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Entrepreneurship

02/03



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02/03

Fourth Edition

EDITOR

Robert W. Price

Senior Research Fellow, Global Entrepreneurship Institute

Robert W. Price is a Senior Research Fellow at the Global Entrepreneurship Institute. As a business adviser, he works with small- and medium-sized global entrepreneurial firms. As an adjunct professor, he teaches classes and seminars for entrepreneurial management programs and executive MBA programs in southern California. Mr. Price received his bachelor's degree from Ohio State University and master's degree from Pepperdine University's George L. Graziadio School of Business Management in Malibu, California.

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<http://www.shef.ac.uk/uni/academic/I-M/mgt/research/research.html>

The Current Research page of this British management school will lead to links on a broad array of real-world management issues: economics, finance, technological change, labor economics, and industrial relations.

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To the Reader

In publishing ANNUAL EDITIONS we recognize the enormous role played by the magazines, newspapers, and journals of the public press in providing current, first-rate educational information in a broad spectrum of interest areas. Many of these articles are appropriate for students, researchers, and professionals seeking accurate, current material to help bridge the gap between principles and theories and the real world. These articles, however, become more useful for study when those of lasting value are carefully collected, organized, indexed, and reproduced in a low-cost format, which provides easy and permanent access when the material is needed. That is the role played by ANNUAL EDITIONS.

As I write this at the end of September 2001, a terrible cloud of insecurity lingers over our business economy. Rebuilding the spirit of business through entrepreneurship will become more important than ever because the United States was founded and has thrived on the principles of entrepreneurship. The imagination, boldness, and boundless energy of entrepreneurs combined with the involvement and persistence of experienced professional service providers—angel investors, venture capitalists, attorneys and accountants—have created new technologies, that have in turn increased the productivity of the nation's economy and workers.

To provide a better understanding of entrepreneurship and the process of creating and growing a new venture, this fourth edition of *Annual Editions: Entrepreneurship* has been revised and updated to incorporate the most current information. It is divided into four major units: "Mastering Entrepreneurship," "Creating and Launching the New Venture," "Financing the New Venture," and "Managing Rapid Growth and Creating Harvest Options."

Looking back over the years since our first edition, I have noticed a big change. Entrepreneurship has become mainstream. More than 850,000 new small businesses are created each year—today, one in 12 American workers are self-employed. The number of small- and medium-sized businesses (SMBs) has soared 75 percent in the last 20 years to 25 million. If U.S. small businesses were a nation of their own, that nation would have the third-largest gross domestic product in the world.

Starting a business is never easy. But it once was a whole lot harder than it is today. People can take advantage of exciting new programs at universities and colleges to learn more about entrepreneurship. At the beginning of the last decade, business schools were not teaching the fundamentals of entrepreneurship. Currently more than 1,200 postsecondary institutions in the United States offer courses pertaining to entrepreneurship or related disciplines, and every major school has a business-planning contest.

Students are motivated to study entrepreneurship for a variety of reasons. This text is aimed at preparing them to initiate their own venture, work in an emerging venture, or be employed in a company that provides goods and services to emerging firms. *Annual Editions: Entrepreneurship 02/03* is the product of more than 21 years of experience. Intended to be a practical tool that accompanies

other texts, handouts, speakers, and in-class business planning projects, this text will provide you with a view of the entrepreneurial process from idea to IPO.

You will discover that entrepreneurship is as dynamic as it is diverse. The topics you study in this book and course explore an exciting process of economic renewal that makes entrepreneurship hard to define, but it is also what makes the field so exciting to study. Let us hope that, in the years to come, entrepreneurship will be an essential part of rebuilding our great nation.

Robert W. Price
Editor

UNIT 1

Mastering Entrepreneurship

Unit Selections

1. **The Origin of the Entrepreneurial Species**, George Gendron
2. **Who Are the Self-Employed?** Yannis Georgellis and Howard J. Wall
3. **How a Start-Up Evolves**, Rob Landley
4. **What It Takes to Start a Startup**, Brian O'Reilly
5. **Top Ten Entrepreneurs**, *Red Herring*
6. **The Man and His Money**, Howard Means
7. **Michael Dell**, Richard Murphy
8. **Success Rules!** Thomas Melville
9. **10 Stupid Things Entrepreneurs Do!** Supreet Manchanda
10. **Go Global**, Wendy M. Grossman
11. **Lights Amid the Gloom**, Karen E. Klein

Key Points to Consider

- What is entrepreneurship? Why is studying entrepreneurship important? What is your definition of a typical entrepreneur?
- What is the typical path of a new business venture? How can entrepreneurs be more successful in their startup ventures?
- What are the different types of entrepreneurs? What characteristics will separate the winners from the losers?
- What are some of the problems and barriers to entrepreneurs "going global"?



