



6<sup>th</sup> Edition



# NEW VENTURE CREATION

Entrepreneurship for the 21st Century



Jeffrey A. Timmons and Stephen Spinelli



**SIXTH EDITION**

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# **New Venture Creation**

**ENTREPRENEURSHIP FOR THE 21ST CENTURY**

**Jeffrey A. Timmons, A.B., M.B.A., D.B.A.**  
**Franklin W. Olin Distinguished Professor of Entrepreneurship**

Director, Price Babson College Fellows Program

Babson College

Babson Park, Massachusetts

and

**Stephen Spinelli, Jr., B.A., M.B.A., Ph.D.**  
**John H. Muller, Jr. Chair, Entrepreneurship**

Director, Arthur M. Blank Center for Entrepreneurship

Chairman, Entrepreneurship Division

Babson College

Babson Park, Massachusetts



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## DEDICATED TO:

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**John A. Hornaday**  
**Professor Emeritus**  
**Babson College**

*Founder and first faculty champion of entrepreneurship at Babson College. Without your vision and entrepreneurial spirit we would never have come so far and achieved so much. Thank you, Jack, for your pioneering contributions.*

*—Jeff and Steve*

## ABOUT THE AUTHOR

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### Jeffry A. Timmons

*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.*

Since the late 1960s, Jeffry A. Timmons has been 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. Babson College is recognized as a world leader in entrepreneurship education. *U.S. News and World Report* has ranked the F. W. Olin Graduate School of Business the number one school in entrepreneurship five years in a row, *Success* magazine rated Babson the number one school for entrepreneurs, and the *Financial Times* ranked Babson number one in entrepreneurship in the world in 2001.

Professor Timmons is somewhat of an academic heretic—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 Frederick 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. A September 1995 *Success* magazine 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 1985, he designed and launched the Price-Babson College Fellows Program, aimed at improving teaching and research by teaming highly successful entrepreneurs 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 with an itch to teach. There is now a core group of over 750 entrepreneurship educators and entrepreneurs from approximately 250 colleges and universities in the United States and 28 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 United States, and has now been expanded to PriceBabson



at Berkeley. In 1998, Dr. Timmons led an initiative now funded by the Kauffman Foundation to create Lifelong Learning for Entrepreneurship Education Professionals (LLEEP), which in addition to Price-Babson at Berkeley offers a series of training clinics for entrepreneurship educators. With the Price Babson College Fellow Program's Symposium for Entrepreneurship Educators (SEE) as its flagship program, LLEEP now has as its partners leading faculty members from Stanford University, University of California at Berkeley, University of Colorado at Boulder, Syracuse University, UMass Online, and Rensselaer Polytechnic Institute.

During the past decades, Dr. Timmons has 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 devotes a major portion of his efforts at Babson to the Price-Babson programs and to joint initiatives funded by the Kauffman Foundation and Babson, including new research and curriculum development activities. He has 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. Currently he is helping replicate these efforts for other minority communities, most notably an initiative to support the development of a consortium of entrepreneurship education programs at the historically black colleges.

Since 1999, he has 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 has written 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 Japanese and is currently being translated into 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 has contributed chapters to other books including *The Portable MBA in Entrepreneurship* (1994 and 1997). He has authored over 100 articles and papers, which have 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 audiotope 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*, and *USA Today*, and has had feature articles written about him in the *Rolling Stone* (1997), the *Boston Globe* (1997), and *Success* (1994).

Dr. Timmons has 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 30 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, New Hampshire, and Maine; the Boston Communications Group; BCI Advisors, Inc.; Spectrum Equity Investors; Internet Securities, Inc.; Chase Capital Partners; 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. Since 1996, he has 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 serves as its dean of faculty. 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, Dr. Timmons 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 lives on his 470-acre farm in New Hampshire with his wife of 36 years, Sara, and winters at Brays Island Plantation near Savannah, Georgia. He enjoys the outdoors: fly-fishing; hunting with his two Elhew pointers Annie and The Breeze; and golf. He is one of the founders of the Wapack Highlands Greenway Initiative in New Hampshire, is active in the Henry's Fork Foundation and Wildlife Conservation Trust of New Hampshire, and serves as an officer and director of Timber Owners of New England. He is a member of numerous other wildlife and nature organizations, including The Monadnock Conservancy, The Harris Center, The Nature Conservancy, Trout and Quail Unlimited, Atlantic Salmon Federation, and Ruffed Grouse Society.

