

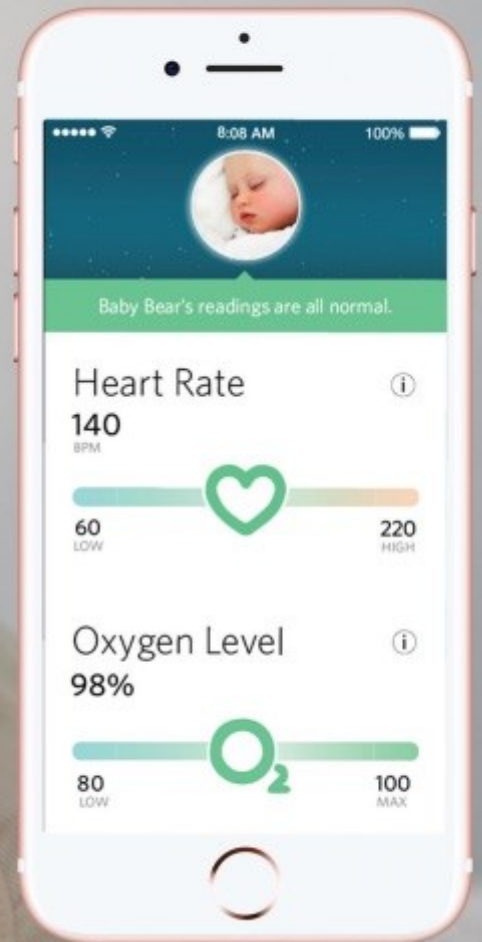
Entrepreneurship

Successfully Launching New Ventures

Bruce R. Barringer

R. Duane Ireland

SIXTH EDITION



Entrepreneurship

SUCCESSFULLY LAUNCHING NEW VENTURES

SIXTH EDITION

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Dedication

To my wife, Jan. Thanks for your never-ending encouragement and support. Without you, this book would have never been possible. Also, thanks to all the student entrepreneurs who contributed to the chapter opening features in the book. Your stories are both insightful and inspiring.

—Bruce R. Barringer

To my family: I am so proud of each of you and so blessed by your perseverance and never-ending love and support. I know that sometimes it seems as though “we lose ourselves in work to do and bills to pay and that it’s a ride, ride, ride without much cover.” But you are always in my heart, a gift for which I remain deeply grateful.

—R. Duane Ireland

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Preface

New to this Edition

This sixth edition is a thorough revision of our book. Each chapter has been revised for the purpose of presenting you, our readers, with a foundational understanding of entrepreneurship as well as with current examples of actions being taken by entrepreneurs and by entrepreneurial firms. We use insights from the academic literature and the experiences of practicing entrepreneurs to inform our explanation of entrepreneurship. To present you with specific examples of entrepreneurs' actions and the actions taken by entrepreneurial firms, we again use insights from entrepreneurs as well as from business people. These insights from practicing entrepreneurs and their firms and from business people were drawn from many sources including podcasts, blogs, newspapers, companies' websites, and popular business publications such as *The Wall Street Journal* and *Fortune* magazine among many others. As we'll explain later in greater detail, we also draw from the academic literature to make certain that we are presenting you with accurate and current descriptions of what researchers have learned about successful entrepreneurs and effective entrepreneurial firms.

Opening Profile Each of the book's 15 chapters opens with a profile of an entrepreneurial firm that was started while the founder or founders were in college or shortly after graduating. All "Opening Profiles," with each one being linked to an individual chapter's topic, are new to this edition. Each "Opening Profile" is based on a personal interview with the student entrepreneur or entrepreneurs who founded the company around which each profile is written.

Updated Boxed Features The majority of the "Savvy Entrepreneurial Firm," "Partnering for Success," and "What Went Wrong?" boxed features are new to this edition. The few features that are not new have been updated. These features alert readers to contemporary issues facing entrepreneurs and their firms. In addition, the content of the features suggest actions



<p>Cofounders</p> <p>RYAN GOLDSTON BBA, Entrepreneurship, Finance & Marketing, University of Southern California, 2009</p> <p>ADAM GOLDSTON BS, Sociology, University of Southern California, 2009</p>	<p>BEST ADVICE I'VE RECEIVED Better to ask for forgiveness than for permission</p> <p>MY ADVICE FOR NEW ENTREPRENEURS Invest in yourself</p> <p>MY BIGGEST WORRY AS AN ENTREPRENEUR Not maximizing every opportunity</p>	<p>BEST PART OF BEING A STUDENT Free time and the environment</p> <p>MY FAVORITE SMARTPHONE APP Instagram</p>
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SAVVY ENTREPRENEURIAL FIRM

Prototyping: How to Build What the Customer Wants

A prototype is an early sample, model, or release of a product that is built to test a concept or a process. *Step 1: A Drawing.* A simple drawing of the device, with a paragraph or two that describes how it will

PARTNERING FOR SUCCESS

Collaborative Software: Helping New Venture Team Members Achieve Their Goals

What Is Collaborative Software? Collaborative software is a computer program designed to help people involved in a common task to achieve their goals. Think of a basketball team. Although five members of a team are individuals, they coordinate their efforts to achieve the best results. In business organizations, collaborative software engineers may be working on the software that helps them coordinate their efforts to achieve the best possible outcome.

Tools That Are Normally Included The way collaborative software programs offer a common shared environment for

WHAT WENT WRONG?

Be Careful what You Wish for: How Growing too Quickly Overwhelmed One Company's Cash Flow

When Jim Picariello started Wise Acre Frozen Treats, no other company was making organic popsicles from unrefined sweeteners. Working out of a makeshift kitchen in 2006, Picariello developed his recipes using maple syrup and honey. He worked alone for a year and a half before hiring his first employee. About that time, his frozen popsicles really took off; by 2008, Wise Acre Frozen Treats had 15 employees, a 3,000-square-foot manufacturing facility, and was distributing its product to natural food stores and supermarkets across the East Coast. The company was awarded a contract to potential investors, Wise Acre Frozen Treats found itself in somewhat of a no-man's-land. Although its future was bright, the entrepreneurial venture wasn't big enough yet for investors to take notice. As time went on, serious cash flow difficulties kicked in. According to a blog post that Picariello wrote about Wise Acre Frozen Treats' failure, the company was burning through about \$30,000 a month at its peak but didn't have the capital to back it up. In retrospect, many things lined up well for Wise Acre Frozen Treats. It had a product that sold well, it had national distribution, and it had a business plan that indicated that it

entrepreneurs can take to deal with various contemporary issues. The boxed features appearing in this new edition of our book focus on many different topics such as how entrepreneurial firms can use collaborative software to help team members reach their goals, the need to develop and test a prototype of a product or service as a means of determining how to meet customers' needs, and how growing too quickly overwhelmed a firm's ability to properly manage its cash flow.

New and Updated End-of-Chapter Cases The majority of the end-of-chapter cases are new to this edition. For example, through Case 10.2 on p. 376, you will learn about how Kickstarter is becoming an increasingly important pathway through which entrepreneurs obtain seed capital for their ventures. The few cases that have been retained have been updated. Two cases are presented at the end of each chapter. Comprehensive in nature, the cases have been selected to represent the principles examined within individual chapters and to provide readers with opportunities to think about how principles apply to situations particular companies are facing. The questions appearing at the end of each case can be used to stimulate classroom discussion or for quizzes or tests. MyLab Entrepreneurship offers additional discussion questions and practice questions to enhance your learning experience.

