successful? What pattern recognition can we garner from successful endeavors to improve the odds of success? This tenth edition focuses on you—the entrepreneur. We will examine the mind-sets, attitudes, and habits that lead to entrepreneurial success and failure.

It is impossible to develop a rout checklist to build a successful company or discern the attributes of an entrepreneur. In this book we will examine how successful entrepreneurs think, feel, respond, and use these attributes as pattern recognition for successful entrepreneurs and companies.

Take, for example, Rick Adam, who by the late 1990s had made his fortune as a software entrepreneur. He had also spotted a compelling opportunity in the general aviation industry. As an avid pilot, Adam knew firsthand how few new aircraft designs were available—at any price. The reason was that the cost to design, engineer, and bring to market an FAA-certified general aviation product was

estimated by industry veterans to be in the neighborhood of \$250 million and a time frame of 10 years. Despite having no previous experience in manufacturing, Adam put up tens of millions of his own money to start up Adam Aircraft. Using sophisticated model fabrication technology, and by applying design and engineering practices Adam had mastered in software development, his company spent under \$60 million to develop the A-500—a sleek, pressurized twin-engine design that achieved FAA certification in just 5 years. Their A-700 prototype—a personal jet that utilized the same airframe structure—was flying for another \$20 million. By the fall of 2007, the A-700 was nearing FAA certification, and the company was reporting an order backlog for the jet of just under \$800 million. Rick Adam commented on the endeavor:

I've done a lot of entrepreneurial things, and when you think there is a big opportunity, you look at it thoughtfully and you say, well, if this is such a big opportunity, why isn't anybody taking it? What do I know, or what do I see that nobody else is seeing? So, very often, entrepreneurial opportunities occur because a series of events come together—particularly with technology—and you suddenly

have all the ingredients you need to be successful at something that just moments ago was impossible. Then, assuming you are a good business person and a good executer, you can get there if you focus, and keep at it.

It makes a lot of sense for entrepreneurs to pay particular attention to picking partners, key business associates, and managers with an eye for complementing the entrepreneurs' own weaknesses and strengths and the needs of the venture. As will be seen, they

seek people who fit. Not only can an entrepreneur's weakness be an Achilles' heel for new ventures, but also the whole is almost always greater than the sum of its parts.

Finally, ethics are terribly important in entrepreneurship. In highly unpredictable and fragile situations, ethical issues cannot be handled according to such simplistic notions as "always tell the truth." It is critical that an entrepreneur understand, develop, and implement an effective integrity strategy for the business.

Chapter One

The Global Entrepreneurial Revolution for a Flatter World

LEARNING OUTCOMES: After reading this chapter you will be able to understand:

- I-1 The company founder, their role and examples
- I-2 The global entrepreneurial revolution
- I-3 Nobel Prizes in entrepreneurship
- I-4 Entrepreneurship's effect on management, education, not-for-profit and philanthropy paradigms
- I-5 How innovation and entrepreneurship leads to prosperity and philanthropy
- I-6 Entrepreneurial job creation and the impact on economies
- I-7 New venture formation
- I-8 Famous young entrepreneurs
- I-9 Formation of new industries
- I-10 The role of innovation
- I-11 Venture and growth capital
- I-12 Philanthropy and entrepreneurship
- I-13 Self-made millionaires
- I-14 Private equity
- I-15 Building an entrepreneurial society
- I-16 The equal opportunities, economic and social mobility created by entrepreneurship

Entrepreneurship Flattens the World

In 2011 there were 2.1 billion Internet users in the world and only 13 percent of the total was in the United States.¹ In the United States an iPod was sold every 8 seconds. Entrepreneurship and the Internet continue to flatten the world at a staggering pace and in the process are spawning fertile fields of opportunities that are being tilled and

seized on every continent. How is this global revolution manifesting itself?

