

# Essentials of Entrepreneurship and Small Business Management

EIGHTH EDITION



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Jeffrey R. Cornwall

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**Eighth Edition**

# Essentials of Entrepreneurship and Small Business Management

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To Cindy, whose patience is always tested during a writing project of this magnitude. Your love, support, and understanding are a vital part of every book.  
You are the love of my life.

—NMS

To Ann, for her wisdom and love. Your encouragement and support is the foundation for each new entrepreneurial adventure we take.

—JRC

“May your own dreams be your only boundaries.”

—The Reverend Purlie Victorious Judson,  
in “Purlie,” Broadway Theater, 1970

# Brief Contents

<b>SECTION I</b>	<b>The Challenge of Entrepreneurship</b>	<b>1</b>
<b>Chapter 1</b>	The Foundations of Entrepreneurship	1
<b>Chapter 2</b>	Ethics and Social Responsibility: Doing the Right Thing	43
<b>Chapter 3</b>	Inside the Entrepreneurial Mind: From Ideas to Reality	80
<b>SECTION II</b>	<b>The Entrepreneurial Journey Begins</b>	<b>131</b>
<b>Chapter 4</b>	Conducting a Feasibility Analysis and Designing a Business Model	131
<b>Chapter 5</b>	Crafting a Business Plan and Building a Solid Strategic Plan	161
<b>Chapter 6</b>	Forms of Business Ownership and Buying an Existing Business	214
<b>Chapter 7</b>	Franchising and the Entrepreneur	248
<b>SECTION III</b>	<b>Launching the Business</b>	<b>286</b>
<b>Chapter 8</b>	Building a Powerful Bootstrap Marketing Plan	286
<b>Chapter 9</b>	E-Commerce and the Entrepreneur	324
<b>Chapter 10</b>	Pricing and Credit Strategies	369
<b>Chapter 11</b>	Creating a Successful Financial Plan	405
<b>Chapter 12</b>	Managing Cash Flow	442
<b>SECTION IV</b>	<b>Putting the Business Plan to Work: Sources of Funds</b>	<b>481</b>
<b>Chapter 13</b>	Sources of Financing: Equity and Debt	481
<b>Chapter 14</b>	Choosing the Right Location and Layout	524
<b>Chapter 15</b>	Global Aspects of Entrepreneurship	573
<b>Chapter 16</b>	Building a New Venture Team and Planning for the Next Generation	608
<b>Appendix</b>	<b>The Daily Perc Business Plan</b>	<b>652</b>
<b>Cases</b>		<b>674</b>
<b>Name Index</b>		<b>690</b>
<b>Subject Index</b>		<b>698</b>

# Contents

Preface *xii*

## SECTION I The Challenge of Entrepreneurship 1

### Chapter 1 The Foundations of Entrepreneurship 1

The World of the Entrepreneur 2

What Is an Entrepreneur? 5

The Benefits of Entrepreneurship 12

Opportunity to Create Your Own Destiny 12

Opportunity to Make a Difference 13

■ **YOU BE THE CONSULTANT**  
Decoding the DNA of the Entrepreneur 14

Opportunity to Reach Your Full Potential 16

Opportunity to Reap Impressive Profits 16

Opportunity to Contribute to Society and Be Recognized for Your Efforts 17

Opportunity to Do What You Enjoy and Have Fun at It 17

The Potential Drawbacks of Entrepreneurship 18

Uncertainty of Income 18

Risk of Losing Your Entire Investment 18

Long Hours and Hard Work 18

Lower Quality of Life Until the Business Gets Established 19

High Levels of Stress 19

Complete Responsibility 19

Discouragement 19

Behind the Boom: What's Feeding the Entrepreneurial Fire 20

■ **YOU BE THE CONSULTANT**  
College: The Ideal Place to Launch a Business 24

The Cultural Diversity of Entrepreneurship 25

Young Entrepreneurs 25

Women Entrepreneurs 25

Minority Enterprises 26

Immigrant Entrepreneurs 27

Part-Time Entrepreneurs 28

Home-Based Businesses 29

Family Businesses 29

Copreneurs 30

Corporate Castoffs 31

Corporate Dropouts 31

Retiring Baby Boomers 32

■ **HANDS ON . . . HOW TO** Launch a Successful Business While You Are Still in College 33

The Power of "Small" Business 34

Putting Failure into Perspective 35

How to Avoid the Pitfalls 37

Know Your Business in Depth 37

Build a Viable Business Model—and Test It 37

Develop a Solid Business Plan 38

Understand Financial Statements 38

Manage Financial Resources 38

Learn to Manage People Effectively 39

Set Your Business Apart from the Competition 39

Maintain a Positive Attitude 39

Conclusion 40

Chapter Summary by Learning Objective 40

• Discussion Questions 41 • Beyond the Classroom . . . 42 • Endnotes 42

### Chapter 2 Ethics and Social Responsibility: Doing the Right Thing 43

An Ethical Perspective 46

Three Levels of Ethical Standards 46

Moral Management 48

The Benefits of Moral Management 49

Establishing an Ethical Framework 50

Why Ethical Lapses Occur 53

An Unethical Employee 53

An Unethical Organizational Culture 53

Moral Blindness 54

Competitive Pressures 54

Opportunity Pressures 54

Globalization of Business 54

Establishing and Maintaining Ethical Standards 55

Establishing Ethical Standards 55

Maintaining Ethical Standards 57

Social Entrepreneurship 58

■ **YOU BE THE CONSULTANT**  
Funding Social Ventures Through Franchise Businesses 59

Social Responsibility 60

**Business's Responsibility to the Environment 62****Business's Responsibility to Employees 62**

Cultural Diversity in the Workplace 63

Drug Testing 66

Sexual Harassment 67

- **HANDS ON . . . HOW TO** **How to Avoid Sexual Harassment Charges 70**

Privacy 72

**Business's Responsibility to Customers 72**

Right to Safety 72

- **YOU BE THE CONSULTANT** **Think before You Tweet 73**

Right to Know 74

Right to Be Heard 74

Right to Education 74

- **YOU BE THE CONSULTANT** **But Is It Safe? 75**

Right to Choice 75

**Business's Responsibility to Investors 76****Business's Responsibility to the Community 76****Conclusion 77**

Chapter Summary by Learning Objective 77

- Discussion Questions 78
- Beyond the Classroom . . . 79
- Endnotes 79

**Chapter 3 Inside the Entrepreneurial Mind: From Ideas to Reality 80****Creativity, Innovation, and Entrepreneurship 81****Creativity—Essential to Survival 84**

Can Creativity Be Taught? 85

**Creative Thinking 85****Barriers to Creativity 88**

- **YOU BE THE CONSULTANT** **10 Keys to Business Innovation 89**

**How to Enhance Creativity 95**

Enhancing Organizational Creativity 95

Enhancing Individual Creativity 102

- **HANDS ON . . . HOW TO** **Be a Successful Innovator 106**

**The Creative Process 107**

Step 1. Preparation 108

Step 2. Investigation 109

Step 3. Transformation 109

Step 4. Incubation 110

Step 5. Illumination 111

Step 6. Verification 112

Step 7. Implementation 112

**Techniques for Improving the Creative Process 113**

Brainstorming 113

Mind Mapping 114

Force-Field Analysis 115

TRIZ 116

Rapid Prototyping 117

**Intellectual Property: Protecting Your Ideas 118**

Patents 118

Trademarks 121

- **YOU BE THE CONSULTANT** **How Would You Rule in These Intellectual Property Cases? 122**

- **HANDS ON . . . HOW TO** **Protect Your Company's Intellectual Property—Both at Home and Abroad 125**

Copyrights 126

Protecting Intellectual Property 126

Chapter Summary by Learning Objective 127

- Discussion Questions 129
- Beyond the Classroom . . . 129
- Endnotes 130

**SECTION II The Entrepreneurial Journey Begins 131****Chapter 4 Conducting a Feasibility Analysis and Designing a Business Model 131**

Idea Assessment 132

Feasibility Analysis 135

Industry and Market Feasibility 135

Porter's Five Forces Model 138

- **HANDS ON . . . HOW TO** **Forces Shaping Innovation: The Driverless Car 139**

Product or Service Feasibility Analysis: Is There a Market? 143

- **HANDS ON . . . HOW TO** **Do You Want Fries with Those Crickets? 146**

Financial Feasibility Analysis: Is There Enough Margin? 147

Entrepreneur Feasibility: Is This Idea Right for Me? 148

Developing and Testing a Business Model 150

- **YOU BE THE CONSULTANT** **RendezWoof: Creating a Minimal Viable Product for a Mobile App 155**

