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Seventh Edition

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Entrepreneurial Small Business

Jerome A. Katz
Richard P. Green II

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Hill



Entrepreneurial Small Business

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Jerome A. Katz

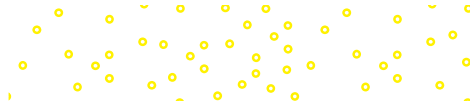
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ENTREPRENEURIAL SMALL BUSINESS

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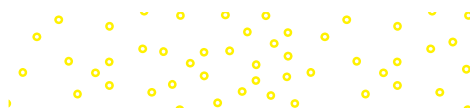
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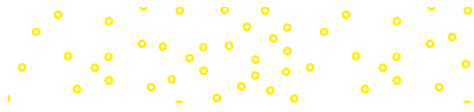
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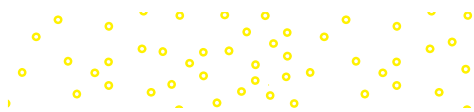




To our parents, who gave us
inspiration.

To our children, who gave us
motivation.

To our spouses, who gave us
dedication.



ABOUT THE AUTHORS



Jerome A. Katz

Jerome A. Katz

Jerome (Jerry) Katz is the Robert H. Brockhaus Endowed Chair in Entrepreneurship at the Richard A. Chaifetz School of Business, Saint Louis University. Prior to his coming to Saint Louis University he was an assistant professor of management at the Wharton School, University of Pennsylvania. Jerry holds a PhD in organizational psychology from the University of Michigan, and other graduate degrees from Harvard and the University of Memphis.

Throughout the years, he has worked in or advised his family's businesses including stints working in the family's discount department store, sporting goods wholesaling, pharmacies, auto parts jobbing, and secondary-market wholesaling of frozen food. As a professor he has served as adviser to over 500 business plans developed by students at Saint Louis University, whose Entrepreneurship Program (which Jerry leads) has been nationally ranked every year since 1994.

He was also the founder and director of Saint Louis University's Billiken Angels Network, which was ranked by the *HALO Report* as one of the top angel groups in the United States. Earlier in his career he served as associate director for the Missouri State Small Business Development Centers. He has taught, trained, or consulted on entrepreneurship education and business development services in Germany, Spain, China, Portugal, Saudi Arabia, Korea, Sweden, Switzerland, the United Kingdom, Brazil, Singapore, Israel, Croatia, and the West Bank. His consulting firm, J. A. Katz & Associates, has a client list including the Soros, GE, Kauffman and Coleman Foundations, as well as the Korea Entrepreneurship Foundation, the Jerusalem Institute for Israel Studies, Sweden's Entrepreneurship and Small Business Research Institute, the International Labor Organization (ILO), RISEbusiness, the National Federation of Independent Business, the National Science Foundation, and the Committee of 200.

As a researcher, Jerry has done work on entrepreneurship, organizational emergence, opportunity analysis, and the discipline and infrastructure of entrepreneurship education. Today nine of his papers can be found in 11 different compendia of "classic" works in entrepreneurship and small business. He was a corecipient of the 2013 Foundational Paper Award of the Entrepreneurship Division of the Academy of Management, and Google Scholar reports Jerry's papers have been cited over 13,000 times. Jerry founded and edited two book series, *Advances in Entrepreneurship, Firm Emergence and Growth* (published by Emerald) and *Entrepreneurship and the Management of Growing Enterprises* (published by Sage) and has edited over a dozen special issues. He sits on the editorial boards of nine journals: *Entrepreneurship and Regional Development*, *International Journal of Entrepreneurship and Small Business*, *Journal of International Entrepreneurship*, *International Entrepreneurship and Management Journal*, *International Journal of Technoentrepreneurship*, *Experiential Entrepreneurship Exercises Journal*, *USASBE Annals of Entrepreneurship Education*, *Journal of Entrepreneurship Education*, and *Entrepreneurship Education & Pedagogy*.

Following his parents' tradition of civic entrepreneurship, Jerry has served in a variety of roles including a governor of the Academy of Management, chair of the Entrepreneurship Division of the Academy of Management, and senior vice president for research and publications of the International Council for Small Business. He serves on a number of local, national, and international boards promoting entrepreneurship and entrepreneurship education and training for students and the general public.

For these efforts, he has been a recipient of more than a dozen major professional awards including Babson's Appel Prize for Entrepreneurship Education, the Family Firm Institute's LeVan Award for Interdisciplinary Contributions to Family Business, the Outstanding Lifetime Achievement Award given by the Academy of Management's Entrepreneurship Division, as well as Mentorship Awards from the Entrepreneurship Division of the Academy of Management, and from Saint Louis University's Graduate Student Association, and Saint Louis University's Chaifetz School of Business Alumni Award for Outstanding Educator. He was elected the fiftieth fellow of the U.S. Association for Small Business and Entrepreneurship.

Richard P. Green II

Richard Green is a successful serial entrepreneur who has started, built, and sold several businesses across an extraordinarily wide range of industries. His first business was an electrical sign repair company, which he began while an undergraduate student. Since then, Richard has started two other sign companies, a structural steel business, a manufacturer of stainless steel products, a real estate brokerage, a tax return preparation service, and a bed-and-breakfast. During the “go-go banking” years he held controlling interest in a state-chartered bank. More recently, Richard, with his long-time associate Richard Carter, conducted the start-up of Lineas Aereas Azteca (Azteca Airlines); served as co-owner with his spouse of a San Antonio bed-and-breakfast, the Adams House; and served as chief financial officer for a high-tech start-up, Celldyne Biopharma LLC. As a corporate entrepreneur, Richard has worked on expansion plans for companies as diverse as the Mexican airline Aerolineas Internacionales, Minneapolis-based Land O’Lakes, Inc., and the Venezuelan dairy Criozuca, S.A.

Richard brings a similarly diverse set of skills to *ESB*, ranging from a pilot’s license (he was a professional pilot, instructor, and check airman for TWA) to a CPA. A late-life PhD (from Saint Louis University), he has been an assistant and associate professor of accounting at the University of the Incarnate Word and Webster University, and is currently Chair of the Department of Accounting & Finance at Texas A&M University–San Antonio. His academic achievements are similarly impressive, with papers in the proceedings of North American Case Research Association (NACRA), American Accounting Association Midwest, the American Association for Accounting and Finance, and the International Council for Small Business, as well as journals such as the *Atlantic Economic Journal* and *Simulation & Gaming*. Richard also authored more than three dozen articles in popular magazines on topics ranging from personal computers to financial decision making. Richard is co-developer (with Jerry) of the measures for financial sophistication in the Panel Study of Entrepreneurial Dynamics, and is senior author of *Investigating Entrepreneurial Opportunities: A Practical Guide for Due Diligence* (Sage). He has received research grants from Pharmacia Corporation, the Kauffman Foundation, and the Texas A&M University System.

Always active in professional and civic roles, Richard’s contributions have ranged from serving as chair of the Airline Pilots Association’s grievance committee to serving on the City of San Antonio’s Air Transportation Advisory Committee. He is a licensed CPA in Texas, and maintains membership in each the AICPA, and the TXCPA.



Richard P. Green II

WHAT'S NEW IN THIS EDITION

We come into each edition of *Entrepreneurial Small Business* with a list of things we want to do. For the seventh edition, the list consisted of four items that would have impacts across multiple chapters:

1. Expand coverage of social entrepreneurship.
2. Expand coverage of family business.
3. Expand coverage of entrepreneurial theory and practice, adding new key ideas and websites expanding what students can learn and do when exploring starting their own firms.
4. Expand instruction on key documents and Skill Modules through templates and walkthroughs.

Social Entrepreneurship: In each edition of *Entrepreneurial Small Business*, we try to follow a theme. The seventh edition's theme was "social entrepreneurship." Richard teaches in a state university. I (Jerome) teach in a Catholic, Jesuit university. In both settings one of the biggest changes over the past few years has been the massive growth in the number of students who want to create businesses that meet social and business goals. Like so many movements, it started with visionary entrepreneurs like Muhammad Yunus of Grameen Bank, Blake Mycoskie of TOMS Shoes or teenager Malala Yousafzai whose movement to educate Pakistani girls led to the Malala Fund. Students saw business as a way to address all sorts of social issues like sustainability, inequality, poverty, and the problems faced by individuals, groups, and communities. These efforts moved from innovative individuals like those above to initiatives like the B-corps movement, to new state regulations permitting benefit corporations or L3C's (Low-profit LLCs) as legal forms of organizing. It's a type of entrepreneurship whose time is now.

Adding social impacts to financial impacts is something that applies across most aspects of entrepreneurship, and the seventh edition reflects this. This includes adding new models to evaluate business model canvases, feasibility analyses, industry analyses, business plans, financials, funding, choosing a legal form of organization and managing volunteers. The goal for this book was to link students to the best of what's out there to support for-profit firms and social ventures. Curation plays a big role in making the seventh edition of *ESB*.

"It is important to show students the true 'face' of an entrepreneur, e.g. that it is made up of everyone and not just one particular group or skill set."

— Mary Beth Klinger, College of Southern Maryland

Family Business: We have always seen family business as central to small business and entrepreneurship and so we've taken pride in our coverage, but with the growth of research in family business, there has been a lot more hard-won wisdom on ways to identify and manage the issues family adds to business, and in this edition, we added more content showcasing those new findings. This included ways to manage ownership in family firms (Chapter 2), succession processes (Chapter 6), and best HR practices for family firms (Chapter 18).

Entrepreneurial Theory and Practice: Much of the work done by thought leaders in entrepreneurship from *ESB*'s prior editions (like Eric Ries, Alex Osterwalder, Steve Blank, Alex Bruton, Gini Dietrich, and Brad Feld) have focused on developing applications of new theoretical models and tools. In that analytics tradition we have added new leading-edge ideas like the Ingrid Burkett's business model canvas for social ventures, Dawn Bolton and Michelle Lane's model for individual entrepreneurial orientation, Eric Flamholtz's work on managing family ownership issues, Mike Moyer's "slicing the pie" model and the United Nations Sustainable Development Goals.

Templates and Walkthroughs: So much of entrepreneurship these days depends on preparing persuasive pitches and the foundation for persuasion is increasingly data driven. For the seventh edition, we have added detailed new templates available to instructors and students on the Connect and Instructors websites as well as directly downloadable from the web. These detail for students exactly how to do business model canvases, feasibility analyses and business plans for for-profit firms and social ventures. Each template links sections to the relevant chapters and skill modules, helping students to know how to build from individual activities into finished key

documents. Along these lines, we've also posted online versions of finding basic industry information (Skill Module 7-2) and industry analysis (Skill Module 7-5) specifically designed for social ventures. Within the text we have expanded the number of walkthroughs for using key websites to get the data you need to evaluate your business or market such as Facebook's Audience Insights, Zip-who.com and the Census' County Business Patterns database (Chapter 9), as well as Google Analytics (Chapter 10).

"Since many small business courses will have a Business Plan Project or something similar, this content is an absolute necessity. Good coverage with helpful examples and illustrations."

—Mary Beth Klinger, College of Southern Maryland

Overall: As is true for every edition, there are updates throughout—updated numbers, counts, and statistics; over 100 new URLs as well as updated URLs for our more than 750 curated sites brought forward from the sixth edition; updated and new examples; updates as needed for our 59 skill modules and 100 experiential exercises, and updates on people from prior editions throughout this edition.

