



# ENTREPRENEURSHIP

PEGGY LAMBING

CHARLES KUEHL

# **Entrepreneurship**

Peggy Lambing  
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# Preface

Life as an entrepreneur is a very challenging, but rewarding, career choice. Within recent years, the number of individuals who chose this option has increased substantially because changes in the marketplace have created both displacement and opportunities. The “downsizing” of many large corporations caused massive layoffs at the same time that changes in technology and consumer behavior generated new business opportunities. Many former corporate executives chose to start a business, not because it guaranteed them financial success but because it gave them more control over their careers. In addition, a few executives who survived the initial cutbacks chose to leave on their own terms before they were targeted in the next round of layoffs.

Rapid improvements in technology have also helped fuel the increase in small business. Technological changes have made it much easier to start a home-based business. This has appealed to many people who are trying to balance family and business concerns. Many entrepreneurial couples have emerged, their marriages and careers intertwined.

Finally, the increasing demand for services (including day care, home maintenance, and auto repair) has created a market for entrepreneurs who are able to meet these needs. Services cannot be mass produced. Entrepreneurs have established businesses to service the customer on an individual basis.

## • THIS BOOK

The decision to start a business has a substantial impact on both the entrepreneur’s life and family. It is a decision that should be made only after careful consideration and planning. This book is divided into several parts to help the entrepreneur make the necessary decisions.

Part 1 provides background information, and includes topics such as the role of small business as an economic force; family-owned businesses; and the effect of the company’s growth on the entrepreneur’s satisfaction. There are also separate chapters on starting a business; buying an existing business; and franchising.

Part 2 is a detailed approach to writing a business plan. Each section of the business plan is carefully explained to lead the entrepreneur through the planning process. At the end of the text, Appendix A provides a step-by-step approach to writing a business plan.

The book also includes a business plan for a new service-oriented business that an entrepreneur considered starting. Readers are encouraged to review the plan and identify its strengths and weaknesses.

The text also includes real-life cases to provide examples of situations that other entrepreneurs have faced. Their experiences and decisions are excellent learning tools for those who are just beginning the entrepreneurial process.

## • SUPPLEMENTARY MATERIALS

This text is accompanied by an instructor’s manual/test bank and a computer disk for the business plan. The computer disk follows the format outlined in Appendix A and is designed to simplify the task of business plan writing.

## • ACKNOWLEDGMENTS

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Finally, we thank Tally Morgan at WordCrafters Editorial Services. Her patience and professionalism were truly appreciated.

*Peggy A. Lambing  
Charles R. Kuehl*

# About the Authors

Peggy Lambing has experienced entrepreneurship from several perspectives—as a business owner, a small business consultant, and as an educator. She and her husband owned a tool and equipment distributorship during the 1980s which was sold at a profit after five years. She has provided small business consulting services for eighteen years, specializing in helping entrepreneurs obtain financing. In addition, she has taught Entrepreneurship and Small Business Management classes at the University of Missouri/St. Louis since 1980 and served as the director of the university's Small Business Institute program. She received her bachelor of science in business administration and a masters degree in business from the University of Missouri/St. Louis.

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# Entrepreneurship

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# **1 Entrepreneurship Today**

## Key Points

- Entrepreneurship emerged as a leading economic force during the 1980s and the 1990s.
- The nature of the United States economy is undergoing important changes as we end the century.
- Countries around the world have discovered entrepreneurship as a source of economic vitality.

During the 1980s and the 1990s, we have seen historic changes in the world economy. These changes have been part of what is called the new world order. At the heart of the new world order have been transformations in the way in which business is conducted. Technology is assuming an increasingly important role; world competition is more open and spirited than ever; thousands of jobs are being eliminated in virtually every industry; and service industries are steadily growing. Another of these landmark changes is the unparalleled rise in entrepreneurship. Entrepreneurship has been a major source of vitality in today's world economy.

In this text, we will provide an introduction to entrepreneurship. We will examine entrepreneurship as a personality trait of the individual as we consider the question "What is an entrepreneur?" We will discuss the unique problems and opportunities of women and minority members in entrepreneurship. Entrepreneurship as a career will be explored, as will the family business as a special setting for entrepreneurship. We will then describe the growing importance of home-based businesses and new product development as a basis for establishing a new venture. Finally, we will examine the three most common routes by which individuals enter into independent business ownership: starting a new business, buying an existing business, and buying a franchise.

