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Eighth Edition
New Venture Creation
Entrepreneurship for the 21st Century

Jeffry A. Timmons / Stephen Spinelli, Jr

创业学
——21世纪的创业精神

〔美〕杰弗里·蒂蒙斯 小斯蒂芬·斯皮内利 著

创业学

—— 21 世纪的创业精神

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Jeffrey A. Timmons, Stephen Spinelli, Jr.

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内 容 提 要

本书初版于 1974 年，第 8 版于 2009 年出版。在这 36 年里，蒂蒙斯的《创业学》被公认为权威之作，《INC.》《成功》杂志及《华尔街日报》一致将其列为创业学“经典著作”。著名的“蒂蒙斯创业模型”正出自本书。令人惋惜的是，蒂蒙斯对本书作了最后一次修订，于 2008 年 4 月 8 日不幸去逝。因此，这本《创业学》第 8 版也就成了这位创业学大师的绝笔。

与以往几版一样，本书的构思与行文将关注点集中在创造新知识、新方法和新观念上，目的是引导学生去发现创业理念以及用来捕捉不同创业机会所必需的能力水平、专门知识、经验、态度、资源、网络，这一切都通过一套实用的方法来实现。本书分为五编 19 章。前四编详细介绍了创业过程的驱动力量：商机识别、商业计划、创始人和创始团队以及资源需求；第五编讨论了企业获得成功的战略、如何管理快速发展中的企业、家族创业者以及企业的收获退出等事宜。

本书可作为 MBA、管理专业或非管理专业的本科生、硕士生创业学课程的教材，也可作为实践中的创业者的行动手册。

DEDICATION

To William F. Glavin, ninth president of Babson College, 1989–1995. Our hero, our mentor, our leader extraordinaire, and our dear friend. You are to Babson College, to us, and to university presidencies what Tom Brady, Wayne Gretzky, and Michael Jordan are to football, hockey, and basketball . . . simply the greatest! Thank you, Bill, for supporting and propelling entrepreneurship toward our dreams.

ABOUT THE AUTHORS

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

Franklin W. Olin Distinguished Professor of Entrepreneurship and Director, Price-Babson College Fellows Program at Babson College AB, Colgate University; MBA, DBA, Harvard University Graduate School of Business.

Days before he died Jeff submitted the last few revisions for this text. He was never more engaged intellectually than when he was translating research and experiences into coursework. He worked on the belief that deep thinking could motivate decisive action and provide dedicated students of entrepreneurship a competitive advantage.

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

Beginning his career in the 1960's, Jeffry A. Timmons was one of the pioneers in the development of entrepreneurship education and research in America. He is recognized as a leading authority internationally for his research, innovative curriculum development, and teaching in entrepreneurship, new ventures, entrepreneurial finance, and venture capital.

Professor Timmons was also an enigma in academia—having resigned tenure twice, as well as resigning two endowed chairs. In 1994, he resigned the Harvard endowed professorship he had held since 1989 to return to Babson College, which he had joined in 1982, and in 1995 was named the first Franklin W. Olin Distinguished Professor of Entrepreneurship. Earlier he had been the first to hold the Paul T. Babson professorship for two years, and subsequently became the first named to the Frederic

C. Hamilton Professorship in Free Enterprise Studies, from which he resigned in 1989 to accept the Harvard chair. Earlier at Northeastern University in 1973, he launched what is believed to be the first undergraduate major in new ventures and entrepreneurship in the country, and later created and led the Executive MBA program. Both of these programs exist today. *Business Week's 1995 Guide to Graduate Business Schools* rated Timmons as the “best bet” and among the top 10 professors at Harvard Business School. *Success* magazine (September, 1995) in a feature article called him “one of the two most powerful minds in entrepreneurship in the nation.” Michie P. Slaughter, former president of the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation, calls him “the premier entrepreneurship educator in America.” Before her death in January 2001, Gloria Appel, as president of the Price Institute for Entrepreneurial Studies noted, “he has done more to advance entrepreneurship education than any other educator in America.” In 1995, the Price Institute and Babson College faculty and friends chose to honor Dr. Timmons by endowing The Jeffry A. Timmons Professorship in recognition of his contributions to Babson and to the field. In 2007, *Forbes Small Business* called Dr. Timmons one of the country's best entrepreneurship educators.

In 1985, he designed and launched the Price-Babson College Symposium for Entrepreneurship Educators, aimed at improving teaching and research by teaming highly successful entrepreneurship with “an itch to teach” with experienced faculty. This unique initiative was in response to a need to create a mechanism enabling colleges and universities to attract and support entrepreneurship educators and entrepreneurs and help them create lasting collaborations that would enhance the classroom experience for their students. There is now a core group of over 1400 entrepreneurship educators and entrepreneurs from over 300 colleges and universities in the US and

38 foreign countries, who are alumni of the Price-Babson College Fellows Program. In May 1995, *INC.* magazine's "Who's Who" special edition on entrepreneurship called him "the Johnny Appleseed of entrepreneurship education" and concluded that this program had "changed the terrain of entrepreneurship education." The program was the winner of two national awards, has been replicated outside the USA, and has now been expanded to eight countries outside of the United States and continues to grow. In 1998, Dr. Timmons led an initiative now funded by the Kauffman Center for Entrepreneurial Leadership to create Lifelong Learning for Entrepreneurship Education Professionals (LLEEP) offering a series of training clinics for entrepreneurship educators.