Links: www.dushkin.com/online/

These sites are annotated in the World Wide Web pages.

Business Resource Center

<http://www.morebusiness.com>

Entrepreneur Magazine

<http://www.entrepreneurmag.com>

International Page

<http://www.cob.ohio-state.edu/ciberweb/>

Krislyn's Favorite Advertising & Marketing Sites

<http://www.krislyn.com/sites/adv.htm>

Startup Biz/Do-It-Yourself Resources

<http://www.startupbiz.com/Doit/seven.htm>

United States Association for Small Business and Entrepreneurs (USASBE)

<http://www.usasbe.org>

William Davidson Institute/University of Michigan Business School

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discussions of issues affecting managers. It presents statutory and regulatory information.

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1. **The Origin of the Entrepreneurial Species**, George Gendron, *Inc.*, February 2000

What differentiates a successful start-up from the masses of new businesses that are created every year? Based on interviews with author Amar Bhidé, this article provides answers to the question, ***What's the secret of start-up success?***

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2. **Who Are the Self-Employed?**, Yannis Georgellis and Howard J. Wall, *Review (Federal Reserve Bank of St. Louis)*, November/December 2000

This ***snapshot of U.S. self-employment*** reveals many interesting characteristics and data concerning entrepreneurship. These include differences in characteristics such as sex, race, region, age, and education, as well as occupations and industries in which self-employment occurs.

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3. **How a Start-Up Evolves**, Rob Landley, *The Motley Fool Online*, July 31, 2000

Businesses grow from start-up to conglomerate in three distinct phases, each of which is driven by a different type of person. Ron Landley explains ***why so many small companies self-destruct*** as they grow.

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4. **What It Takes to Start a Startup**, Brian O'Reilly, *Fortune*, June 7, 1999

Entrepreneurs with the right stuff don't think much about taking risks or getting rich. Instead, the author explains, they are obsessed with an ***entrepreneurial insight*** on building a better mousetrap and a very ***high need for accomplishment***.

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5. **Top Ten Entrepreneurs**, *Red Herring*, August 1, 2001

Red Herring editors present their annual selection of ***technology's most innovative entrepreneurs***. A look back at the year 2000's top entrepreneurs describes where entrepreneurs like Edward Tian, Steve Kirsch, Judy Estrin, Kevin Wendle, and Simon Foster, to name 5 of the 10, are now.

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6. **The Man and His Money**, Howard Means, *Upside*, June 2001

This excerpt from Howard Means's book ***Money and Power*** charts ***Microsoft's Bill Gates's*** position among the greatest moguls of business history. Howard Means reports that Bill Gates looks not for win-win situations, but for methods of making other competitors lose.

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7. **Michael Dell**, Richard Murphy, *Success*, January 1999

From his dorm room at college, Michael Dell harnessed his discipline, focus, and \$1,000 in 1984 to build a multibillion-dollar global computer empire. In doing so he became ***one of the most successful entrepreneurs*** in American history.

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8. **Success Rules!**, Thomas Melville, *Success*, September 2000

Read how to succeed with these ***5 rules of success*** from five entrepreneurs who have made it. Also included in this article is an excerpt from Joe Mancuso's 20 commandments, which includes advice such as "Abdicate vs. Delegate" and "Avoid the 'Sandbox syndrome.'"

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9. **10 Stupid Things Entrepreneurs Do!**, Supreet Manchanda, *Silicon-india*, December 2000
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10. **Go Global**, Wendy M. Grossman, *Smart Business*, October 2000
If you are not considering doing business globally, you are ignoring a multibillion-dollar market. Wendy Grossman explains **how to build your global brand** from the start. 38
11. **Lights Amid the Gloom**, Karen E. Klein, *Business Week Online*, September 27, 2001
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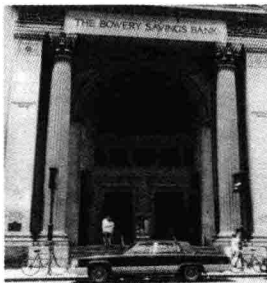
Creating and Launching the Business Venture

The twelve selections in this section discuss the importance of understanding strategic planning, identifying good business opportunities, and creating successful marketing plans.