Chapter-by-Chapter Updates

As you will see in the acknowledgments, we get feedback from many professors, instructors, and students. We work hard to use these insights to improve the coverage, flow, and usefulness of the text for students and faculty alike. The list below gives a chapter-by-chapter recounting of all of the additions and changes we made for the seventh edition.

"I am noticing a wider variety of teaching tools being offered now, such as discussion questions, mini cases, experiential exercises etc. I really like this as it will allow the instructor to match with their style and with the needs of their students."

—Mark Hoelscher, Illinois State University

Chapter 1:

- The self-efficacy scale from Chapter 2 is moved to Skill Module 1-1 to be more "just in time."
- Added material on social entrepreneurship including new graphics on the ways to organize firms.
- Updated explanation of our approach to the start-up process to help those familiar with lean business practices get a feel for the *ESB* approach.
- Updated websites, people, and businesses profiled.

Chapter 2:

- Reorganized the personality of entrepreneurs with short questionnaires for each personality characteristic, so students can immediately get a sense of how they embody the concepts.
- Expanded coverage of the entrepreneurial mindset, with a focus on the entrepreneurial orientation approach.
- Expanded and updated coverage of minority entrepreneurship and women's entrepreneurship.
- Expanded coverage of family business including new ways to think about role conflict and the rights of ownership in family firms.
- Updating of stories, URLs, and statistics in the chapter.

Chapter 3:

- Updated statistics on small business.
- Updated the entrepreneurial environment model with elements important for social ventures.

- Revamped “Achieving Sustainability” with new material on the triple bottom line and the UN’s Sustainable Development Goals.
- Updated websites, people, and businesses profiled.

“Skill module 3.1 sets the stage for how research/data is such a key part of the process for entrepreneurship.”

—Jonathan Krabill, Columbus State Community College

Chapter 4:

- Many updates related to social entrepreneurship.
- Used Ingrid Burkett’s model for evaluating business model canvas for social ventures.
- Added details on feasibility studies for what social ventures look like.
- Connected students to the external feasibility study ESB templates for for-profit and social ventures (which you can find on the Instructor’s Site, Connect, or at <http://tiny.cc/ESB-FS-SV> for the social venture and <http://tiny.cc/ESB-FS> for for-profit firms).
- Expanded the design thinking discussion and linked it to material across the text.
- Replaced SCAMPER examples with actions taken by McDonalds when it was a young firm in San Bernardino, CA, many of which you can still see today.

Chapter 5:

- Emphasized that part-time businesses not only remain an important path to ownership but are also increasing as a portion of all new business entrants.
- Tweaked the opening vignette (Carla Brauer and Dermestidium Trophy Processing) to emphasize how a long-time avocation can change into a profitable business.
- Section 5-1 was extensively changed to include describing gig economy and how gig workers may be owners of small businesses.
- Section 5-2 was rewritten for clarity and better readability.
- Learn More Online boxes were updated to current websites.
- Significant changes to Section 5-3, including an extensive section on gig businesses.
- The section covering home-based business has been rewritten to be in line with current trends, with changes made concerning internet businesses and popup stores.
- Updated the graphs and tables on numbers and types of business establishments, as well as several photos throughout the chapter.

Chapter 6:

- A new opening vignette features sisters Deborah Gladney and Angela Muhwezi-Hall who created the app QuickHire.
- One Small Business Insight was rewritten and uses Barumba Play as an example of effectual reasoning.
- Another Small Business Insight, “Jasmine Adams,” was updated as an example for leveraging contingencies.
- In Section 6-3 “Starting a Business, a Small Business” Insight box was added, covering the failure of Unicorn e-Scooters.
- Updated discussion of succession of family business concerning the factors that lead to a smooth transition between generations.
- Added a discussion of the skills that the successor of a family business should have.
- Two Learn More Online boxes were updated, and four new boxes added.
- Improved organization and logical progression of the chapter.
- Finally, the experiential exercises have been updated to meet the content of the URLs to which references are made.

Chapter 7:

- Created parallel social venture version of Skill Module 7-2 “Finding Your Firm’s Industry” which you can find on the Instructor’s Site, Connect or at <http://tiny.cc/ESB-SM7-2-SV>.
- Added material on entrepreneurial mindset / entrepreneurial orientation to the “Imitation and Innovation” section.
- Also created a parallel social venture version of Skill Module 7-5 “Short and Sweet Industry Analysis” which you can find on the Instructor’s Site, Connect, or at <http://tiny.cc/ESB-SM-7-5-SV>.
- Social entrepreneurship additions included a new section “Goals for Social Ventures” and added “social good” to supra-strategies.
- General updating of statistics, tax rates, stories, and websites mentioned.

Chapter 8:

- Social entrepreneurship changes included adding donors as a target market, volunteers as a type of key personnel and accommodating impact outcomes alongside financial ones in the business plan.
- Introduced two new templates for business plans, the for-profit one which you can find on the Instructor’s Site, Connect, or at <http://tiny.cc/ESB-BP> and the social venture one which you can find on the Instructor’s Site, Connect, or at <http://tiny.cc/ESB-BP-SV>.
- Revised tables to better reflect the feasibility study model from Chapter 4 and social ventures.

“I like the way the material ties in future concepts and future chapters. That might just get curious students creative and inquisitive juices flowing.”

—Mark Hoelscher, Illinois State University

- General updating of statistics, stories, and websites mentioned.

Chapter 9:

- Revised to better connect other parts of the text to this chapter, for example using Red Jett examples for TAM/SAM/SOM and connecting Greetabl’s customer profile here.
- Added material on crafting value propositions for social ventures.
- Updated Skill Module 9.5 to show how to use the latest version of Facebook Audience Insights.
- Expanded coverage on prototyping.
- Updated the way to drill-down for business counts using County Business Patterns and provided screen grabs of the process.
- General updating of statistics, stories, and websites mentioned.

Chapter 10:

- Adjustments for social ventures.
- General updating of statistics, stories, and websites mentioned.

Chapter 11:

- Increased coverage of government resources supporting international trade, including export financing options from the U.S. government.
- Bolstered coverage of resources for resolving international trade problems like credit card sales and IP theft.
- General updating of statistics, stories, and websites mentioned.

Chapter 12:

- Social entrepreneurship changes to this chapter related to the addition of accounting for nonprofit entities.
- To help tie the text together better, all accounting illustrations and financial reports feature Red Jett Sweets, the company first introduced in Chapter 8.
- The industry links were updated to the current live sites.
- The “Accounting Systems for Small Business” section was rewritten to reflect current standards.
- A Learn More Online box was added with links specifically for tutorial sites for accounting purposes.
- General updating of statistics, stories, and websites mentioned.

Chapter 13:

- This chapter, which deals with the issues of managing cash flows and completes the budget process, retains the cautionary tale of Creatacor, Inc.
- Based on adopter feedback, the bank reconciliation has now been removed.
- Data on cash inventory were updated to 2022 Federal Reserve Statistics.
- The “Managing Cash Flows” section offers a new explanation as to why this topic is important and a new exhibit from the Federal Reserve is included.
- We have also expanded the discussion of cash theft by employees and added a graph of the most common places that cash theft occurs.
- In the “Preventing Cash Flow Problems” section, we added a description of using your bank as a lockbox for receipts from customers.
- The Learn More Online box provides links to discussion of providing discounts for prompt payment.
- General updating of statistics, stories, and websites mentioned.

Chapter 14:

- The new opening vignette of this chapter tells the story of Priska Diaz, who with her partner invented, patented, and is now producing and distributing an air-free nursing device for infants. Priska’s story is one of using all three sources of capital, (equity, debt, and gifts) to fund a startup.
- Added a graph of the sources of startup capital from a new Kauffman Foundation survey.
- Expanded the discussion of grants as a source of capital for small businesses, and especially for social enterprises by directly explaining grants not only of cash, but of services.
- Social entrepreneurship material was added in the section, “Financing with Gifts.”
- General updating of statistics, stories, and websites mentioned.

Chapter 15:

- Expanded discussion of managing inventory and added a section on inventory management being done by your suppliers.
- Added specific examples of users of JIT and included an explanation of RFID, barcode, and QR code markers.
- Added a Learn More Online box under “Managing Operations” with valuable links to various outsourcing services and manufacturing.
- General updating of statistics, stories, and websites mentioned.

Chapter 16:

- Updated the introduction vignette to reflect the most recent FBI statistics on internet crime.
- Added crime as a common and frequent risk to small businesses.
- Small Business Insight box added, featuring the story of Las Américas Bakery Elizabeth New Jersey in Hurricane Ida in 2021.
- Updated section on risk of computer malware and added a discussion of the anti-malware features of Windows 11.

Chapter 17:

- Added to the material on legal forms of organization to cover non-profits and social ventures.
- Also updated the discussion of Internet sites to accommodate the GDPR and California's Consumer Privacy Act, including a new Learn More Online box.
- Made suggestions of free electronic signatures sites.
- Updated our table of IP protections to include dealing with counterfeit goods.
- General updating of statistics, tax rates, stories, and websites mentioned.

Chapter 18:

- Significant revision of family business content with updates to the table "Best Practice and Tools in Family Business" and the Small Business Insight on Frick's Quality Meats.
- Social entrepreneurship materials related to volunteers, how recruiting for paid staff and volunteers differ and leveraging mission-driven sites to recruit for social ventures.
- Added apps to help students write instructions.
- General updating of statistics, stories, and websites mentioned.

When we look at the detailed list just discussed, for this edition about one-third of the ideas come from our own experience and discussions with our friends and colleagues at work. But it is important to recognize that the other two-thirds of the ideas, improvements, corrections, and revamps come from the suggestions of readers like you—faculty and students who are using *Entrepreneurial Small Business* to help them pursue their dreams of business ownership.

"The text was well done with lots of graphics, charts, etc. to compliment the text."

—Mary Beth Klinger, College of Southern Maryland

You are our target customer. Your satisfaction or dissatisfaction is central to our making this text work. Do you have a better idea about how to talk about something? Did we get something wrong? Is there something we're missing that could help others in their entrepreneurial quests? Tell us. Richard's email is richard.green@tamusa.edu and Jerome's is jerome.katz@slu.edu. We try to respond to all emails, and as you can see, we do try to improve the book based on your feedback.

ENTREPRENEURIAL SMALL BUSINESS:

Entrepreneurial Small Business provides students with a clear vision of small business as it really is today. It focuses on small businesses that students might actually start versus high-growth firms dependent on venture capital. It presents the *realities* small business owners face every day and strategies for those starting or maintaining a small business.

There are several chapters that emphasize the distinct focus of this book.

CHAPTER
5

Small Business Entry: Paths to Part-Time Entrepreneurship

• **Celia Brown** turned her hobby into a business of cleaning animal skulls and mounting antlers and proudly sells them from the Internet. **What business would you start if you were to work for business part time?**
Celia Brown



Chapter 5: Small Business Entry: Paths to Part-Time Entrepreneurship

Part-time businesses are tremendously important as they are a major portion of all current entrepreneurship, and it's the way most people enter into self-employment. This chapter discusses the benefits—and challenges—of part-time entrepreneurship.

SMALL BUSINESS REALITY: Seventy-five percent of those starting a business already work full-time for someone else and are pursuing their new business part time.

CHAPTER
10

Small Business Promotion: Capturing the Eyes of Your Market

• **Beacon Street Girls**, a brand of low-priced clothing, is one of the most successful brands in the world. **What challenges are faced by the small business by the double-pronged approach taken to Beacon's advertising?**
© Beacon Products, Inc.