In 2003 Timmons worked with Professor Steve Spinelli to conceive a sister program to the SEE program which would be available for engineering schools with an interest in entrepreneurship. They partnered with colleagues at the new Olin College of Engineering on the Babson campus; President Rick Miller, Provost David Kerns, Dean Michael Moody and Professors John Bourne, Ben Linder, Heidi Neck, and Stephen Schiffman to win a three-year National Science Foundation grant to design, develop and deliver such a program. The first pilot was done in June 2005 with significant success, and offered on the Babson/Olin Campus in 2006 and 2007.

During the past decades, Dr. Timmons helped launch several new initiatives at Babson, including the Babson-Kauffman Entrepreneurship Research Conference, the Kauffman Foundation/CEL Challenge Grant, the Price Challenge Grant, business plan competitions, and a president's seminar. In 1997 he led an initiative to create the first need-based full-tuition scholarship for MBA students with a \$900,000 matching grant from the Price Institute for Entrepreneurial Studies. Each year one of the recipients of this Price-Babson Alumni Scholarship is named the Gloria Appel Memorial Scholar in honor of this longtime benefactor, colleague and friend. In addition to teaching, Professor Timmons devoted a major portion of his efforts at Babson to the Price-Babson programs and to joint initiatives funded by the Kauffman Center for Entrepreneurial Leadership and Babson, including new research and curriculum development activities. He provided leadership in developing and teaching in initiatives that assist Native Americans seeking economic self-determination and community development most notably through entrepreneurship education programs at the nation's several Tribal Colleges. In April 2001, Professor Timmons was recognized for these efforts in a citation voted

by the legislature of the State of Oklahoma naming him Ambassador for Entrepreneurship.

Since 1999, he served as special advisor to the National Commission on Entrepreneurship. The work of the Commission culminated in a national conference held in April 2001 that was jointly sponsored by the John F. Kennedy School of Government at Harvard University, the National Commission of Entrepreneurship, and the Kauffman Center for Entrepreneurial Leadership. Professor Timmons served as a lead moderator at conference sessions.

A prolific researcher and writer, he wrote nine books, including this textbook first published in 1974. *New Venture Creation* has been rated by *INC.*, *Success*, and the *Wall Street Journal* as a "classic" in entrepreneurship, and has been translated into both Japanese and Chinese. In 1996 and 1998, *INC.* featured the book's fourth edition as one of the top eight "must read" books for entrepreneurs. *Venture Capital at the Crossroads* written with Babson colleague William Bygrave (1992) is considered the seminal work on the venture capital industry and is also translated into Japanese. Earlier, Dr. Timmons wrote *The Entrepreneurial Mind* (1989), *New Business Opportunities* (1990), *The Insider's Guide to Small Business Resources* (1984), *The Encyclopedia of Small Business Resources* (1984), and his contributed chapters to other books including *The Portable MBA in Entrepreneurship* (1994, 1997, 2003). More recently, he has co-authored *How to Raise Capital* with Babson Professor Andrew Zacharakis (2005), and *Business Plans that Work*, with Steve Spinelli (2004). Timmons authored over 100 articles and papers, which appeared in numerous leading publications, such as *Harvard Business Review* and *Journal of Business Venturing*, along with numerous teaching case studies. In 1995, he began to develop a new audiotape series on entrepreneurship, working with Sam Tyler, producer of the *In Search of Excellence* series for PBS with Tom Peters. He has also appeared in the national media in the United States and numerous other countries and has been quoted in *INC.*, *Success*, *The Wall Street Journal*, *The New York Times*, *The Los Angeles Times*, *Business Week*, *Working Woman*, *Money*, *USA Today*, and has had feature articles written about him in *The Rolling Stone* (1997), *The Boston Globe* (1997), and *Success* (1994).