New and Updated “You be the VC” Features Two features called “You be the VC” appear toward the end of each chapter. Each of these unique features present readers with a “pitch” for funding an emerging entrepreneurial venture. The features are designed to stimulate classroom discussion by sparking a debate about whether a particular entrepreneurial venture should or should not be funded by a venture capitalist. In essence, students are asked to take on the role of a venture capitalist when evaluating the commercial viability of what are real-life entrepreneurial ventures. Almost all of the “You be the VC” features appearing in this edition are new.

Updated References The amount of academic research being completed to add to our understanding of entrepreneurship and how entrepreneurs practice it continues to expand. Importantly, the quality of this research, in terms of its ability to inform entrepreneurial practices, is increasing. To provide our readers with the most recent insights from academic journals, we draw ideas and insights from recent research articles appearing in well-established and highly respected journals such as *Strategic Entrepreneurship Journal*, *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, *Academy of Management Journal*, *Strategic Management Journal*, and *Organization Science* among others. All of these journals are recognized for their contributions to entrepreneurship that are made by the articles they publish. Similarly, and as mentioned previously, we draw from podcasts, blogs, companies' websites, and publications such as *The Wall Street Journal* and *Entrepreneur* among others to find materials that describe how entrepreneurs rely on their hard-earned practical experience in order to achieve success when leading their entrepreneurial ventures. The references we drew from academic journals are very current as are the stories and experiences that are described in the podcasts, blogs, and established publications that we consulted while writing this edition of our book.

Solving Teaching and Learning Challenges

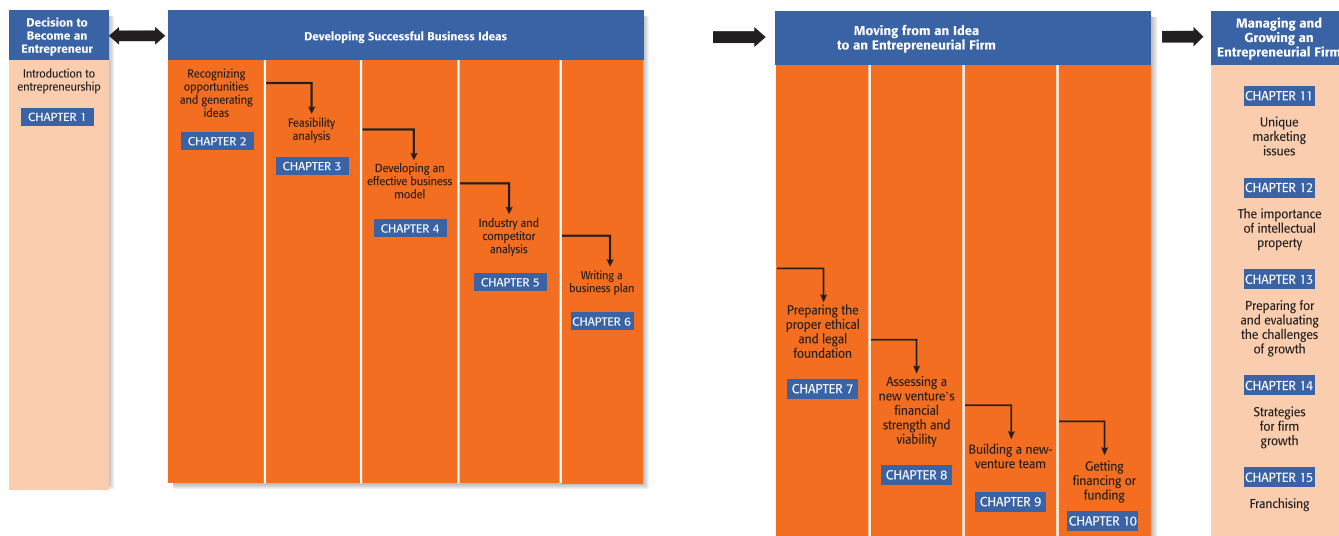
The lure of entrepreneurship for people who launch their own businesses is the ability to create a product or a service with the potential to enhance people's lives. While entrepreneurs want to earn profits from the money, time, and energy

they invest in their firms, they typically also want to make a difference—to individuals who buy their product or service and to the local community in which they operate. To do this though, entrepreneurs need to follow a process to fulfill their dreams and to be successful.

As has always been the case with our book, we remain committed to the position that to be successful, entrepreneurs must follow a specific set of activities. We call this set of activities “The Entrepreneurial Process,” around which this book is written. This process includes four interrelated steps: (1) deciding to become an entrepreneur, (2) developing successful business ideas, (3) moving from an idea to an entrepreneurial firm, and (4) managing and growing the entrepreneurial firm. While entrepreneurship is not easy, we strongly believe that following the entrepreneurial process presented in this book will increase the likelihood that entrepreneurs will be successful in their efforts to launch and operate a business that is based on their identification of an opportunity and the development of their unique idea, in the form of a product or a service, to pursue it.

By following this unique process, aspiring entrepreneurs increase the likelihood that the investments they make will pay dividends and will bring them great satisfaction as they meet the needs of various groups including customers, those working for the entrepreneurial venture, and the local communities in which those ventures operate. We use the following features to clearly and concisely explain the entrepreneurial process and to bring that process to life for readers in the process of doing so.

The Entrepreneurial Process The process’ 4 major steps are explained in a total of 15 chapters. Studying this process informs an understanding of entrepreneurship and how to practice it for the purpose of establishing and then successfully growing an entrepreneurial venture. Once a venture has been launched, entrepreneurs should continuously revisit and study the parts of the process to verify that the venture is taking actions with a high probability of leading to entrepreneurial success.



Opening Profiles Each of the book’s 15 “Opening Profiles” describes the launching of an entrepreneurial venture by entrepreneurs when they were university or college students (or shortly after graduation). The individual profiles are related to individual chapters’ core topic—a topic that is part of the entrepreneurial process. In addition to demonstrating how entrepreneurs apply a particular part of the entrepreneurial process, the “Opening Profiles” show that

as university-level students, some individuals decide at that time to become entrepreneurs. Owlet Baby Care, for example, is the subject firm of Chapter 3's "Opening Profile." This firm's product, called the Owlet Baby Sock, is also pictured on the cover of this book. By placing the Owlet Baby Sock on a foot, parents are able to monitor a baby's heartbeat and oxygen level while she or he sleeps. Chapter 3's topic is Feasibility Analysis, meaning that the discussion about Owlet Baby Sock in the chapter's "Opening Profile" revolves around efforts the firm's cofounders took to see if their product was indeed commercially feasible. Overall, the "Opening Profiles" show students reading this book that they, too, may have the potential to establish an entrepreneurial venture while attending a university or college or shortly after graduating.

Partnering for Success The ability for entrepreneurial ventures to partner with other firms is becoming an increasingly important attribute of successful entrepreneurial ventures. This boxed feature exposes students to a number of different ways entrepreneurial ventures partner with

others for the purpose of increasing their success. Sometimes entrepreneurial firms partner with companies their own size while they partner with very large organizations in other instances. The purpose of this boxed feature, which appears in each of the 15 chapters, is to describe collaborative relationships that benefit entrepreneurial ventures. Questions about each feature's content appear at the end of the feature. These questions challenge students to think critically about the feature's content and can be used to stimulate classroom discussions.

Savvy Entrepreneurial Firm Each chapter contains a feature called "Savvy Entrepreneurial Firm." These features, which explain practices entrepreneurs follow that help their ventures become successful, present students with tools and techniques entrepreneurs use when leading entrepreneurial ventures. Essentially, this feature describes entrepreneurship in action. After reading all 15 "Savvy Entrepreneurial Firm" features, students will have a set of practices entrepreneurs use for the purpose of increasing their firm's operational success. Questions that can be used to facilitate discussions among students or as quizzes or tests appear at the end of each feature.