### **Stephen Spinelli, Jr.**

*Director, Arthur M. Blank Center for Entrepreneurship and Chairman, Entrepreneurship Division at Babson College.*

*John H. Muller, Jr. Chair in Entrepreneurship at Babson College.*

*B.A., 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. Although Dr. Spinelli now heads the Entrepreneurship Division at Babson and teaches 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 including Keystone Automotive, Tencorp, Inc., and Alco Equipment; 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 the 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 *Franchising: Pathway to Entrepreneurship* (Prentice Hall; forthcoming 2003). A superb educator, he is now a key member of the faculty of the Price Babson College Fellows Program's Symposium for Entrepreneurship Educators, 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. In addition to his teaching duties at Babson, Dr. Spinelli is also a visiting professor at Imperial College (University of London) and at the University of Glasgow in Scotland.

In 1998–1999, the Arthur M. Blank Center for Entrepreneurship began a national search for a director to replace William D. Bygrave, who chose to retire to devote his time to research and teaching. Dr. Spinelli proved the best candidate by far, and he now leads Babson College's Entrepreneurship Division (perhaps the first such autonomous academic division in the country) as well as the center, a 16,000-square-foot building, which houses the largest, dedicated entrepreneurship faculty in the world, as well as numerous research and outreach programs. The center includes hatchery space for student entrepreneurs, teleconferencing facilities, and a resource/archival space for visiting research scholars. He is a leading force in curriculum innovation at Babson, and with his colleagues in the 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 of the F. W. Olin Graduate School of Business as the 2002 National Model MBA program. Babson currently offers 12 undergraduate courses in entrepreneurship and 14 courses at the graduate level, accounting for a full 41 percent of graduate enrollments.

Dr. Spinelli has been a strong voice for entrepreneurship outside the Babson community as well. He has been a keynote speaker for Advent International's

CEO Conference, the MCAA National Convention, and Allied Domecq International's Retailing Conference; has been called to testify before the U.S. 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*, *Financial Times*, and *INC.* magazine.

Dr. Spinelli continues to give back to his community, especially in his boyhood hometown of Springfield, Massachusetts. He and his wife, Carol, maintain their home in western Massachusetts. He is the current chairman of Western Massachusetts Entrepreneurship Consortium (and EntreNet.com), a not-for-profit consortium of organizations seeking to advance entrepreneurship in western Massachusetts. He also serves as a

director for several local, regional, and national not-for-profit or community-based associations, including the National Foundation for Teaching Entrepreneurship (NFTE), Visiting Nurses Association of Western Massachusetts, and UNICO International.

Jeffrey A. Timmons [timmons@babson.edu](mailto:timmons@babson.edu)  
Stephen Spinelli, Jr. [spinelli@babson.edu](mailto:spinelli@babson.edu)  
Arthur M. Blank Center for Entrepreneurship  
Babson College  
Babson Park, MA 02457 USA  
781 -239-4420  
781 239-4178 (fax)  
[www.babson.edu/entrep](http://www.babson.edu/entrep)



## PREFACE

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### A Book for the Next Generation of Entrepreneurial Leaders

Never in the history of the nation has the entrepreneurial spirit been more alive. Since the last edition of this text in 1999, we've seen the explosive growth in Internet and technology businesses followed by the bursting of the bubble of irrational exuberance. However, two enduring aspects of the explosion of Internet startups are the reassertion of technology as a driver of new ventures and the enhancement of "entrepreneurial literacy" in the general population. Entrepreneurship has become a recognizable and supported part of the international landscape. Irrational exuberance has been replaced by high expectations for knowledge, understanding, and experience. The need for entrepreneurship education has never been greater. It is a testament to the depth and durability of our model of the entrepreneurial process that the lessons of *New Venture Creation* are as valuable and relevant today as they were when they were introduced in the book's first edition in 1974.

In the new millennium, three major challenges are in evidence. Larger corporations now realize the necessity to think, act, and perform in more entrepreneurial ways. The marketplace for top talent and ideas poses no other choice: They have to adjust to and invent entrepreneurial ways or competitors and upstarts will displace them. Second, sustainability in new ventures requires that they include strategies and practices that are economically and environmentally sane and sensible. The entrepreneurial generation also faces the ultimate and most demanding juggling act: how to simultaneously balance the insatiable requirements of marriage, family, new venture, service to the community, and still have time for one's own pleasure and peace.