Dr. Timmons earned a reputation for "practicing what he teaches." One former graduate and software entrepreneur interviewed for the *Rolling Stone* article put it succinctly: "When going to his classes I couldn't wait to get there; and when I got there I didn't ever want to leave!" For over 35 years he has been immersed in the world of entrepreneurship as an investor, director, and/or advisor in private companies and investment funds including Cellular One in

Boston, and New Hampshire and Maine, the Boston Communications Group, BCI Advisors, Inc., Spectrum Equity Investors, Internet Securities, Inc., Chase Capital Partners, Color Kinetics, Inc., Flat World Knowledge and others. He also served since 1991 as founding member of the Board of Directors of the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation. For the next 10 years he served as a special advisor to the President and Board of Directors of the Kauffman Center, where he conceived of the Kauffman Fellows Program and served as its dean of faculty. In 2003 he worked closely with the President and alumni of the Kauffman Fellows Program to successfully spin the program out of the Kauffman Foundation into an independent entity as the Center for Venture Management, and continues as Dean, Chairman of the Educational Advisory Committee, and on the Board of Directors. The aim of this innovative program is to create for aspiring venture capitalists and entrepreneurs what the Rhodes scholarship and White House Fellows programs are to politics and public affairs. In 2001, Jeff joined the President's Council at the newly formed Franklin W. Olin College of Engineering. In 1994 and 1996, he served as a National Judge for the Ernst & Young Entrepreneur of the Year Awards.

Dr. Timmons received his MBA and DBA from Harvard Business School, where he was a National Defense Education Act fellow and is a graduate of Colgate University, where he was a Scott Paper Foundation Scholar. He served as a trustee of Colgate from 1991 to 2000. He lived on his 500+ acre farm in New Hampshire with his wife of over 40 years, Sara, and winters at Brays Island Plantation near Savannah, Georgia. He loved the outdoors: fly-fishing; hunting and golf. He is one of the founders of the Wapack Highlands Greenway Initiative in New Hampshire, was an active in the Henry's Fork Foundation and Wildlife Conservation Trust of New Hampshire, and served as a director of Timber Owners of New England. He was a member of numerous other wildlife and nature organizations, including The Monadnock Conservancy, The Harris Center, The Nature Conservancy, The Moosehead Region Futures Committee, Atlantic Salmon Federation, and Ruffed Grouse Society.

Stephen Spinelli, Jr.

President, Philadelphia University

Formerly Babson College, Vice Provost for Entrepreneurship and Global Management; Director Arthur M. Blank Center for Entrepreneurship and Chairman, Entrepreneurship Division, Paul T. Babson Chair in Entrepreneurship

B.A., McDaniel College (formerly Western Maryland College); MBA, Babson Graduate School of

Business; and PhD (Economics), Imperial College, University of London

The majority of Dr. Spinelli's professional experience has been in entrepreneurship. He was a founding shareholder, director and manager of Jiffy Lube International. He was also founder, chairman and CEO of American Oil Change Corporation. In 1991, he completed a sale of Jiffy Lube to Pennzoil Company. Dr. Spinelli led the Entrepreneurship Division at Babson and taught full-time, he has not abandoned his business roots. He continues to consult with regional, national, and international companies; serves as a Director at several corporations and participates as an angel investor with investments in more than a dozen startups.

Dr. Spinelli is the quintessential "pracademic"—a business practitioner turned academic. Having successfully harvested Jiffy Lube, Dr. Spinelli was invited to attend the Price Babson College Fellows Program and his career in academia was launched. After several years of part-time teaching, he joined the ranks of full-time faculty after receiving his PhD in October 1995 from Imperial College, University of London. Dr. Spinelli's expertise is in startup and growth management. His research has focused on an understanding of strategic entrepreneurial relationships. He is the author of more than two-dozen journal articles, book chapters, academic papers, and teaching case studies. He is also the author of six books including *Franchising: Pathway to Entrepreneurship*, (Prentice-Hall; 2003). His latest book *Never Bet the Farm*, is co-authored with Anthony Iaquinto. A superb educator, he served as a key member of the faculty of the Price Babson College Fellows Program's Symposium for Entrepreneurship Educators (SEE) for 12 years, in addition to his teaching in the undergraduate, graduate, and executive education programs, and is a shining example of the many contributions that entrepreneurs can make to an academic institution. Dr. Spinelli led the internationalization of SEE to Chile, Argentina, Costa Rica, China and Europe. In 2003 Dr. Spinelli founded the Babson-Historically Black Colleges and Universities case writing consortium. This group is dedicated to writing entrepreneurship teaching cases focused on African American entrepreneurs.

He was a leading force in curriculum innovation at Babson, and with his colleagues in Entrepreneurship Division continually defines and delivers new initiatives. In 1999, he led the design and implementation of an Entrepreneurship Intensity Track for MBAs seeking to launch new business ventures upon graduation. Building on this highly successful initiative, he led the design and development of ACE—an accelerated honors curriculum for aspiring entrepreneurs in Babson's undergraduate program. Dr. Spinelli's presentation

to the United States Association for Small Business and Entrepreneurship (USASBE) resulted in the naming the F.W. Olin Graduate School of Business the 2002 National Model MBA program

Dr. Spinelli has been a strong voice for entrepreneurship. He has been a keynote speaker for Advent International's CEO Conference, the MCAA National Convention and Allied Domecq International's Retailing Conference, the Entrepreneur's Organization at MIT and many others; has been called to testify before the US Senate Subcommittee on Small Business and Entrepreneurship; and is often quoted as an expert in the field in such leading publications as the *Wall Street Journal*, *Forbes* magazine, *The Financial Times*, *Success Magazine* and *Inc. magazine*.