Chapter 10: Small Business Promotion: Capturing the Eyes of Your Market


The key to building a successful business is to discover and meet customer needs. With this in hand, promoting your offering and its value to prospective customers is essential to making sales. This chapter shows how to build customer profiles, conduct unbiased interviews, translate these findings into value statements, and promote your firm, products, and services using social and conventional media.

SMALL BUSINESS REALITY: Today nearly all new start-ups rely on a social media strategy as an essential base on which to build their advertising, press relations, and public relations strategy.

CHAPTER
13

Cash: Lifeblood of the Business

• **Thomas Lemery** built **Corona, Inc.** into a giant of the corporate world. **What lessons can be learned from the company's growth and success?**
Thomas Lemery was one of the most successful business leaders in the world. **What lessons can be learned from the company's growth and success?**
Thomas



Chapter 13: Cash: Lifeblood of the Business

All small businesses must understand how to manage the business's cash flow. This chapter focuses on the basics of cash, budgets, shortages, and strategies to deal with cash flow problems.

SMALL BUSINESS REALITY: About 55 percent of small businesses that fail do so because of cash flow problems.

Finally . . . a book about the kinds of businesses your students are most likely to start!

Business Plans

Business model canvases and business plans are a part of every small business course. Even when a business plan may not be necessary to start your business, it remains critical to plan and understand your business in any circumstance.

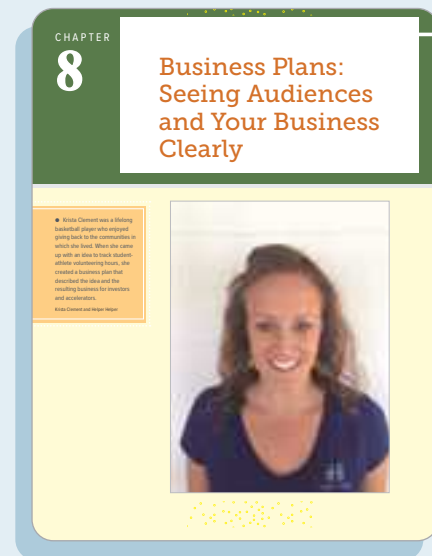
Chapter 8 includes practical information helpful to any small business owner, such as:

- The elevator pitch—how to quickly get people interested in your business.
- How to translate business model canvases (from Chapter 4) into business plan sections.
- How to write your executive summary—a key component of the business plan.
- Seven types of business plans and what components they should include.
- Tips on presenting your plan, such as the 13 slides of a business plan presentation.

Chapter appendixes contain samples of important business plan components:

- IDEO Fast Screener (in Chapter 4)
- Feasibility Plan (after Chapter 4)
- Industry Analysis (after Chapter 7)
- Cover Letter and Résumé (after Chapter 8)
- Full Business Plan (after Chapter 8)

Additional business plan supports include online templates for business model canvases, feasibility studies and business plans in the Connect Library. The templates cover for-profit firms and social ventures helping students pull together resources from across ESB to create action-oriented reports.



ESB Features

Practical Advice and Experiential Learning To help students learn more about the benefits of small business ownership, as well as the challenges many small business owners face, *ESB* is full of practical advice and examples from true small businesses in a variety of industries. Its focus is to give students the tools and knowledge they need to go out and start their small business.

Along with over 100 end-of-chapter experiential exercises, 59 skill modules throughout the text give students the hands-on experience they need to start and manage a small business. *Together, these materials provide one of the largest collections of experiential learning techniques available from any text or online text alternative.*

180 PART 2 Small Business Plans and Plans

- Business processes are already in place in an existing, operating business. This eliminates the need to hire employees, find vendors, set up accounting systems, and establish production processes.
- Purchasing a business often requires less cash outlay than does creating a startup. The seller will often provide financing that makes it possible for you to buy the business.

Disadvantages of Purchasing an Existing Business

Disadvantages to buying an existing business include:

- Finding a successful business for sale that is appropriate for your experience, skills, and education is difficult and time-consuming.
- It is very difficult to determine what a small business is worth. The value of a small business can seem to be known with certainty. You must rely on analyses, comparisons, and estimates.
- Existing managers and employees may resist change. It can be very difficult to convince employees to adapt to new business methods, procedures, and processes that can provide increased profits.
- The reputation of the business may be a hindrance to future success. Sellers are usually reluctant to tell you about problems that the business has. Business owners are especially sensitive about discussing past disputes and lawsuits with vendors and customers.
- The business may be declining because of changes in technology.
 - Facilities and equipment may be obsolete or in need of major repair.

Finding a Business to Buy

The first problem you must solve is finding a business for sale. Of course, you aren't looking for just any business. You are looking for one that is right for your own experience, education, and skills. The things that make a business appropriate for you are like those things that help create a successful startup. The business should be in an industry in which you have experience. It should be producing a product or providing service that is in demand and that has high margins. Perhaps, most importantly, it should have adequate financing available, so you can continue operations and make the business grow.

SKILL MODULE 6.1 Finding a Business for Sale

Although all businesses are for sale if the price is right, finding one perfect business is a difficult and time-consuming task. As you will find out by completing this skill task, businesses for sale that are easy to find usually are unattractive. Businesses that are right for you are always scarce.

- Decide what type of business you would be interested in buying. Write a profile of your ideal business to help specify its primary product or service, size, location, price, and financing.
- Search the Yellow Pages and the Internet to find business brokers active in your area.
 - Contact each broker and inquire about businesses that meet your criteria. Be honest in your requests. Do not represent yourself as a serious buyer, unless you are one.
 - Obtain copies of the information that the broker has concerning the businesses.
- Search your local newspaper, your local business journal, the Wall Street Journal, and Barron's classified advertisements for the headings "business for sale" and "business opportunities." On Google, search for "buy business" to find websites that specialize in business for sale.
- Make a list of businesses that seem to meet the requirements that you wrote down in step 1.
- Contact the business that you have identified. Be honest in your approach. If you are doing this solely as a classroom exercise, explicitly say so. Remember that while the owner of the business may want to sell, he or she is considerably less likely to sell if you are not serious. Do not discuss the business with a student unless there is no chance of your actually buying it.

Skill Modules

Going beyond telling students what-to-do, *ESB's* skill modules give detailed how-to information on performing the key actions of successful entrepreneurs. These are resources that students can use in the course and that they can continue to use as they plan or grow their small business.

Examples include:

- Entrepreneurial Orientation Scale
- Checking Ideas on the Web
- Short and Sweet Industry Analysis
- Using Facebook Audience Insights
- Finding an Outsourcing Partner

Focus on Small Business

Each chapter opens with a vignette that highlights an entrepreneur and an aspect of a small business that relates to the chapter concepts. Discussion questions are included for students to consider as they read the chapter.

LO

After you complete this chapter, you will be able to:

- LO 11 Understand the scope of small business in the United States.
- LO 12 Differentiate between small businesses and high-growth ventures.
- LO 13 Dispel key myths about small businesses.
- LO 14 Identify actions key to becoming a small business owner.
- LO 15 Recognize how small businesses are important to our economy and your community.
- LO 16 Recognize the seven key strategies of the entrepreneurial way.

LEARNING OBJECTIVES

Focus on Small Business:
Robin Rubin, Pixel Press

When Robin Rubin was a kid, he was an avid player of video games like *Mario* and *Super Mario Brothers*, and when he wasn't playing he was designing new levels of his favorite games in his head and on paper. But he realized that video gaming was part art and part programming, and that helped him set his course. Following an undergraduate degree from Saint Louis University (SLU) bridging communications technology with fine and studio arts, he was positioned to realize his dream.

But game producers were thin on the ground in St. Louis, so Robin's strategy was to find jobs to hone his programming skills during the day and create his own firm, Roundbit, to develop games as his side gig on nights and weekends. His main work included sites of increasingly responsible and demanding positions at six different companies in the programming and marketing industries in St. Louis. Meanwhile, he had his Roundbit partner, Jan Gering, released *Bubble Solitaire*, a circular takeoff on the classic *Breakout* brick-breaking video game. Robin's day and side gigs helped him develop the in-depth knowledge of programming, project planning, marketing, and networking which convinced him that given the right idea, he would be ready to go full time as an entrepreneur.

The idea that led to full-time entrepreneurship was *Pixel Press*, a piece of software for iPhone and iPad that would let regular people with no programming skills create playable games reminiscent of *Super Mario* on their Apple devices. While the idea was ambitious, it was possible, and as he got word out, *Pixel Press* got favorable press from *ABC News*, *CNET*, *Fast Company*, and others. Building on this, Robin created a *Kickstarter* campaign to crowdfund his dream. You can see the campaign and watch the original pitch at www.kickstarter.com/projects/robinrubin/pixelpress.

THE BUSINESS TAKEAWAY: The campaign was successful, topping \$100,000. With that money and with help from SLU, *Pixel Press* made it to market. Within two years, *Pixel Press* announced a partnership with Cartoon Network (CN) resulting in the *Adventure Time* *Game Wizard*, which would let players create games with CN characters. From the success of that partnership, *Pixel Press* went on to release its next product that responded to first-time indie game and gaming-loving partnerships with Mattel and Disney to bring products to store shelves in the United States and internationally.

Small Business Insight Boxes

These boxes include “under the radar” advice from real small business owners and helpful statistics from small businesses around the country.

Learn More Online Boxes

Curating the best of the Internet, these boxes in every chapter provide links to more than 150 free online programs, sources of information, apps, and services that have been classroom-tested and found to be a help for student entrepreneurs and their businesses.

SMALL BUSINESS INSIGHT

Success: CT DAVE AND ROBERTA CHAI

CT Dave and Roberta have had a long career, and to help his mom at the world's first... CT Dave and Roberta have had a long career, and to help his mom at the world's first... CT Dave and Roberta have had a long career, and to help his mom at the world's first...



Four years after he started the business, he got his first order. Products and distributors had... Four years after he started the business, he got his first order. Products and distributors had... Four years after he started the business, he got his first order. Products and distributors had...

e-commerce

The general term for conducting business on the Internet... virtual business global entrepreneurship (VIGE)

This is no longer true today. Small businesses account for 31.6 percent of the value of all goods... This is no longer true today. Small businesses account for 31.6 percent of the value of all goods... This is no longer true today. Small businesses account for 31.6 percent of the value of all goods...

End-of-Chapter Materials

End-of-chapter materials include the following.

CHAPTER SUMMARY

An end-of-chapter summary is included, bulleted by chapter objectives, to help students review the chapter material and study for tests.

KEY TERMS

Important technical and professional terms are highlighted in the text and repeated here (and in the end-of-text Glossary) to help students identify and learn.

DISCUSSION QUESTIONS

Discussion questions are included in each chapter that can be given as assignments or that can be used for in-class discussion. Suggested answers are included in the Instructor's Manual.

EXPERIENTIAL EXERCISES

The experiential exercises include brief activities students can complete to get more information on the chapter topic, to look for additional resources, and to help build their competencies in a certain aspect of small business ownership.

MINI-CASE

A mini-case for each chapter is included as an additional opportunity for the student to apply the lessons of the chapter.

corporate entrepreneurship

The form of entrepreneurship that involves creating new products or services within an established organization.

opportunity-driven entrepreneurship

The identification of new selling or service opportunities in which entrepreneurs act on personal, corporate settings, or organizational settings, and to organizational settings.

social entrepreneurship

The application of entrepreneurial thinking to social issues, such as education, health care, and social services.

LEARN MORE ONLINE... Links to various online resources related to entrepreneurship.