### An Edition for the 21st Century

When the first manuscript was prepared over 28 years ago, no one knew just how gigantic this entrepreneurial revolution would be. At the time, few envisioned the profound potential of such a revolution both in education and in management.

Take, for instance, the original proposal and manuscript for *New Venture Creation*. In the fall of 1974, the manuscript was flatly rejected by two of the largest and most credible business, economics, and management publishers in the nation. Their reasoning shows why many large companies become bureaucratic, risk averse, and afraid of innovating. They seem afraid to lead, until it is such a sure thing that it is too late to do anything but follow! Consider these quotes from the editors' rejection letters:

"Unless you plan to make this a 'new and up-to-date' manuscript I don't think the published book would have much of a market." [Of course, Timmons was planning to write an 'old and out-of-date' book!!]

"We've had to ask ourselves if there is a substantial market out there . . . Unfortunately our reading is in the negative. We have not been able to assure ourselves of a market for your project to justify commercial publication."

To be fair, it was understandable that these publishers had difficulty seeing a market. After all, at the time we estimated that there were at most 50 to 75 colleges and universities around America that offered courses in new ventures or entrepreneurship. It is most revealing how little vision they had of the potential of this field.

As Mark Twain so eloquently put it: "I was seldom able to see an opportunity, until it ceased to be one." Fortunately, the *first* edition of *New Venture Creation* was published in the United States, by a fairly small, at the time, and very entrepreneurial publisher: Richard D. Irwin, Inc., of Burr Ridge, Illinois, now part of the

McGraw-Hill Companies. Editor Robert Dame was the only one who could see the future opportunity.

Since that time, there has been a thunderous “entrepreneurial revolution” in America and now the world. For nearly three decades, entrepreneurship has become the fastest growing field in American business and engineering schools. Today well over 1,800 colleges, universities, and community colleges offer such courses, more than 100 Centers for Entrepreneurship now exist, and many colleges and universities offer majors in entrepreneurship or entrepreneurial studies. Innumerable entrepreneurial initiatives among not-for-profit foundations and organizations are further accelerating, expanding, and deepening this trend. *New Venture Creation*, in its fifth edition (1999), was believed to be the largest selling book for these courses in the United States. Further demonstrating the acceleration and boom of entrepreneurship that we have witnessed since 1999, the authors note:

- In fall 2001, Olin College of Engineering, in Needham, Massachusetts, and adjacent to the Babson College Campus, opened its doors to the first entering class who will pursue an undergraduate degree in engineering. This innovative institution emphasizes the principles of entrepreneurship and business as they relate to engineering technology.
- The National Commission on Entrepreneurship (NCOE) was launched in February 1999. As a nonpartisan organization, the goal of NCOE is to serve as a necessary bridge between entrepreneurs and lawmakers. The commission has since launched a Web site and continues to be a strong advocate for entrepreneurship.
- The Global Entrepreneurship Monitor (GEM) was created in 1997 by Babson College and London Business School, with strong support from the Kauffman Center for Entrepreneurial Leadership. The project brings together worldwide experts in entrepreneurship to study the relationship between entrepreneurship and economic growth. Since 1999, it has published two executive reports providing invaluable information on the state of entrepreneurship on a global level.

## **Dawn of a New Entrepreneurial Era Worldwide**

The 21st century is here, and the new millennium has ushered in a new “entrepreneurial era.” It will spark the creation and development of enterprises and a new

equity base not known previously. The glimpses of the types of changes we have seen in America are very likely to occur around the world. The clock and the surge of the entrepreneurial process worldwide can no longer be turned back. People in every nation have enormous entrepreneurial qualities: a very competitive spirit, willing team players and builders, play for long-haul perspective, and value results and relationships. The innovative and creative spirit is finding its way into nearly all world markets. It is a daunting and challenging thought to imagine the future economic power of so many emerging and developed nations, such as Japan and China, once this entrepreneurial genie gets out of the bottle and fully blossoms.

## **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 taking the startup plunge, during, and after, 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, some has been challenged, and numerous new insights have emerged.

*New Venture Creation* has been the product of experience and considerable research in this field, rooted in real-world application and refined in the classroom. The sixth edition updates and refines the best of the first five editions and includes new insights that have emerged.

As before, the design and flow of the book are aimed at creating knowledge, skills, awareness, and involvement in the process, and the critical aspects of creating a new venture and then making it grow. In a pragmatic way—through text, case studies, and hands-on exercises—the book guides students in discovering the concepts of entrepreneurship and the competencies, skills, know-how and experience, attitudes, resources, and networks that are sufficient to pursue different entrepreneurial opportunities. No doubt about it: 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 the development of the business plan.