President Stephen Spinelli was touted as a new model of college president in a front page story in the May 17, 2008 *Philadelphia Inquirer*.

He also serves as a director for several local, regional and national not-for-profits or community based associations.

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PREFACE

A Book for a New Generation of Entrepreneurial Leaders—Worldwide

The entrepreneurship revolution in America over the past 40 years has had an extraordinary impact on the cultural and economic landscape in the United States. While there will always be opportunities for improvement and innovation, America's opportunity-driven style of entrepreneurship has sparked an entrepreneurial revolution around the globe.

Technology has certainly played a major role in this global phenomenon. In 2007 there were over 1.1 billion Internet users in the world, with over 900 million of them outside the United States. Even in tiny Iceland, 86 percent of the homes are connected. In the United States an iPod is sold *every eight seconds*. Entrepreneurship and the Internet continue to flatten the world at a staggering pace. In the process, they are spawning fertile fields of opportunities that are being tilled and seized on every continent.

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

An Edition for an Era of Uncertainty and Extraordinary Opportunity

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

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

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

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

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

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

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

The exciting news is that you can learn from other people's experiences, know-how, and wisdom; you don't have to learn it all by doing it yourself. If that were the case, wouldn't everyone succeed as an entrepreneur? Besides, insisting on learning everything from scratch would take far too much time and money! By fully engaging the material in this book—the required analysis, thinking, and practice with the cases, exercises, assignments, and discussions both in and out of the classroom—you can significantly compress your learning curve, reduce your ultimate risk and pain, and gain a lot more from your subsequent hands-on experiences.

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

Once you understand how winning entrepreneurs think, act, and perform, you can establish goals to emulate those actions, attitudes, habits, and strategies. *New Venture Creation* challenges you to think about the process of becoming an entrepreneur and seeks to enable you to immerse yourself in the dynamics of launching and growing a company. The book addresses practical issues such as the following:

What are my real talents, strengths, and weaknesses? How can I exploit my talents and strengths and minimize my weaknesses? How can I recognize when an opportunity is more than just another good idea, and whether it's one that fits with my personal mind-set, capabilities, and life goals? Why do some firms grow quickly

to several million dollars in sales but then stumble, never growing beyond a single product? What are the critical tasks and hurdles in seizing an opportunity and building the business? How much money do I need, and when, where, and how can I get it on acceptable terms? What financing sources, strategies, and mechanisms can I bring to bear throughout the process—from pre-start, through the early growth stage, to the harvest of my venture?

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

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

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

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

The *New Venture Creation* models are useful not only as a comprehensive textbook for a course in entrepreneurship, but also as a road map for a curriculum or departmental major in entrepreneurship. Since the late 1990s, for example, Babson College has been setting the standard for management education with an approach based on the model of the entrepreneurial process in this text. This integrative program has been a major factor in

keeping Babson College in the top spot among entrepreneurship schools in America and around the world.

A Summary of Changes in the Eighth Edition: New Cases, New Chapters, New Data, and Major Revisions

This edition is a significant update from the seventh edition. New cases and exercises, updated Web sites, and text material have been added to capture the current financial, economic, technological, and globally competitive environment of this first decade of the new century. A special effort has been made to include cases that capture the dynamic ups and downs new firms experience over an extended time. By grappling with decisions faced by entrepreneurs—from start-up to harvest—this text offers a broad and rich perspective on the often turbulent and unpredictable nature of the entrepreneurial process.

We have updated our real-world application of the Timmons Model of the entrepreneurial process with a look at Google's amazing trajectory. For those concerned about our environment and wide-ranging social issues and how these present enormous opportunities for your generation of entrepreneurs to solve these problems, we have included two new chapters, "Clean Commerce: Seeing Opportunity through a Sustainability Lens" and "Opportunities for Social Entrepreneurship," which you will find thought-provoking and worthwhile.

This edition features important changes and additions. As with the previous edition, we have undertaken a major restructuring and reordering of the flow of the book, which now begins with a focus on the worldwide impact of entrepreneurship. Six new cases have been added, as well as a series of three vignettes to spark discussion and learning in the difficult realm of business ethics.

This eighth edition contains the latest updates, including examples of entrepreneurs in action coping with the post-Internet bubble era and the mortgage loan crisis in 2007. This edition features refined exercises and five new ones: Venturekipedia, a tool for enhancing research; Virtual Brain Trust, a complementary exercise to the Brain Trust exercise; and in the final chapter, a new interview exercise titled Wisdom from the Harvest—a visit with successful, harvested entrepreneurs that could connect you to the most insightful discussions you have ever had. Slicing the Equity Pie is a new tool for resolving ownership participating and ethical caselettes is a new set of challenging ethical decisions.