Before we deal with any of those topics, however, we will describe the spread of entrepreneurship. As you will see, while entrepreneurship has had a surprisingly strong impact on economies around the globe, it is here in the U.S. where it is most robust and pervasive. We will explain why so much interest in entrepreneurship has developed in recent years and why that level of interest is likely to continue. Our early focus will be on the United States, after which we will broaden our view, looking at the richly diversified textures and shapes of entrepreneurship around the world.

## • ENTREPRENEURSHIP IN THE UNITED STATES

Entrepreneurship is flourishing in many places around the world; here in the United States, new venture creation has been the chief source of economic vigor for the last several years. We have benefited from the emergence of a new spirit of entrepreneurship. In this section we will explore the reasons why this new spirit has developed. To do so, it will be useful to take a brief look at how our economy has evolved during the past 40 to 50 years.

### Corporate Restructuring

The year was 1955. World War II had ended 10 years before and the country had experienced a decade of rapid economic growth. *Fortune* magazine had established its list of the country's 500 largest firms and everyone's interest seemed centered on who topped the list. (It was General Motors, with nearly \$10 billion in sales and 575,000 employees.)<sup>1</sup> The interest in our industrial giants continued, with most observers concluding that size meant strength and through strength these firms would establish positions that were unassailable. During 1955, 140,000 businesses were started here in the U.S., or one start-up for every 1,200 people or so.<sup>2</sup>

During the next 10 years some foreign competition emerged, but the big firms seemed barely to notice as each year brought them record sales and prof-



itability. Very little interest in entrepreneurship could be seen and, indeed, a number of people expressed the view that the very existence of small business was in doubt. (General Motors was still the largest company in the country, in terms of sales and number of employees, as it is today.) The number of new businesses started in 1965 was 204,000.<sup>3</sup> That figure meant there was one new business for every 950 people.

The next 10 years brought considerable turbulence as Japanese and European companies made important inroads into U.S. markets. Although this new source of competition started a reexamination of the way in which firms are structured and managed, U.S. business continued to regard size as a formidable competitive advantage. Entrepreneurship and small business were still given little attention, with 326,000 business starts reported in 1975, one for every 675 people.<sup>4</sup>

The late 1970s marked a watershed in the country's economic history. Deregulation changed many areas, including trucking, the airlines, and the communications and financial industries. Among the many profound changes resulting from deregulation was the entry of many small firms into industries that for years had been dominated by giant companies. The wave of entrepreneurship was underway throughout the economy; in 1985, 662,000 businesses were started, or one for every 350 people.<sup>5</sup> The years since then have seen an average of 670,000 starts and the number shows no sign of declining. The last year for which figures are available is 1993, when a record-high 707,000 businesses were started.<sup>6</sup>

Why is entrepreneurship so popular? With so many people going into their own businesses, the reasons are not simply identified, but it appears there are two factors having an important part in this development. The first is an economic element of large, and growing, significance. The second is a societal, or cultural, factor.

**Economic Change: The Practice of Downsizing** Since the start of the industrial revolution, large organizations have been the most important source of economic stability for the nation and have provided boundless opportunities for individuals. Managers, unskilled workers, professionals, and highly trained technicians have all experienced the comfort of knowing that hard work and loyalty to the employer would bring bright career prospects and a secure retirement. Employees were rewarded in a predictable way with improved earnings and benefits that were attributable to the success of the organization. Employees thought, "If you worked hard for the company, the company would take good care of you." For countless people, this was the American Dream, and for years it was real.

As indicated above, however, our country's economic landscape has changed and so have the assumptions underlying the relationship between the organization and the individual. Many people who used to believe that their ability and dedication to their employer protected them against job loss learned they were wrong. Massive layoffs, or downsizing programs, have become commonplace, even in good times. As Table 1-1 indicates, despite the robust performance of the economy during the first quarter of 1995, many of our most prominent firms announced significant staff reductions. The period was selected not because it was unusually active, but because it was a typical slice of business life in the 1990s. Incidentally, the layoffs didn't end in early May 1995, they seemingly picked up speed, with Boeing, Phar-Mor, Bell South, NASA, and United Parcel Service announcing workforce reductions totaling nearly 50,000. Why is this pattern of job reduction so pervasive and persistent? Two types of answers are frequently given.