Conclusion 156

- **YOU BE THE CONSULTANT** **When to Call It Quits on a New Business 157**

Chapter Summary by Learning Objective 158  
 • Discussion Questions 159 • Beyond  
 the Classroom . . . 159 • Endnotes 160

## Chapter 5 **Crafting a Business Plan and Building a Solid Strategic Plan 161**

The Benefits of Creating a Business  
Plan 162

The Elements of a Business Plan 164

What Lenders and Investors Look  
for in a Business Plan 173

The Pitch: Making the Business  
Plan Presentation 174

■ **YOU BE THE CONSULTANT**  
The Battle of the Plans 176

Building a Strategic Plan 177

Building a Competitive Advantage 179

The Strategic Management  
Process 181

Step 1. Develop a Clear Vision and Translate It  
into a Meaningful Mission Statement 182

Step 2. Assess the Company's Strengths and  
Weaknesses 186

Step 3. Scan the Environment for Significant  
Opportunities and Threats Facing  
the Business 186

■ **HANDS ON . . . HOW TO**  
Beat the Big Guys 187

Step 4. Identify the Key Factors for Success in  
the Business 190

Step 5. Analyze the Competition 191

■ **YOU BE THE CONSULTANT**  
Digital Franchise Seeks to Expand  
Nationwide 192

■ **YOU BE THE CONSULTANT**  
Finding a Niche with a Subscription  
Business Model 195

Step 6. Create Company Goals and  
Objectives 196

Step 7. Formulate Strategic Options and Select  
the Appropriate Strategies 197

Step 8. Translate Strategic Plans into Action  
Plans 203

Step 9. Establish Accurate Controls 203

Conclusion 207

Sample Business Plan Outline 207

Chapter Summary by Learning Objective 210  
 • Discussion Questions 212 • Beyond  
 the Classroom . . . 212 • Endnotes 213

## Chapter 6 **Forms of Business Ownership and Buying an Existing Business 214**

■ **HANDS ON . . . HOW TO** Come Up  
with the Perfect Moniker for Your  
Business 217

## Sole Proprietorships and Partnerships 219

The Sole Proprietorship 219

The Advantages of a Proprietorship 219

The Disadvantages of a Proprietorship 219

The Partnership 221

The Revised Uniform Partnership Act 221

Partnership Agreement 222

The Advantages of the Partnership 222

The Disadvantages of the Partnership 224

■ **YOU BE THE CONSULTANT**  
Making a Partnership Work 226

Limited Liability Partnerships 227

## Corporations 227

The C Corporation 229

The S Corporation 229

## The Limited Liability Company 231

### How to Create a Legal Business Entity 232

### Buying an Existing Business 233

The Advantages of Buying an Existing  
Business 235

Disadvantages of Buying an Existing  
Business 237

### The Steps in Acquiring a Business 239

Analyze Your Skills, Abilities,  
and Interests 240

Develop a List of Criteria 241

Prepare a List of Potential Candidates 241

Investigate and Evaluate Potential Companies:  
The Due Diligence Process 242

Explore Financing Options 242

Negotiate a Reasonable Deal  
with the Owner 242

Ensure a Smooth Transition 243

### Negotiating the Deal 244

■ **HANDS ON . . . HOW TO**  
Become a Successful Negotiator 244

Chapter Summary by Learning Objective 245

• Discussion Questions 246 • Beyond  
 the Classroom . . . 247 • Endnotes 247

## Chapter 7 **Franchising and the Entrepreneur 248**

### Types of Franchising 251

### The Benefits of Buying a Franchise 252

A Business System 253

Management Training and Support 253

Brand-Name Appeal 254

Standardized Quality of Goods and  
Services 254

National Advertising Programs and  
Marketing Assistance 255



Financial Assistance	256
Proven Products, Processes, and Business Formats	258
Centralized Buying Power	258
Site Selection and Territorial Protection	258
Greater Chance for Success	259
■ <b>YOU BE THE CONSULTANT</b> Would You Buy This Franchise?	260
<b>The Drawbacks of Buying a Franchise</b>	261
Franchise Fees and Ongoing Royalties	261
Strict Adherence to Standardized Operations	262
Restrictions on Purchasing and Prices	263
Limited Product Line	263
Contract Terms and Renewal	264
Unsatisfactory Training Programs	264
Market Saturation	264
Less Freedom	265
<b>Franchising and the Law</b>	265
<b>The <i>Right</i> Way to Buy a Franchise</b>	268
Evaluate Yourself	269
Research Your Market	270
Consider Your Franchise Options	270
Get a Copy of the Franchisor's FDD	272
Talk to Existing Franchisees	273
Ask the Franchisor Some Tough Questions	274
Make Your Choice	275
<b>Trends Shaping Franchising</b>	275
Changing Face of Franchisees	275
International Opportunities	276
■ <b>HANDS ON . . . HOW TO</b> Select the Ideal Franchise— <i>For You!</i>	277
■ <b>YOU BE THE CONSULTANT</b> Franchising in Africa: Potential Abounds but So Do Challenges	279
Smaller, Nontraditional Locations	280
Conversion Franchising	280
Refranchising	280
Multi-Unit Franchising	281
Area Development and Master Franchising	281
Cobranding	282
<b>Conclusion</b>	282
Chapter Summary by Learning Objective	282
• Discussion Questions	283
• Beyond the Classroom . . .	284
• Endnotes	284
• Appendix A. A Franchise Evaluation Checklist	284

## SECTION III Launching the Business 286

### Chapter 8 Building a Powerful Bootstrap Marketing Plan 286

Building a Bootstrap Marketing  
Plan 287

Pinpointing the Target Market 289

Determining Customer Needs and Wants  
through Market Research 291

■ **YOU BE THE CONSULTANT**  
.CO Internet S.A.S. 292

The Value of Market Research 292

How to Conduct Market Research 294

**Plotting a Bootstrap Marketing  
Strategy: How to Build  
a Competitive Edge** 297

Bootstrap Marketing Principles 297

■ **YOU BE THE CONSULTANT**  
Auto Repair Goes Social 305

■ **HANDS ON . . . HOW TO**  
Make Social Media Work  
for Your Business 307

■ **YOU BE THE CONSULTANT**  
A Company with Soul 315

**Conclusion** 321

Chapter Summary by Learning Objective 321

• Discussion Questions 322 • Beyond  
the Classroom . . . 322 • Endnotes 323

### Chapter 9 E-Commerce and the Entrepreneur 324

Factors to Consider before Launching into  
E-Commerce 328

Ten Myths of E-Commerce 329

Myth 1. If I Launch a Site, Customers  
Will Flock to It 329

Myth 2. Online Customers Are Easy to  
Please 330

Myth 3. Making Money on the Web Is  
Easy 331

Myth 4. Privacy Is Not an Important Issue  
on the Web 331

Myth 5. "Strategy? I Don't Need a Strategy to  
Sell on the Web! Just Give Me a Web Site,  
and the Rest Will Take Care of Itself" 332

Myth 6. The Most Important Part of Any  
E-Commerce Effort Is Technology 333

Myth 7. Customer Service Is Not as  
Important Online as It Is in a Traditional  
Retail Store 333

Myth 8. Flashy Web Sites Are Better  
Than Simple Ones 335

Myth 9. It's What's Up Front That Counts 336

Myth 10. My Business Doesn't Need  
a Web Site 337

### Strategies for E-Success 338

- **HANDS ON . . . HOW TO** Use a  
Mobile-First, Responsive Web Design  
to Increase Online Sales 346

### Designing a Killer Web Site 351

- **YOU BE THE CONSULTANT**  
A Total Makeover 352

### Tracking Web Results 360

### Ensuring Web Privacy and Security 362

Privacy 362  
Security 362

- **HANDS ON . . . HOW TO** Build  
a Web Site That Lands Customers  
and Creates Conversions 363

Chapter Summary by Learning Objective 366  
• Discussion Questions 367 • Beyond  
the Classroom . . . 368 • Endnotes 368

## Chapter 10 Pricing and Credit Strategies 369

### Three Potent Forces: Image, Competition, and Value 372

Price Conveys Image 372  
Competition and Prices 374  
Focus on Value 377

### Pricing Strategies and Tactics 381

- Introducing a New Product 381
- **YOU BE THE CONSULTANT**  
What's the Right Price? 382