Chapter 1, "The Global Entrepreneurial Revolution for a Flatter World": A Major Rewrite with a New Exercise and a New Case

Chapter 1, derived from the second chapter of the previous edition, looks at entrepreneurship as a 40-year transformational force in America that is now driving economic opportunity and prosperity worldwide. We have substantially updated the material in this edition, which now includes a discussion of the state of entrepreneurship education, how nonprofits are adopting entrepreneurial methods, and how the creation and liberation of human energy through entrepreneurship have become the single largest transformational force on the planet. This chapter includes the Visit with an Entrepreneur exercise that will help to establish important benchmarks, role models, and comparisons that are referenced throughout the text.

The new Venturekipedia exercise is a tool to assist students in making frugal use of their time while doing research, due diligence, and other investigations, regardless of the topic. In this exercise, students utilize Wikipedia to identify new Web sites and resources closely related to their original set of keywords. The result is a valuable bank of new insights and Web site links.

The new ImageCafé case discusses Clarence Wooten, who has been bent on becoming an entrepreneur since childhood. Following his academic and technical interests, after college he founded Envision Design, an award-winning 3D animation company targeting architects. His second start-up, Metamorphosis Studios, morphed into his third: ImageCafé, a business offering Web site templates that appeared to have been designed by high-end professionals. We follow Clarence's efforts to raise capital and grow the company when he receives advances by an industry leader to buy his company.

This case can be used in the first third of the course to address issues around opportunity assessment and reinvention. ImageCafé is a third iteration by this tenacious and thoughtful entrepreneur. The effect his first two ventures had on shaping the new venture is a great example of how entrepreneurial failure can be a vital learning experience. Opportunities for discussion include scalability, burn rate, OOC (out of cash), and valuation.

Chapter 2, "The Entrepreneurial Mind": A Significant Rewrite with a New Case

Chapter 2 is a major revision of Chapter 1 from the previous edition; it presents the strategies, habits, attitudes, and behaviors that work for entrepreneurs

who build higher-potential ventures. This chapter outlines exciting new research that supports the authors' long-standing assertion that effective entrepreneurs are internally motivated, high-energy leaders with a unique tolerance for ambiguity, a keen eye toward mitigating risk, and a passion for discovery and innovation. Still here is the popular exercise Crafting a Personal Entrepreneurial Strategy—the personal equivalent of developing a business plan.

The new Lakota Hills case follows Laura Ryan, a Native American who has taken her family's special recipe for frybread from the kitchen to supermarkets all over the Midwest. But is their current strategy the best way to build their specialty foods venture? This case provides an excellent overview of the entrepreneurial process, including creating value, channel marketing, and fund-raising. The case includes metrics that will work for MBA-level discussions and analysis as well.

Chapter 3, "The Entrepreneurial Process": New and Updated Material

This chapter develops the Timmons Model framework for the entrepreneurial process and offers a real-world illustration of this conceptual model with an examination of Google's rise from a garage venture to a multifaceted international powerhouse. This edition emphasizes how building a sustainable venture means achieving economic, environmental, and social goals without compromising the same opportunity for future generations.

The Roxanne Quimby case tells the remarkable story of a young woman, living at a subsistence level in the backwoods of Maine, who sees an opportunity and grows it in a few years into a multimillion-dollar venture.

Chapter 4, "Clean Commerce: Seeing Opportunity through a Sustainability Lens": New Chapter by Andrea Larson and Karen O'Brien

This new chapter was developed by Professors Andrea Larson and Karen O'Brien from the University of Virginia. They have built on their pioneering work on clean commerce and sustainable enterprising to prepare this exciting new material. This chapter demonstrates how clean commerce is spawning what may be the greatest flow of new entrepreneurial opportunities that will occur this century: in energy conservation and independence, pollution control, green materials and construction, and saving the environment of the planet. This dramatic sea change is linked to the Timmons Model and shows how its

principles and methodologies can be applied to this new arena. Your thinking and imagination about big ideas and big opportunities will be stimulated and enlightened by this chapter—it's a must-read.

The Jim Poss case describes Jim's enterprise, Seahorse Power Company, which is an engineering start-up that encourages the adoption of environmentally friendly methods of power generation by designing products that are cheaper and more efficient than 20th-century technologies. Jim is sure that his first product, a patent-pending, solar-powered trash compactor, could make a real difference. This case chronicles the evolution of this green venture and places the entrepreneur at the critical point of deciding how best to deal with potential investors and funding alternatives.

Chapter 5, "The Opportunity: Creating, Shaping, Recognizing, Seizing": Updated Material

An important precursor to the next chapter on screening venture opportunities, this chapter introduces opportunity assessment and due diligence strategies. The authors challenge budding entrepreneurs to "think big enough" as they examine opportunities using criteria favored by successful entrepreneurs, angels, and venture capital investors in evaluating potential ventures.