The book is divided into five parts. The first three parts detail the driving forces of entrepreneurship—the opportunity recognition, the team, and resource requirements. Part I addresses the process by which *real* opportunities—not just ideas—can be discovered and selected. This section concerns opportunities around which higher potential ventures can be built, where the risks and trade-offs are acceptable, and where entrepreneurs will be able to exit their businesses profitably and when they want to, rather than when they have to or, worse, not at all. Part II concerns the team and what makes entrepreneurs tick—how they think and act—and what they do to get the odds of success in their favor. Part III is about resources and the business plan.

The next two parts concern important details. Part IV addresses entrepreneurial finance and the process of financing new ventures. Part V talks about startup, strategies for success and managing rapid growth, and harvest issues.

The “Crafting a Personal Entrepreneurial Strategy” section and exercise were omitted in the 5th edition, but have been brought back as Chapter 20 in this edition. This valuable exercise can also be found on the NVC Web site [www.mhhe.com/business/management/timmons6e]. Once an entrepreneur knows how winning entrepreneurs think, act, and perform, then he or she can establish goals to practice emulating those actions, attitudes, habits, and strategies. This tool gets entrepreneurs to think of the process of becoming an entrepreneur, much as a coach of an athlete would in preparing for a winning season, and also to consider the following: What are my real talents, strengths, and weaknesses and how can my talents and strengths be exploited (and my weaknesses minimized)? What are the opportunities to use my strengths and to capitalize on the competition’s weaknesses? Those who are unable to commit the one and-a-half to three hours needed to complete this task should review the Quick-Look exercise in Chapter 7 as a first inventory of personal entrepreneurial attributes.

*New Venture Creation* seeks to enable entrepreneurs to immerse themselves in the dynamics of launching and growing a company and to address the following practical issues:

- What does an entrepreneurial career take?
- What is the difference between a good opportunity and just another idea?
- Is the opportunity I am considering the right opportunity for me, now?
- Why do some firms grow quickly to several million dollars in sales but then stumble, never growing beyond a single-product firm?
- 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 use from prestart, 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 needed and how and when should I develop one?
- Who are the constituents for whom I must 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 \$25 million in sales?
- What are some of the pitfalls, minefields, and hazards I need to anticipate, prepare for, and respond to?
- What are the contacts and networks I need to access and to develop?
- Do I know what I do and do not know, and do I know what to do about it?
- 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 management seem surrounded by paradoxes, well-known to entrepreneurs, such as:
  - 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 can also serve as a road map for a curriculum or departmental major in entrepreneurship. At Babson College, the most revolutionary MBA program ever was created in the 1990s. The old func-

tional model of separate courses without integration of marketing, finance, operations, human resources, quantitative methods, etc., was abandoned. In its place, a new approach based on the model of the entrepreneurial process in *New Venture Creation* was created. Now after nearly 10 years, the program has been a rave success with students and employers alike. Such an approach sets the new standard for management education in the 21st century and makes obsolete many other programs.

## **A Summary of Changes in the 6th Edition: New Cases, New Chapters, New Data, and Major Revisions**

This edition is a significant update from the 5th edition with enhancements, several new cases and updates on earlier cases, as well as new textual material that captures the new financial and technological context and global competitive environment of the 21st century. A special effort was made to include cases that capture the dynamic ups and downs new firms experience over an extended time period. By grappling with decisions faced in new companies over both the first year or two and the next 5 to 20 years, you begin to develop a much broader and richer perspective on the often turbulent and unpredictable nature of the entrepreneurial process.

This edition features numerous additions and enhancements:

- New co-author Dr. Stephen Spinelli, Jr., who heads Babson College's Arthur M. Blank Center for Entrepreneurship, was a co-founder of Jiffy Lube International and largest franchisee in the nation, and a franchising expert.
- Several new cases, including updates and epilogues to earlier cases and how they coped with, survived, exploited, and succumbed to the dot.com explosion and subsequent collapse.
- A new capital markets food chain concept and an updating of all the capital markets as well as financial sources and information.
- New chapter formats that provide the leading Web sites pertinent to each chapter's content.
- Internet references and linkages to cases and exercises from prior editions.
- Significant revisions and enhancements to the opportunity screening criteria and the venture opportunity screening exercises.
- A new chapter on franchising by Professor Spinelli.

