Chapter 1  The Entrepreneurial Life

CHAPTER OUTLINE

Spotlight:  Table Occasions
(http://www. table occasions.com)

1  Entrepreneurship and Small Business

Distinguish between an entrepreneur and a small business owner.

➢ Who Are the Entrepreneurs?

Describe small business owner and entrepreneur and how they relate.

□ Contributions of Small Business to the Economy
  ♦ Small business makes a positive contribution to the economy
    ♦ U.S. startups classified as “less than one year old” create an average of 3 million new jobs annually.
    ♦ We’re seeing the beginnings of the entrepreneurial economy, a system built on nimble, low-overhead, oftentimes small companies with fluid work-forces, rather than the massive conglomerates that have upheld the economy for decades.
    ♦ Universities across the U.S. are adding entire programs on entrepreneurship, and many more schools offer at least one or two classes-and still cannot handle the student demand for information.
    ♦ In today’s world your business courses, whatever your particular specialty or major, should include the study of entrepreneurship.
  □ Entrepreneurs (not limited to business founders; includes second-generation firm owners, franchisees, and owner-managers)
    ♦ Ask students for examples of entrepreneurs they know or know about
    ♦ Definition of an entrepreneur
      ♦ A person who relentlessly focuses on an opportunity, either in a new or existing enterprise, to create value, while assuming both the risk and reward for his or her effort

➢ What Is Small Business?

□ Criteria Varies
  ♦ Number of employees, sales volume, and value of assets have been used
□ Criteria used in this text
  ♦ Number of employees in the business is fewer than 100
  ♦ Except for marketing function, operations are geographically localized
  ♦ Financing provided by no more than a few individuals
  ♦ Business may begin with a single individual, but may grow

Provide examples of local businesses (Microsoft and Apple could also be examples of small businesses that grew from 1-3 owners and are no longer small businesses)

2  Entrepreneurial Opportunities

Explain entrepreneurial opportunities and give examples Entrepreneurial Opportunity
Chapter 1  The Entrepreneurial Life

- Economically attractive and timely opportunity that creates value for interested buyers or end users.
- Involves more than just a good business idea.

➢ Three Success Stories
- Ace Hotels (Seattle, WA)
  - Alex Calderwood, co-founder
  - Calderwood didn’t break the bank creating this personality-driver hotel. He financed it for less than $2 million, through an equal mix of debt and investments, and personal money.
  - Calderwood’s philosophy on how to be cooler than the competition is:
    - Create intimacy
    - Be inclusive
    - Follow the Golden Rule
    - Be original
  - Calderwood’s keen focus on people, whether it’s targeted at satisfying local consumers or hand-picking his creative staff is something every small business owner can learn.
- Late Model Restoration Supply (Waco, TX)
  - Shannon Guderian, owner
  - At age 26 Guderian saw the need for parts for late model cars so he quit his job and pursued his dream.
  - Started with $7,000 in his pocket from selling his car, and without any business experience, he started calling on everyone he knew in the industry, asking for their advice.
  - Guderian started with 17 part numbers from one vendor and a $20,000 bank loan to help finance his small inventory.
  - Today the business is in a 27,000 square foot building with a showroom where he displays Mustangs.
  - Annual net sales have now reached over $17 million.

Examples show people who took advantage of opportunities and became successful.

3 So You Want to Be an Entrepreneur
Describe some motivators or rewards for owning your own business.

➢ Enjoy Satisfying Work
  - Satisfaction experienced from running their own businesses is a reward as well as independence

➢ Finding Fulfillment
  - Positive contribution to the community in which they live
  - Small businesses can actually see the contribution

➢ Develop Financial Wealth
  - Making a profit important for firm’s survival
  - Business should compensate owner for his/her investment of personal time, personal money, and risk he/she is taking
  - Plan to get rich slowly

➢ Be Your Own Boss
Chapter 1 The Entrepreneurial Life

- Although attractive, expect to work very hard and for long hours
- Satisfaction of making your own decisions to build the business

➢ Escape a Bad Situation
  - Reluctant entrepreneur – a person who becomes an entrepreneur as a result of some severe hardship
  - Refugee – a person who becomes an entrepreneur to escape an undesirable situation
  - Example: Reeboot Strategy (Austin, TX)
    • Karyn Couvillion and husband started because both were in bad situations

4 The Many Varieties of Entrepreneurship
Identify some of the basic types of entrepreneurs and entrepreneurial ventures.

➢ Founder Entrepreneurs versus Other Business Owners and Franchisees
  - Founders are “pure” entrepreneurs who bring new or improved products or services to market
  - Franchisees differ due to having less independence

➢ High-Potential Ventures versus Attractive Small Firms and Microbusinesses
  - High-potential ventures (gazelles)
    • A small firm that has great prospects for growth
  - Attractive small firms
    • Provides substantial profits to its owners, major segment of small businesses
  - Lifestyle business
    • A microbusiness that permits the owner to follow a desired pattern of living

➢ Artisan versus Opportunistic Entrepreneurs
  - Artisan Entrepreneur: Technical job experience, but little business knowledge often characterized by:
    • Paternalistic
    • Reluctant to delegate authority
    • Few capital sources to create their firms
    • Define marketing strategy in terms of traditional components (price, quality, company reputation)
    • Primarily personal sales efforts
    • Short time orientation, little planning for future growth or change
  - Opportunistic entrepreneur: person has both sophisticated managerial skills and technical knowledge typically characterized by:
    • Avoiding paternalism
    • Delegating authority necessary for growth
    • Employ various marketing strategies and types of sales efforts
    • Obtain original financing from more than two sources
    • Plan for future growth