The Many Types of Entrepreneurial Small Businesses

You might be surprised to know that even with 8.2 million entrepreneurs out there, the number of firms is even greater—23.5 million in 2010! These firms are called very different things, such as small and medium enterprises (SMEs), independent small businesses, or corner enterprises.

small and medium enterprises (SME)

A business that is not large enough to be classified as a large business but is larger than a small business.

independent small business

A business owned and operated by one person or a small group of people.

corner enterprise

A business that is typically found in a local neighborhood or community.

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opportunistic planning, 33
reactive planning, 33
standard business plan, 33
professionalization, 34
high-tech business professionalization, 34
expert business professionalization, 34
minimal-business professionalization, 34
competencies, 34
key business functions, 35
industry-specific knowledge, 35
resource competencies, 35

DISCUSSION QUESTIONS

- 1. What are the different aspects of the entrepreneurial personality?
2. What would be the likely impact on a start-up if the entrepreneur had a strong professional focus and a weak personal focus?
3. Could someone with good industry-specific knowledge but low competency in basic business skills be successful as an entrepreneur in that industry? Why or why not?
4. When does it make sense to create a business using a minimal-business approach to professionalization? Why or why not?

EXPERIENTIAL EXERCISES

- 1. Start by writing down which aspects of the entrepreneurial personality identify you the best. Then take the online Entrepreneurial Potential Self-Assessment at www.mba.com/entrepreneurship/assessment.html. Compare your results against the results you observed on the online quiz. Which aspects do you agree with? Which do you disagree with? Are there skills you want to develop or refine based on the results?
2. Which entrepreneurial competencies do you possess? Be ready to provide examples and explain why you made these choices. You can use the result of Self-Motivation 2.7 to aid you in this.

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goal setting, 39
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success (stage), 51
stuck resources, 51
resource maturity (stage), 51
renewal competencies, 51
liftoff (stage), 51
growth rewards, 54
income rewards, 54
flexibility rewards, 54

- 5. What are the stages of the small business life cycle? What stage do high-growth ventures go through that other forms of small business do not?
6. What are the strengths and weaknesses of a team?
7. What is the major challenge facing women- and entrepreneurial-owned firms? How can this be solved?
8. What makes the situation of second career entrepreneurs problematic? What can they do to smooth their way?

- 4. Select a local family business owner or female or underrepresented entrepreneur whose you admire, and research the person's business and professional background. Interview the person if possible. What particular challenges did he or she face? What competencies did he or she use to overcome them?
5. Go through the list of reasons people give for going into self-employment, and identify which of the reasons seems to fit you. Explain why you identify with each reason.
6. Think about the list of reasons people give for becoming self-employed. If you can, interview two entrepreneurs about their reasons and see how your read the examples fit with the reasons you read.

MINI-CASE

GEORGE WASHINGTON, DISTILLER AND SEVENTH-CAREER ENTREPRENEUR™

When he stepped off the podium in front of Federal Hall in New York City on March 4, 1792, George Washington was probably thinking about the presidency he just handed over to John Adams, but about his audience here to start a new career in wine in Virginia, Mount Vernon, first bankruptcy, for Washington, farmer, surveyor, soldier, comic, legislator, and president, this new role might be called his seventh career, but it was necessary.

Washington had owned a plantation for much of his adult life, and he tried to get back to it because debt on the nation's top general and an president. By the time he could return to Mount Vernon, the declining business was in trouble. The number of people for whom he was responsible had grown from 10 to more than 100 as he had to care for the presidency. Unfortunately, his landholding size and productivity had not kept pace; he was facing bankruptcy.

Knowing this even as he was preparing to end his term, Washington picked up on the idea of a distillery when James Anderson, a Scottish immigrant in Virginia, pitched the idea. Washington had shown himself a supporter of innovation, having developed new ways of raising cattle and growing wheat for market. He had even used America's first patent at Mount Vernon.

Anderson's idea made financial sense. Taxes on imported wine were high, and this was getting a bump in the average American's drinking habits. Back in 1792, the average American was annually drinking 5 gallons of distilled spirits (the rest and whisky being the majority, at 1.8 gallons). So there was a ready market.

So, working with Anderson, Washington started with two small stills in 1792 making a 110-proof rye whiskey. Production grew to 1750 gallons sold in two seasons (50 cents per gallon for regular and \$1 per gallon for premium whiskey) and a \$7500 profit was made, making Washington America's leading distiller. While Anderson could handle the role of running the distillery itself, the business side was Washington's forte. Unfortunately, he failed to build a succession. That Washington died on September 14, 1799, the distillery passed into several hands but began a successionist practice and was closed to good in 1826.

For more information, see the Virginia Distillers Association website: www.vadistillers.com/health-care/health-care-and-the-distillers-values: www.youtube.com/watch?v=3R0U0-8U0

CASE DISCUSSION QUESTIONS

- 1. What advantages would George Washington bring to James Anderson's idea for a Virginia distillery?
2. Washington's farm was operating even as he got the distillery off the ground. What kind of problems could that cause for the president?
3. At his death, Washington's distillery was targeted as the United States' first. Did this make Washington a high-growth entrepreneur or a small-business owner?

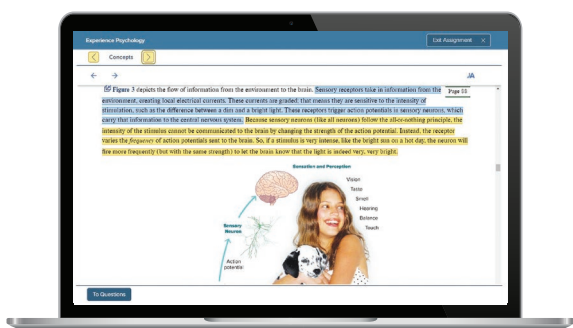
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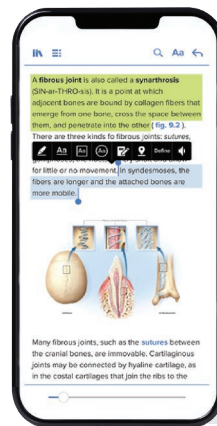
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“I really liked this app—it made it easy to study when you don't have your textbook in front of you.”

- Jordan Cunningham,
Eastern Washington University

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Additional Resources

Instructor Library

The Connect Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture. The Connect Instructor Library includes the resources listed below.

INSTRUCTOR'S MANUAL

The Instructor's Manual includes lecture outlines, chapter summaries, descriptions of the text features, answers to end-of-chapter materials, additional activities, and references to relevant articles.

TEST BANK

The Test Bank includes multiple-choice, true–false, and short-answer questions, along with the correct answer and a rationale for the answer. The Test Bank is also available in a computerized version that allows you to add and edit questions.

POWERPOINTS

PowerPoint presentations for each chapter are available to instructors and students on the Online Learning Center. Included are figures from the text, lecture outline material, figures that expand concepts in the books, and questions that can be used in class.

TEMPLATES

The Instructor Library also has copies of the templates built for ESB, including the financials, business model canvasses, feasibility studies, and business plans for for-profit and social ventures.

Manager's Hot Seat

Now instructors can put students in the hot seat with access to an interactive program. Students watch real managers apply their years of experience when confronting unscripted issues. As the scenario unfolds, questions about how the manager is handling the situation pop up, forcing the student to make decisions along with the manager. At the end of the scenario, students watch a post-interview with the manager, view how their responses matched up to the manager's decisions. The Manager's Hot Seat videos are now available as assignments in Connect.

This book got its start with a simple question from my mother, “What is the difference between what you teach and what your father did for a living?”

We were sitting *shiva* (which is the ancient Jewish tradition of mourning), in this case after the death of my father, a Polish immigrant to the United States who had been a small business owner for almost 50 years at the time of his death in 2003. When sitting *shiva* the immediate family mostly sits and reflects and prays for a week, so my mother, sister, and I had plenty of time to talk. And talking as we did, the question came up.

I gathered my thoughts for a minute. First off, I realized that throughout his life my father had picked up on my comments about the very rare high-growth, high-tech businesses that came through my class. Somehow he thought that was who I had as my run-of-the-mill student. That was funny to me, because in teaching entrepreneurship for nearly 20 years, fewer than a dozen of the several hundred business plans I worked on involved high-growth, high-tech firms.

But thinking about what my father heard, I realized that I talk about two sets of rules, one for when I have a potentially high-growth business and another for the more conventional businesses that most of my students start and that my own father had mastered three times in his life. The answer to my mother came out this way:

Conventional Small Businesses	High-Growth Ventures
Imitation	Novelty
Autonomy	Involve key others
Control as goal	Growth as goal
Financial independence	Wealth
Fund with your own money	Fund with other people’s money
Cash flow as key	Profits as key
Cash crunch? Tighten belt	Cash crunch? Sell more

The list goes on, and you will have a chance to see it in Chapter 1. You will discover that the list exemplifies the prevention versus promotion focus discussed in Chapter 2, but this list gives you an idea of the difference. I told my mother that when I am teaching to students who have really big dreams, I try to get them to create businesses that would be innovative, using new technologies or markets. These would be businesses that could grow to be big businesses, creating major wealth for their founders. The founders are in it for the wealth. They expect to go after others’ investment in the business and they expect to give away some of their autonomy along with their stock. My father’s businesses were imitative, businesses like those already existing. He did the businesses to have a comfortable income and wanted to limit his growth to what he could comfortably control personally. No investors, no one second-guessing him. When times got tough, my father would cut his expenses; in a high-growth business that’s when it needs to sell more. My father’s business was built on his personal reputation, while high-growth firms try to maximize the reputation of the firm or its products.

I kept talking, but as I listened to myself, I realized that I had never seen a book that talked about small business the way I described it. I have students who have started such businesses—in fact, the vast majority of my students have started businesses in their own ways much like my father’s three firms. I continue to help out those alums with advice, just as I did my father and his business. But in the end, what was important was that they *were* a different kind of business, and I felt that no book really addressed it that way anymore.

That was why I decided to write *this* book, and get Richard to join me in the effort. Why Richard? Because I knew a person with a story like his would make a great co-author for a book like this. His story goes like this:

When Jerry first asked me if I would be interested in co-authoring a new small business management text, I was a bit reluctant. Where would I create time for such a daunting task? I asked myself. But when he described his vision—a text about starting and

managing the type of small businesses that we patronize every day—restaurants, beauty salons, plumbing companies, lawn care firms—I became enthusiastic. Yes, I definitely wanted to be part of a project that would deal with the 98 percent of businesses that start small and stay that way, not the 2 percent that become CNNs, Oracles, and Dells.

In many ways, I exemplify the type of entrepreneur for whom we wrote this book: people who start and operate the many ordinary enterprises with which you do business every day.

Unlike Jerry, I come from a family of employees. Neither of my grandfathers and none of my many uncles and aunts were ever business owners. My father began working as an employee while he was still in high school, and he continued as an employee until his retirement. I, on the other hand, started my first entrepreneurial enterprise the summer I was 12. I began my first “real” business the summer I was 18. In the years since, I have started several businesses and purchased three. In between businesses I have been, as my father and his father, an employee.

Not a single business that I have owned has ever been high tech, high growth, or even high innovation. I started every one either because I needed a source of income right then or because I expected to lose my current job very soon and didn’t want to live on unemployment. I have been an owner-manager in the electrical sign business, structural steel erection, light manufacturing, consumer electronics retailing, real estate brokerage, construction, farming, and lodging.

Why so many businesses, you may ask. My mother probably would say that I have a short attention span. However, the real answer is that each time I started a business I took the first opportunity available, not necessarily the best opportunity. And what was the result? Some, such as the Grandview Sign Service Co., went broke (but not before it paid for flying lessons). Signgraphics, Inc. was sold. Paul’s Sound Shop was a victim of recession. The real estate brokerage was financially very successful, but I hated the business. When my top-producing salesman finally passed his broker’s exam, I eagerly made a deal for him to buy the company. I am still actively engaged in construction and in the lodging industry.