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12. **One More Time... Should Small Companies Attempt Strategic Planning?**, William R. Sandberg, Richard Robinson, and John A. Pearce II, *The Entrepreneurial Executive*, Volume 6, 2001
Most entrepreneurs and small business owners agree they need a **strategic plan**, but few are willing to spend the time to complete one. This article explains why a strategic plan is needed. 46
13. **How Entrepreneurs Craft Strategies That Work**, Amar Bhidé, *Harvard Business Review*, March/April 1994
In **crafting a new business venture strategy**, Amar Bhidé suggests that the entrepreneur should play with and explore ideas surrounding that opportunity, thereby letting the business strategy evolve on its own. 49
14. **The Success Start-Up Guide**, Elaine Pofeldt, *Success*, March 1999
One of the entrepreneur's most important tasks is **identifying business opportunities**. Many people think that they have a great idea but don't know what to do next. Presented here is a 5-step crash course—how to turn an idea into a great business success. 59
15. **Preliminary Legal Considerations in Forming a New Enterprise**, Michael P. Ridley, *Pratt's Guide to Venture Capital Sources*, 1999
In a strategic overview, Michael Ridley presents an excellent summary of the **key legal concerns of the entrepreneur** in the planning and start-up stages of a business. 63
16. **How to Write a Great Business Plan**, William A. Sahlman, *Harvard Business Review*, July/August 1997
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17. **Outline for a Business Plan: A Proven Approach for Entrepreneurs Only**, Ernst & Young LLP, 1997
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21. **Solving the Puzzle of the Cash Flow Statement**, Julie H. Hertenstein and Sharon M. McKinnon, *Business Horizons*, January/February 1997
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22. **Characteristics of a Successful Entrepreneurial Management Team**, Alexander L. M. Dingee, Brian Haslett, and Leonard E. Smollen, *Pratt's Guide to Venture Capital Sources*, 1997
The authors share guidelines for building great venture teams. They also present elements of the **seven key entrepreneurial management functions** that venture capitalists look for in new business opportunities. 100
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Advisory boards can provide straight talk to entrepreneurs leading startups, often at little or no cost. In this article, read **how to create the first board** and how to get the right advice at the right price. 105



UNIT 3

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29. **The VC On the Corner**, Jill Andresky Fraser, *Inc.*, May 1, 2001
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30. **The Venture Capital Industry: An Overview**, *National Venture Capital Association*, 2001
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31. **The Man With the Golden Touch**, Carleen Hawn, *Forbes*, February 19, 2001
Forbes profiles the **50 most powerful venture capitalists**. According to Carleen Hawn, the smart ones are busy looking for and funding the next round of technological innovation. 134
32. **Jackpot!**, *Entrepreneur*, July 2001
Check out which states have the most venture capital funding activity and review the **top 100 venture capital firms for entrepreneurs**, if you are looking for venture capital. It is important to find a firm that is a perfect fit with your business, this article explains. 138
33. **Not All VCs Are Created Equal**, *MIT Sloan Management Review*, Summer 2001
In this roundtable panel discussion, "five leading venture capitalists explain that even in today's tough economy, **entrepreneurs should search for the 'smart money.'**" 144
34. **Money Order**, David R. Evanson and Art Beroff, *Entrepreneur*, July 2001
These authors point out that venture capital is within reach of entrepreneurs. They should follow these six simple **steps to getting a term sheet** and a deal-closing handshake. 149
35. **Angel Investors Fill Void Left By Risk Capital**, Bonnie Azab Powell, *New York Times*, July 6, 2001
Angel investing has become one of the most popular activities for many wealthy people. Bonnie Azab Powell describes how deals that fall out of venture capitalists' hands can rise to become angel deals. 151
36. **The Do's and Don'ts of Fund Raising**, Barbara Jorgensen, *Electronic Business*, May 2001
Simple mistakes reduce chances of closing a venture investment deal. Barbara Jorgensen succinctly lists the **top ten reasons why businesses don't get funding**. 153

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UNIT 4

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Thirteen articles in this section discuss the importance of developing an effective and realistic business plan to organize ongoing growth, plan for an initial public offering, and improve the odds of a successful merger or acquisition.

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37. **"Are You Built to Grow?"**, Seth Godin, *Fast Company*, November 2000

As a primer to this unit's subject matter, Seth Godin, a leading business consultant, introduces some issues he faced in growing his business venture. He gives suggestions on **how to organize for ongoing growth**.