- Addition of new material on community and environmental responsibility in "Beyond the Harvest."

## **Chapter 1, "The Entrepreneurial Revolution"—a Major Rewrite**

This chapter represents a major revision from the previous edition and presents updated empirical evidence of how America's economy has been radically transformed as a result of the innovative company-building of entrepreneurs. In the sixth edition we include updated and new data on the entrepreneurial economy incorporating work from the Global Entrepreneurship Monitor (GEM) report, the National Commission on Entrepreneurship and its conference held in conjunction with the John F. Kennedy School of Government at Harvard University, as well as some new profiles and examples of new entrepreneurs.

Case: PC Build, Inc., moved into this chapter, replacing Outdoor Scene, which will revert to the NVC Web site.

Exercise: Interview an Entrepreneur: Most students will know at least several entrepreneurs, but few will have explored with them in depth the questions in the exercise. It establishes important benchmarks, role models, and comparisons that are referred to throughout the course.

## **Chapter 2, "The Entrepreneurial Process"—a Minor Revision and a New Case Study Added**

This is a minor revision and update on what was a major revision in the 5th edition. It further develops the Timmons model framework for the entrepreneurial process and offers a new 'real-world' example that illustrates the conceptual model. The chapter still examines myths and realities about entrepreneurs, and sets the stage for students to craft their own entrepreneurial strategy. New in this edition are a discussion of how the new entrepreneurial paradigm has permeated the not-for-profit world via venture philanthropy, how corporations are embracing and inventing their own versions of entrepreneurial management, and how the entrepreneurial society is being embraced by government and becoming more central to policy debates.

New Case: James Kenefick: The Making of an Entrepreneur, is the first of a multi-part series that follows a recent college graduate in 1986 until the year 2000, from his early days as an employee and first national sales manager of EMC—the computer memory storage company—through two companies he launched, the last of which raised over \$200 million in venture capital and other financing, reaching \$50 million in



revenue; completed its registration for an IPO; and then was sunk by the tidal-wave collapse of the NASDAQ and equity markets in mid-2000.

### **Chapter 3, “The Opportunity: Creating, Shaping, Recognizing, Seizing”—a Significant Revision with New Material and a New Exercise**

This chapter includes a significant amount of new, updated material that has been developed as part of the Babson MBA program’s entrepreneurship intensity track. This material focuses on opportunity assessment and due diligence strategies. Also included is a discussion of the dot.com crash in the context for evaluating business models. New Web-based resources and tools are also now included.

Case: Roxanne Quimby tells the remarkable story of a young woman, living at a subsistence level in the back woods of Maine, who sees an opportunity and grows it in a few years into a multimillion-dollar venture. What begins as a lifestyle business doesn’t stay that way for long.

Exercise: Opportunity Creation Concepts and the Quest for the Breakthrough Idea is new.

### **Chapter 4, “Screening Venture Opportunities”—a Major Revision with New Material**

This substantially enhanced chapter builds on the drivers and criteria in Chapter 3. The chapter still includes the popular QuickScreen, which was introduced in the 5th edition. New in the 6th edition is a substantially enhanced version of the original venture opportunity screening exercises that sets apart the various steps as individual exercises and builds significantly on the original material.

Case: Gary and George Mueller is part of a series that follows an about-to-graduate MBA and his brother as they mull turning Gary’s second-year field project into a business magazine in Eastern Europe focusing on Poland. The second case is the business plan a year later as it has evolved into an Internet-based financial, economic, and market information service, and the search for venture capital, which it turns out is highly successful.

Exercises: 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, and probable risk-reward. The QuickScreen is a dehydrated version of the VOSE, which helps students to quickly cut through to the core characteristics of the opportunity.

The VOSE has been simplified and segmented into discrete exercises that can be used separately or in total. This change allows for maximum flexibility in the syllabus and when counseling individual students or mentoring field study projects.

- Opportunity shaping research
- Customer contact research
- Value chain
- Economics of the business
- Capital and harvest
- Competitive landscape
- Founders’ commitment statement
- Other vital information
- Action scheduling

### **Chapter 5, “Entrepreneurs and the Continuing Internet Revolution: The Expanding Frontier”—a Major Rewrite**

This chapter has been substantially rewritten to not only address the Internet as a great opportunity generator and resource for the entrepreneur, but also to address the issues of what makes an Internet business a success and how the “old” rules are applied in this “new” economy.