My interest in entrepreneurship as a field of study stems from this varied experience. I asked myself many questions, including, Why did I just make a living in the sign business, while Ted Turner made himself a billionaire from the same beginnings? Why is it that Paul’s Sound Shop didn’t become a retail behemoth as Best Buy did, although both started about the same time? And am I a success because I made money in several different businesses, or a failure because none became big businesses? This book is largely the result of my search for answers to these questions.

Together, Richard and I crafted our approach for *Entrepreneurial Small Business*, and as we will point up in the business planning chapter, all plans start with a vision.

The *ESB* Vision

In *Entrepreneurial Small Business (ESB)*, you will not find a lot on venture capital, and very little on strategic concepts like “first to market.” What you *will* find is a lot of coverage of the kinds of businesses most people (and especially most undergraduate and lifelong learning students) really *do* start—small businesses in traditional industries and markets. These businesses are vitally important—we will tell you why we think so in a moment—and helping them survive has long been an art. Today like never before that art is supplemented by science, and that is where your class—and this book—can help. In *ESB* we try to build a book that can combine the art of small business survival and the science of small business success. If you can get the benefit of both *before* you get into your business, you are likely to do better than those who have to get by with the advice they can catch on the fly as they get started.

ESB takes its information from the nearly 180 journals in entrepreneurship (<https://sites.google.com/a/slu.edu/eweb/core-publications-in-entrepreneurship-and-related-fields>); generating new understanding of what it takes to be successful from national studies like the Panel Study of Entrepreneurial Dynamics (PSED) at www.icpsr.umich.edu/icpsrweb/ICPSR/studies/37203, where we have the benefit of the experience and wisdom of Kelly Shaver (College of Charleston) to help generate many of the statistics we use in this volume. We also use the Kauffman Firm Study (www.kauffman.org/what-we-do/research/kauffman-firm-survey-series), their Indicators of Entrepreneurship (<https://indicators.kauffman.org/>), the surveys of the National Federation of Independent Business (www.nfib.com/foundations/research-center/monthly-reports/; www.411sbfacts.com/); global studies like the Global Entrepreneurship Monitor (GEM) at www.gemconsortium.org; the surveys conducted by the U.S. government (conveniently gathered together at www.nfib.com/foundations/research-center/additional-resources/data-sources/); and the best of modern wisdom from experts in entrepreneurship from government, media, business, and the Internet. The point of *ESB* is to get that knowledge and make it available to you, the small business owner of today or tomorrow. You and your business deserve every break you can get, and our economy and society *need* you to survive and succeed.

Why is that so important? It turns out that small business is essential for big business; it is essential for high-technology, high-growth business; and it is essential to our communities. In a world of relentless cost cutting and global competition, big businesses outsource everything but their most critical tasks. Often the best expertise, the best service, or sometimes even the best price exists in small businesses. Whether it is janitorial services or new product development, big businesses increasingly depend on small businesses to get their jobs done.

Small business is essential to our communities in much the same way. If you come from a small town or a neighborhood that gets bypassed by the big chains, you know how important small businesses can be. Without small businesses there might be *no* places to buy products or needed services. Big business and small communities depend on small business to get the job done.

For high-tech businesses, the same argument can be made, but there is also another issue—that small business *defines* the community in important ways. If you work in IT, biotech, nanotech, medicine, media, or the like, when you finish your day in the lab or cubicle, where do you want to be? In a soulless, interchangeable town full of franchised outlets or a vibrant and diverse locale? These members of the “creative class,” as Richard Florida¹ calls them, are demanding customers. They make their livings from their minds, and those minds crave stimulation, whether at work or at play. A big part of stimulation comes from being diverse, different, *special*, and that is where small businesses come into play. You can go to a dozen different small coffeebars and each is distinctive. Go to a dozen Starbucks and they are all pretty much the same. There are times when we all crave the expected, but the creative class also often craves the unexpected, and that is much more likely in small businesses than chains and large firms. No high-tech center can survive as a place to live without the excitement and variety a population of small businesses can provide.

The fact is that *every* small business is important for two reasons: first, because we can never be sure which ones are unimportant (if you can believe there could be such a thing), and second, it takes a lot of small businesses to support and enable one billion-dollar business.

For us, one of the lessons of the PSED was that while high tech might be the ship folks hope will come in, for it to work that ship needs to be supported by an ocean of small businesses. Billion-dollar high-tech companies are rare. Less than 1 in 100,000 start-ups achieves that billion-dollar level. The irony is that *nobody* knows which of the next 100,000 start-ups is going to be that next billion-dollar business. All we can do is try and start as many as possible, knowing the more that get started, the greater the chance of that one breakthrough success.

¹R. L. Florida, *The Rise of the Creative Class: And How It's Transforming Work, Leisure, Community and Everyday Life* (New York: Basic Books, 2002).

The fact is that nearly every big business got its start as a small business. Hewlett-Packard really *did* start in a garage, and Walmart started small in rural Arkansas. They are giants today, but some part of their culture was defined in those early days when they were small businesses. When they started, none of their founders *knew* they were going to become billionaires, and neither did their investors, bankers, lawyers, or friends. You start your business, you take your chances, and the rest of us hope you make it.

In the meantime, however, those hundreds of thousands of start-ups literally help support big business and high-tech businesses. They do this by providing jobs and wages to half the country so people can buy things. They do this by providing products and services to big and high-tech businesses, and they do this by training and preparing the next generation of workers and owners. Small businesses for the past 25 years have been the major source of new jobs created in the United States. While Fortune 500 businesses have cut their payrolls by millions, the slack created has been filled by small businesses and especially those that grow to multiple sites or multiple shifts.

If you look closely at the materials from others we mention and include in the text, you may notice that while we use many of those ideas and techniques, we don't always follow their approach very closely. In the end, it comes from being true to our own philosophy. We started the preface by comparing traditional small businesses to high-growth firms. A lot of today's models think first of firms in the Silicon Valley, the world's greatest concentration of founders and investors pursuing high-growth entrepreneurship. But there are so many people creating and investing that no one has time for a business plan—to write them or to read them. People in Silicon Valley proclaim “the business plan is dead!” To match their pace you create a pitch deck, a business model canvas, and a set of financials. Internet-driven businesses are the bread-and-butter of Silicon Valley's industry.

But 99 percent of us starting businesses are not in Silicon Valley, and the vast majority of us are not starting Internet-driven or app businesses. We get funding from friends, family, and bankers, not venture capitalists roaming the coffeeshops. When regular people (and even most angels) in the rest of the country consider investing, they want to see a business plan. And for businesses that will take years to become successful—most manufacturing, most professions, most services, and even most retailing and wholesaling—you need to think through how you will operate and fund yourself for the years it will take until your business matures into its best self. An app can go from zero to operational in a weekend (that's what startupweekend.org and hackathons are all about) and live through 10 iterations within the first week. An accounting firm, or a restaurant, or a new backpack will take longer to get going and be made successful.

In Silicon Valley, entrepreneurs are thick on the ground. There is expertise everywhere, so you ask for it, or trade for it, or buy it. In Silicon Valley you are known by the team you've assembled. The team is the best indicator of your business's capabilities. But in the rest of the country, the majority of businesses consist of only the entrepreneur, or the entrepreneur and one other person, and often while there are other entrepreneurs and help around, it takes a lot more effort to find them and get what you need. So an approach where you, the entrepreneur, have to be more self-reliant, more do-it-yourself, is essential to getting done the crucial jobs of starting a business everywhere but Silicon Valley. *ESB* talks about accounting, marketing, human resources, and a host of other topics in more depth than lean business practices or business model canvas approaches typically do. In the end, lean business practices are often all about the high-growth (aka “scalable”) businesses, while *ESB* is focused on the traditional “main street” businesses that make up the bulk of our economy and our lives. Where lean approaches can help main street businesses, we use them. But we stay true to our focus on the businesses you are most likely to start.

The *ESB* Package

Professors reading this are probably wondering how all this translates into helping them teach their courses. One way we hope to help is by providing “imitation with a twist,” which you will learn more about in Chapter 7. There are many other small business texts out there, and from an

author's perspective they can be intimidating because so many of them *are* so good. So how can *ESB* expect to get your attention? As you will find as you look through the book, all the major topics you expect to see are present—that's the imitation that is basic to all mature industries (such as small business education).

What adds value are those aspects of the book that are distinctive—our “twists.” We give the specifics on how to sell, how to negotiate, how to ask for help, and how to handle a crisis, building from the best of research and professional practice. You will see it in small touches in the chapters, like in our discussion of issues such as when you get or use gifts as a way to fund startups, or why an LLC should be your default legal form of organization. We tried hard to give students the easiest introduction possible to the potentially frightening issues of accounting and financial reports.

ESB is also the first book we know of that has devoted a chapter to the special needs and problems of part-time businesses. For this edition, we have tried to cover the broadest possible range of writing projects used in small businesses—not just business plans, but feasibility analyses and industry analyses, and we've added business model canvases and IDEO screenings for rapid assessment of possibilities. We include real-life, high-quality *student-written* examples of the reports we expect students to work up as they start their business. And all the while we tried to keep the *ESB* vision in the forefront—asking ourselves what the absolutely critical things are for our students to know in order to start their small businesses and succeed in them despite a lot of competition. We have tried whenever possible to focus on providing only what is needed, and what would be relevant for the traditional small businesses our students most often start.

The *ESB* Role/Goal/Celebration

This book started with a wife and mother's simple question about the difference between the traditional small businesses her husband started and the high-growth ventures she heard about in her son's stories. Today there is a groundswell of converging ideas in business, economic development, job creation, and government showing us that the revitalization of those traditional small businesses is a key component of reviving our economies and communities.

That revival is more important than ever. Economists have shown us that over the past 50 years the percentage of self-employed people has generally gone down. With the baby boomer generation reaching retirement, even more small businesses will be closing in the next five years. At a time when entrepreneurship has never been more popular in the media and public thought, the number of people starting businesses seems to be steadily declining, although the COVID-19 pandemic has resulted in an unprecedented reversal, but it is not yet clear whether it is a blip or the beginning of a new golden age for entrepreneurship.

Some believe that it is too difficult to start the everyday sorts of small businesses. Some believe potential entrepreneurs are turned off by the riskiness of going into business. We continue to work on this book because we believe, and say repeatedly in the text, that “help helps.” Research shows that entrepreneurs who get help do better and survive longer. They beat the odds and decrease the riskiness. The help can come from paid professionals, from free sources like the SBA, SBDCs, or SCORE, or from schools and training programs, or even books like this one. *ESB* is here to give you a start and point you to the other resources that can make your entrepreneurial dreams work out and be successful.

In many ways, it has never been easier to start businesses. You can have a professional-looking online business operating in a couple of hours. With the baby boomer retirements at hand, literally millions of businesses would be available for purchase, with training thrown in by the founder and convenient terms to pay back the purchase from cash flow (doing it that way is preferable to shutting down a firm and letting employees and customers go). The same studies that show declines in everyday self-employment also say that high-growth businesses are growing in number. So the entrepreneurial world is full of opportunities, and books like this are intended as a gateway and support to those efforts of yours.