What Went Wrong? Mistakes are made in entrepreneurial firms. With this feature, with one appearing in each chapter, we describe for students "What Went Wrong?" for an entrepreneur and the venture she or he was leading. Reading these features explains actions to students that they want to avoid as entrepreneurs. The questions appearing at the end of each feature can be used as discussion starters, and as a foundation for asking students to describe actions that could have been taken to avoid the problem that is described in a particular "What Went Wrong?" feature.

PARTNERING FOR SUCCESS

Franchises Partner with Nonprofits to Give Back

An increasing number of franchise organizations are partnering with nonprofit organizations in an effort to give back. An example is Panera Bread. At the end of each day, Panera's bakery-cafes donate their unsold bread and baked goods to local hunger relief and charitable organizations. By doing this, Panera Bread extends its goal of providing wholesome food to people in the communities in which it operates.

The following are three rules-of-thumb that franchise organizations with successful partnerships with nonprofits follow.

#1 Find the Right Partner

Most franchise organizations have a mission or set of values that defines their purpose. For example, a franchise organization that sells children's clothing or provides after-school tutoring for kids might partner with an organization like St. Jude Children's Research Hospital. St. Jude provides medical assistance to children who are sick free of charge. By raising money for St. Jude or a similar nonprofit, a franchise organization that partners with children allows the children and their families to provide help to other children who are less fortunate than they are.

#3 Have Skin in the Game

For a partnership between a franchise organization and a nonprofit to be authentic, it is important that the franchise organization have skin in the game. Employees and customers respond more positively when they are not only being asked to donate money or time but the franchise organization is making a sacrifice, too. For example, in 2014, about 1,400 Denny's restaurants sold coupons in support of No Kid Hungry's efforts to help more than 16 million American children who struggle with hunger. For a \$3 donation, customers received \$9 worth of coupons that could be used at participating Denny's restaurants. Similarly, Sport Clips Haircuts sponsors an annual campaign titled "Saving Lives Never Looked So Good." It's a partnership between the sports-theme barbershop franchise and the American Red Cross. During the annual month-long campaign, Sports Clips gives a free haircut coupon to everyone who donates blood.

Questions for Critical Thinking

1. Identify an ideal nonprofit for a fitness center franchise that you plan to explore in your course.

SAVVY ENTREPRENEURIAL FIRM

How Retail Start-ups Compete Against Walmart and Other Big Box Retailers

One of the main fears that retail start-ups have is whether they'll be able to compete against Walmart, Home Depot, and the other big box stores. It's a legitimate fear. The big-box stores continue to grow, particularly in terms of product line and geographic breadth. There are now big-box stores in towns with populations of 10,000 or less. We've all heard stories about big-box stores moving into small towns and driving local merchants out of business. So, no wonder that someone with an idea for a men's clothing store or a pet store might wonder "but will I really be able to compete against Walmart?" Couple this fear with the fear of competing with e-commerce sites and it's easy to see why someone might pass on a potentially attractive business idea.

Still, many businesses do compete successfully against big-box stores. Their success, however, is not by chance. Although impossible to compete against Walmart and the others on price, price isn't everything. There are many other forms of competition including product quality, customer service, product knowledge, ties to the local community, and so forth. The following is an analysis of how big-box retailers compete, what their vulnerabilities are, and strategies for competing directly against big-box retailers.

The stores themselves also have inherent disadvantages. Customers complain of crowded aisles, long checkout lines, and an inability to find help if they're looking for something in the store. While the category killers, like Home Depot and PetSmart, are better at customer service and product knowledge, they're still trying to sell the most popular products to mainstream customers. For example, although Academy offers an impressive selection of sporting goods, clothing, and outdoor gear, it can't offer everything. This leaves an opening for a store like TrackShack, which is a locally-owned running shoe and running gear store in Orlando, FL.

TrackShack offers a wider selection of running shoes and deeper product knowledge than Academy or DICK'S Sporting Goods could offer. Pause for a moment and look at TrackShack's website (www.trackshack.com). This store is owned by local entrepreneurs—John and Betsy Hughes. If you compare TrackShack to Academy on running shoes, Academy may win on price, but TrackShack wins on selection, product quality, product knowledge, customer service, convenience, and ties to the local community. That's a pretty compelling set of advantages to build upon.

Strategies for Competing against Big-Box Stores

WHAT WENT WRONG?

How One Start-Up Caught the Attention of VCs, Gained 25,000 Daily Users, and Still Failed

DrawQuest was launched in February 2013 by Christopher Poole. It was a pivot—an earlier version of the product was called Canvas. DrawQuest was an app built for the iPad, iPhone, and iPad Touch. The idea was to encourage creativity through a daily drawing challenge.

Here's how it worked. Each day, a drawing challenge was posted. The DrawQuest screen would display part of a picture and challenge the user to complete it. For example, the screen might show a picture of a child looking into the water, and the challenge would be "What's in the water?" The user would then complete the picture. Other examples include a screen with a hat at the top, and the challenge would be "Who's wearing the hat?" Similarly, the screen might include a person standing on a balcony, and the challenge would be "What can you see from the balcony?" The DrawQuest app provided a basic kit of online drawing tools to complete the picture. The point wasn't to create an elegant drawing. In fact, the tools resulted in the drawings being somewhat cartoonish in nature. The point was to force people to be creative by deciding what to put in the water or what could be seen from the balcony. The app and the basic set of drawing tools were free. DrawQuest made money by selling upgrades to the kit of drawing tools, like better brushes, additional palettes of paint, more vivid colors, and so forth. The app itself did well. In the short year it was in existence it reached 1.4 million downloads, 650,000 regis-

tered users, and the pivot that Poole and his team executed. Prior to DrawQuest, the team built an app named Canvas that did not work out. They pivoted to DrawQuest, which resonated better with users and drew a larger audience. The problem is that they spent half their investors' money on Canvas. Referring to that challenge, Poole wrote, "We built this app (DrawQuest) with less than half of our runway remaining. You have to do twice as much with half as much money. It's really frisking hard."

Ultimately, Poole and his team decided to pull the plug. They investigated selling DrawQuest to another company, but no one bit. In the blog post titled "Today My Startup Failed," Poole provided insight into the human side of business failure. He wrote:

I'm disappointed that I couldn't produce a better outcome for those who supported me the most—my investors and employees. Few in business will know the pain of what it means to fail as a venture-backed CEO. Not only do you fail your employees, your customers, and yourself, but you fail your investors—partners who helped you bring your idea to life.

Questions for Critical Thinking

1. Explain the reasons that DrawQuest succeeded.

Barringer/Ireland Business Model Template The Barringer/Ireland Business Model Template, developed by the authors specifically for this book, is a nicely designed tool that helps students think through and articulate the business model for a proposed venture or an existing firm. Each section of the template, which is presented as Appendix 1 on p. 156 in Chapter 4, is fully explained in the chapter. The template can be easily copied and used by those wishing to develop a business model for an entrepreneurial venture. Additionally, if students are required to develop an idea for an entrepreneurial venture as a course requirement, they can also be asked to complete the template as part of such an assignment. In Case 4.2, titled “TOMS’ One-for-One Business Model: Is It Sustainable?” we use the Barringer/Ireland Business Model Template to present TOMS’ business model (see p. 151). This allows students to study a “live” business model and increase their understanding of how to use the template.