For starters, Exhibit 1.1 shows just how far international Web entrepreneurs have penetrated the world. This remarkable array of 39 Web clone knockoffs of leading Web sites represents just a tiny tip of the worldwide iceberg. While the Internet alone is reshaping the world in staggering ways, the spread of global entrepreneurship reaches far beyond. Consider, for example:

- In 2010, immigrants working in the United States sent over \$50 billion back to their families.² Sahara House Care, a firm in India, has tapped into that market by providing 60 products and services immigrants can buy for their families. These include such services as delivering flowers, finding buyers for real estate, offering exhaustive online catalogs of just about anything, and even accompanying loved ones to a hospital.
- Consider a new supersize RV built on an 18-wheeler chassis turned into a mobile hotel facility that can accommodate as many as 44 people. A 36-year-old Spaniard, Fernando Saenz de Tejada, has created Hotelmovil. The first five units will roll out of a factory in Italy and will sell for \$500,000 a unit or rent for \$8,000 per week.
- In Norway, entrepreneur Jan-Olaf Willums, already wealthy from his investment in REC, a solar energy company, is leading the development of a Web-enabled, carbon-free electric car he calls Think. He has teamed with Segway creator Dean Kamen, Google founders Larry Page and Sergey Brin, and Silicon Valley and European investors to raise \$78 million. His

¹<http://www.internetworldstats.com/stats.htm>.

²<http://www.internetworldstats.com/stats.htm/01/payback-time/>.

EXHIBIT I.1

Send in the Clones

	digg	Facebook	LinkedIn	YouTube
Brazil	Linkk <i>linkk.com.br</i>	—	—	Videolog <i>videolog.uol.com.br</i>
China	Verydig <i>verydig.com</i>	Xiaoneiwan <i>xiaonei.com</i>	Wealink <i>wealink.com</i>	56.com <i>56.com</i>
France	Scoopeo <i>scoopeo.com</i>	Skyrock <i>skyrock.com</i>	Viadeo <i>viadeo.com</i>	Dailymotion <i>dailymotion.com</i>
Germany	Yigg <i>yigg.de</i>	StudiVZ <i>studivz.net</i>	Xing <i>xing.com</i>	MyVideo <i>myvideo.de</i>
India	Best of India <i>bestofindya.com</i>	Minglebox <i>minglebox.com</i>	Rediff Connexions <i>connexions.rediff.com</i>	Rajshri <i>rajshri.com</i>
Israel	Hadash Hot <i>hadash-hot.co.il</i>	Mekusharim <i>mekusharim.co.il</i>	Hook <i>hook.co.il</i>	Flix <i>flix.co.il</i>
Mexico	Enchilame <i>enchilame.com</i>	Vostu <i>vostu.com</i>	InfoJobs <i>infoJobs.com.mx</i>	BuscaTube <i>buscatube.com</i>
Netherlands	eKudos <i>ekudos.nl</i>	Hyves <i>hyves.net</i>	—	Skoeps <i>skoeps.nl</i>
Russia	News2 <i>news2.ru</i>	V Kontakte <i>vkontakte.ru</i>	MoiKrug <i>moiKrug.ru</i>	Rutube <i>rutube.ru</i>
South Africa	Muti <i>muti.co.za</i>	—	—	MyVideo <i>myvideo.co.za</i>
Turkey	Nooluyo <i>nooluyo.com</i>	Qiraz <i>qiraz.com</i>	Cember <i>cember.net</i>	Resim ve Video <i>resimvideo.org</i>

Source: *Business 2.0*. ©2007 Time Inc. All rights reserved.

vision: Upend the century-old fossil fuel-based automotive paradigm by changing how cars are made, sold, owned, and driven.