For students, we want *Entrepreneurial Small Business* to be your handbook, lightning rod, and motivator. When you read this book in your hands or online, mark it up! If something is important to the way you plan to run your business, dog-ear the page or print a copy from the online version to keep it with you. Write how something applies to your proposed or existing business. If you have not started a journal for business ideas, start using the margins or end pages of this book to hold them. If you are serious about becoming an entrepreneur and we did *our* job right, then success is measured in the material you keep and use from our book. If you are serious and the book did not do the job for you, let *us* know what we need to do better. We got this far on the wisdom of a network of a lot of students and faculty, and as you go through this semester, you become part of the network, too.

For faculty, our job as educators is not just to know about the fortunes of small business, and not just to help make this work, but to *celebrate* this. Academics have the power to legitimize through their acceptance and support, and they have the power to propagate through their contacts with hundreds of students and businesses a year. But most of all, we have the power to excite and to energize, most often through our own energy and support and occasionally even by the new opportunities and vistas we open for our students. You and all of us collectively have an important contribution to make to the revitalization of small business as a key component of the economy, just doing what you do every day.

We want to be a part of that effort with you—providing the examples to celebrate, the realities that help prepare our students for what they will face, and most of all the skills, knowledge, and resources that will prove to them that most critical of concepts in life and small business success—“help helps.”

We are the authors behind *Entrepreneurial Small Business*. We want to help. Let us know how we could do so better in the future. Welcome!

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This section is the one sure to get longer as a textbook revisions add up. We don't mind fighting for the space, because a text like *Entrepreneurial Small Business* could not be made without the contributions of a lot of people. Recognizing them here is a small recompense, but one we've valued in their works. It is also a lesson to you fledgling entrepreneurs out there—all ventures (and believe us, a textbook is a venture) require the support and advice of many other people to be successful. Here are the ones to whom we remain beholden.

Let's start with our mentors, professors who, through their academic lives, have served as inspiration to us all about the enduring importance of small business: Frank Hoy (retired from Worcester Polytechnic Institute), Charles Matthews (University of Cincinnati), George Solomon (George Washington University), as well as three pioneering Coleman chairs, Gerry Hills (retired from Bradley University), Bob Brockhaus (retired from Saint Louis University), and Gerry Gunderson (retired from Beloit College).

There is also a group of faculty who were essential to *ESB* as it was developed and revised. Some of these started as doctoral students or protégés and are now long-established professionals and professors in their own right while others started as colleagues and remain friends long years later—Kathy Lund Dean (The Board of Trustees Distinguished Chair in Leadership and Ethics at Gustavus Adolphus College), Lisa Gundry (retired from DePaul University), Janice Jackson (University of the District of Columbia), Gregory Konz SJ (Fairfield University), Laurel Boone JD (retired from Saint Louis University), Scott Safranski (retired from Saint Louis University), and Susan Peters (Thomas Family Center For Entrepreneurship Distinguished Professor at University of North Carolina at Pembroke). These people contributed much of the specialized expertise on which the text is built. For the seventh edition, we particularly benefitted from the contributions of Rob Boyle and Patricia Bagsby of Saint Louis University and Morgan Clevenger of Hiram College. Of course, the errors we have introduced over the years are our fault, not those of any of the above.

At Saint Louis University, we use *ESB* in many of our classes, and the feedback SLU's Entrepreneurship Teaching Team provides us is invaluable. Over the past three years, that team has included Professors Jintong Tang, Rob Boyle, Patricia Bagsby, and Vince Volpe, and adjuncts Byron Abrigg (MissionControl.gg), Jeff Barry (Dot Foods), Michael Black (Goliath Trucking), Laura Burkemper (The Catalyst Center), Don Dent (Dent Consulting Group), Steve Epner (The Start-up Within), Dave Finklang (Anders CPAs), Ken Herold (Thoughtware LLC and The Startup Within), Mark Malone (Horsepower Automotive), Linda Moen (EFK Moen LLC), Emily Muhoberac (Sapper Consulting), Marian Nunn (Nunn Advisory Services), and Joe Pimmel (Stadia Ventures). We also benefit from a group of entrepreneurship-minded Saint Louis University faculty from across our campus called Chaifetz Fellows sponsored by SLU's Chaifetz School: Vincent Casaregola, Judy Geczi, Jin Huang, Amrita Chaturvedi, Andy Hall, Ann Scarlett, Bonnie Wilson, Constance Wagner, Dana Malkus, Dan Brewer, Dannielle Davis, David Barnett, Dorota Skowyra, Greg Beabout, Hulyar (Malik)Mallikarjuna, Jan McIntire-Strasburg, Jenna Gorlewicz, Jim Burwinkel, Jin Huang, Joanne Thanavaro, Krishnaswamy (Ravi) Ravindra, Katie Devany, Martin Brief, Michael Korybut, Michael Markee, Michael Swartwout, Mildred Mattfeldt-Beman, Patricia Lee, Ray LeBeau, Rebecca Lorenz, Sanjay Jayaram, Sarah Coffin, Scott Sell, Sridhar Condoor, Srikanth Gururajan, Steve Wernet, Steve Jenkins, Steven Howard, Alesia Slocum, Whitney Linsenmeyer, and Yvette Liebesman.

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ESB also builds from an ongoing series of books and special issues edited or co-edited by Jerome Katz over the years, which includes the research series *Advances in Entrepreneurship, Firm Emergence and Growth* (published by Emerald), the text-supplement series *Entrepreneurship and the Management of Growing Enterprises* (published by Sage), and special issues of journals such as *Entrepreneurship: Theory & Practice*, *Entrepreneurship & Regional Development*, *Academy of Management Learning & Education*, and *Simulation & Gaming*. To the dozens of contributors, reviewers, and coeditors who made those publications possible and that information available, a collective thanks does not do justice, but is all that is possible. Theresa Welbourne (Alabama), Ron Mitchell (Texas Tech), Tom Lumpkin (Oklahoma), and Connie Marie Gaglio (San Francisco State) deserve special mention for their unique and repeated contributions to the informational underpinnings of *ESB*. Two names that deserves special mention, however, are Dean Shepherd (Notre Dame) and Andrew Corbett (Babson) whose work as authors and later as a coeditors of the Emerald series shaped many of the key ideas of *ESB*.

Evaluation is central to the professional approach, whether in small business or in publishing. One of McGraw Hill's strengths is its unwavering professionalism in the pursuit of publishing. At first, it is frankly daunting. It seems that *every* detail of *every* aspect of a textbook is subject to review—and that perception turns out to be accurate. Yet it serves a purpose. When McGraw Hill releases a textbook, it has been reviewed, rewritten, and refined until it is a truly first-class product. It is a time-consuming, painstaking, and often under-appreciated effort, but it produces textbooks that you have to admire.

At the core of this effort are faculty. These faculty contributed feedback about chapters within the text, the text organization as a whole, and some reviewed the entire manuscript to help us develop the best product available for your small business course. For a text as complex and far ranging as *ESB*, a large, diverse, and committed set of faculty offering opinions and reviews is needed, and we were fortunate to have these dedicated colleagues willing to take time to help make this edition of *ESB* better. They have our thanks, and should have yours too, because without them, opening a book like *ESB* would be a game of chance. These faculty include:

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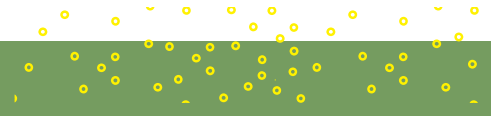
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Penultimately, there is the team at McGraw Hill. We had both written books before and thought we had some appreciation of the process of book publishing. However, publishing a *textbook* is a far cry from publishing text supplements or research tomes. In those cases, it is usually just words, with an occasional figure. For a textbook, it is figures, pictures, tables, key terms, URLs, cases of all different lengths, examples, discussion questions, experiential exercises, skill-building exercises, endnotes, business plans, manuals, website components, *and* words. And like a car assembled at one point where dozens of items miraculously come together, the assembly of a modern textbook is a similar experience.

The job of a portfolio manager in a revision is that of the corporate entrepreneur or product champion, assembling the resources to make it happen, and motivating everyone to keep his or her eyes on the timeline, budget, book outline, and, oh, yes, the market. For *ESB 7e* that role was ably held by Laura Spell, who quietly went about keeping it all on track. In addition, there are people such as Jolynn Kilburg, our program manager, product developer Melissa Leick and Katie Reuter, our content project managers, and Gina Oberbroeckling, our content licensing specialist, who made all this possible. To each and every one of these fine publishing professionals, we offer our deepest appreciation. One other former McGraw Hill professional, Ryan Blankenship, continues to have a special place in our hearts. He was the person who recognized the value of *ESB* and sold McGraw Hill on our idea, and sold us on McGraw Hill. We remain in his debt.

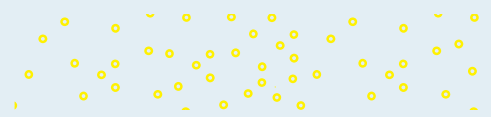
Keeping with this networking idea, you will see that this book makes extensive use of several strategic partnerships. These include the Global Student Entrepreneur Awards program (www.gsea.org), which celebrates collegiate entrepreneurs, and the Panel Study of Entrepreneurial Dynamics. As the Internet becomes a more integral part of education, we have benefited from partnerships with websites that have developed great material that we use and build on in *ESB 7e* such as Valuations.com, which offers a unique web-based model for computing business valuations.

In particular, there has been an outpouring of new insights on handling some of the toughest challenges in start-ups, and we've built on the works of several brilliant thinkers including Alex Bruton (straightupbusiness.institute), whose model for linking feasibility analysis, business model canvases, and business plans we follow in this volume; Justin Wilcox (customerdevlabs.com), whose approaches to customer research offered new insights; Eric Ries, Steve Blank, and Bob Dorf, whose work on lean business practices and, in particular, the customer development approach helped us improve our marketing sections; Alex Osterwalder and Yves Pigneur and Ash Muraya, who through their business canvas approaches helped inform our own work; and John Mullins and Dileep Rao and the other faculty at Mike Morris's Experiential Classroom as well as Jerry's colleagues at the Billiken Angel Network, whose insights helped us take our



financing chapter to the next level. We are grateful for the continuing support of *ESB* from all of these people. From examples such as these, we hope you will see the practical value of strategic partnerships, which we talk about in Chapters 3 and 7. The fact is that we can show you more about the world of small business *because* of our partnerships, and that makes the book, and your experience, better.

Finally, *Entrepreneurial Small Business* will pass its fourteenth year of existence with this edition, and the thinking and talking about it stretches back almost 30 years, in classrooms, at meals, at social get-togethers, and over many, many phone calls, emails, presentations, and papers. What started as a labor of learning among professors and protégés became a labor of love among colleagues. Often this labor was possible because of time contributed by (or stolen from) families and significant others. The number of meals missed, calls taken over the family phone, late nights spent over the computer, or weekends spent at work over the past 30 years are innumerable. What those family members and significant others saw was the passion for discovery and the excitement of finding and telling others about a better way of doing things in small businesses or explaining small business. For all of the network, and especially the authors, that support was the critical enduring ingredient in making *Entrepreneurial Small Business* a reality. For that reason, we want to recognize the enormous emotional and motivational contributions made by Dave Peters, James F. Amrhein, Nora L. Peterson, Josh Katz, Lauren Katz, and Cheryl Nietfeldt.