Feasibility Analysis Students and entrepreneurs typically find it challenging and difficult to determine if their idea for a product or service is feasible as the foundation for an entrepreneurial venture. Chapter 3 provides a detailed explanation of the steps entrepreneurs should take to complete a feasibility analysis. These steps are shown in Table 3.1. Three additional tools are offered to students in Chapter 3 to enhance their understanding of how to conduct a feasibility analysis. In Appendix 3.1 on p. 113, tips for conducting interviews to assess a product or a service’s feasibility, as well as examples of questions to ask and questions not to ask during an interview, are presented. In Appendix 3.2 (see p. 114), we present a tool called First Screen. Students and entrepreneurs can use this template to complete a feasibility analysis regarding an idea they have for an entrepreneurial venture. Finally, Appendix 3.3 on p. 116 contains an Internet Resource Table that provides resources that are helpful when completing the First Screen template. In all, students can use the tools and information featured in these three appendixes to assess the feasibility of an idea they have as the foundation for launching an entrepreneurial venture.

End-of-Chapter Review and Application Questions Two sets of questions appear at the end of each chapter. By answering the review questions, students have opportunities to see if they have understood the concepts, tools, and techniques that were presented within each chapter. More comprehensive in nature, the application questions can be used to stimulate classroom discussions or to assess students’ ability to explain how chapter-specific concepts, tools, and techniques would be used by an entrepreneur or within an entrepreneurial firm.

Review Questions

- 1-1. Do you anticipate that entrepreneurship will continue spreading throughout the world, or do you think its appeal will subside over time?
- 1-2. What key insights does the GEM study provide us about entrepreneurship?
- 1-3. What does evidence show us about the rate of failure associated with entrepreneurial ventures?

- 1-11. Why is a product/customer focus an important characteristic of successful entrepreneurs?
- 1-12. What is it about “tenacity” that makes it such an important characteristic for entrepreneurs?
- 1-13. What are the five common myths of entrepreneurship?
- 1-14. What is the evidence that debunks the

Application Questions

- 13-21. Pete Martin just purchased a copy of *Inc.* magazine’s annual issue that ranks the top 500 fastest-growing privately owned companies in America. Pete was amazed by some of the stories that were told in different articles appearing in

the magazine and as a result, is more encouraged than ever to start his own art restoration firm. Pete believes his firm can grow 100 percent or more per year. He is ready to cash out his savings and get started. Is Pete starting this

You be the VC Two of these features, which asks students to assume the role of a venture capitalist, appear at the end of each chapter. In each “You be the VC” feature, the idea behind a newly-launched entrepreneurial venture is described. Given the product or service and the firm, students are asked to decide what additional information they would require to decide if they would or would not fund the venture. Chapter 6’s “You be the VC 6.2” (see p. 224) discusses Ava, a company that has built a smartphone app that transcribes translations received through mobile phones into texts. These translations allow people with hearing problems to follow conversations occurring

in group settings. With a total of 30 “You be the VC” features included in the book, students have multiple opportunities to carefully evaluate the commercial potential of a variety of products and services being offered by newly-established entrepreneurial firms.

YOU BE THE VC 6.2 COMPANY: Ava

• Web: www.ava.me • Facebook: [Avadotme](https://www.facebook.com/Avadotme) • Twitter: [avascrIBE](https://twitter.com/avascrIBE)

Business Idea: Build a smartphone app that transcribes conversations received through mobile phones’ microphones into text, so people with hearing problems can follow along in a group setting.

Pitch: It is difficult for people who are deaf or hearing-impaired to follow conversations in group settings such as a family dinner, a business meeting, a presentation, or lunch with friends. Even in a setting where every participant knows sign language, picking up an entire conversation is challenging. Sign language relies on people watching each other sign, and in a group setting people often talk that are not directly looking at each other. The only option that people with hearing problems have to fully capture a group conversation is to hire a transcriber or interpreter. That’s an impractical solution, given that transcribers and interpreters charge up to \$125 per hour.

Ava is a smartphone app designed to tackle this problem. Here’s how it works: Ava connects all the smartphones in a room via an app. All a person with hearing difficulties has to do is invite the people in the room to participate, and if they have Ava on their phones, they can accept the invite. Ava will then, through the microphone in each participant’s smartphone, transcribe the conversation in real time and display the transcription on the hearing-impaired person’s phone. Each person’s comments include their name and show up in a different color. Ava’s interface will also show a small photo of each person who is involved with the conversation. So if Jane, who is deaf, invites Ava at the beginning of a family dinner, and all the members of Jane’s family have the Ava app and accept Jane’s invite, Jane can follow the conversation on her smartphone. The transcriptions, which are made possible via the speech recognition technology, are made in less than one second.

YOU BE THE VC 12.2 COMPANY: Kolibree

• Web: www.kolibree.com • Facebook: [Kolibree](https://www.facebook.com/Kolibree) • Twitter: [@Kolibree](https://twitter.com/Kolibree)

Business Idea: Develop a smart toothbrush that can tell users if they are brushing well. Accompany the toothbrush with smartphone games in which good brushing is rewarded with high scores in the games.

Pitch: There are a number of problems associated with dental hygiene. For example, experience suggests that most children don’t like to brush their teeth. Most adults brush their teeth, but don’t brush long enough. Dentists generally recommend that people brush their teeth twice a day, for at least two minutes each time. That’s longer than most people who think they’re doing a good job brushing their teeth actually brush.

Kolibree was created to help solve these problems. The firm has developed a smart toothbrush, called the Kolibree Connected Toothbrush, for adults and children. This

product connects via Bluetooth to a smartphone app that can tell users if they are brushing in a healthy manner. The Kolibree toothbrush looks similar to other toothbrushes, but that’s where the similarity ends. It is equipped with an accelerometer, a gyroscope, and 3D motion sensors that can tell you where you’ve brushed and where you’ve missed. It is elegantly and ergonomically designed for all hand sizes and weighs a comfortable 2.5 ounces. The brush has removable heads, so the same brush can be shared among multiple family members. Each member of a family can set up a dashboard that records their daily brushing performance. The information the brush collects about brushing habits is transmitted to the dashboard and can be viewed in real time or studied later. If you view it in real time, a 2D graphic highlights where you should focus and for how long. The app will let you know when you’ve

End-of-Chapter Cases Two cases appear at the end of each chapter. Comprehensive in scope, both cases presented within individual chapters speak to those chapters’ core topics. Dealing with real companies, these cases present students with opportunities to evaluate multiple applications of a particular chapter’s concepts, tools, and techniques as they are applied within a firm. In some instances, a case asks students to evaluate firms that are not being as successful as those leading them want to be the case. This is true for Quiznos, which is the subject of Case 15.1 (see p. 564). This case describes the challenges a franchisor (Quiznos) has encountered over a number of years following a successful launch and after achieving initial successes. Questions appearing at the end of this case challenge students to decide if they believe that actions this firm is taking today will result in a positive turnaround for Quiznos as a foundation for returning to entrepreneurial success. In other instances, an end-of-chapter case describes an entrepreneurial venture’s success and asks students to decide if the firm’s positioning will yield additional success across time. This situation describes d.light, the focal firm of Case 6.2 on p. 228. As explained in this case, d.light’s business plan was instrumental to its success and appears to have the potential to be the foundation for the firm’s continuing success in the future. However, the firm faces challenges, some of which appear in the form of questions that students can answer as a means of fully considering d.light’s future.