Pricing Established Goods and Services 384

- **ETHICS AND ENTREPRENEURSHIP**  
The Ethics of Dynamic  
Pricing 386

### Pricing Strategies and Methods for Retailers 390

Markup 390

### Pricing Concepts for Manufacturers 392

Direct Costing and Pricing 393  
Computing the Break-Even Selling Price 395

### Pricing Strategies and Methods for Service Firms 396

- **HANDS ON . . . HOW TO**  
Calculate Your Company's  
Pocket Price Band 396

### The Impact of Credit on Pricing 398

Credit Cards 399  
Installment Credit 402  
Trade Credit 402

Chapter Summary by Learning Objective 402  
• Discussion Questions 403 • Beyond  
the Classroom . . . 404 • Endnotes 404

## Chapter 11 Creating a Successful Financial Plan 405

### Basic Financial Statements 406

The Balance Sheet 406  
The Income Statement 408  
The Statement of Cash Flows 410

### Creating Projected Financial Statements 411

Projected Financial Statements for a  
Small Business 411

### Ratio Analysis 415

Twelve Key Ratios 416

- **YOU BE THE CONSULTANT**  
The Challenges of Debt 420

### Interpreting Business Ratios 427

- **YOU BE THE CONSULTANT**  
All Is Not Paradise in Eden's  
Garden: Part 1 428

What Do All of These Numbers Mean? 431

### Break-Even Analysis 434

- **YOU BE THE CONSULTANT**  
All Is Not Paradise in Eden's  
Garden: Part 2 434

Calculating the Break-Even Point 435  
Adding a Profit 436

Break-Even Point in Units 437

Constructing a Break-Even Chart 438

- **YOU BE THE CONSULTANT**  
Where Do We Break Even? 439

Using Break-Even Analysis 439

Chapter Summary by Learning Objective 440  
• Discussion Questions 441 • Beyond  
the Classroom . . . 441 • Endnotes 441

## Chapter 12 Managing Cash Flow 442

### Cash Management 443

### Cash and Profits Are Not the Same 447

### The Cash Budget 448

Step 1: Determining an Adequate Minimum  
Cash Balance 452

Step 2: Forecasting Sales 452

Step 3: Forecasting Cash Receipts 453

- **HANDS ON . . . HOW TO**  
Manage Cash Flow in a Highly  
Seasonal Business 454

Step 4: Forecasting Cash Disbursements 456

Step 5: Estimating the End-of-Month Cash  
Balance 457

### The "Big Three" of Cash Management 458

- **YOU BE THE CONSULTANT** In Search  
of a Cash Flow Forecast 459

Accounts Receivable 460

Accounts Payable 466

- **HANDS ON . . . HOW TO**  
Avoid Losses from Accounts Receivable 467

Inventory 468

**Avoiding the Cash Crunch 471**

- Barter 472
- Trim Overhead Costs 473
- **YOU BE THE CONSULTANT**  
Controlling Employee Theft 477

**Conclusion 478**

Chapter Summary by Learning Objective 479

- Discussion Questions 479
- Beyond the Classroom . . . 480
- Endnotes 480

**SECTION IV Putting the Business Plan to Work: Sources of Funds 481**

**Chapter 13 Sources of Financing: Equity and Debt 481**

Equity Capital versus Debt Capital 484

Sources of Equity Financing 484

- Personal Savings 484
- Friends and Family Members 485
- Crowd Funding 486
- **HANDS ON . . . HOW TO**  
Structure Family and Friendship Financing Deals 487
- Accelerators 488
- **HANDS ON . . . HOW TO**  
Crowdfunding 489
- Angels 490
- Venture Capital Companies 493
- Corporate Venture Capital 497

**Public Stock Sale (“Going Public”) 497**

Sources of Debt Financing 501

- Commercial Banks 502
- Short-Term Loans 502
- Intermediate- and Long-Term Loans 503
- **HANDS ON . . . HOW TO** Get a Bank to Say “Yes” to Your Loan Application 504

**The Small Business Administration (SBA) Loan Guarantee Programs 506**

- **YOU BE THE CONSULTANT**  
The Never-Ending Hunt for Financing 507
- Other SBA Loan Programs 510
- Nonbank Sources of Debt Capital 511

**Other Federal and State Programs 514**

- Economic Development Administration 515
- Department of Housing and Urban Development 515

**Chapter 14 Choosing the Right Location and Layout 524**

U.S. Department of Agriculture’s Business Programs and Loans 515

Small Business Innovation Research Program 516

Small Business Technology Transfer Program 516

State and Local Loan Development Programs 516

**Other Methods of Financing 517**

- Factoring Accounts Receivable 517
- Leasing 518
- ROBS 518
- Merchant Cash Advance 519
- Peer-to-peer Lending 519
- Loan Brokers 519
- Credit Cards 519

Chapter Summary by Learning Objective 520

- Discussion Questions 521
- Beyond the Classroom . . . 522
- Endnotes 523

**Location: A Source of Competitive Advantage 525**

- Choosing the Region 526
- Choosing the State 529
- Choosing the City 535
- **ETHICS AND ENTREPRENEURSHIP**  
“Wait, You Can’t Take Our Location . . . Can You?” 540
- Choosing the Site 541

**Location Criteria for Retail and Service Businesses 542**

- Trade Area Size 542
- **YOU BE THE CONSULTANT**  
“Pop” Goes the Store 543
- Retail Compatibility 544
- Degree of Competition 544
- The Index of Retail Saturation 544
- Reilly’s Law of Retail Gravitation 545
- Transportation Network 546
- Physical and Psychological Barriers 546
- Customer Traffic 546
- Adequate Parking 546
- Reputation 547
- Visibility 547

**Location Options for Retail and Service Businesses 547**

- Central Business District 548
- Neighborhood Locations 549
- Shopping Centers and Malls 549
- Near Competitors 552

- Shared Spaces 553
- Inside Large Retail Stores 553
- Nontraditional Locations 553
- Home-Based Businesses 553
- On the Road 554

### The Location Decision for Manufacturers 554

- Foreign Trade Zones 555
- Business Incubators 556

### Layout and Design Considerations 556

- Size and Adaptability 558
- Construction and Appearance 558
- Entrances 559
- The Americans with Disabilities Act 559
- Signs 559
- Building Interiors 560
- Drive-Through Windows 560
- Sight, Sound, Scent, and Lighting 561
- Sustainability and Environmentally Friendly Design 562

### Layout: Maximizing Revenues, Increasing Efficiency, or Reducing Costs 563

- Layout for Retailers 563
- **HANDS ON . . . HOW TO**  
Create the Ideal Layout 564
- Layout for Manufacturers 567

- Chapter Summary by Learning Objective 570
- Discussion Questions 571 • Beyond the Classroom . . . 571 • Endnotes 572

## Chapter 15 Global Aspects of Entrepreneurship 573

### Why Go Global? 574

### Strategies for Going Global 576

- **YOU BE THE CONSULTANT**  
Going Global from the Outset 578
- **YOU BE THE CONSULTANT**  
Selling a Simple Product to a Global Market 585

### Barriers to International Trade 594

- Domestic Barriers 594
- **YOU BE THE CONSULTANT**  
Expatriate Entrepreneurs Find Opportunity in Argentina 595
- **HANDS ON . . . HOW TO** Build a Successful Global Company 598
- International Barriers 599
- Political Barriers 600
- Business Barriers 600
- Cultural Barriers 601

### International Trade Agreements 603

### Conclusion 604

- Chapter Summary by Learning Objective 605
- Discussion Questions 606 • Beyond the Classroom . . . 607 • Endnotes 607

## Chapter 16 Building a New Venture Team and Planning for the Next Generation 608

### Leadership: An Essential Part of an Entrepreneur's Job 609

### Building an Entrepreneurial Team: Hiring the Right Employees 615

- How to Hire Winners 617
- Create Practical Job Descriptions and Job Specifications 621
- **YOU BE THE CONSULTANT**  
Avoid These Hiring Mistakes 622
- Plan an Effective Interview 623
- **ETHICS AND ENTREPRENEURSHIP**  
Honesty in Job Descriptions 625
- Conduct the Interview 626
- Contact References and Conduct a Background Check 627

### Creating an Organizational Culture That Encourages Employee

### Motivation and Retention 629

- Culture 629
- Job Design 634
- Motivating Employees to Higher Levels of Performance: Rewards and Compensation 636

### Management Succession: Passing the Torch of Leadership 639

- **HANDS ON . . . HOW TO** Make Your Small Business a Great Place to Work 640

### Exit Strategies 648

- Selling to Outsiders 648
- Selling to Insiders 649

- Chapter Summary by Learning Objective 650
- Discussion Questions 650 • Beyond the Classroom . . . 651 • Endnotes 651

### Appendix The Daily Perc Business Plan 652

### Cases 674

### Name Index 690

### Subject Index 698

# Preface

Entrepreneurship is a fast-growing and ever-changing discipline. People of all ages, backgrounds, and nationalities are launching businesses of their own and, in the process, are reshaping the world's economy. The purpose of this book is to open your mind to the possibilities, the challenges, and the rewards of owning your own business and to provide the tools you will need to be successful if you choose the path of the entrepreneur. It is not an easy road to follow, but the rewards—both tangible and intangible—are well worth the risks. Not only may you be rewarded financially for your business ideas, but like entrepreneurs the world over, you will be able to work at something you love!