- “Anything seems possible in Rwanda,” asserts former San Francisco resident Josh Ruxin, who, with his wife Alissa, has invested life savings of \$100,000 to build the Heaven Café in the capital city of Kigali. The African nation of 8 million—ravaged by the genocide of 1 million people in 1994—is now attracting foreign entrepreneurs in tourism, telecom, mining, farming, and real estate.
- Everyone is now aware of just how dynamic and entrepreneurial the Chinese economy has become in recent years. Consider the following examples of explosive growth. In 2004 the authors of this text wrote, “Computer usage increased from 2.1 million in 1999 to 68 million in 2004—a 34-fold increase!” Seven years later we can report usage is nearing 1 billion.³ According to Volkswagen, Chinese automotive production in 2003 was 4.44 million and grew to over 13 million by 2010. From 1998 to 2004, mobile phones exploded from around 10 million to over 350 million. In 2011 there are almost 900 million mobile phones in China.

Two Nobel Prizes Recognize Entrepreneurship

The front page of *The Wall Street Journal* on October 10, 2006, had the following headline: “The New Nobel Prize Winner Makes a Case for Entrepreneurship.” The accompanying article by Professor Edmund S. Phelps of Columbia University, New York, the prize recipient, was full of wonderful commentary and arguments for entrepreneurship. The awarding of this prize in economics to Professor Phelps is the most important academic recognition of the field and subject in our lifetime.

The ink was barely dry on this announcement when the Nobel Peace Prize was announced for another economist championing microenterprise. Farid Hossain of the Associated Press wrote the story in the Manchester, New Hampshire, *Union Leader* on October 14, 2006: “A simple yet revolutionary idea—in the form of a \$90 loan—changed her life, putting the Bangladeshi villager out of a devastating cycle of poverty. Yesterday, that idea—lending tiny sums to poor people looking to escape poverty by starting a business—won the Nobel Peace Prize for economist Muhammad Yunus and the Grameen Bank he founded.”

³<http://www.washingtontimes.com/news/2009/jul/01/payback-time.html>; <http://www.inc.com/news/articles/200707/computers.html>.

In just 4 days these two Nobel Prizes changed forever the academic and practical significance of entrepreneurship as a fertile ground for education and research. This should stimulate even more and wider interest in entrepreneurship as a field of study and research.

A Macro Phenomenon

The work of Phelps and Yunus, along with our earlier examples, illustrates how dynamic entrepreneurs and their firms are altering the landscape of global business. In his contribution to the Praeger Perspectives series, *Going Global*, Pat Dickson reviews research that shows just how prevalent this global phenomenon is. Eighty percent of all small- to medium-sized enterprises are affected by or involved with international trade, and advances in technology, manufacturing, and logistics have created opportunities where firms of all sizes can compete internationally. Dickson notes that this view of an emerging world market accessible to even the most resource-constrained and remote nations and organizations is described by Thomas Friedman in *The World Is Flat*, which traces the convergence of technology and world events and its role in bringing about significant changes in traditional value chains.

America's entrepreneurial revolution has become a model for business people, educators, and policy makers around the globe. For example, as part of a goal to "make the EU the most competitive economy," an action plan was derived with the following broad objectives:

1. Fueling entrepreneurial mind-sets.
2. Encouraging more people to become entrepreneurs.
3. Gearing entrepreneurs for growth and competitiveness.
4. Improving the flow of finance.
5. Creating a more entrepreneurial-friendly regulatory and administrative framework.

These goals mirror the factors that have been critical in advancing entrepreneurship in the United States. An EU commission followed up on these goals with recommendations for fostering entrepreneurial mind-sets through school education. These too reflect the American experience:

- Introduce entrepreneurship into the national (or regional) curriculum at all levels of formal education (from primary school to university), either as a horizontal aspect or as a specific topic.

- Train and motivate teachers to engage in entrepreneurial education.
- Promote the application of programs based on "learning by doing," such as by means of project work, virtual firms, and minicompanies.
- Involve entrepreneurs and local companies in the design and running of entrepreneurship courses and activities.
- Increase the teaching of entrepreneurship within higher education outside economic and business courses, notably at scientific and technical universities, and place emphasis on setting up companies in the curricula of business-type studies at universities.