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PERSONAL NET WORTH CALCULATION TEMPLATE P-1**GLOSSARY G-1****END NOTES E-1****INDEXES I-1**

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PART ONE

1

Entrepreneurs and Ideas: The Basis of Small Business

- CHAPTER 1: Small Business: Varieties and Impacts
- CHAPTER 2: Small Business Entrepreneurs: Characteristics and Competencies
- CHAPTER 3: Small Business Environment: Managing External Relations
- CHAPTER 4: Small Business Ideas: Creativity, Opportunity, and Feasibility

CHAPTER

1

Small Business: Varieties and Impacts

- Robin Rath of Pixel Press with kids drawing games to go into Pixel Press. How did he use his passion for video gaming to help him find his business idea?

Pixel Press



After you complete this chapter, you will be able to:

- LO 1-1** Understand the scope of small business in the United States.
- LO 1-2** Differentiate between small businesses and high-growth ventures.
- LO 1-3** Dispel key myths about small businesses.
- LO 1-4** Identify actions key to becoming a small business owner.
- LO 1-5** Recognize how small businesses are important to our economy and your community.
- LO 1-6** Recognize the seven key strategies of the entrepreneurial way.

Focus on Small Business: Robin Rath, Pixel Press¹

When Robin Rath was a kid, he was an avid player of video games like *Metroid* and *Super Mario Brothers*, and when he wasn't playing he was designing new levels of his favorite games in his head and on paper. But he realized that video gaming was part art and part programming, and that helped him set his course. Following an undergraduate degree from Saint Louis University (SLU) bridging communications technology with fine and studio arts, he was positioned to realize his dream.

But game producers were thin on the ground in St. Louis, so Robin's strategy was to find jobs to hone his programming skills during the day and create his own firm, Roundthird, to develop games as his side gig on nights and weekends. His main work included stints at increasingly responsible and demanding positions at six different companies in the programming and marketing industries in St. Louis. Meanwhile, he and his Roundthird partner, Jon Gettys, released *Radial 50* for IOS, a circular takeoff on the classic *Breakout* brick-breaking video game. Robin's day and side gigs helped him develop the in-depth knowledge of programming, project planning, marketing, and networking which convinced him that given the right idea, he would be ready to go full time as an entrepreneur.

The idea that led to full-time entrepreneurship was Pixel Press, a piece of software for iPhones and iPads that would let regular people with no programming skills create playable games reminiscent of *Super Mario* on their Apple devices. While the idea was ambitious, it was possible, and as he got word out, Pixel Press got favorable press from *NBC News*, *CNET*, *Fast Company*, and others. Building on this, Robin created a Kickstarter campaign to crowdfund his dream. You can see the campaign and watch the original pitch at www.kickstarter.com/projects/robinrath/pixel-press-draw-your-own-video-game. The campaign was successful, topping \$100,000. With that money and with what he had saved, Pixel Press made it to market. Within two years, Pixel Press announced a partnership with Cartoon Network (CN) resulting in the *Adventure Time Game Wizard*, which would let players create games with CN characters. From the success of that partnership, Pixel Press went on to release its next product that represented its first foray into toys and gaming, forming partnerships with Mattel and Disney to bring products to store shelves in the United States and internationally.

In speaking with Robin, he credits a constant presence of an entrepreneurial spirit around him from a young age and throughout his education: “Both of my parents were entrepreneurs and encouraged me early on in things like ‘baseball card shops’ not just in our basement but online as well, when making a website was still very hard. At SLU, I spent all four years as an intern in the Entrepreneurial Studies department and helped coordinate one of the country’s first entrepreneurial awards hosted by SLU—the Global Student Entrepreneur Awards (GSEA). Seeing college students win \$10,000 to help their business start was inspiring.” Robin adds, “This also has motivated me to stay active with the Entrepreneurship Club at SLU, including all the work they do over the summer with high school students. Ultimately we are learning every day, and staying engaged at all levels helps me stay fresh and grounded.”

DISCUSSION QUESTIONS

1. Do you think Robin was originally thinking about starting a business when he was working in programming and marketing positions in other people’s companies?
2. What drove Robin to start a business of his own?
3. How important were contacts and connections to the growth of Robin’s business?
4. Do you think Robin would credit his step-by-step approach with the success of his business? What is your opinion?

Starting an Entrepreneurial Small Business: Four Key Ideas

LO

1-1 Understand the scope of small business in the United States.

small business

Involves 1–50 people and has its owner managing the business on a day-to-day basis.

self-efficacy

A person’s belief in his or her ability to achieve a goal.

entrepreneur

A person who owns or starts an organization, such as a business.

Robin’s story makes a simple point—you can start a **small business**, and there are ways to help you be a success at it. Consider the four key things that Robin did right:

1. **Believe that you can do this:** Robin’s belief in himself and what needed to be done to make Pixel Press’s app powered his efforts. That belief in yourself is called **self-efficacy**, and learning how to start a business in this class and from this book will help you build it for yourself.² Those who believe in themselves and in the passion of their beliefs are more likely to keep at it until they succeed. See Skill Module 1.1.
2. **Planning + Action = Success:** A plan without action is futile. Actions without plans are usually wasted. Success comes from having the right sort of plan to get you to the right actions as quickly as possible. Like Robin, those who plan and act are the ones who most often succeed.⁴
3. **Help helps:** Successful entrepreneurs learn—from other entrepreneurs, from experts in their chosen field, from potential customers, or even from their professors!⁵ Skill Module 1.2 will help you find some of the best sources of help on the web. Remember, those who get help succeed bigger and more often.
4. **Do well. Do good:** In the long run, you will depend on partners, investors, employees, customers, and neighbors. If you always remember, as Robin has, to do good for others as you try to do well in your business, you’ll feel better about your business and life, and those around you will too.⁶

Entrepreneurial Small Business believes in the power of those four ideas, and we’ll help you understand each of them and how to use them to make your entrepreneurial dreams come true. There are literally millions of those entrepreneurial dreams out there because there are so many ways to become an **entrepreneur**. In 2020, over 804,000 new firms with employees are created, there can be anywhere from 10 to 15 times that many new owner-only firms; so, in 2020 there were almost 9 million new owner-only firms, and yours can be one of them.⁷

Entrepreneurial Self-Efficacy Scale³

You can get a very general sense of your level of self-efficacy by answering and scoring the questions below.

In the following questions, determine how strongly you agree with the statement from 1 (Strongly Disagree) to 5 (Strongly Agree). If you are not sure, make your best guess. A higher score means a higher self-efficacy.

	Strongly Disagree	1	2	3	4	Strongly Agree
I am better than my peers at being able to solve problems.	1	2	3	4	5	
I am better than my peers at making money.	1	2	3	4	5	
I am better than my peers at being creative.	1	2	3	4	5	
I am better than my peers at getting people to agree with me.	1	2	3	4	5	

SKILL MODULE

1.1

The Small Business Online Scavenger Hunt

It can be mind-boggling to discover how much material is on the web ready to help aspiring entrepreneurs. To help you get a feel for what is out there, we have put together a web scavenger hunt focusing on key information. In a few cases you may have to register, but all registrations for websites listed here are free. Along the way you will get to peruse some of the “best of the best” entrepreneurship information on the web.

1. If you wanted to find stories about business in Albuquerque (or run the name of a business from there to see what it has done), which site would give you the biggest selection of local stories? www.bizjournals.com, www.usatoday.com/money/business, www.wsj.com.
2. Which of the following sites offers you a free business website maker? www.wix.com, www.sba.gov, www.entrepreneur.com.
3. Which site can connect you to *free* local help for starting and growing your business? www.nfib.com, www.sba.gov, www.inc.com.
4. You can search for patents for free at patents.google.com or www.uspto.gov. Which will also let you search for trademarks?
5. If you want to find out what the profit margins are for businesses in the restaurant industry, which site would give you the answer? www.sba.gov, www.entrepreneur.com, www.bizstats.com.

By the time you have checked out these sites, you will be up to speed on some of the largest and most credible sets of free, high-quality small business information available today.

SKILL MODULE

1.2

The vast majority of new firms go through similar start-up processes. The firms most likely to be successful follow a four-step process, shown in Figure 1.1.

- **Feel:** This is where the entrepreneur has a feeling—about maybe starting a business or maybe creating a particular product or service. This is what starts the founding process. We’ll talk about entrepreneurs and the feelings leading to their business in Chapter 2.

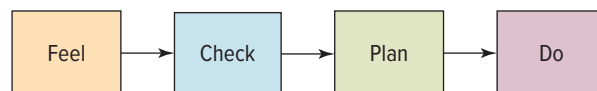


FIGURE 1.1

The Entrepreneurial Process

- **Check:** Smart entrepreneurs check the likelihood for the success of their idea through feasibility analyses (see Chapter 4) or customer development processes (see Chapter 9), repeating these until they have a winning and saleable idea.
- **Plan:** Getting from the idea to the business can be done by small-scale, part-time start-ups (see Chapter 5), lean business practices approaches (see Chapter 9), pilot testing (see Chapter 4), business modeling, or business plan creation (see Chapter 8).
- **Do:** Regardless of the type of planning approach you choose to implement your business activity, you will find that you need to refine your approach until you have a successful firm, including additional rounds of refinement and revising.

Entrepreneurs Are Everywhere

In addition to Robin Rath of Pixel Press, the United States had 16.2 million other full-time entrepreneurs working in 2020, according to the U.S. Census Bureau.⁸ If we include people pursuing their entrepreneurial dreams on a part-time basis, we need to add another 59 million people.⁹ What were they doing? Just about everything! Entrepreneurs could be found in almost every type of work there is, literally in hundreds of **occupations**. In fact, there are occupations composed mostly of entrepreneurs. Table 1.1 shows the 10 occupations with the largest numbers of entrepreneurs as well as the 10 occupations with the highest percentages of entrepreneurs. Note that “owner-managers” are an occupation in their own right, but can appear in any other industry.

Notice that while there are entrepreneur-rich occupations that require college and even graduate school, there are also occupations popular with entrepreneurs with very basic entry requirements. What is most important here is finding something you want to do. When you decide on what your business is going to be, you are choosing your occupation. As the entrepreneur, you may be the owner of the business, but your occupation will depend on what type of **goods or services** you and your **firm** are producing. So the owner of an online store is a retailer, while the owner of a construction firm will be a construction manager. Robin Rath is an app maker because Pixel Press makes apps that he sells online. Whatever you want to do, there is probably a way to do it as an entrepreneur.

Truly entrepreneurial businesses are characterized by **novelty** in their products, services, or business models. Small businesses, on the other hand, are **imitative** in nature, with most small firms doing what other firms do, with only slight variations. But when we think about the people who start firms, the situations they face are situations of novelty. So whether he or she starts the successor to [Amazon.com](https://www.amazon.com) or the pizzeria on the corner, the person who starts a business is living

occupation

The type of activity a person does regularly for pay.

goods or services

The tangible things (goods) or intangible commodities (services) created for sale.

firm

An organization that sells to or trades with others.

novelty

Characterized by being different or new.

imitative

Characterized by being like or copying something that already exists.

TABLE 1.1

The Top 10 Occupations for Entrepreneurs¹⁰

Top Occupations with the Highest Number of Entrepreneurs		Top Non medical Occupations with the Highest Percentage of Entrepreneurs	
Owner-managers	3,168,741	Farmers and Ranchers	83.0%
Construction	1,112,536	Fishing & Hunting Workers	78.9
B2B Sales	785,580	Disk Jockeys (non radio)	79.9
Retailers	729,147	Artists	62.4
Farmers	623,433	Landscapers	58.4
Real Estate Agents	533,430	Tailors & Dressmakers	58.0
Property Managers	322,803	Musicians & Singers	55.7
Business Analysts	288,455	Music Directors & Composers	55.3
Lawyers	278,466	Photographers	54.5
Artists	202,195	Interior Designers	50.6

Source: U.S. Census Bureau, Current Population Survey, March 2021, custom computation by Jerome Katz.