Case: Securities Online, Inc., a renaming of the Internet Securities, Inc., case study, is the second case in the series that concludes the Mueller brothers’ saga. A year later a significantly redefined opportunity, strategy, and business plan is seeking venture capital to grow, not a magazine publishing arm, but rather, a financial and economic information service that is Internet based and will provide data to investment banks, consulting firms, and banks. The case captures the dynamic creation and shaping of an Internet-based higher potential venture.

### **Chapter 6, “Franchising”—New Chapter by Professor Spinelli**

Professor Spinelli is contributing this completely new chapter, which examines franchising as an opportunity and risk-reward management strategy. It examines several issues: What is it, who is franchising for, what alternatives are available for entrepreneurs, what criteria does one consider in selecting a franchise, what are the resource and experience requirements, how does one create a franchise as franchisor, and how is the franchise system and complex set of relationships built and managed?

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



## **Chapter 7, “Entrepreneurial Mind in Thought and Action”—Significant Revisions with Added Material and Data on Women and Minority Entrepreneurs**

This revised chapter looks at the founder/lead entrepreneur through a zoom lens. What is unique about the entrepreneurial mind-set? What do successful entrepreneurs do? How do they think and act? What are their attitudes and values? How do they lead? What are their strategies and practices? This chapter includes a new section on entrepreneurial reasoning that captures the outside-the-box creative and inventive thinking of entrepreneurship. Also added are a broader discussion and data on the importance of women and minorities in the entrepreneurial economy.

New Exercise: QuickLook provides a two-page dehydrated look at the “Crafting a Personal Entrepreneurial Strategy” exercises. This exercise provides the opportunity to do a quick survey of an individual’s entrepreneurial attributes.

Case: Michael Healey (A) revisits the PC Build startup in late 1993, having survived and expecting to approach \$3 million in sales the next year. It examines how the company has done, how its strategy has changed, and a surprising turn of events: Healey asks a major customer to invest \$250,000 in PCB, and instead the customer says, “Buy our computer division for \$380,000!” Is this an opportunity and how would a deal be structured? The (B) and (C) follow-on cases will be available on the NVC Web site and/or in the Instructor’s Manual.

## **Chapter 8, “The Entrepreneurial Manager”—Minor Changes, New Case Study**

The chapter discusses the skills and requirements of the founder as the company grows through various stages. It looks at the leadership issues inherent in building a company from scratch. For the sixth edition, we have added new material on entrepreneurship in the corporate context, as well as a discussion of some signals and criteria to detect whether or to what degree the larger organization is entrepreneurial.

New Case: Burt’s Bees follows the Roxanne Quimby story begun earlier. Roxanne is a remarkable entrepreneur, whose creative ideas and entrepreneurial spirit lead her to create a new business around beeswax products and derivatives. The company faces rapid and profitable growth, a major issue of relocation to North Carolina, and the offer of a significant strategic sale.

Exercise: Management Skills & Know-How Assessment: An organized inventory of management skills enables students to obtain feedback and to assess their skills, know-how, and competencies, and

the relevant experience that is necessary to pursue the opportunity they are developing.

## **Chapter 9, “The New Venture Team”—Minor Revisions and a Classic Case**

This chapter puts the zoom lens on the “people” portion of the Timmons model—the entrepreneurial team. The issues of building the team, leading the team, the delicate allocation of equity and compensation, and critical issues and pitfalls faced in the process are discussed. Some new Web sites and information on compensation patterns in higher potential ventures is included.

Case: Michigan Lighting, Inc., is a classic partners-in-conflict case and how to resolve the differences. The valuation, the future estimates of the business’s potential, and a mechanism to get 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.

Exercise: Rewards and Compensation guides students through the issues, trade-offs, and decisions that are confronted in determining equity ownership and compensation in the team.

## **Chapter 10, “Personal Ethics and the Entrepreneur”—Minor Changes**

The chapter addresses the complex and thorny issues of ethics and integrity for the entrepreneur, and the implications for future success. It seeks to build awareness of the critical importance of high ethical standards and awareness in the team and the company. For the 6th edition, we added a discussion of the importance of an integrity strategy for any entrepreneurial venture, as well as a discussion of some of the pitfalls for entrepreneurs and a few ideas of where to look for support.

Case: Wayne Post oak is the story of a highly successful basketball coach and teacher who becomes an entrepreneur. It is a short but rich case, particularly since it looks at a Native American who builds a \$10 million-plus company.