Four Entrepreneurial Transformations That Are Changing the World

Evidence and trends point to at least four entrepreneurial transformations that profoundly impact how the world lives, works, learns, and enjoys leisure. Consider the following:

1. Entrepreneurship is the new management paradigm: Entrepreneurial thinking and reasoning—so common in dynamic, higher-potential, and robust new and emerging firms—are now becoming infused and embedded into the strategies and practices of corporate America.
2. Entrepreneurship has spawned a new education paradigm for learning and teaching.
3. Entrepreneurship is becoming a dominant management model for running nonprofit businesses and in the emerging field of social ventures.
4. Entrepreneurship is rapidly transcending business schools: Engineering, life sciences, architecture, medicine, music, liberal arts, and K-12 are new academic grounds that are exploring and embracing entrepreneurship in their curricula.

Entrepreneurship as the New Management Paradigm

Virtually every management model in vogue today can find its roots in great entrepreneurial companies and organizations founded within the past 40 years. Progressive researchers of new and different ways of conceptualizing and practicing management

found those dynamic and creative founders and leaders at new ventures and at high-growth businesses—and rarely at large, established firms.

Nevertheless, virtually all research and case development until the 1970s dwelled on large companies; new and smaller ventures were mostly ignored. New research is uncovering refreshing, at times radically different, modes: flat organizations, innovation, comfort with change, chaos, team-driven efforts, significant performance-based equity incentives, and consensual decision making. Researchers also found cultures and value systems where people, integrity, honesty and ethics, a sense of responsibility to one's environment and community, and fair play were common. Much of what is sought after and emulated by companies trying to reinvent themselves and to compete globally today embodies many of these principles, characteristics, and concepts of entrepreneurship.

Business schools are including more topics and issues relating to entrepreneurship including new start-up focus for traditional accounting, finance, marketing, and information technology courses. As a unit of analysis, few things are more exciting to study than the birth, growth, and adaptation of new companies and the complex issues they face as they grow.

Entrepreneurship as a New Education Paradigm

Entrepreneurship programs have quickly become successful, attracting large enrollments, fueled by the use of seasoned entrepreneurs in the classroom. These are highly successful founders and builders of companies with a real itch and talent for teaching. Students have raved about their exciting classes and quality of teaching.

Transformation of What and How Business Leaders Learn

Entrepreneurship education has created a new teaching paradigm that can transform what and how students learn. The fundamental philosophies and beliefs about learning and teaching, attitudes toward teachers and views of the role of the student versus instructor all differ radically from traditional academic approaches.

Some prime examples are worth noting. For one thing, most entrepreneurship educators are not faculty centric; they are student and opportunity centric. They do not believe that expertise, wisdom, and knowledge are housed solely in the faculty brain, or in the library, or accessed through Google.

They reject the traditional lecture model: Students sit with pens ready, open craniums, pour in facts, memorize facts, regurgitate facts to achieve top grades, and begin again. Rather, there is a more student-centered, work-in-progress philosophy that is more hands-on and treats the learning process as not occurring solely in the classroom but as more of an apprenticeship, much like the medical model of “see one—do one—teach one.” Entrepreneurship faculties are more likely to see their role as mentors, coaches, and advocates for students. We are notoriously inaccurate in predicting who will be the next Bill Gates, Steve Jobs, or Tom Stemberg, so we do not even try. It is impossible to say in advance that here are the students who will be the best entrepreneurs, and here are the ideas that will win. Getting students to see that they often start with an unanswerable and thus irrelevant question: Will I be a good entrepreneur? This leads to a critical learning transformation for them. They mature and grow to ask more relevant questions: Is this a good business worth pursuing or just another feature? How do I know, and who does know? What are the risks and rewards here, and what can I do to improve them?

A third dimension that is a central part of the new paradigm is the richness and creativity of many entrepreneurship faculty, courses, and curricula. The classroom as a place for the intellectual and practical collisions of theory, practice, ideas, and strategies has been a major anchor at many schools for the last decade.