The Burt's Bees case follows the Roxanne Quimby story explored in Chapter 3. Roxanne is a remarkable entrepreneur whose creative ideas and entrepreneurial spirit led her to create a new business around beeswax products and derivatives. With her company experiencing profitable growth, Roxanne faces a major issue of relocation to North Carolina and the offer of a significant strategic sale.

In the Next Sea Changes exercise students are challenged to research, brainstorm, and identify new technologies and discoveries that will drive the next growth industries, just as the integrated circuit drove the evolution from mainframe computers to personal computers to iPhones.

Chapter 6, "Screening Venture Opportunities": Revised Material with a New Case

This chapter builds on the drivers and criteria in Chapter 5, utilizing two screening methodologies that can help students determine whether their ideas are potential opportunities. By applying the opportunity criteria from the previous chapter, students begin to assess the probable fit of their ideas with their own lives, their teams, the required resources, and the balance of risk and reward.

The QuickScreen and Venture Opportunity Screening exercises provide valuable formats to guide the initial evaluation of an idea and the due diligence needed to determine its profit potential, probable risk and reward, and sustainability. The QuickScreen is a dehydrated version of the core exercise that helps students to quickly cut through to the core characteristics of an opportunity. These exercises may be used separately or together, allowing maximum flexibility in the syllabus, when counseling individual students, and with mentoring field study projects.

The new Globant case discusses a four-year-old venture making business headlines in Argentina as the largest independent information technology (IT) outsourcer in that country. From the beginning, Martin Migoya and cofounder Guibert Englebienne have fueled sales by tapping their personal networks and by successfully following up on every lead and referral coming their way. Their sustained push for wins, however, has resulted in such a broadly diversified portfolio of clients and service offerings that they risk being marginalized by larger, more focused competitors. This case lets students examine opportunity criteria such as skill sets, geography, industry segments, and client needs with the aim of determining a best-fit growth strategy—on the fly.

Chapter 7, “Opportunities for Social Entrepreneurship”: New Chapter and a New Case

This chapter by Heidi Neck, assistant professor of entrepreneurship at Babson College, presents new research and a framework for identifying and executing opportunities that intrinsically have important societal outcomes and benefits. The field of social entrepreneurship is an exciting convergence of *doing good* and *doing well*, and this chapter shows that the principles, ways of thinking and reasoning, and methodologies in the Timmons Model can be used effectively to identify opportunities for, develop, and build for-profit and nonprofit enterprises with social missions.

The new Northwest Community Venture Fund case describes Michelle Foster, general partner of NVC, a for-profit equity fund with a socially responsible mission to invest in rural communities in Oregon and Washington State. As with most venture funds, NVC is raising a follow-on fund long before performance results are in for the current effort. Michelle wonders whether institutional investors can be attracted to the fund's unique brand of socially responsible venture capital—especially if better returns are available elsewhere at lower risk. Michelle's immediate challenge, however, is Eileen O'Brien, the passionate founder of NCV's staunchly nonprofit parent organization. At first their vastly different

business philosophies had been a source of respect, philosophical curiosity, and even amusement. Increasingly, though, that relationship has become strained by the pressures that both leaders face to satisfy their respective—and highly disparate—mandates.

Chapter 8, “The Business Plan”: Updated Material and a New Exercise

This chapter, including the classic and detailed Business Plan Guide, offers in this edition a comprehensive list of the benefits of writing a business plan—especially for the first-timer. The authors stress that embarking on the perilous journey of starting a new venture without some serious planning defies sensibility. At the same time they discuss the sorts of businesses and entrepreneurs that can move forward with a “dehydrated business plan”—backed by experience or necessitated by a closing window of opportunity.

The new Virtual Brain Trust exercise discusses how today's social networking Web sites and the worldwide connectivity of the Internet have opened up vast new opportunities to identify and build the most important part of the external team—the venture's brain trust. This exercise, a precursor to the Brain Trust exercise in Chapter 11, uses online resources to attract brain trust members who are direct and honest and have the entrepreneur's best interests at heart.

The Newland Medical Technologies case describes what seemed like a perfect plan. With two assertive angel investors guiding her medical device company on what looked like an acquisition fast track, young entrepreneur Sarah Foster and her husband decided that the time was right to start a family. However, by the middle of her first trimester, everything had changed. As cofounder and president, Sarah was now compelled to reconsider the course she'd set for her medical device venture. In doing so, she was going to have to make some tough choices to strike a balance between motherhood and her professional passions.

Chapter 9, “The Entrepreneurial Leader and the Team”: Major Rewrite with Two New Exercises

Recognizing that in high-potential ventures the entrepreneurial leader(s) and the team are inseparable, this edition combines Chapters 7 and 8 of the previous edition. Note also that throughout this chapter (and the book) the term *manager* has been replaced with *leader* as a far more accurate reflection of what it takes to grow a venture. In the process of merging these critical chapters, we have replaced some sections

and exhibits with new material, including discussion and exercises relating to the important issue of rewards and equity.