CASE 6.2

d.light: How Bringing Its Business Plan to Life Helped a Social Enterprise Get Off to a Strong Start

• Web: dlightdesign.com • Facebook: [D.LightDesign](https://www.facebook.com/D.LightDesign) • Twitter: [@dlightdesign](https://twitter.com/dlightdesign)

Bruce R. Barringer, *Oklahoma State University*
R. Duane Ireland, *Texas A&M University*

Introduction

Imagine the following. You are in the audience of a business plan competition. The next team up to present is d.light, a for-profit social enterprise that plans to bring light to people without access to reliable electricity. Two young men introduce themselves as the founders of d.light, and say they’re going to start their presentation with a demonstration. The lights go out. In a few

seconds, a deep, resonant hum fills the room. A bright, rosy-red light emanates from a small, rectangular device on the stage. The light is bright, but not blinding. It is warm, but not hot. It is steady, but not constant. It is...
At one point during his time in the village, Goldman was given a battery-powered LED headlamp, and was struck by the dramatic difference that simply having light at night can make in a person’s life. He could now cook, read, and do things at night that were unimaginable without the benefits reliable lighting provides.
Impacted by this experience, Goldman sought

CASE 15.1

Quiznos: Will It Regain a Leadership Position in the Sandwich and Sub Shop Franchise Industry?

• Web: www.quiznos.com • Facebook: [Quiznos](https://www.facebook.com/Quiznos) • Twitter: [@Quiznos](https://twitter.com/Quiznos)

Bruce R. Barringer, *Oklahoma State University*
R. Duane Ireland, *Texas A&M University*

Introduction

In the early 1980s, Jimmy Lambatos moved from New York City to Denver to attend college. Growing up in New York, he frequently ate sub sandwiches made with crusty Italian bread. It was artisan bread, the flavorful kind with spices, oils, and vinegars. Once in Denver, Lambatos kept eating sub sandwiches, but couldn’t find a sandwich shop that used artisan bread. He caught

like their sandwiches warm, but that the heat brings out the flavor in artisan breads. After operating solely from Grant and 13th in Denver for two years, Quiznos started franchising in 1983. By 1987, 12 Quiznos restaurants were operating in the United States. That year, Richard Schaden, at the age of 23, and his father, who was an aviation attorney, opened a Quiznos franchise in Boulder, CO. They opened three additional Quiznos sub

MyLab Entrepreneurship

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Developing Employability Skills

To succeed in today’s rapidly changing job market, students should develop skills that will facilitate their efforts to achieve career success—whether they intend to be an entrepreneur or not. In this book, we focus on developing “employability skills” that will help students who seek to be entrepreneurs as well as those who seek to achieve business success by pursuing different options. We focus on developing these skills in the following ways:

Business Ethics and Social Responsibility Examples of firms engaging in socially responsible actions and seeking to solve some of society’s challenges appear throughout the book. For instance, consider the story of GiveForward, the focal firm of the “You be the VC 7.1” feature. This firm has launched a crowdfunding platform that allows people to send financial support and encouragement to individuals facing a medical crisis to provide for their out-of-pocket medical expenses. We discuss the need for firms to establish a strong ethical culture as a foundation for how they operate. Specific actions business people can take to “lead by example” when it comes to demonstrating ethical behaviors consistently appear on p. 238. We also describe on p. 239 what should be done to implement an ethics training program in entrepreneurial ventures and all other types of firms. Moreover, when considering each chapter’s core topic, instructors can ask students to discuss the “ethical issues” associated with, for example, building effective work teams (Chapter 9) and deciding how to market a firm’s product or service (Chapter 11).

Critical Thinking Learning how to think critically about issues is foundational to a person’s ability to identify opportunities to develop a product or service that meets a certain customer group’s needs. The 30 end-of-chapter cases in this edition expose students to an array of products and services that entrepreneurs developed to serve customers. In each instance, the entrepreneurs had to think critically as a foundation for deciding how to proceed to launch their ventures. In Case 1.1, for example (see p. 34), Julie Rice and Elizabeth Cutler decided that they wanted to create an alternative to fitness routines and experiences that felt like work. After thinking through various options, they developed a cardio-workout experience that is relational in nature for their customers. In their view, the exercise experience SoulCycle provides to customers is tribal, primal, and fun.

YOU BE THE VC 7.1 COMPANY: GiveForward

• Web: www.giveforward.com • Facebook: GiveForward • Twitter: @GiveForward

Business Idea: Launch a crowdfunding platform that allows people to send financial support and encouragement to individuals facing a medical crisis to provide for their out-of-pocket medical expenses.

Pitch: Each year, Americans incur over \$400 billion in out-of-pocket medical expenses that are not covered by insurance. Many people find themselves in difficult situations. They are battling a disease such as cancer or recovering from a medical crisis like a stroke, and they have out-of-pocket medical expenses they are unable to pay. Often, the patient has family or friends who want to raise money to help, but they don’t know how to go about it. They may sponsor a charity event or try to collect money on their own, but their efforts often fall short of resolving their loved one’s medical expenses.

goes for credit card merchant fees, and the remainder is retained by GiveForward. Supporters are provided the option of donating a little extra to cover the fees. Over 60 percent of them do so.

Since the site was launched in 2008, GiveForward has helped facilitate tens of thousands of medical fundraising campaigns and helped raise over \$84 million. Growth in the number of campaigns and dollar amount being donated is accelerating. While many campaigns are for less than \$10,000, some campaigns have been for much larger amounts. In the wake of the 2013 Boston Marathon bombings, the family and friends of two people who were injured launched a GiveForward campaign that raised almost a million dollars.

Collaboration Skills There is no doubt that being able to collaborate with others (both within and outside a firm) is critical to success for firms competing in today’s business environment. In particular, the “Partnering for Success” features allow students to increase their understanding of how collaboration increases the likelihood of a firm improving its performance. In Chapter 8’s feature (see p. 279), students learn how entrepreneurial firms participate in groups (often called cooperatives) that are organized and used for the purpose of helping individually small firms gain access to the benefits accrued through collective purchases of products rather than purchasing as individual firms.

Data Literacy Being able to interpret the business-related meaning of data is a critical skill for today’s business people to develop. The Feasibility Analysis Templates appearing as appendixes at the end of Chapter 3 help students understand how to interpret data for the purpose of deciding if a business idea is feasible and as such, worth pursuing. The Barringer/Ireland Business Model Template generates data students can analyze for the purpose of forming a business model for an entrepreneurial venture. Interpreting the meaning of financial data is at the center of Chapter 10’s discussion of how entrepreneurial firms obtain the funding required to launch and/or continue their operations. How entrepreneurs interpret financial data though parallels how all business people interpret such data.

Instructor Teaching Resources

This program comes with the following teaching resources:

Supplements available to instructors at www.pearsonhighered.com

Features of the Supplement

Instructor’s Manual

authored by Ram Subramanian from Stetson University

- Chapter-by-chapter summaries
- Teaching outlines
- Teaching tips
- Solutions to all questions and problems in the book

Test Bank

authored by Ram Subramanian from Stetson University

- More than 1,500 multiple-choice, true/false, and short-answer questions with these annotations:
- Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis)
 - Learning outcome
 - AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)

Computerized TestGen

- TestGen allows instructors to:
- Customize, save, and generate classroom tests
 - Edit, add, or delete questions from the Test Item Files
 - Analyze test results
 - Organize a database of tests and student results

PowerPoints

authored by Bruce Barringer from Oklahoma State University

- Slides include many of the tables, illustrations, and figures in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to:
- Keyboard and Screen Reader access
 - Alternative text for images
 - High color contrast between background and foreground colors

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We wish each of you—our readers—all the best in your study of the entrepreneurial process. We do indeed hope that each of you will be highly successful entrepreneurs as you pursue the ideas you will develop at different points in your careers.