Now in its eighth edition, *Essentials of Entrepreneurship and Small Business Management* has stood the test of time by bringing you the material you need to launch and manage a small business successfully in a hotly competitive environment. In writing this edition, we have worked hard to provide plenty of practical, “hands-on” tools and techniques to make new business ventures successful. Many people launch businesses every year; only some of them succeed. This book provides the tools to help teach students the *right* way to launch and manage a small business with the staying power to succeed and grow.

## What's New to This Edition?

This edition includes many new features that reflect this dynamic and exciting field of study.

- One of the first changes you will notice is the addition of Jeff Cornwall as coauthor. Jeff, who holds the Jack C. Massey Chair of Entrepreneurship and is Professor of Entrepreneurship at Belmont University, is an experienced and successful entrepreneur, a dedicated teacher, a respected author, and an acknowledged expert in the field of entrepreneurship. The United States Association for Small Business and Entrepreneurship has honored Jeff on numerous occasions, naming him a Longenecker/USASBE Fellow in 2006 and presenting the center that he headed at Belmont University the USASBE National Model Undergraduate Program of the Year Award in 2008. USASBE also recognized Jeff in 2013 with the prestigious Outstanding Educator of the Year award. He also served as USASBE's president in 2010. Jeff's blog, the Entrepreneurial Mind, is one of the most popular small business blogs on the Internet, named by *Forbes* as a “best of the Web” selection.
- Almost all of the real-world examples in this edition are new and are easy to spot because they are accompanied by an icon. These examples allow you to see how entrepreneurs are putting into practice the concepts you are learning about in the book and in class. These examples are designed to help you to remember the key concepts in the course. The business founders in these examples also reflect the diversity that makes entrepreneurship a vital part of the global economy.
- We have added a new chapter on “Ethics and Entrepreneurship: Doing the Right Thing” that provides you with a framework for making ethical decisions in business and with the opportunity to wrestle with some of the ethical dilemmas entrepreneurs face in business, including the controversial issues surrounding employers' responses to employees' postings on social media sites. Encouraging you to think about and discuss these issues now prepares you for making the right business decisions later.
- This edition provides expanded and updated coverage of important topics such as using the business model canvas to refine a business idea; using social media, including Facebook, Twitter, and YouTube, as bootstrap marketing tools; attracting capital using



crowd funding; using “pop-up” stores to test potential permanent locations; and identifying the factors that drive employee engagement.

- To emphasize the practical nature of this book, we have updated the content of the very popular “Hands On: How To . . .” feature, which selects a concept from each chapter and explains how you can put it to practice in your own company. These features include topics such as how to “Be a Successful Innovator,” “Use a Mobile-First, Responsive Web Design to Increase Online Sales,” “Manage Cash Flow in a Highly Seasonal Business,” and “Make Your Small Business a Great Place to Work.”
- Another feature that is popular with both students and professors is “You Be the Consultant.” Every chapter contains at least one of these inserts, which describe a decision an entrepreneur faces and asks you to play the role of consultant and advise the entrepreneur on the best course of action. This feature includes the fascinating stories of how entrepreneurs came up with their business ideas (including one on decoding the DNA of the entrepreneur that introduces beekeepers Tim Dover and Susan Gardner, who turned their hobby into a successful bee supply business), setting the right price for a company’s custom-made shirts in a highly competitive market (direct sales company J. Hilburn, founded by Hil Davis), helping entrepreneurs revamp their Web site (New Columbia Distillers, the first new distillery to open in Washington, D.C., since Congress passed the Eighteenth Amendment to the U.S. Constitution), and advising companies on their strategies for becoming micro-multinational businesses (Zee Wines USA and Somnio, which makes unique running shoes that accommodate runners’ foot shapes and running styles). Each one poses a problem or an opportunity and includes questions that focus your attention on key issues and help you to hone your analytical and critical thinking skills.
- This edition includes ten brief cases, eight of them new to this edition, covering a variety of topics (see the Case Matrix that appears on the inside cover). All of the cases are about small companies, and most are companies you can research online. These cases challenge you to think critically about a variety of topics that are covered in the text—from developing a business strategy and building a brand to protecting intellectual property and financing a business.
- The content of every chapter reflects the most recent statistics, studies, surveys, and research about entrepreneurship and small business management. You will learn how to launch and manage a business the *right* way by studying the most current concepts in entrepreneurship and small business management.

Entrepreneurship has become a major force in the global economy. Policymakers across the world are discovering that economic growth and prosperity lie in the hands of entrepreneurs—those dynamic, driven men and women who are committed to achieving success by creating and marketing innovative, customer-focused new products and services. Not only are these entrepreneurs creating economic prosperity, but as social entrepreneurs, many of them are also striving to make the world a better place in which to live. Those who possess this spirit of entrepreneurial leadership continue to lead the economic revolution that has proved time and again its ability to raise the standard of living for people everywhere. We hope that by using this book in your small business management or entrepreneurship class, you will join this economic revolution to bring about lasting, positive changes in your community and around the world. If you are interested in launching a business of your own, *Essentials of Entrepreneurship and Small Business Management* is the ideal book for you!

This eighth edition of *Essentials of Entrepreneurship and Small Business Management* introduces you to the process of creating a new venture and provides you with the knowledge you need to launch a business that has the greatest chance for success. One of the hallmarks of every edition of this book has been a very practical, “hands-on” approach to entrepreneurship. We strive to equip you with the tools you will need for entrepreneurial success. By combining this textbook with your professor’s expertise, you will be equipped to follow your dream of becoming a successful entrepreneur.

## Other Text Features

- This edition once again emphasizes the importance of conducting a feasibility analysis and creating a business plan for a successful new venture. Chapter 4 offers comprehensive coverage of how to conduct a feasibility study for a business idea and then how to create a sound business model for the ideas that pass the feasibility test.
- This edition features an updated, attractive, full-color design and a user-friendly layout that includes an in-margin glossary and learning objectives. Each chapter begins with learning objectives, which are repeated as in-margin markers within the chapter to guide you as you study.
- Chapter 3, “Inside the Entrepreneurial Mind: From Ideas to Reality,” explains the creative process entrepreneurs use to generate business ideas and to recognize entrepreneurial opportunities. This chapter helps you learn to think like an entrepreneur.
- Chapter 9, “E-Commerce and the Entrepreneur,” serves as a practical guide to using the Internet as a marketing and business tool and offers helpful advice for engaging successfully in mobile commerce.
- Chapter 13, “Sources of Financing: Equity and Debt,” gives you a useful overview of the various financing sources that are available to entrepreneurs with plenty of practical advice for landing the financing you need to start or grow your business. Given the changes that have resulted from recent turmoil in the financial industry, this is a particularly important chapter.
- Through a partnership with Palo Alto Software, we’re able to provide 6-month access to LivePlan at a reduced rate with the purchase of a new textbook. LivePlan simplifies business planning, budgeting, forecasting, and performance tracking for small businesses and startups. Set business goals, compare performance to industry benchmarks, and see all your key numbers in an easy-to-use dashboard so you know exactly what’s going on in your business. To order LivePlan with the textbook, use package ISBN 0134113756.

## Instructor Resources

At the Instructor Resource Center, [www.pearsonhighered.com/irc](http://www.pearsonhighered.com/irc), instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- **Instructor’s Resource Manual**
- **Test Bank**
- **TestGen® Computerized Test Bank**
- **PowerPoint Presentations**

*Essentials of Entrepreneurship and Small Business Management* contains a multitude of both student- and instructor-friendly features. We trust that this edition will help you, the next generation of entrepreneurs, to reach your full potential and achieve your dreams of success as independent business owners. It is your dedication, perseverance, and creativity that keep the world’s economy moving forward.

## Acknowledgments

Supporting every author is a staff of professionals who work extremely hard to bring a book to life. They handle the thousands of details involved in transforming a rough manuscript into the finished product you see before you. Their contributions are immeasurable, and we appreciate all

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- Nancy Moudry, photo researcher, who took our ideas for photos and transformed them into the meaningful images you see on these pages. Her job demands many hours of research and hard work, which she did with aplomb.
- Lenny Ann Rapper, marketing manager, whose input helped focus this edition in an evolving market.