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38. **Managing Growth**, Michael J. Roberts, from *New Business Venture and the Entrepreneurs*, McGraw-Hill/Irwin 1999

The set of changes that smaller, younger firms need to make as they grow is often termed **the transition from entrepreneurial to professional management**. This article addresses the issues that firms must deal with in making that transition.

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39. **Managing Global Expansion: A Conceptual Framework**, Anil K. Gupta and Vijay Govindarajan, *Business Horizons*, March/April 2000

The **need to become global is becoming a mandate** for virtually all corporations. Since global expansion needs no grand design but does need a clear strategy, according to this article, a company should not wander aimlessly into the global jungle.

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40. **Three Strategies for Managing Fast Growth**, Georg von Krogh and Michael A. Cusumano, *MIT Sloan Management Review*, Winter 2001

Entrepreneurs can't afford to leave growth to chance. This article suggests that entrepreneurs should have **a strategy for growing** as well as for applying new knowledge faster than their competitors.

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41. **Insular Culture Helped Yahoo! Grow, But Has Now Hurt It in the Long Run**, Mylene Mangalindan and Suein L. Hwang, *Wall Street Journal*, March 9, 2001

Yahoo! grew from 5 employees in 1995 to nearly 2,000 by 1999. Here's an excellent article from the *Wall Street Journal* that profiles what they did right; but more important **read what Yahoo! did wrong**.

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42. **The Decision**, from *The Survival Guide to IPOs*, American Lawyer Media, 2000

Going public has become a story of our times. But **taking a company public is a grueling affair**. Read why the smartest decision may be a delay the IPO for a few quarters.

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43. **The Initial Public Offering: Early Planning Considerations**, Michael D. Donahue, *Donahue & Mesereau, LLP*, March 14, 2001

In this excellent white paper presented by Michael Donahue at one of the nation's largest venture capital conferences, one can read about the **important steps to planning for an initial public offering (IPO)**.

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44. **Harvesting Firm Value: Process and Results**, J. William Petty, from *Entrepreneurship 2000*, Upstart Publishing Company, 1997

Having a **harvest goal** in mind from the beginning and knowing how to craft an option to achieve it are what separates a successful entrepreneur from the rest. This article explains the importance of building a company that generates wealth and thereby creates the entrepreneurs' and stakeholders' **harvest options**.

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45. **Choosing Your Exit Strategy**, William H. Payne, *Kauffman Center for Entrepreneurial Leadership*, 2001

An **entrepreneur's exit strategy** has an impact on the future direction of a growing business. In this synopsis, William Payne, a long-time angel investor, provides keen insight and guidance on how to create an exit strategy.

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46. The Race to Embrace, Luisa Kroll, <i>Forbes</i> , October 30, 2000 “Companies are getting hitched in record numbers.” Yet, according to this article, most mergers fail. Here are lessons from the 200 Best Small Companies in America <i>on how to improve the odds in a merger or acquisition.</i>	205
47. The Flip Side of the Boom, Jill Andresky Fraser, <i>Inc.</i> , September 1, 2000 An entrepreneur's best bet is to get the business in tip-top shape before taking the company to market. Read <i>some lessons learned for would-be sellers</i> , including the importance of keeping financial reports and tax filing current, timing a deal correctly, and putting a realistic price tag on the company to be sold.	210
48. Passing the Baton Peacefully, Eric Wahlgren, <i>Business Week Online</i> , March 5, 2001 “Startups are finding the qualities that make a great founder don't always make a great CEO.” Here's an article that discusses <i>how entrepreneurs can smooth the transition of power</i> within the company they founded.	213
49. Company for Sale by Owner—Or Maybe Not, Jill Andresky Fraser, <i>Inc.</i> , June 2000 Who should sell your company? As with so many decisions in business, it all depends on the circumstances. In this article, learn why entrepreneurs should hire an expert to help them through the <i>liquidity event.</i>	216
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This topic guide suggests how the selections in this book relate to the subjects covered in your course. You may want to use the topics listed on these pages to search the Web more easily.

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ALL THE ARTICLES THAT RELATE TO EACH TOPIC ARE LISTED BELOW THE BOLD-FACED TERM.