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Bruce R. Barringer Bruce R Barringer is a professor and department head for the School of Entrepreneurship at Oklahoma State University. He also holds the N. Malone Mitchell Jr. and the Student Ventures chairs. Bruce received his PhD from the University of Missouri and his MBA from Iowa State University. His research interests include feasibility analysis, firm growth, corporate entrepreneurship, and the impact of interorganizational relationships on business organizations. Over the years, he has worked with a number of technology-based incubators and student-led entrepreneurship activities and clubs.

Bruce's work has been published in *Strategic Management Journal*, *Journal of Management*, *Journal of Business Venturing*, *Journal of Small Business Management*, *Journal of Developmental Entrepreneurship* and several other outlets. He is the author or coauthor of five books, including *Entrepreneurship Successfully Launching New Ventures* (Pearson, 2019), *Preparing Effective Business Plans* (Pearson, 2015), *Launching a Business: The First 100 Days* (Business Expert Press, 2013), *The Truth About Starting a Business* (FT Press, 2009), and *What's Stopping You? Shatter the 9 Most Common Myths Keeping You from Starting Your Own Business* (FT Press, 2008).

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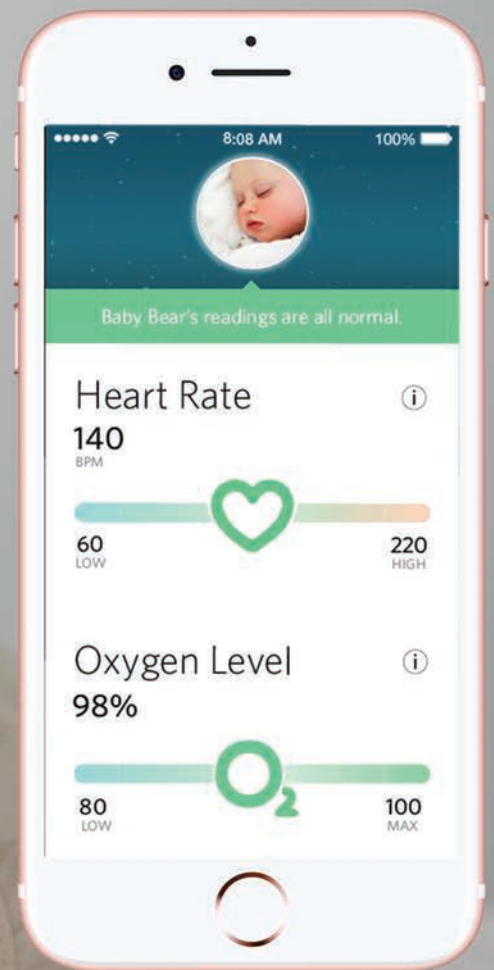
Duane's research has been published in journals such as *Academy of Management Journal*, *Academy of Management Review*, *Academy of Management Executive*, *Academy of Management Perspectives*, *Academy of Management Annals*, *Administrative Science Quarterly*, *Strategic Management Journal*, *Journal of Management*, *Strategic Entrepreneurship Journal*, *Journal of Business Venturing*, and *Entrepreneurship Theory and Practice*, among others. He is a co-author of both scholarly books and textbooks in the areas of entrepreneurship and strategic management.

Duane has served as a member of editorial review boards for many journals including *Academy of Management Journal*, *Academy of Management Review*, *Journal of Management*, and *Journal of Business Venturing*. He completed a three-year term as editor of the *Academy of Management Journal* and was the 69th president of the Academy of Management. He is a fellow of the Academy of Management and a fellow of the Strategic Management Society. He has received a number of awards such as a Lifetime Achievement Award for Scholarship and Research from Mays Business School, a Distinguished Service Award from the Academy of Management, and a Distinguished Service Award from the Strategic Management Division of the Academy of Management. Duane's outside interests include running, reading, and spending time with his family.



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PART 1 **Decision to Become an Entrepreneur**



Owlet Baby Care, Inc.

CHAPTER 1 **Introduction to Entrepreneurship** 3

Getting Personal with RIFFRAFF



Founder

KIRSTEN BLOWERS

Bachelors of Interior Design,
University of Arkansas, 2008

Dialogue *with* Kirsten Blowers

MY FAVORITE SMARTPHONE APP

Instagram! I can't get enough

MY BIGGEST WORRY AS AN ENTREPRENEUR

What if I don't want to do what I'm doing anymore? Luckily, I don't think I'll be there for a very, very, very long time. I love what I do

WHAT I DO WHEN I'M NOT WORKING

Binge watching a Netflix series. Or traveling

BEST PART OF BEING A STUDENT

Being surrounded by my forward thinking peers daily

FAVORITE BAND ON MY SMARTPHONE MUSIC LIST

Ryan Adams or Randy Rodgers Band

BEST ADVICE I'VE RECEIVED

In order to love who you are you cannot hate the experiences that shaped you

CHAPTER 1

Introduction to *Entrepreneurship*

OPENING PROFILE

RIFFRAFF

The Classic Entrepreneurial Story

• **Web:** www.shopriffraff.com • **Facebook:** [RiffraffFayetteville](https://www.facebook.com/RiffraffFayetteville) • **Twitter:** [@ShopRiffraff](https://twitter.com/ShopRiffraff)

It all began in 2008, when Kirsten Blowers got an internship with an interior design firm. The recession had just hit, and she realized it was unlikely she'd get a job in interior design. So with just \$100 as a start, she scoured local garage and yard sales to buy used furniture. She refurbished the furniture and sold it on Facebook to friends. She invested the money she earned in inventory until she had enough to open a small storefront in Fayetteville, the home of the University of Arkansas, where she went to school. She named the business Riffraff.

Blowers ran Riffraff for about a year and a half as a home décor store. Pinterest came along and started teaching people how to refurbish furniture on their own, and sales dipped. At that time, Blowers introduced clothing and jewelry to make Riffraff more of a lifestyle boutique. The first night Riffraff sold clothes the clothing sold out, and that night's sales exceeded sales for the entire month before. So Blowers quickly conclude that clothing was the way to go.

Since that time, Riffraff has taken off. The store has moved from its original location to a larger space in downtown Fayetteville, and now occupies a 3,000 square foot facility. Blowers, who recently turned 30, presently owns four businesses, including Riffraff, the original boutique; shopriffraff.com, an online store; Charlie Southern, a lifestyle line that sells t-shirts and accessories that celebrate the beautiful states across America, and Friday + Saturday, an uplifting brand that sells clothing; celebrates the potential and success of women and girls. About 65 percent of all sales come from shopriffraff.com. Together, the four businesses will generate revenue of over \$5 million in 2017. Blowers employs over 30 full and part-time employees, all under the age of 30.

There are several things about Blowers' entrepreneurial journey that provide insight into her success. First, she seems to have a knack for picking the right clothes to sell. She says that she selects clothes with three customers in mind: herself (she carries clothes she'd like to wear), a friend of hers that has three small children, and college females. Second, she remains passionate about her businesses. She's enjoyed the trials and triumphs that come with being a business owner. She also takes it seriously. She says that as a business owner she feels her personal reputation

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LEARNING OBJECTIVES

After studying this chapter you should be ready to:

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

is on the line—she doesn't see herself as a failure so won't let her businesses fail either. Third, she's a planner and enjoys immersing herself in the details. When rolling out a new initiative, she plans how she wants it to go and instructs her staff on how to execute. Finally, Blowers and her staff maintain tremendous attention to detail. For example, her online store, shopriffraff.com, experiences very few returns. She attributes this to the fact that every item is carefully described and measurements are provided. She and her staff are also very active on social media. They frequently respond to queries like, "Will this blouse look good with these pants?"