● Entrepreneurs can be found in nearly every line of work there is. Into what occupation would your business put you?

(Top left) ColorBlind Images/Blend Images LLC
 (Bottom left) Hero Images/Getty Images
 (Top right) Hero Images/Getty Images
 (Bottom right) Andersen Ross/Blend Images LLC



self-employed

Working for yourself.

founders

People who create or start new businesses.

franchise

A prepackaged business bought, rented, or leased from a company called a *franchisor*.

buyers

People who purchase an existing business.

heir

A person who becomes an owner through inheriting or being given a stake in a family business.

independent entrepreneurship

The form of entrepreneurship in which a person or group owns a for-profit business.

social ventures

Businesses that are organized as for-profit entities but are also solving or supporting solutions to social problems.

social entrepreneur

The name of the type of entrepreneur pursuing social entrepreneurship.

social entrepreneurship

The form of entrepreneurship involving the creation of self-sustaining charitable and civic organizations, for-profit organizations that invest significant profits in charitable activities, or the creators of nonprofit charitable or service organizations.



the life of the entrepreneur. We recognize this distinction and address the challenges facing entrepreneurs, while focusing on the small businesses they plan to create or enter.

In *Entrepreneurial Small Business* we use the popular broad definition of *entrepreneur*¹¹—anyone who owns a business is an entrepreneur. This, of course, means anyone who is a small business owner is an entrepreneur.¹² It also means that the **self-employed**, anyone who works for himself or herself instead of for others, is also an entrepreneur. As noted above, according to the Census Bureau, there were about 16.2 million full-time and 59 million part-time self-employed people in 2020. Within the population of entrepreneurs, it is sometimes useful to split out certain groups. One of these is **founders**, the people who start a business, whether it is one of their own devising or a **franchise**, which is a prepackaged business you buy or lease from a franchisor. Other groups consist of **buyers**, those who purchase an existing business, or of **heirs**, those who inherit or are given a stake in the family business. These roles deal with the entry stage of the business from the perspective of the entrepreneur. After entry, another role emerges, that of the owner-manager, the role in which most entrepreneurs spend their working lives. Throughout this text the terms *small business owner*, *entrepreneur*, and *self-employed* are used interchangeably. When founders or buyers or post-entry owner-managers are discussed, we specify which one is the focus.

CSI: Entrepreneurship

Notice that our definition of *entrepreneur* doesn't specify if the business is for-profit or nonprofit. The fact is that starting either type of organization involves the entrepreneurial process of founding. Self-employed founders of for-profit firms are involved in what we call **independent entrepreneurship**. On the other hand founders of organizations or for-profit **social ventures** are called **social entrepreneurs** and are pursuing **social entrepreneurship**.

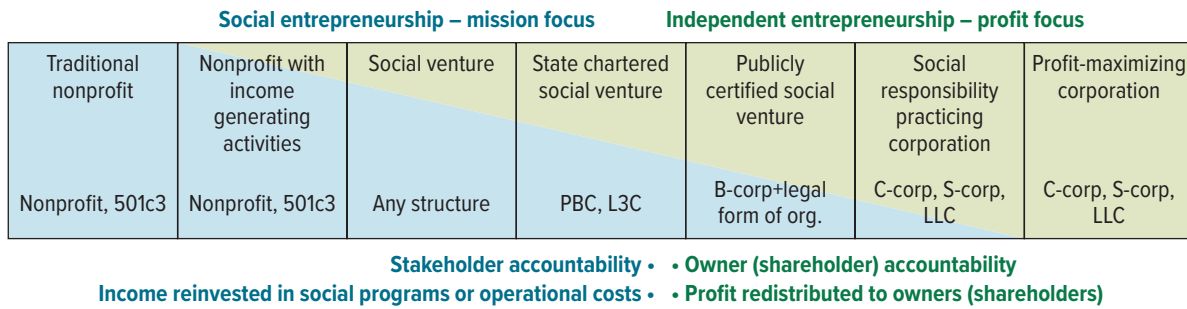


FIGURE 1.2

The Independent-Social Entrepreneurship Dimension

Adapted from Kim Alter, Social Enterprise Typology, 2007.

B-corp

B-corp is a publicly visible certification from B Lab Global that is given to firms that have documented and been audited to show they are meeting B Lab Global’s standards for social and environmental performance, fair and transparent corporate governance, and caring for workers, communities and customers. See more at <https://www.bcorporation.net/en-us>.

PBC (Public Benefit Corporation)

PBCs are a legal form of organization in 35 states which permits the organization to balance owners’ (also called shareholders) financial goals with social outcomes, even if this means lower levels of profits. Other legal forms of organization, like C-corporations, place a focus only on maximizing profits for owners.

There is a range of ways to pursue your startup depending on how you want to mix profit-making (colored green in Figure 1.2) and mission-driven (colored blue in Figure 1.2) goals. Kim Alter suggested a range of approaches shown in Figure 1.2. The profit-making extreme can focus on making the maximum profit possible, even when this hurts the society (imagine a company that illegally dumps harmful wastes to avoid the cost of treating it). As we will see in Chapter 2, most entrepreneurs have stronger ethical bases. It can be seen in startups that practice corporate social responsibility, trying to be a good neighbor and member of the community. Today there are even ways to publicly or legally organize your business to be socially responsible, such as a **B-corp**, **PBC**, or **L3C**. You’ll learn more about these legal forms of organization in Chapter 17. Alter suggested a range of combinations of profit and mission (or social) goals and that is where most social and independent entrepreneurs find a workable approach for their desires.

These social venture efforts involve creating new charitable and civic organizations that are financially self-sufficient like Bangladesh’s Grameen Bank (which won the 2006 Nobel Peace Prize for making banking services designed to help the poor manage their money better), or for-profit companies that use much of their profit to give back to society and the environment such as the publicly certified (in this case a B-Corp) social venture Tom’s Shoes with its “One for One” philosophy where for every pair of shoes you buy Tom’s donates a pair to children in need, one-third of their profits going to grass-roots social mission organizations, and protecting the environment through greener packaging and using sustainable cotton.

When the social entrepreneur’s focus is more specifically on the planet and ecological issues, we call it **sustainable entrepreneurship** or **green entrepreneurship**. This approach was evident in the 1980’s when an environmentalist salesman named Max Appel used natural oil from Valencia oranges to develop a nontoxic, highly effective cleaner and polish called Orange Glo. Today, we see people like Robert and Corina Guillory who replaced disposable coffee filters with their premium Coffeesock filter. Their family business gets certified organic materials, and even adopted a Texas beach to show their environmental concern.¹³

Economists talk about yet another type of entrepreneur, innovative individuals who are employed by others in existing companies. Such people are pursuing **corporate entrepreneurship** and estimates put the number of corporate entrepreneurs at about 80 percent that of self-employed entrepreneurs, or nearly 13 million Americans. In corporate entrepreneurship, the focus is typically on bringing new products or services to market, or opening up new markets for your firm. Famous examples of corporate entrepreneurship include the creation of new brands like Apple’s iPhone or GM’s green energy services. Companies rapidly expanding geographically, like Panera Bread or Planet Fitness, would also be a visible example depending on corporate entrepreneurs to open up new areas to their offerings.

Together, corporate, social, and independent entrepreneurship represent what might be called **CSI entrepreneurship** or the three **forms of entrepreneurship**¹⁴ and people move among the three forms more often than you might think. Consider Jim McKelvey, cofounder of Square.¹⁵ You’ve probably paid for something with your credit card and had it swiped through a Square device. But founding Square was just another step along a winding, entrepreneurial path. After McKelvey graduated college (degrees in economics and computer science), he launched Mira, a

software company. But Mira didn't make any money for its first five years, so McKelvey was forced to support himself by working as a glass artist. "Ironically, the only business I ever pursued primarily for the money was glassblowing." McKelvey recalls, "I became a glass artist simply to pay the bills. All the other organizations were created to solve a problem. I have always found problems to be the best motivators."

After Mira began to succeed, McKelvey was able to stop working in the studio just for the money, but continued to practice glassblowing as an artistic hobby. But glassblowing studios are rare and Jim was frustrated at the lack of access to both the tools and techniques. He resigned as CEO of Mira and cofounded Third Degree Glass Factory so he and others would have a place to create glass art in St. Louis.

Third Degree pioneered the model which combined education, production, and entertainment. In 2006, Third Degree achieved international recognition after housing the Glass Art Society's annual conference, but by this time McKelvey's focus was on the problems of running a business and not making art. In 2008, Jim reconnected with one of Mira's early employees, Jack Dorsey, who had recently left the company he created, Twitter. Jim and Jack decided to pursue Jim's idea of a fair payment system for small merchants, and called the new company *Square*. Square (renamed Block in 2022) created a series of products focused on economic empowerment and by its 10th birthday was a public company valued at over \$30 billion.

With Square up and running, McKelvey again turned his attention to another serious problem: the perpetual shortage of programmers. His idea to combine *guaranteed* job placement with free education led him to found a nonprofit called LaunchCode. LaunchCode has trained and employed thousands of people and is opening centers around the nation.

As LaunchCode began to fulfill its mission, McKelvey again handed over the management to others and turned his focus to other social problems. He is now a director of the St. Louis Federal Reserve, where Jim shares his entrepreneurial skills with the people running our economy. He is also involved in several projects to help rebuild St. Louis as a vibrant, welcoming city. "I have never really had a career," McKelvey says, "just a series of problems that I care about in different areas of my life. Sometimes the solution is a for-profit company, sometimes a nonprofit charity, and sometimes it's government. But in each case the tools of entrepreneurship create new solutions."

L3C

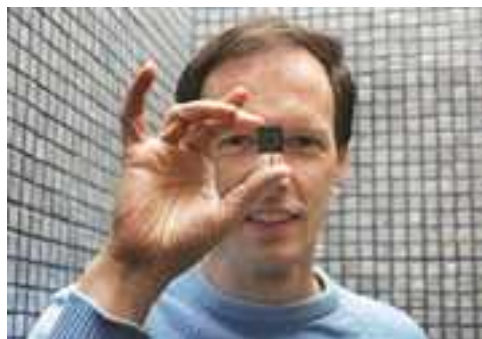
L3C is a Low-Profit Limited Liability Company, a legal form of organization available in nine states which permits the organization to pursue charitable or educational goals through revenue generating activities, even if this means low levels of profits for owners (also called shareholders). Other legal forms of organization, like C-corporations, place a focus only on maximizing profits for owners.

sustainable entrepreneurship

An approach to operating a firm or a line of business that identifies, creates, and exploits opportunities to make a profit in a way that can minimize the depletion of natural resources, maximize the use of a recycled material, or improve the environment.

green entrepreneurship

Another term for sustainable entrepreneurship taken from the popular belief that green is the color of a healthy environment, as in forests or fields.



● Jim McKelvey has demonstrated CSI entrepreneurship as a cofounder of Third Degree Glass Factory, a makerspace for artists. He was cofounder of Square, and the person who created the iconic Square credit card reader. After Square's IPO, he served as a corporate entrepreneur. He also started LaunchCode, a nonprofit that teaches coding for free and helps graduates get jobs. His role there was as a social entrepreneur. You can see a video of McKelvey discussing this at www.youtube.com/watch?v=wZFBvwm_CrY.

(Left) Carl Juste/Miami Herald/TNS/Newscom
 (Top right) Jim McKelvey
 (Bottom right) Dawn Majors/St. Louis Post-Dispatch/MCT/Newscom