Entrepreneurship as the New Not-for-Profit and Philanthropy Management Paradigm

Over the last several decades there has been a focus on new philanthropic foundations and not-for-profit organizations have been created from scratch using the entrepreneurship and new venture development model. From the beginning they have employed many of the concepts and principles for conceptualizing an idea, transforming it into an opportunity, building a brain trust, raising funds, and growing the management team and organization as if it were a new entrepreneurial venture.

The Energy Creation Effect

The energizing process for faculty and students alike is also driving the rapid explosion of entrepreneurship education worldwide: China, India, Japan, Russia, South America, the old Eastern bloc, and developing countries.

First, the field seems to attract, by its substance and nature, highly entrepreneurial people. Historically entrepreneurial thinkers and doers have been few and far between in the vast majority of schools in the United States and abroad. These creative, can-do, resilient, and passionate people bring their entrepreneurial ways of thinking, acting, doing, and building to their courses, their research, and their institutions. They are the change agents—the movers and shakers.

Second, their entrepreneurial bent brings a new mind-set to universities and schools: They think and act like owners. They are creative, courageous, and determined to make it work and happen; they build teams, practice what they preach, are institution builders, and do not let myopic allegiance to their disciplines impede becoming better educators. Students, deans, and colleagues can be energized by the leading-by-example pace they establish.

Third, entrepreneurship faculties constantly think in terms of opportunity. Entrepreneurial faculty realize that money follows superior teams and superior opportunities, so they create them. They find ways to innovate, raise money, and implement curricula in resource-strapped universities. They match innovative ideas with wealthy entrepreneurs and their foundations to raise money and launch programs.

Fourth, they create powerful strategic alliances with others—colleagues, alumni, and entrepreneurs by practicing the teamwork principles of entrepreneurship they teach. There is something exciting and compelling about being around highly intelligent and creative entrepreneurs as the centerpiece of your subject matter. They invariably inspire other faculty and students as well.

The Road Ahead

In this book we will urge you to think big. You will see failure as part of the learning process that leads to success. Businesses fail; strategies may not work; a product may be flawed, but the entrepreneurial spirit persists. The key for beginners is to keep the investment low and learning experience high.

It is increasingly clear that beyond learning the knowledge-based nuts and bolts of accounting, finance, cash flow, and business plans there are teachable and learnable ways of skills, concepts, and principles that when translated into strategies, tactics, and practices can significantly improve

the odds of success. These are at the heart of the content and process you will engage in with *New Venture Creation*. Among the most important things you can learn are how to think about the difference between a good idea and a good opportunity; the development and molding of the idea into an opportunity; the minimizing and control of resources; and resource parsimony and bootstrapping.

For the entrepreneur, the mind-set when 1,000 experiments fail is just like that of Thomas Edison: “Those weren’t 1,000 failures; those were just 1,000 ways that didn’t work!” The new venture is nothing more than a huge, perpetual learning puzzle.

Entrepreneurship: Innovation + Entrepreneurship = Prosperity and Philanthropy

The relevance and economic importance of the entrepreneurial phenomenon have legitimized entrepreneurship as vital to any debate about our social economic policies. The creation of the National Commission on Entrepreneurship in 1999 launched an awareness building educational initiative to help legislators, governors, and policy makers understand the contributions and potential of the entrepreneurial economy.

In June 2001 the long-standing U.S. Senate Committee on Small Business changed its name to Small Business and Entrepreneurship, sending a significant message. The National Governor’s Association is also including entrepreneurship in its meetings and policy discussions.

Job Creation

Twenty years ago, MIT researcher David Birch began to report his landmark findings that defied all previous notions that large established businesses were the backbone of the economy and the generator of new jobs. In fact, one Nobel Prize-winning economist gained his award by “proving” that any enterprise with fewer than 100 employees was irrelevant to the study of economics and policy making. Birch stunned researchers, politicians, and the business world with just the opposite conclusion: New and growing smaller firms created 81.5 percent of the net new jobs in the economy from 1969 to 1976.⁴ This general pattern has been repeated ever since.