There are two specific anecdotes about Blowers that provide additional insight. First, at one point Blowers owned a boutique in a fashionable part of Dallas. Dallas was the single biggest market that shopriffraff.com shipped to, so it seemed to be the ideal place for expansion. It didn't work. Dallas is 330 miles from Fayetteville, where Blowers' other businesses are located. She says she missed being able to drop by the business anytime she wanted to check things out. She also found her Dallas clientele to be much different than the clientele with whom she was more familiar. Blowers' decision to close the Dallas store demonstrates that she isn't afraid to admit when she's made a mistake and take action to correct it. Second, in 2012 Blowers created a T-shirt that had the word Love scrawled on the front with the o (in Love) replaced by a picture of the state of Arkansas. She called it the State Love Tee. It sold out every time she featured it. Several months after the T-shirt's debut, she began spotting the same design in other clothing stores in Arkansas. She initially reacted by sending cease-and-desist orders and filing lawsuits, but then saw a way to turn a negative into a positive. She decided to wholesale the T-shirt to give her competitors a legal way to sell it and create a new source of income for herself. Charlie Southern, one of Blowers' four businesses, emerged from this initiative. Blowers' State Love T-shirt, along with other Charlies Southern T-shirts and accessories, are now sold in over 500 women's clothing boutiques across the country.

Social media has played an active role in Blowers' success, and one of her goals is to stay on the cusp of social media trends. She says she owes Facebook a lot. In the early days, she was able to advertise her painted-furniture on Facebook for free. The Riffraff Facebook page currently has over 603,000 likes and 590,100 followers. That's more than 50 percent of the number of likes at Ann Taylor's Facebook page, a women's clothing line, which has been in business since 1954. Riffraff's Facebook page is very lively, and is informative and fun. Riffraff is also very active on Twitter, Instagram, Pinterest, and Snapchat. The company's Snapchat presence is mostly for fun. It shows behind-the-scenes shots and shenanigans from Riffraff's facilities in Fayetteville.

Blowers envisions a bright future for her businesses. She's enjoyed her entrepreneurial journey and plans to continue building her businesses.

In this first chapter of your book about the successful launching of an entrepreneurial venture or firm, we define entrepreneurship and discuss why some people decide to become entrepreneurs. We then consider successful entrepreneurs' characteristics, the common myths surrounding entrepreneurship, the different types of start-up firms, and the changing demographics of entrepreneurs in the United States and other nations as well. We then describe entrepreneurship's importance, including the economic and social impact of new firms as well as the importance of entrepreneurial firms to larger businesses. To close the chapter, we introduce you to the entrepreneurial process. This process, which we believe is the foundation for successfully launching and operating a start-up firm, is the framework we use to present the book's materials to you.

Introduction to Entrepreneurship

There is tremendous interest in entrepreneurship around the world. Although this statement may seem bold, there is evidence supporting it, some of which is provided by the Global Entrepreneurship Monitor (GEM). GEM, which is a joint research effort among several international universities and the International Council for Small Business, tracks entrepreneurship in 112 countries, including the United States. Of particular interest to GEM is total early stage entrepreneurial activity (TEA), which consists of businesses that are just being started and businesses that have been in existence for less than three and a half years. A sample of the rate of total early-stage entrepreneurial activity in countries included in the GEM study is shown in Table 1.1. Although the highest rates of entrepreneurial start-up activities occur in low-income countries, where good jobs are not plentiful, the rates are also impressive in high-income countries such as Germany (4.7 percent), United Kingdom (6.9 percent), and the United States (11.9 percent). What the 11.9 percent means for the United States is that almost 1 out of every 8 1/2 American adults is actively engaged in starting a business or is the owner/manager of a business that is less than three-and-a-half-years old.¹

The GEM study also identifies whether its respondents are starting a new business to take advantage of an attractive opportunity or because of necessity to earn an income. The majority of people across the countries the GEM study follows are drawn to entrepreneurship to take advantage of attractive opportunities, rather than starting out of necessity. In fact, in countries with a strong inclination for innovation like Germany and the United States, the number of people who start businesses to pursue an opportunity outnumber the people who are starting a business out of necessity 3.4 to 1.0.²

One criticism of entrepreneurship, which is often repeated in the press, is that the majority of new businesses fail.³ It simply isn't true. The often used statistic that 9 out of 10 businesses fail in their first few years is an exaggeration.

TABLE 1.1 Rates of Early-Stage Entrepreneurial Activity (Ages 18 to 64)

Country	Percent of Population Starting a New Business
Argentina	17.7%
Brazil	21.0%
Chile	25.9%
China	12.8%
Finland	6.6%
Germany	4.7%
Philippines	17.2%
Spain	5.7%
United Kingdom	6.9%
United States	11.9%

Source: Based on D. Kelley, S. Singer, and M. Herrington, *Global Entrepreneurship Monitor 2015/6 Global Report* (Babson, Universidad del Desarrollo, Universiti Tun Abdul Razak, Tecnológico de Monterrey, and International Council for Small Business, 2015/6).

In the United States, according to the Bureau of Labor Statistics, over half the businesses started are still in existence five years later.⁴ The number drops to just over a third after 10 years, but some of the businesses disappeared because they were successful and were sold or were acquired by another firm. While overall these figures are heartening, the percentage of firms that do fail shows that a motivation to start and run a business isn't enough; indeed, motivation must be coupled with a solid business idea, good financial management, and effective execution to maximize chances for success. In this book, we'll discuss many examples of entrepreneurial firms and the factors separating successful new ventures from unsuccessful ones.

Many people see entrepreneurship as an attractive career path. Think about your friends and others you know. In all probability, you are acquainted with at least one or two people who want to become an entrepreneur—either now or at some point in the future. The number of books dealing with starting one's own business is another indication that entrepreneurship is growing in popularity. Amazon.com, for example, currently lists over 58,510 books dealing with entrepreneurship and over 80,686 books concerned with small businesses. The number of books on entrepreneurship is up from 36,900 just three years ago.

What Is Entrepreneurship and Why Is It Important?

LEARNING OBJECTIVE

1. Describe entrepreneurship, corporate entrepreneurship, and the characteristics of entrepreneurial firms.

The word *entrepreneur* derives from the French words *entre*, meaning “between,” and *prendre*, meaning “to take.” The word was originally used to describe people who “take on the risk” between buyers and sellers or who “undertake” a task such as starting a new venture.⁵ Inventors and entrepreneurs differ from each other. An inventor creates something new. An entrepreneur assembles and then integrates all the resources needed—the money, the people, the business model, the strategy, and the risk-bearing ability—to transform the invention into a viable business.⁶

Entrepreneurship is defined as the process by which individuals pursue opportunities without regard to resources they currently control for the purpose of exploiting future goods and services.⁷ Others define it more simply, seeing entrepreneurship as the art of turning an idea into a business. In essence, an entrepreneur's behavior finds him or her trying to identify opportunities and putting useful ideas into practice.⁸ The tasks called for by this behavior can be accomplished by either an individual or a group and typically require creativity, drive, and a willingness to take risks. Kirsten Blowers, the subject entrepreneur in the chapter's “Opening Profile,” exemplifies all these qualities. Kirsten saw an *opportunity* to create a new type of women's clothing boutique and online store and a new type of shopping experience for the women in her target market. She *risked* her career by passing up alternatives to work on Riffraff full time, and she's now *working hard* to put Riffraff in a position to deliver *creative* and *useful* products to its customers.⁹

In this book, we focus on entrepreneurship in the context of an entrepreneur or team of entrepreneurs launching a new business. However, ongoing firms can also behave entrepreneurially. Typically, established firms with an entrepreneurial emphasis are proactive, innovative, and risk-taking. For example, Google is widely recognized as a firm in which entrepreneurial behaviors are clearly evident. Larry Page, one of Google's cofounders, is at the heart of Google's entrepreneurial culture. With his ability to persuade and motivate others' imaginations, Page continues to inspire Google's employees as they develop innovative product after innovative product. To consider the penetration Google has

with some of its innovations, think of how often you and people you know use the Google search engine, Gmail, Google Maps, Google Earth, or Google Home. Google is currently working on a bevy of far-reaching innovations, such as a virtual reality platform for Android and self-driving cars. Similarly, if you were to study Facebook's or Dropbox's actions you would quickly recognize their ability to grow and succeed. This growth and success reveals a history of entrepreneurial behavior at multiple levels within the two firms. In addition, many of the firms traded on the NASDAQ (the largest U.S. stock market with nearly 3,100 companies listed), such as Apple, Zynga, Facebook, and Amgen are commonly thought of as entrepreneurial firms.