We also extend a big “Thank You” to the corps of Pearson sales representatives, who work so hard to get our books into customers’ hands and who represent the front line in our effort to serve our customers’ needs. They are the unsung heroes of the publishing industry.

Special thanks to the following academic reviewers, whose ideas, suggestions, and thought-provoking input have helped to shape this and previous editions of our two books, *Essentials of Entrepreneurship and Small Business Management* and *Entrepreneurship and Effective Small Business Management*. We always welcome feedback from customers!

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 Tammy Yates Arthur, *Mississippi College*  
 Jay Azriel, *York College of Pennsylvania*  
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## Special Note to Students

We trust that this edition of *Essentials of Entrepreneurship and Small Business Management* will encourage and challenge you to fulfill your aspirations as an entrepreneur and to make the most of your talents, experience, and abilities. We hope that you find this book to be of such value that it becomes a permanent addition to your personal library. We look forward to the day when we can write about your entrepreneurial success story on these pages.

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# 1

## The Foundations of Entrepreneurship



Hero Images / Getty Images, Inc.

### Learning Objectives

**On completion of this chapter, you will be able to:**

1. Define the role of the entrepreneur in business in the United States and around the world.
2. Describe the entrepreneurial profile.
- 3A. Describe the benefits of entrepreneurship.
- 3B. Describe the drawbacks of entrepreneurship.
4. Explain the forces that are driving the growth of entrepreneurship.
5. Explain the cultural diversity of entrepreneurship.
6. Describe the important role that small businesses play in our nation's economy.
7. Put failure into the proper perspective.
8. Explain how an entrepreneur can avoid becoming another failure statistic.



## LO1

Define the role of the entrepreneur in business in the United States and around the world.

## The World of the Entrepreneur

Welcome to the world of the entrepreneur! Around the world, growing numbers of people are realizing their dreams of owning and operating their own businesses. Entrepreneurship continues to thrive in nearly every corner of the world. Globally, one in eight adults is actively engaged in launching a business.<sup>1</sup> Research by the Kauffman Foundation shows that in the United States alone, entrepreneurs launch 476,000 businesses each month.<sup>2</sup> This entrepreneurial spirit is the most significant economic development in recent business history. In the United States and around the globe, these heroes of the new economy are reshaping the business environment and creating a world in which their companies play an important role in the vitality of the global economy. With amazing vigor, their businesses have introduced innovative products and services, pushed back technological frontiers, created new jobs, opened foreign markets, and, in the process, provided their founders with the opportunity to do what they enjoy most. “Small businesses have been at the core of our economy’s growth over the last few years,” says Winslow Sargeant, chief counsel of the U.S. Small Business Administration’s Office of Advocacy.<sup>3</sup>

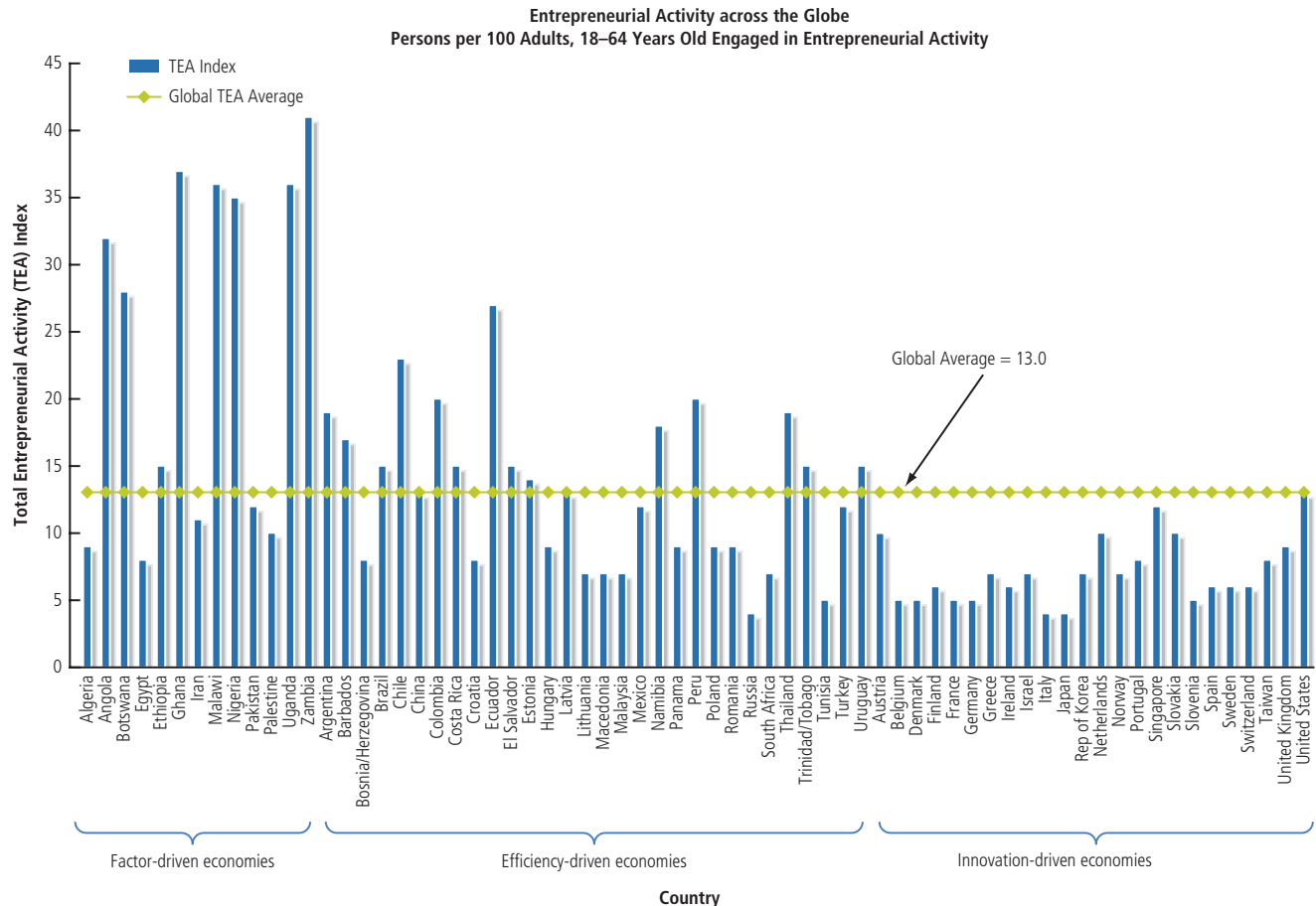
Entrepreneurial activity is essential to a strong global economy. Many of the world’s largest companies continue to engage in massive downsizing campaigns, dramatically cutting the number of employees on their payrolls. This flurry of “pink slips” has spawned a new population of entrepreneurs: “castoffs” from large corporations (in which many of these individuals thought they would be lifetime ladder climbers) with solid management experience and many productive years left before retirement. According to the Small Business Administration, during a recent one-year period, the largest companies in the United States (those with 500 or more employees) *shed* 1.7 million net jobs; during the same period, small businesses with fewer than 20 employees *created* 287,000 net jobs!<sup>4</sup>

One casualty of this downsizing has been the long-standing notion of job security in large corporations. As a result, many people no longer see launching a business as a risky career path. Having been victims of downsizing or having witnessed large companies execute layoffs with detached precision, these people see entrepreneurship as the ideal way to create their own job security and success. Rather than pursue corporate careers after graduation, many college students are choosing to launch companies of their own. They prefer to control their own destinies by building their own businesses.



**ENTREPRENEURIAL PROFILE: Christopher Kelley: Badd Newz BBQ** For years, Christopher Kelley had dreamed of becoming a mobile restaurateur by launching a food truck that specialized in barbecue but was hesitant to give up the security of his job at the company where he had worked in maintenance for 14 years. Like many entrepreneurs, Kelley refused to give up on his dream, bought a food truck, outfitted it, and started Bad Newz BBQ as a part-time business, catering local school events, church gatherings, and fundraisers in Huntsville, Alabama. Two months later, Kelley’s employer announced a massive layoff, and Kelley’s job was eliminated. The layoff prompted Kelley to transform Bad Newz BBQ into a full-time business, and he began marketing his food truck via social and traditional media, even landing a regular spot at a nearby army post. Kelly, who is 43 years old and has lost three jobs over the last 20 years to layoffs, decided it was time to take control of his own destiny by starting a business. He advises other entrepreneurs to believe in their abilities even when others do not and to devote all of their energy into building a successful business.<sup>5</sup> ■

The downsizing trend among large companies has created a more significant philosophical change. It has ushered in an age in which “small is beautiful.” Twenty-five years ago, competitive conditions favored large companies with their hierarchies and layers of management; today, with the pace of change constantly accelerating, fleet-footed, agile, small companies have the competitive advantage. These nimble competitors can dart into and out of niche markets as they emerge and recede, they can move faster to exploit market opportunities, and they can use modern technology to create, within a matter of weeks or months, products and services that once took years and all the resources a giant corporation could muster. The balance has tipped in favor of small, entrepreneurial companies. Howard Stevenson, Harvard’s chaired professor of entrepreneurship, says, “Why is it so easy [for small companies] to compete against giant corporations? Because while they [the giants] are studying the consequences, [entrepreneurs] are changing the world.”<sup>6</sup>



**FIGURE 1.1**  
**Entrepreneurial Activity Across the Globe**

Source: Based on data from José Ernesto and Neils Bosma, *Global Entrepreneurship Monitor 2013 Global Report*, Babson College, Universidad del Desarrollo, Universiti Tun Abdul Razak, and London Business School, 2014, pp. 30–31.