⁴D.L. Birch, 1979, The Job Creation Process, unpublished report, MIT Program on Neighborhood and Regional Change; prepared for the Economic Development Administration, U.S. Department of Commerce, Washington, DC.

Entrepreneurial firms account for a significant amount of employment growth (defined by at least 20 percent a year for 4 years, from a base of at least \$100,000 in revenues). These “gazelles,” as David Birch calls them, made up only 3 percent of all firms but added 5 million jobs from 1994 to 1998. According to the U.S. Small Business Administration’s Office of Advocacy, in 2004 small firms with fewer than 500 employees represented 99.9 percent of the 26.8 million businesses in the United States. Over the past decade, small businesses created 60–80 percent of the net new jobs. In the most recent year with data (2010), small firms accounted for *all* of the net new jobs. When one considers the history of Microsoft, a start-up in the late 1970s, these job creation findings are not so surprising. In 1980, for instance, Microsoft had just \$8 million in revenue and 38 employees. By the end of 2010, its sales were nearly \$90 billion, it had over 88,000 employees, and the total market value of its stock was over \$255 billion.

We can readily see the far-reaching change in employment patterns caused by this explosion of new companies. In the 1960s about one in four persons worked for a Fortune 500 company. As recently as 1980, the Fortune 500 employed 20 percent of the workforce. By 2010 that figure had dropped to less than 9 percent.

New Venture Formation

Classical entrepreneurship means new venture creation. But it is much more, as you will discover throughout this chapter and book. It is arguably the single most powerful force to create economic and social mobility. It is results oriented and rewards only and performs without regard to religion, gender, skin color, social class, and national origin, it enables people to pursue and realize their dreams.

The role of women in entrepreneurship is particularly noteworthy. Consider what has happened in just a single generation. In 1970 women-owned businesses were limited mainly to small service businesses and employed fewer than 1 million people nationwide. They represented only 4 percent of all businesses. A 2010 published report by The Guardian Life Small Business Research Institute projects that female-owned small businesses, now 16 percent of total U.S. employment, will be responsible for creating one-third of the 15.3 million new jobs anticipated by the Bureau of Labor Statistics by 2018.

A similar pattern can be seen for a variety of ethnic and racial groups (Exhibit 1.2). The U.S. Census Bureau says blacks owned nearly 2 million businesses in 2007, the year of the last survey of business owners. That was up by more than 60 percent from the previous survey in 2002. The jump was more than triple the growth rate for all U.S. businesses, and the highest rate of increase of any minority.

Hispanics owned 2.3 million nonfarm U.S. businesses operating in the 50 states and the District of Columbia in 2007, an increase of 43.7 percent from 2002. These Hispanic-owned firms accounted for 8.3 percent of all nonfarm businesses in the United States, 1.6 percent of total employment and 1.1 percent of total receipts. In addition, 242,766 nonfarm U.S. businesses were equally (50 percent/50 percent) owned by both Hispanics and non-Hispanics.⁵

The American Dream Aspiring to work for oneself is deeply embedded in American culture as recent data bears out. In a 2004 Gallup Poll, 90 percent of American parents said they would approve if one or more of their children pursued entrepreneurship. In a 2006 poll of 1,474 middle

EXHIBIT 1.2

Growth of Entrepreneurship among Ethnic and Racial Groups

Ownership	Number of Firms Owned			Sales and Receipts (\$ billion)			Number of Employees (Millions)		
	1997	2002	% Change	1997	2002	% Change	1997	2002	% Change
African American	780,770	1,197,567	53	42.7	88.6	107	0.7	0.8	14
Hispanic	1,120,000	1,573,600	41	114.0	221.9	95	1.3	1.5	15
Asian/Pacific Islander	785,480	1,133,137	44	161.0	331.0	106	2.2	2.24	1
Native American	187,921	201,387	7	22.0	26.8	22	0.3	0.19	37

⁵<http://www.census.gov/econ/sbo/get07sof.html>11.

and high school students, the youth entrepreneurship organization Junior Achievement found that 70.9 percent would like to be self-employed at some point in their lives. That is up from 68.6 percent in 2005 and 64 percent in 2004. The National Association for the Self-Employed projected that its ranks would increase to about 250,000 members by the end of 2006, up from 100,000 in 1988. In 2004 *USA Today* asked a national sample of men and women if for 1 year they could take any job they wanted, what would that job be? The results reveal how ingrained the entrepreneurial persona has become in society: 47 percent of the women and 38 percent of the men said they would want to run their own companies. Surprisingly, for the men, this was a higher percentage than those who responded with professional athlete.