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What do entrepreneurs do? Who starts a business and becomes an entrepreneur? When and how do they do so? What makes an entrepreneur successful? Most will agree that the answers are not simple. Few will disagree that never in the history of business in the United States has the entrepreneurial spirit been more alive. As previously stated in the Preface, the SBA estimates that more than 850,000 new small businesses are created each year—joining some 25 million that already exist. The combined economic value to the nation is staggering.

Entrepreneurship begins with an idea and the implementation of that idea. Its meaning can be found in the exciting process of putting together a unique team of creative individuals in pursuit of a limited opportunity before anyone else does. But being an entrepreneur also means taking on risks. No “venture team” led by an entrepreneur can control all the necessary “critical capital resources,” such as employees, equipment, raw materials, and startup money, because pursuing such opportunity requires a bridging of the resource gap. Prudent decision making requires that the entrepreneur act in a manner that is consistent with risk reduction and growth.

Entrepreneurs’ firms are critical to the health of America’s economy; they create two out of every three new jobs and are twice as innovative as large companies. Entrepreneurs in the United States have created an economic sector that is worth trillions. The entrepreneur has also become increasingly important in restoring the competitive position of many U.S. companies in the global marketplace. In theory, entrepreneurship includes several subdisciplines, including small business, women-owned business, high-technology startups, home-based business, joint ventures, global startups, and family business. In this unit entrepreneurship will include all of these subdisciplines.

The exciting lure of entrepreneurship draws a lot of people who really aren’t prepared for it into trying to be entrepreneurs. In fact, this is one reason why so many new startups fail, and, obviously, not all startups are profitable. The average annual net income for the millions of sole proprietorships in the United States is less than \$20,000. And about 25 percent of these ventures do not make a penny of profit during a typical year.

Faced with these odds, entrepreneurs exhibit many of the qualities of the early pioneers because they are prepared to take enormous risks. They innovate in areas where most say that it cannot be done. They work incredibly long hours over extended periods of time, and even suffer personal problems, all for the excitement of developing a product or building an enterprise. Their passion brings a concentrated focus to their projects. Most have an ability to sell themselves and their ideas, but few understand that they cannot do it all by themselves.

Entrepreneurs essentially start with nothing more than an idea. They create “venture teams” that have the ability and re-

sources to develop ideas to the point at which the startup can sustain itself and internally generate a positive cash flow. Typically, they are starting from scratch; they have no offices, no salespeople, no computer, no suppliers, and no customers. Their job at hand is to quickly gain a “critical mass” by putting all the ideas and resources together and yet somehow make a profit as quickly as possible. Professional or “serial” entrepreneurs are masters of this process. They know how to overcome hurdles and they know how to bounce back from roadblocks and failures.

Essentially what they become good at is starting up new ventures. Some typical beliefs of entrepreneurs are: (1) they are in control of their own destiny, (2) they are capable of solving any problem, (3) the climb to becoming a CEO requires owning the ladder, (4) there are no limits on personal income, and (5) their internal strength and wisdom comes from overcoming risks.

An entrepreneur is someone who perceives a new idea and creates an organization to harvest the opportunity; the activity involved in that pursuit is called the entrepreneurial process, which is very much a series of fits, starts, and brainstorming. What makes an entrepreneur successful is the ability to navigate through uncharted waters and, when faced with a tough challenge, continue on. The economist Joseph Schumpeter said, “As the inventor produces ideas, the entrepreneur gets things done.”

The education of potential entrepreneurs is a difficult task, one that is complicated due to the absence of any clear career patterns. Also, there is really no such thing as a “true entrepreneurial profile” from which to learn. Entrepreneurs come from a variety of educational backgrounds. It doesn’t take an MBA graduate to start and harvest a business successfully. Entrepreneurs have a special way of thinking, reasoning, and obsessing with harvesting an opportunity. In a holistic approach, they create teams that are leadership balanced, injecting imagination, motivation, commitment, passion, teamwork, and vision. A definition of tomorrow’s entrepreneur may be as follows: one who is involved in the process of finding, leading, and coaching a close-knit group of talented people committed to pursuing an idea, as well as providing, marshaling, and allocating the resources needed to take advantage of a limited opportunity.

Some say that entrepreneurship is like driving fast on an icy road. To survive the journey, it requires unique industry insight through domain expertise, anticipation, and “traction” with sales. More important, it is a matter of finding the right balance between the individual and the opportunity. Entrepreneurs are rewarded with the freedom to do what they want, the ability to selectively control and reduce risks; they are rewarded with the potential to generate unlimited amounts of income. To accomplish this requires a good, solid plan and a far-reaching vision.