Exercise: Ethics asks 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”—Minor Revision, But with Updated and New Material**

The zoom lens now focuses on the third element of the Timmons model—managing the resources. The chapter examines strategies and techniques used by

entrepreneurs to identify and marshal resources. Frugal, bootstrapping strategies are discussed. An updated list of Web sites with pertinent information sources is included along with a section on “Creating a Brain Trust” for the venture, modeled after work that developed in the Babson Brain Trust.

Case: FAX International Inc. is the first of a three-part series that examines the efforts by a young couple and former student to identify a startup opportunity in the early 1990s in international telecommunications. The case is the original business plan that was used to raise \$1 million of startup capital. The company reaches \$50 million in revenue by 1998.

Exercise: How Entrepreneurs Turn Less into More is a short field project that requires students to identify and interview entrepreneurs who have created companies with sales of over \$3 million with less than \$50,000 of seed capital. It is a powerful and revealing exercise for students.

Exercise: Building Your Brain Trust is new.

## **Chapter 12, “The Business Plan”—a Minor Revision**

A complete business plan guide is presented, along with tips, practical advice, and know-how from successful entrepreneurs and investors on the development and presentation of the plan. A dehydrated business plan format is also presented to save time and effort. This chapter will include a new section on the role of communities and environmental issues in business plan development.

Case: Douglas Ranalli and Shae Plimley is the second case in the FAX International series, revisiting the company a year later. The new business plan shows both progress and a crisis: FAX International is out of cash again. The issues of valuation, opportunity, strategy, team, sources of capital, deal structure, fund-raising strategy, and Fit are all addressed.

Exercise: Getting Started on the Business Plan provides a planning format to help students organize their team for the completion of the plan.

## **Chapter 13, “Entrepreneurial Finance”—a Minor Revision**

**Happiness is still a positive cash flow!** The chapter discusses what entrepreneurs need to know about entrepreneurial finance, determining capital requirements including the free cash flow format, and developing financial and fund-raising strategies. It includes updated material.

Case: FAX International Japan is the final case in the series and looks at the anatomy of FI, finding strategic partners/investors in Japan, structuring and

closing the deal. As this is happening, the company is once again out of cash.

## **Chapter 14, “Obtaining Venture and Growth Capital”—a Revision with Significant Updates and New Material**

The chapter discusses sources of informal angel equity and venture capital, how angels and venture capital investors evaluate deals, and how to deal with investors. The chapter includes significant new and updated materials such as data and exhibits on capital markets, current examples in the post-dot.com mania era, and new Web site resources. Also introduced is the concept and framework for a capital markets food chain.

Case: Hindman & Company is the first of a four-part case series on the creation, launch, building, harvest, and demise of Jiffy Lube International. It is one of the most powerful teaching series we have ever used. The first case examines the startup, high-growth strategy, and early financing of the company.

## **Chapter 15, “The Deal: Valuation, Structure, and Negotiation”—a Minor Rewrite with New Material**

The chapter discusses 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 pitfalls and sand traps encountered by entrepreneurs. New to the chapter is a discussion of the postmortem of the dot.com bubble and the survivability of the “old” economy. A significant addition to this chapter are models of the legal issues and processes of deal structure and negotiation developed by the law firm of Testa, Hurwitz & Thibault, in Boston, whom the authors believe is *the* leading authority in this field.

Case: Bridge Capital Investors: By 1985, Jiffy Lube had grown rapidly to 100 outlets and was out of cash, seeking to raise a \$10 million bridge financing. This is an excellent case about deal structuring and the creative use of puts in the deal. In-class role-play negotiations can be effective.

## **Chapter 16, “Obtaining Debt Capital”—a Minor Revision with Updates**

The various sources of debt capital are discussed in detail, including the managing and orchestrating of the banking relationship, before and after the loan. How the bank looks at the loan proposal, criteria, covenants, and personal guarantees, and what to do when the bank says no are discussed. Certain tar pits and time bombs awaiting the unwary borrower are also covered.

Case: Jiffy Lube International, Inc., is the third case in the four-part series. It examines JLI's very rapid growth strategy after the IPO in June 1986, its new business plan, and its highly leveraged financial strategy and implications. It is a great case to get students to push the free cash flow numbers and see for themselves how demanding is JLI's appetite for capital. Though exceeding its business plan, the credit crunch of 1989–90 ended the favorable capital markets that fueled the growth and leverage, and it all came tumbling down. Pennzoil bought the company for a song in 1991. This is a very painful and sobering saga.