As we mentioned, existing firms too can act entrepreneurially. In this sense, established firms with an orientation toward acting entrepreneurially practice **corporate entrepreneurship**.¹⁰ All firms fall along a conceptual continuum that ranges from highly conservative to highly entrepreneurial. The position of a firm on this continuum is referred to as its **entrepreneurial intensity**.¹¹ As we noted, entrepreneurial firms are typically proactive innovators and are not averse to taking calculated risks. In contrast, conservative firms take more of a "wait and see" posture, are less innovative, and are risk averse.

One of the most persuasive indications of entrepreneurship's importance to an individual or a firm is the degree of effort undertaken to behave entrepreneurially. Firms with higher entrepreneurial intensity regularly look for ways to cut bureaucracy. For example, Virgin Group, the large British conglomerate, works hard to keep its units small and instill in them an entrepreneurial spirit. Virgin is one of the most recognized brands in Britain and is involved in businesses as diverse as airlines and music. In the following quote, Sir Richard Branson, the founder and CEO of Virgin, describes how his company operates in an entrepreneurial manner:

Convention . . . dictates that "big is beautiful," but every time one of our ventures gets too big we divide it up into smaller units. I go to the deputy managing director, the deputy sales director, and the deputy marketing director and say, "Congratulations. You're now MD [managing director], sales director and marketing director—of a new company." Each time we've done this, the people involved haven't had much more work to do, but necessarily they have a greater incentive to perform and a greater zeal for their work. The results for us have been terrific. By the time we sold Virgin Music, we had as many as 50 subsidiary record companies, and not one of them had more than 60 employees.¹²

Why Do People Become Entrepreneurs?

The three primary reasons that people become entrepreneurs and start their own firms are to be their own boss, pursue their own ideas, and pursue financial rewards.

Be Their Own Boss

The first of these reasons—being one's own boss—is given most commonly. This doesn't mean, however, that entrepreneurs are difficult to work with or that they have trouble accepting authority. Instead, many entrepreneurs want to be their own boss because either they have had a long-time ambition to own their own firm or because they have become frustrated working in traditional jobs. The type of frustration that some entrepreneurs feel working in conventional jobs is exemplified by Wendy DeFeudis, the founder of VeryWendy, a company that makes customized social invitations. Commenting on how her experiences

LEARNING OBJECTIVE

2. Discuss three main reasons people decide to become entrepreneurs.

An entrepreneurial career is full of possibilities. These three young entrepreneurs are starting a graphic design business. They are passionate about website design, logo design, and business branding.



Pressmaster/Shutterstock

working for herself have been more satisfying than working for a large firm, DeFeudis remarked:

I always wanted to be my own boss. I felt confined by the corporate structure. I found it frustrating and a complete waste of time—a waste to have to sell my ideas to multiple people and attend all kinds of internal meetings before moving forward with a concept.¹³

Some entrepreneurs transition from a traditional job to owning their own business more gradually, as shown by a decision to initially operate their firm on a part-time basis. While this approach isn't possible in all situations, by starting a business part time individuals can gain valuable experience, tuck away the money they earn, and find out if they really like the business before deciding to leave their job. In some businesses, such as catering or financial planning, it takes time to build a client list. Some entrepreneurs will time their departure from their job with the point in time at which their client list is large enough and profitable enough to support a full-time business.¹⁴

Pursue Their Own Ideas

The second reason people start their own firms is to pursue their own ideas.¹⁵ Some people are naturally alert, and when they recognize ideas for new products or services, they have a desire to see those ideas realized. Corporate entrepreneurs who innovate within the context of an existing firm typically have a mechanism for their ideas to become known. Established firms, however, often resist innovation. When this happens, employees are left with good ideas that go unfulfilled.¹⁶ Because of their passion and commitment, some employees choose to leave the firm employing them in order to start their own business as the means to develop their own ideas.

This chain of events can take place in noncorporate settings, too. For example, some people, through a hobby, leisure activity, or just everyday life, recognize the need for a product or service that is not available in the marketplace. If the idea is viable enough to support a business, they commit tremendous time

and energy to converting the idea into a part-time or full-time firm. In Chapters 2 and 3, we focus on how entrepreneurs spot ideas and determine if their ideas represent viable business opportunities.

Many entrepreneurs experience tremendous satisfaction when their entrepreneurial idea catches on, and they see the positive results it creates. An example is Marco Zappacosta, the founder of Thumbtack. Thumbtack is an online platform that allows people to quickly locate local service providers, such as photographers, house painters, and piano teachers. Zappacosta's insight at the time Thumbtack was founded in 2009 was that all across America there were local service providers struggling to find new clients, and ordinary people looking for service providers they could trust. Commenting on how Thumbtack solves both a big problem but also makes a difference in ordinary people's lives, Zappacosta remarked:

The macro of it (connecting people who need services with people who are willing to provide them) is a big problem and it's satisfying to work on big things that can have a huge impact. But then what (I) really like—you feel day to day is the stories of impacting individuals, it's the pest control guy in Brooklyn sending us flowers to say thank you for all the business that we're now sending him, or the busy mom who is sending pictures of her birthday party that she was able to throw with Thumbtack. That feels great and that's certainly a bigger part of the motivation that we feel.¹⁷

Since its inception, Thumbtack has helped millions of people connect with local service providers and over \$1 billion is exchanged through its platform each year.¹⁸

Pursue Financial Rewards

Finally, people start their own firms to pursue financial rewards. This motivation, however, is typically secondary to the first two and often fails to live up to its hype. The average entrepreneur does not make more money than someone with a similar amount of responsibility in a traditional job. The financial lure of entrepreneurship is its upside potential. People such as Jeff Bezos of Amazon.com, Mark Zuckerberg of Facebook, and Larry Page and Sergey Brin of Google made billions of dollars building their firms. Money is also a unifier. Making a profit and increasing the value of a company is a solidifying goal that people can rally around. But money is rarely the primary motivation behind the launch of an entrepreneurial firm. Some entrepreneurs even report that the financial rewards associated with entrepreneurship can be bittersweet if they are accompanied by losing control of their firm. For example, Sir Richard Branson, after selling Virgin Records, wrote, "I remember walking down the street [after the sale was completed]. I was crying. Tears . . . [were] streaming down my face. And there I was holding a check for a billion dollars If you'd have seen me, you would have thought I was loony. A billion dollars."¹⁹ For Branson, it wasn't just the money—it was the thrill of building the business and of seeing the success of his initial idea.

Characteristics of Successful Entrepreneurs

Although many behaviors have been ascribed to entrepreneurs, several are common to the successful ones. Those in new ventures and those who are already part of an entrepreneurial firm share these qualities, which are shown in Figure 1.1 and described in the following section.

LEARNING OBJECTIVE

3. Identify four main characteristics of successful entrepreneurs.