One of the most comprehensive studies of global entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) shows significant variation in the rate of new business formation among the nations of the world when measured by total entrepreneurial activity or TEA (see Figure 1.1). The most recent edition of the study reports that 12.7 percent of the adult population in the United States—one in eight people—is working to start a business. The GEM study also reports that globally men are nearly twice as likely to start a business as women; that entrepreneurs are most likely to launch their companies between the ages of 35 and 44; and that the majority of people in the world see entrepreneurship as a good career choice.<sup>7</sup> The health of the global economy and the level of entrepreneurial activity are intertwined. “The world economy needs entrepreneurs,” says GEM researcher Kent Jones, “and increasingly, entrepreneurs depend on an open and expanding world economy for new opportunities and growth—through trade, foreign investment, and finance.”<sup>8</sup>

The United States and many other nations are benefiting from this surge in global entrepreneurial activity. Eastern European countries, China, Vietnam, and many other nations whose economies were state controlled and centrally planned are now fertile ground for growing small businesses. Table 1.1 shows some of the results from a recent study that ranks 118 nations according to the quality of the entrepreneurial environment they exhibit. Although troubled by corruption, a poor “ease of doing business” ranking, and a low quality entrepreneurial environment, Kenya is home to entrepreneurs of all ages who are hard at work solving problems that range from healthcare and electricity shortages to providing clean water and fashionable clothing to the nation’s 41 million residents.

**TABLE 1.1 Entrepreneurship-Friendly Nations**

Which nations provide the best environment for cultivating entrepreneurship? A recent study ranked 121 countries on the quality of the entrepreneurial environment using the Global Entrepreneurship and Development Index (GEDI), which includes a variety of factors that range from the availability of capital and workforce quality to attitudes toward entrepreneurs and technology available. The maximum GEDI score is 100.

GEDI Score, Top Ten Countries	GEDI Score, Bottom Ten Countries
1. United States 82.5	109. Madagascar 19.6
2. Canada 81.7	110. Ivory Coast 19.4
3. Australia 77.9	111. Uganda 19.3
4. Sweden 73.7	112. Mali 18.8
5. Denmark 72.5	113. Pakistan 18.7
6. Switzerland 70.9	114. Mauritania 18.5
7. Taiwan 69.5	115. Sierra Leone 17.6
8. Finland 69.3	116. Burundi 15.5
9. Netherlands 69.0	117. Chad 15.0
10. United Kingdom 68.6	118. Bangladesh 13.8

Source: “GEDIndex 2014,” The Global Entrepreneurship and Development Institute, 2013, <http://www.thegedi.org/>.



Courtesy of Stawi Foods and Fruits



#### **ENTREPRENEURIAL PROFILE: Eric Muthomi: Stawi Foods and Fruits**

Eric Muthomi grew up in Meru, Kenya, and studied law at the Catholic University of East Africa. While Muthomi was earning his law degree, his goal was to start his own business. After graduating in 2010, Muthomi, just 26 years old, launched Stawi Foods and Fruits, a company that makes a unique banana flour that is used for baking, making baby food, and preparing ugali, a staple dish in Kenya. Muthomi, who also studied entrepreneurship and banana processing, says that coming up with his business idea was simple because his hometown of Meru is a center for banana growers and processors. Stawi Foods and Fruits benefited from the publicity and recognition that came after Muthomi won Jitihada, Kenya’s national business plan competition, beating out 3,439 other business ideas. Getting into business in Kenya was not easy, however; Muthomi says getting necessary permits and licenses for a food business from various government entities is time-consuming and “tiresome.” Despite facing challenges, Stawi Foods and Fruits, which employs five people, reached its breakeven point in less than one year, and Muthomi is reinvesting profits into the company to fuel its growth. The determined entrepreneur already has his sights set on exporting his company’s banana flour to other African nations and eventually other continents. When asked what advice he could offer to other aspiring entrepreneurs, Muthomi recommends that they should not wait for conditions to be perfect before they launch their businesses; instead, they should start with whatever resources they have and grow from there.<sup>9</sup> ■

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

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

## What Is an Entrepreneur?

An **entrepreneur** is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Although many people come up with great business ideas, most never act on their ideas. Entrepreneurs do. In his 1911 book *The Theory of Economic Development*, economist Joseph Schumpeter wrote that entrepreneurs are more than just business creators; they are change agents in society. The process of creative destruction, in which entrepreneurs create new ideas and new businesses that make existing ones obsolete, is a sign of a vibrant economy. Although this constant churn of businesses—some rising, others sinking, new ones succeeding, and many failing—concerns some people, in reality it is an indication of a healthy, growing economic system that is creating new and better ways of serving people’s needs and improving their quality of life and standard of living. Schumpeter compared the list of leading entrepreneurs to a popular hotel’s guest list: always filled with people but rarely the same ones.<sup>10</sup>

High levels of entrepreneurial activity translate into high levels of business formation and destruction and make an economy more flexible and capable of adapting to structural changes in the competitive landscape. One reason the U.S. economy has been so successful over time is the constant churn that results from the rapid pace at which entrepreneurs create new businesses, destroy old ones, and upend entire industries with their creativity and ingenuity. Entrepreneurs are important change agents in the global economy, uprooting staid industries with fresh new business models that spot market opportunities and deliver the products and services customers want.



### ENTREPRENEURIAL PROFILE: Jennifer Hyman and Jenny Fleiss: Rent the Runway

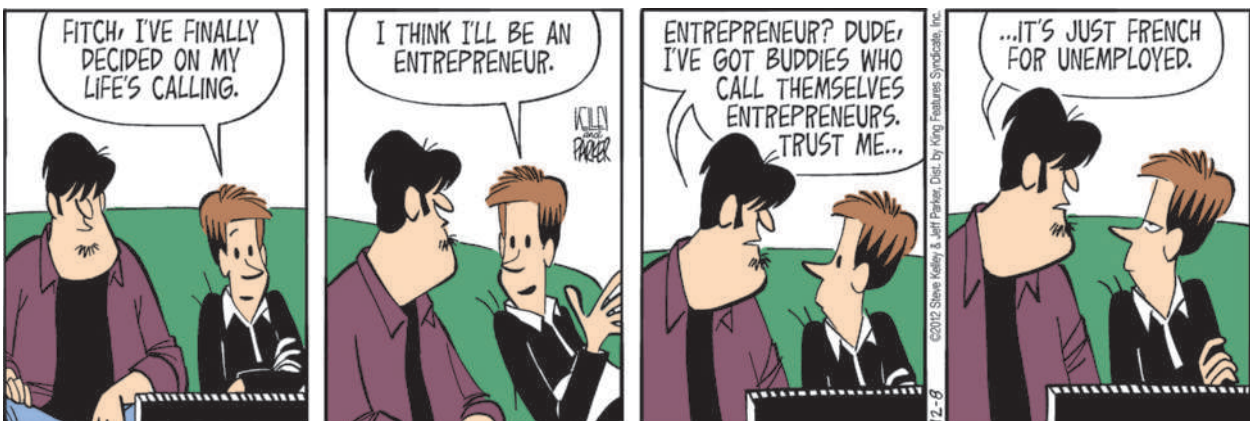
While in college, Jenn Hyman came up with the idea for a designer clothing rental business, Rent the Runway, that would disrupt the fashion industry after she witnessed one of her sister’s “closet full of clothes, but nothing to wear” moments during Thanksgiving break. When she returned to school, she shared her idea with a suitemate, Jenny Fleiss, and the two collegiate entrepreneurs launched the company that rents high-end, designer clothing, accessories, and jewelry to customers at a fraction of the regular retail price. To test their business model (think “Netflix meets high fashion”), they used their savings to purchase 100 dresses and set up a pop-up shop on campus that proved to be a hit. The shop’s success convinced the entrepreneurial pair that their business idea was valid and led them to conduct focus groups with more than 1,000 women, which gave them valuable insight into refining their business model and pricing strategy. Since starting Rent the Runway in 2009, Hyman and Fleiss have raised nearly \$55 million in four rounds of financing from a “who’s who” list of venture capital firms and assembled an inventory of tens of thousands of dresses from more than 170 designers, such as Nicole Miller, Vera Wang, Versace, and Dolce and Gabbana. Customers go online, select the dress they want, enter their size (a backup size comes free), and specify the rental date; returns are as easy as dropping the dress into a prepaid return envelope. “We deliver Cinderella moments,” says Hyman. Rent the Runway, which became cash-flow positive in less than one year, now has more than 3 million members, and financial experts estimate its value at \$240 million.<sup>11</sup> ■

### LO2

Describe the entrepreneurial profile.