### **Chapter 17, “Managing Rapid Growth: Entrepreneurship Beyond Startup”—a Minor Revision with Updates**

The chapter places a zoom lens on the unique issues and demands of managing rapid growth in entrepreneurial companies. The role of leadership, culture, and climate are discussed. Three entrepreneurial leadership models for the 21st century are examined.

Case: Quick Lube Franchise Company is the fourth and final part of the Jiffy Lube series. It examines how one of the original founders of the franchiser (JLI) becomes a leading franchisee, and then is faced with the harvesting issue in the early 1990s. The complex valuation, timing, deal structuring, and negotiating issues are presented in the case.

### **Chapter 18, “The Entrepreneur and the Troubled Company”—a Minor Revision of the Chapter with Updates Along with a New Case Study**

The chapter discusses the signs and symptoms that predict that companies are heading for trouble, what the turnaround experts look for, and strategies and approaches to resuscitating the company.

Case: EverNet Corporation is a new case study that continues the story of James Kenefick (see above) through the rapid growth of his second entrepreneurial venture.

### **Chapter 19, “The Harvest and Beyond”—Minor Chapter Revisions But with Some New Material**

The book concludes by looking at the entrepreneurial process as a journey not a destination, harvest options and their consequences, and beyond the harvest. The chapter has a new section on how entrepreneurs combine a concern for the environment and community with entrepreneurial aspirations. For the 6th edition, we have brought back the crafting a personal

entrepreneurial strategy exercise, and include it at the end of this chapter.

Case: Paul J. Tobin. This is the story of an army private who rises to be the president of Cellular One in Boston. The case examines Tobin's strategies to build and finance a growing telecommunications business. The case examines his journey, how he identified opportunities, developed strategies, and raised venture capital to build the business. Unfortunately, the strategy is flawed and the company must be recreated or go under.

### **Chapter 20 “Crafting a Personal Entrepreneurial Strategy”—Reintroduced from Earlier Editions.**

Case: Boston Communications Group, Inc., picks up the story of Paul Tobin and examines the orchestrating and managing of an eventual harvest in the mid-1990s, either through a strategic sale to the likes of GTE or an initial public offering (IPO). The case provides an intimate look at the anatomy of valuation and pricing of an IPO, the role and selection of underwriters, and the nature of the robust and tumultuous capital markets in mid-1996.

Exercise: Crafting a Personal Entrepreneurial Strategy is included.

## **Appendices**

All appendices from previous editions will be included on the Web site for *New Venture Creation*.

## **Chapter Enhancements**

Several enhancements to all chapters that were introduced in the 5th edition remain in the sixth edition:

- **Chapter Summary** at the end of each chapter will provide a succinct closure and review of the most important points in the chapter.
- **Study Questions** for each chapter are provided to enable you to focus on key issues, test your knowledge, and organize important material and insights presented in the chapter.
- **Mind Stretchers** at the end of each chapter pose thought-provoking ideas for readers. For instance: How many millions might it cost you over your entrepreneurial career if you fail to digest the lessons and wisdom from this course and in *New Venture Creation*?

The NVC Web site is enhanced to contain old cases not included in this edition, electronic templates of exercises where available, and other special material from the old edition's appendices that are timeless and valuable.

## The Roots of New Venture Creation: An Approach with Real World Results

*New Venture Creation* is the most practical and comprehensive book of its kind available for aspiring and existing entrepreneurs. Its focus is on deterring the risks and rewards of entrepreneurship, the difference between an idea and an opportunity, and how to get the odds in your favor. It helps to compress and accelerate the learning and the process without compromising quality and, if diligently adhered to, may save you sizable sums of “unwanted tuition.”

Several hundred thousand entrepreneurs, students, private investors, venture capitalists, and managers in larger companies who are in search of the entrepreneurial dream have used the models, approaches, and

process in the book—some with stunning success. Previous editions of the book have received accolades and recognition as one of the leading books on entrepreneurship in the world, and are considered by many as a “must-read” book for entrepreneurs.

Jeffry A. Timmons  
*Franklin W. Olin Distinguished Professor of  
Entrepreneurship  
and  
Stephen Spinelli, Jr.,  
John H. Mueller, Jr., Chair,  
Chair of the Entrepreneurship Division,  
and Director, Arthur M. Blank Center for  
Entrepreneurship  
BABSON COLLEGE*