A 2006 study showed that young people with entrepreneurs as role models were more likely to achieve a broad range of success in business, school, and in life.⁶ Uniformly, the self-employed report the highest levels of personal satisfaction, challenge, pride, and remuneration.

Sir Winston Churchill probably was not thinking about the coming entrepreneurial generation when he wrote in his epic book *While England Slept*, “The world was meant to be wooed and won by youth.” Yet this could describe perfectly what has transpired over the past 30 years as young entrepreneurs in their 20s conceived, launched, and grew new companies that spawned entirely new industries. Consider just a few of these 20-something entrepreneurs in Exhibit 1.3.

There are many lesser known players in the entrepreneurial revolution, and you will come to know and appreciate some of them in this book. For example, Martin Migoya, founder of Globant, an IT outsourcing company based in Buenos Aires, Argentina. In 4 years he and his team built a company with more than 240 employees, sales approaching \$12 million, and clients in Europe and the Americas. Their goal: Build an offshore IT services business that can go head to head with major players such as Infosys, IBM, and Accenture.

Roxanne Quimby is a very different but extraordinary entrepreneur. Enjoying basic subsistence living on a small farm in the woods of Maine, she conceived of an idea to develop natural products from beeswax and other natural components. Her new business began slowly and was fragile. She thrived, relocated the business to North Carolina, and eventually sold her company for nearly

EXHIBIT 1.3

Mega-Entrepreneurs who Started in their 20s

Entrepreneurial Company	Founder(s)
Microsoft	Bill Gates and Paul Allen
Netscape	Marc Andreessen
Dell Computer	Michael Dell
Gateway 2000	Ted Waitt
McCaw Cellular	Craig McCaw
Apple Computer	Steve Jobs and Steve Wozniak
Digital Equipment Corporation	Ken and Stan Olsen
Federal Express	Fred Smith
Google	Larry Page and Sergey Brin
Genentech	Robert Swanson
Polaroid	Edward Land
Nike	Phil Knight
Lotus Development Corporation	Mitch Kapor
Ipix.com	Kevin McCurdy
Yahoo!	David Filo and Jerry Yang
PayPal	Max Levchin
Skype	Janus Friis
Facebook	Mark Zuckerberg (at 19)
YouTube	Chad Hurley
MySpace	Tom Anderson

\$200 million. Roxanne returned to Maine and is using a significant portion of her fortune to buy up huge parcels of undeveloped land in northern Maine—over 28,000 acres so far—that she hopes will one day be part of a federal preserve.

Jack Stack had worked his way up, after dropping out of school, to the mailroom and the factory floor at an International Harvester Plant in Springfield, Missouri, in the early 1980s, when it was announced that the plant would likely close. He and a handful of colleagues pooled \$100,000 of their own money and borrowed \$8.9 million from a local bank (note the 89 to 1 leverage) and bought the plant for 10 cents a share to try to save the business and their jobs. The plant was failing with only \$10 million in revenues. Starting as a rebuilder of engines shipped to the United States by Mercedes, the business expanded to include over 20 businesses. The outcome is an organization that moved from near death to revenues of \$200 million. Stack’s book, *The Great Game of Business*, is a business classic.

Brian Scudamore started his company 1-800-GOT-JUNK? in 1989 straight out of high

⁶H. Van Auken, F.L. Fry, and P. Stephens, “The Influence of Role Models on Entrepreneurial Intentions,” *Journal of Developmental Entrepreneurship*, June 2006.