### entrepreneur

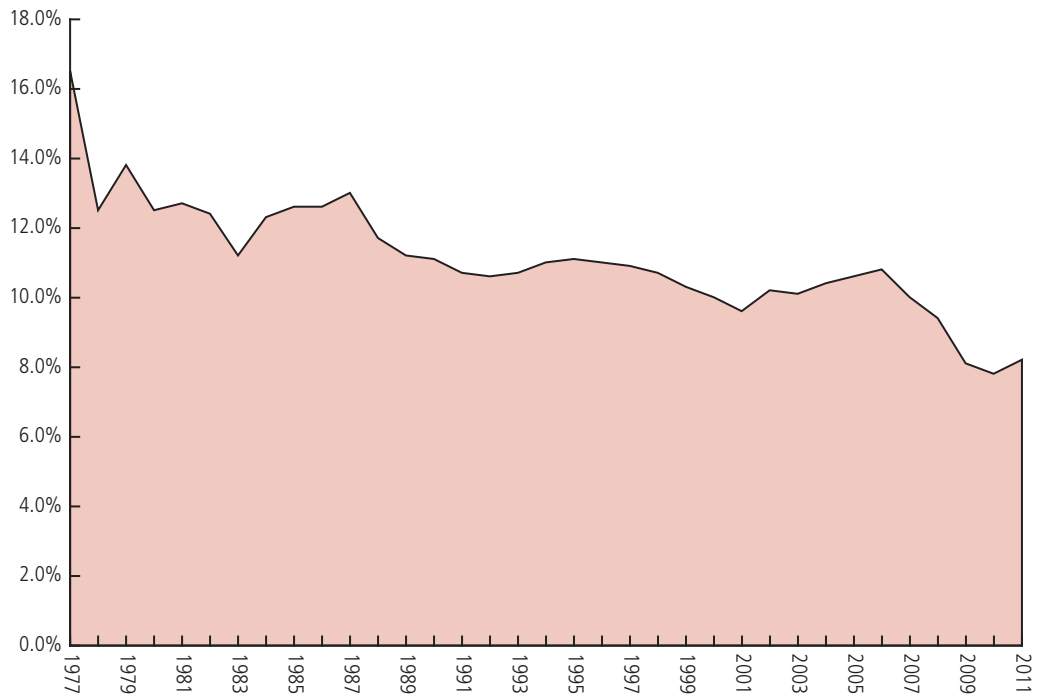
one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them.



Steven Kelly and Jeff Parker, Dustin, King Features Syndicate

**FIGURE 1.2**  
**Percentage of Start-Up Companies in the United States**

Source: *Business Dynamics Statistics Data Tables: Firm Characteristics*, U.S. Department of Commerce, U.S. Census Bureau, 2013, [http://www.census.gov/ces/dataproducts/bds/data\\_firm.html](http://www.census.gov/ces/dataproducts/bds/data_firm.html).



Unfortunately, in the United States, the percentage of private companies that are start-up businesses (those companies that are less than one year old), the primary source of the economy's healthy churn, has been declining since the late 1970s (see Figure 1.2). Although many entrepreneurs fail, some more than once, those who succeed earn the satisfaction of creating value for their customers and wealth for themselves—all while working at something they love to do. Some of them create companies that change the world.

Researchers have invested a great deal of time and effort over the last few decades trying to paint a clear picture of “the entrepreneurial personality.” Although these studies have identified several characteristics entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success. We now turn to a brief summary of the entrepreneurial profile.<sup>12</sup>

1. **Desire for responsibility.** Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources, and they use those resources to achieve self-determined goals. Deborah Sullivan, a lifelong serial entrepreneur realized at the age of 16 that she did not want to spend her life working for others. “You’re stuck by all of these different rules [when you work for someone else],” she says. “I wanted to create something for myself.” Sullivan has been an entrepreneur since she was 22 years old, when she launched a hair salon and spa in Atlanta, Georgia. In 2012, at the age of 60, Sullivan started Consign Werks, a consignment shop in Greenville, South Carolina, which she says has been the most gratifying of her entrepreneurial ventures perhaps because she knew almost nothing about the business until she spent months researching and learning everything she could about consignment shops.<sup>13</sup>
2. **Preference for moderate risk.** Entrepreneurs are not wild risk takers but are instead calculated risk takers. Lee Lin, who left his job at a large investment bank to start RentHop, an online service that helps renters find the ideal apartment in New York City, says that entrepreneurs who risk everything typically do not stay in business very long. Lin says that to minimize risk, he manages his company's finances carefully and focuses on profitable growth opportunities.<sup>14</sup> A study of the founders of the businesses listed as *Inc.* magazine's fastest-growing companies found no correlation between risk tolerance and entrepreneurship. The common belief that entrepreneurs prefer taking big risks is a myth. Unlike “high-rolling, riverboat gamblers,” entrepreneurs rarely gamble. Their goals may appear to be high—even impossible—in others' eyes,

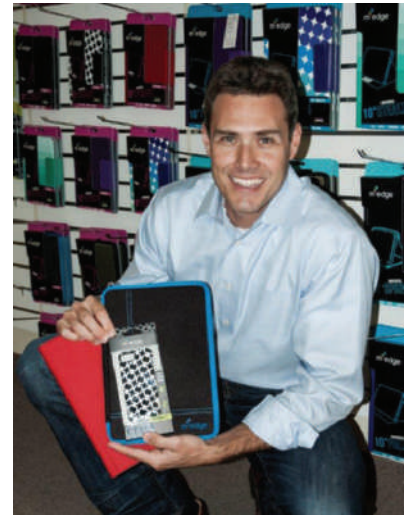


but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable.



**ENTREPRENEURIAL PROFILE: Patrick Mish: M-Edge Accessories**

Patrick Mish took his father's advice to take the safe route by earning an engineering degree and getting a stable job. After earning a PhD in aeroustics from Virginia Polytechnic Institute and State University, Mish went to work for Northrop Grumman, where he was a member of the team that was responsible for creating the next generation of super-stealthy destroyers, but he wasn't happy. Mish spent his days in a cubicle dealing with corporate bureaucracy but dreamed of owning a business of his own. He and his wife, Devon, had purchased one of the first e-readers on the market and discovered that there were very few accessories to enhance its use. That's when the idea to start a business that sells e-reader accessories came to him. Mish began contacting manufacturers with his designs and found one that could produce quality products and was willing to make them in the small quantities Mish ordered at first. Although he was not yet ready to take the plunge into full-time entrepreneurship, Mish began selling a small selection of accessories online after work. Realizing that he needed sales experience, Mish left his engineering job and became a sales representative for a small information technology firm before leaving to operate M-Edge full time. Mish says that by then, starting a business was not a huge risk because he had taken the necessary steps to prepare himself to be a successful entrepreneur. Today, M-Edge generates more than \$37 million in annual sales of e-book accessories and has appeared on *Inc.* magazine's list of fastest-growing companies.<sup>15</sup> ■



Courtesy of M-Edge Accessories

Like Patrick Mish, entrepreneurs usually spot opportunities in areas that reflect their passions, knowledge, backgrounds, or experiences, which increases their probability of success. Successful entrepreneurs are not as much risk *takers* as they are risk *eliminators*, systematically removing as many obstacles to the successful launch of their ventures as possible. One of the most successful ways of eliminating risks is to build a viable business plan for a venture.