The Leadership Skills and Know-How Assessment exercise offers an organized inventory of leadership skills, enabling students to obtain feedback and to assess their skills, know-how, competencies—now including ethics—and other relevant experience and attributes necessary to pursue the opportunities they are developing.

The new Slicing the Equity Pie exercise begins the process of enabling the lead entrepreneur to think through tricky and delicate compensation and equity allocations.

The new Founder's Assignment exercise has the lead entrepreneur draft a one-page summary of what he or she believes the salaries and stock ownership will look like at the time of launch—in dollars and shares. To test his or her thinking, assumptions, and assessment of the potential contributions of the team, the entrepreneur shares the document with brain trust members who have experience in a company that has gone public.

The Maclean Palmer case discusses an African American founder of a new private equity fund in 2000. The case details his meticulous and thoughtful approach to putting a team together from scratch for a potential lifelong partnership.

Chapter 10, "Ethical Decision Making and the Entrepreneur": Updated Material and a New Exercise

With help from Professors James Klingler and William Bregman at the Center for Entrepreneurship at Villanova University, we have been able to considerably enhance this chapter about the complex and thorny issues of ethics and integrity for the entrepreneur. New sections and examples and three caselettes have been added.

In the new exercise called Ethical Decisions—What Would You Do? we present three interesting real-life ethical decision situations that will spark group discussion and foster an understanding of the critical importance of high ethical standards and awareness in the team and the company.

The Ethics exercise compels students to make various ethical choices and utilizes their answers to focus discussion on the issues raised by the assignment and in the chapter.

Chapter 11, "Resource Requirements": Updated Material

Chapter 11 examines the third element of the Timmons Model—managing resources. Successful strategies and

techniques used by entrepreneurs to gain control over and minimize resources are discussed, including bootstrapping, using other people's resources, and decisions and issues related to setting up informal and formal boards.

The Build Your Brain Trust exercise complements the Virtual Brain Trust exercise in Chapter 8. This exercise is modeled after the Babson Brain Trust, a program at Babson College designed to create collisions and networking opportunities for student entrepreneurs as they seek to identify significant venture opportunities.

The exercise called How Entrepreneurs Turn Less into More is a short field project requiring students to identify and interview in depth entrepreneurs who have created companies with sales over \$3 million, having started with less than \$50,000 of seed capital. This can be a powerful and revealing exercise for students.

The Quick Lube Franchise Corporation case examines how one of the original founders of the Jiffy Lube franchise becomes a leading franchisee and then faces harvesting issues. The complex valuation, timing, deal structuring, and negotiating issues are an important aspect of the case.

Chapter 12, "Franchising": Updated Material

Chapter 12 examines franchising as an opportunity and as a risk-reward management strategy. It examines the entrepreneurial aspects of franchising, including structural and strategic alternatives available to entrepreneurs, selection criteria, resource and experience requirements, and the building and managing of the franchise system, as well as the complex relationships that can evolve.

The Mike Bellobuono case follows the story of an undergraduate who becomes enamored with a bagel shop concept and chooses franchising to grow his concept.

Chapter 13, "Entrepreneurial Finance": Updated Material

This chapter discusses what entrepreneurs need to know about entrepreneurial finance, such as determining capital requirements, the free cash flow format, and developing financial and fund-raising strategies.

The Midwest Lighting case is always a favorite; it's a classic partners-in-conflict case. The valuation, the future estimates of the business's potential, and a mechanism for getting one of the partners out are embedded in the case. The teaching note shares the methodology that breaks the logjam and the

subsequent success stories of each. This is the 2005 version with updated numbers that bring it into the current period. The fundamental content, issues, and lessons from the case are timeless.

Chapter 14, "Obtaining Venture and Growth Capital": Updated Material

Chapter 14 discusses sources of informal angel equity and venture capital, how angels and venture capital investors evaluate deals, and how to deal with investors. Included are significant new and updated materials such as data and exhibits on capital markets, Web resources, and a discussion of the venture capital environment in down markets, such as the one that followed the dot-com mania of the late 1990s. The concept and framework for a capital markets food chain remain a chapter anchor.

The Forte Ventures case chronicles the development and fund-raising challenges of Maclean Palmer (see Chapter 9) as he attempts to create his own private equity firm during the worst period in the history of the U.S. venture capital industry: 2000–2001.

Chapter 15, "The Deal: Valuation, Structure, and Negotiation": Updated Material

This chapter lays out in detail the various valuation methodologies used by entrepreneurs and venture capitalists, pre- and post-money, deal structuring principles, and negotiation issues faced by entrepreneurs. It also discusses the pitfalls and traps encountered by entrepreneurs.

The Lightwave Technology case is set in the mid-1990s, when seasoned entrepreneurs George Kinson and Dr. Schyler Weiss shocked the staid lighting industry with their full-spectrum digital lighting prototypes. After taking the award for product of the year at a major trade show, their company rapidly evolved from a fledgling start-up to one of the most talked-about companies in the industry. Then the Internet bubble burst, and Lightwave was forced to abandon its plans for going public. By 2003, however, the company was back on track. The question for the team now was whether to move ahead with an additional round of financing in anticipation of an IPO, and how to price and structure that deal.