3. **Self-reliance.** Entrepreneurs must fill multiple roles to make their companies successful, especially in the early days of a start-up. Because their resources usually are limited, they end up performing many jobs themselves, even those they know little about. Yet, entrepreneurs demonstrate a high level of self-reliance and do not shy away from the responsibility for making their businesses succeed. Perhaps that is why many entrepreneurs persist in building businesses even when others ridicule their ideas as follies.
4. **Confidence in their ability to succeed.** Entrepreneurs typically have an abundance of confidence in their ability to succeed and are confident that they chose the correct career path. Entrepreneurs' high levels of optimism may explain why some of the most successful entrepreneurs have failed in business—often more than once—before finally succeeding.



**ENTREPRENEURIAL PROFILE: David Steinberg: XL Marketing**

In 2004, David Steinberg's company, InPhonic, a business that sold mobile phones and services, made it to the top of *Inc.* magazine's list of the fastest-growing small companies in the United States. By 2007, however, the company's fast growth outstripped its cash flow, and InPhonic filed for Chapter 11 bankruptcy before Steinberg sold it to an investment firm. While he was closing the InPhonic chapter of his entrepreneurial experience, Steinberg was launching another company, XL Marketing, which provides lead-generation and customer-acquisition services for other businesses. With his second venture, Steinberg learned from the mistakes he made with InPhonic, securing adequate financing, managing carefully XL Marketing's financial resources, and controlling the company's growth rate. Like Steinberg, smart entrepreneurs recognize that their failures can be the source of some of the lessons that lead them to their greatest successes.<sup>16</sup> ■

5. **Determination.** Some people call this characteristic “grit,” the ability to focus intently on achieving a singular, long-term goal. Studies show that grit is a reliable predictor of achievement and success, whether the goal involves launching a successful business,

winning the Scripps National Spelling Bee, or excelling in professional sports.<sup>17</sup> (One recent study concludes that top performance in the National Football League's Combine, in which players who are entering the league's draft perform short physical and mental tasks, has no consistent statistical relationship to subsequent performance in the league.) Successful entrepreneurs demonstrate high levels of determination, especially in the face of challenging circumstances. "Failure was not an option for me," says Alexander Gomez, founder of New Wave Surgical, a highly successful company that designs, patents, and markets laparoscopic medical devices used in surgery. "I had everything on the line. It was all or nothing for me."<sup>18</sup> Research by Robert Fairlie of the University of California, Santa Cruz, shows that the Great Recession, which began in late 2007, spawned a surge in entrepreneurship in the same types of businesses typically launched in prosperous times.<sup>19</sup> Perhaps that explains why 57 percent of the *Fortune* 500 companies were launched in either a recession, a "bear" market, or both.<sup>20</sup>



**ENTREPRENEURIAL PROFILE: Romesh Wadhvani: Aspect Development** Five years after starting a canteen with several other students on the campus of Mumbai's Indian Institute of Technology in 1964 with an investment of 100 rupees (about \$10), Romesh Wadhvani arrived in the United States with just \$3.48 in his pocket. He earned a master's degree and a PhD in bioengineering from Carnegie Mellon University in Pittsburgh, Pennsylvania, and renewed his passion for entrepreneurship by launching a company that provided computer-based security and energy management services during the short recession of 1991. Wadhvani convinced an angel investor to invest \$30,000 and pitched his idea to 125 venture capital firms before he found one that was willing to finance a business started by an entrepreneur with no experience. Just nine years later, Wadhvani sold Aspect Development to i2 technologies for \$9.3 billion. Wadhvani says it never occurred to him to give up, and ultimately his tenacity paid off.<sup>21</sup> ■

6. ***Desire for immediate feedback.*** Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking for feedback. The feedback they receive from their businesses drives them to set higher standards of performance for their companies and themselves.<sup>22</sup>
7. ***High level of energy.*** Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a start-up company. Long hours and hard work are the rule rather than the exception, and the pace can be grueling. According to a recent survey by Bank of America, 72 percent of small business owners work more than 40 hours per week.<sup>23</sup> Another recent survey by Sage Software reports that 37 percent of business owners work more hours per week than they did just five years ago.<sup>24</sup> Will Schroter, an entrepreneur who has launched numerous companies, including Go Big Network, an online community for entrepreneurs, says that he works at 1:30 in the morning because he is the founder of a start-up and start-up founders often don't have time to sleep because their work is never-ending. He laughs, adding that he can catch up on his sleep in several years when his company has grown and matured and has levels of managers to handle the immense workload that he currently manages himself.<sup>25</sup>
8. ***Future orientation.*** Entrepreneurs have a well-defined sense of searching for opportunities. They look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future. A year after William Roetzheim's software company, Marotz, landed on *Inc.* magazine's list of the 500 fastest-growing companies in the United States, he sold it and launched another company, Cost Xpert Group, which sells a cost-estimating tool he had developed at Marotz. When Cost Xpert Group reached about \$5 million in annual sales, he sold it. "I always plan to sell when I get to \$5 million," says Roetzheim. "I like starting companies. I don't want to run something big." Roetzheim recently started another company, Level 4 Ventures, which provides project management software. His plan for the future? Expand Level 4 Ventures to \$5 million in sales, sell it, and start another company.<sup>26</sup>

Entrepreneurs see potential where most people see only problems or nothing at all, a characteristic that often makes them the objects of ridicule (at least until their ideas become huge successes). Whereas traditional managers are concerned with managing available *resources*, entrepreneurs are more interested in spotting and capitalizing on *opportunities*. In the United States, 59 percent of those engaged in entrepreneurial activity are **opportunity entrepreneurs**, people who start businesses because they spot an opportunity in the marketplace, compared to **necessity entrepreneurs**, those who start businesses because they cannot find work any other way.<sup>27</sup>



**ENTREPRENEURIAL PROFILE: AJ Forsythe and Anthony Martin: iCracked** After California Polytechnic State University student AJ Forsythe cracked the screen on his iPhone for the sixth time in just 18 months, the long-time tinkerer decided to fix his phone himself using parts he purchased on eBay. A few hours later, with his phone as good as new, Forsythe realized he had discovered a significant business opportunity and decided to launch iCracked, an iPhone, iPad, and iPod repair service, from his dorm room to serve other Cal Poly students. The business grew quickly, and Forsythe teamed up with fellow students Leslee Lambert and Anthony Martin to turn iCracked into a full-time business. The entrepreneurs reworked their business model, choosing to train self-employed technicians, who would buy parts from iCracked to repair their customers' devices. The young entrepreneurs took a chance and used credit cards to finance iCracked, often rolling up credit card balances of \$30,000 to \$40,000 per month. Today, iCracked generates \$1.4 million in annual sales and has thousands of satisfied customers and nearly 350 technicians across the United States and in 11 other countries. To give back to the community, the entrepreneurs recently opened a retail store in a renovated hotel in Long Beach, California, that employs adult foster youth and provides them with a safe place to live. Forsythe says he and his cofounders have had so much fun launching iCracked that they cannot wait to see what their business brings next.<sup>28</sup> ■

**Serial entrepreneurs**, those who repeatedly start businesses and grow them to a sustainable size before striking out again, push this characteristic to the maximum. The majority of serial entrepreneurs are *leapfroggers*, people who start a company, manage its growth until they get bored, and then sell it to start another. A few are *jugglers* (or *parallel entrepreneurs*), people who start and manage several companies at once. Serial entrepreneurs instinctively know that the process of creating a company takes time and choose to pursue several ideas at the same time.<sup>29</sup> *The Entrepreneur State of Mind* study reports that 54 percent of business owners are serial entrepreneurs.<sup>30</sup> “The personality of the serial entrepreneur is almost like a curse,” admits one entrepreneurial addict. “You see opportunities every day.”<sup>31</sup> At age 81, serial entrepreneur David Gilmour says he has been trying to retire for four decades, but opportunities just kept coming his way. “None of my start-ups were based on searching for something to do,” claims Gilmour, who has founded 11 companies (some of which failed) that range from a stereo maker and a luxury resort to bottled water and a gold mine. “I get the vision and the passion for the next project,” he says. “It must see the light of day.”<sup>32</sup>

It's almost as if serial entrepreneurs are addicted to launching businesses. “Starting a company is a very imaginative, innovative, energy-driven, fun process,” says Dick Kouri, who has started 12 companies in his career and now teaches entrepreneurship at the University of North Carolina. “Serial entrepreneurs can't wait to do it again.”<sup>33</sup>

9. **Skill at organizing.** Building a company “from scratch” is much like piecing together a giant jigsaw puzzle. Entrepreneurs know how to put the right people together to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their visions into reality. “Great entrepreneurship is in the execution,” says Eric Paley, an entrepreneur-turned-venture-capitalist.<sup>34</sup>
10. **Value of achievement over money.** One of the most common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To the contrary, *achievement* seems to be entrepreneurs' primary motivating force; money is simply a way of “keeping score” of accomplishments—a symbol of achievement. What drives

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