Chapter 16, "Obtaining Debt Capital": Updated Material

Here the various sources of debt capital are discussed in detail, including managing and orchestrating the banking relationship before and after the loan. The chapter examines how a bank looks at a loan proposal,

including criteria, covenants, and personal guarantees, and what to do when a bank declines a loan. The traps awaiting the unwary borrower are also covered.

In the case called Bank Documents: "The Devil Is in the Details," students are treated to an intimate journey through an actual bank loan and review by a lending institution, including the financial statements and money flows of the company. This case examines how and why the bank considers such a loan, the issues of whether to renew the credit line, and the thinking and perspective of both the company and the bank. Developed by Professor Leslie Charm at Babson College, this is the best case we have ever seen on the subject.

Chapter 17, "Leading Rapid Growth, Crises, and Recovery": A Major Rewrite and a New Case

This chapter combines Chapters 16 and 18 from the previous edition. The roles of leadership, culture, and current climate are discussed in relation to the unique issues, demands, and crises entrepreneurs can expect to encounter in a rapid-growth environment. This chapter also addresses the signs and symptoms of companies heading for trouble, what turnaround experts look for, and the strategies and approaches of resuscitating stalled or disintegrating ventures.

A new case called Telephony Translations, Inc. (TTI), discusses Dave Santolli's entrepreneurial career embodying the notion that life is about the journey rather than the destination. At 42 he'd experienced the glow of venture success and the sting of business failure—to the tune of over \$280 million. He'd withstood the shock of learning his wife was facing an uphill battle with cancer, and he felt waves of relief when she pulled through. But in early 2005 it seemed as if all he'd been through was a preseason practice. Not only was he being sued by investors from his previous venture; his new investors at TTI—concerned that after five years the complex technology company was still in the red—had brought in a new CEO to co-manage the operation. Although the business seemed to be on the right track, this was an enormously critical time in the development of the opportunity. And now Dave had to tell his stunned staff that he had a particularly vicious form of cancer.

Chapter 18, "The Family as Entrepreneur": Updated Material

Chapter 18, which is based on Professor Tim Habbershon's model and extensive research, outlines the significant economic and entrepreneurial contribution families make to communities and countries worldwide, and

examines the different roles families play in the entrepreneurial process. The chapter describes the six dimensions of family enterprising, provides a model to assess a family's relative mind-set for enterprising, and identifies key issues for family dialogue.

The Mind-Set and Methods Continua exercises establish a family's financial risk and return expectations and their competitive posture in relation to the marketplace, as well as the organization's entrepreneurial orientation and actions. The aim of these assessments is to surface family members' beliefs and fuel family dialogue. Plotting these scores into the Family Enterprising Model provides a visual tool for constructive family dialogue.

The Indulgence Spa Products case discusses how Robert and Ulissa Dawson had become role models in the African American community. Their family enterprise, Dawson Products, was one of the last remaining privately held black enterprises in the personal care products industry. They had taught their daughters to be self-sufficient. Bright, energetic, and independent, the talented young women have become key figures in the growth trajectory of this family enterprise. Now Jimella, the younger daughter, wants to strike out on her own rather than stay and grow the core family business. This case is loaded with classic issues facing a family firm.

Chapter 19, "The Harvest and Beyond": Revised Material, a New Exercise, and a New Case

New Venture Creation concludes by looking at the entrepreneurial process as a journey and not a desti-

nation, harvest options and their consequences, and beyond the harvest. We challenge students to think far ahead and beyond merely financial success and consider deeper issues such as these: What distinguishes wealthy families who create legacies of community renewal and philanthropy from those who seem to become obsessed with consumption and material symbols? What if you had all the money you ever dreamed of? And what if all that money was suddenly gone?

A new exercise, *Wisdom from the Harvest*, provides a framework for dialogue with highly successful and wealthy entrepreneurs, exploring with them critical issues, lessons, pain, and trade-offs they have faced, conquered, and been beaten up by. It will enable you to ask and explore questions about not just creating and realizing wealth, but the realities and challenges of coping with it and utilizing it to create a healthy family legacy through renewal and philanthropy. In the process you are likely to discover some of the most important insights of your career—and gain a valuable mentor or two.

The new Optitech case describes Jim Harris, who at age 36 had spent his years since college building Optitech, a \$45 million toner cartridge refurbishing business he started in his parents' garage. He and his father—who joined to help oversee their relationships with Asian manufacturers—were scoring wins against some industry giants. Jim had engaged an investment banker to investigate options, particularly fueling growth with acquisitions. Although that was an option, the banker produced another: a \$40 million harvest to a private equity group. Jim was torn, and he knew it was time to make some major life decisions.