➢ Entrepreneurial Teams
  - Two or more people who work together as entrepreneurs on one endeavor
  - Able to use talents, skills and resources of team

5 The Competitive Edge of Entrepreneurs
Describe five competitive advantages of small and large firms.
Chapter 1  The Entrepreneurial Life

- **Customer Focus**
  - Small businesses in general are able to provide better customer focus

- **Quality Performance**
  - Often surpass quality performance of large business
  - Quality independent of firm size

- **Integrity and Responsibility**
  - Reputation for honesty and dependability important at a time when stories of corporate greed and corruption are in the news

- **Innovation and Globalization**
  - Thomas Friedman (*The World Is Flat*) indicates that “anything can now be done from anywhere in the world”
  - Large businesses tend to emphasize the improvement of existing products sidetracking creative ideas that don’t meet that criteria
  - Bhide indicates that small businesses are more capable of taking inventions or innovations developed elsewhere and putting them into use
  - Smaller firms have less bureaucracy to deal with than small businesses
  - Globalization helpful to smaller firm competition

- **Special Niche**
  - A market segment identified by an identifiable but narrow range of product or service interests

6  Getting Started

*Discuss factors related to starting an entrepreneurial career.*

- **Age and Entrepreneurial Opportunity**
  - Knowledge and experience more important than age
  - Time to accumulate startup money important factor
  - Entrepreneurs in the 25 to 35-year age group account for the highest percentage of new ventures according to research conducted by Paul Reynolds
  - Generation Y, the Millennials, or twenty-somethings creating a new breed of entrepreneurs
  - Age not of concern, success can happen at any age

- **Characteristics of Successful Entrepreneurs**
  - Timmons and Spinelli research describe “desirable and acquirable attitudes and behaviors” under six descriptions
    - Commitment and determination
    - Leadership
    - Opportunity obsession
    - Tolerance of risk, ambiguity, and uncertainty
    - Creativity, self-reliance, and adaptability
    - Motivation to excel
  - Attitudes to avoid
    - Overestimate what you can do
    - Lack an understanding of the market
    - Hire mediocre people
    - Fail to be a team player
Chapter 1  The Entrepreneurial Life

- Be a domineering manager
- Not share ownership in the business in an equitable way

➤ The Importance of Mentors
- Mentors
  - A knowledgeable person who can offer guidance from their experience in a given field

7 Success in Business and Success in Life

Explain the concept of an entrepreneurial legacy and its challenges. Looking Back at an Entrepreneurial Life
- Upon final exit from the business questions of reflection occur.
- An entrepreneurial legacy is established- this becomes everything that one has left behind.

➤ Winning the Wrong Game
- Don’t win the wrong war – excessive focus on money or work can twist the entrepreneurial process

➤ Crafting a Worthy Legacy
- Material assets and intangible qualities passed on to both heirs and society

➤ Beginning with the End in Mind
- Establish goals for business
- Evaluating Accomplishments- set criteria for assessment of progress

8 Where to From Here
- End of Part 1 (Chapter 2) discusses the fundamental values of the entrepreneur
- Parts 2 and 3 look at a firms basic strategy, the various types of entrepreneurial ventures, and initial planning required for startups
- Parts 4 – 6 deal with marketing and management of a growing business.

ANSWERS TO END-OF-CHAPTER DISCUSSION QUESTIONS

1. The three stories discussed at the beginning of the chapter are to some extent exceptions to the rule in the amount of success the entrepreneurs experienced. What then is their significance in illustrating entrepreneurial opportunity? Are these stories misleading?

These examples provide dramatic illustrations of the substantial success one might achieve. Realistically, we recognize that only a few ventures are so spectacularly successful, that many others experience moderate success, that others are only marginally successful, and that a few fail. Many entrepreneurs find fulfilling lives in successful, independent careers without becoming multimillionaires. The success stories in the text show the great entrepreneurial opportunities available in this country. They suggest that we may go as far as our desires, abilities, preparation, and divine providence permit.
Chapter 1  The Entrepreneurial Life

2. **What is meant by the term entrepreneur?**

   *Entrepreneur* is a French term that dates back to the early eighteenth century. It refers to an individual who founds or starts a business firm. (The term also includes partnerships and entrepreneurial teams.) In this book we extend the definition to include owner-managers who operate firms started by others. The characteristics of risk-taking and innovation are associated with the image of the entrepreneur.

3. **Consider an entrepreneur you know personally. What was the most significant reason for his or her following an independent business career? If you don’t already know the reason, discuss it with that person.**

   Answers will vary, of course. Some students should know some entrepreneurs—parents, friends, or employers—quite well. The instructor might ask students first to explain the basis of their relationship with the entrepreneur and then to discuss their perceptions of that person’s motivations.

4. **The motivators/rewards of profit, independence, and personal fulfillment are the reasons that individuals enter entrepreneurial careers. What problems might be anticipated if an entrepreneur were to become obsessed with one of these rewards—for example, if he or she had an excessive desire for profit, independence, or a particular life-style?**

   A balanced perspective is needed. While each reward can give a strong motivation to build a good business, each also has some potential for creating havoc in an unbalanced life. An excessive desire for profit can lead to attempts to make short-run gains at the expense of long-run customer or employee relationships. It may also tempt one to lower ethical standards and to neglect family relationships. An excessive desire for independence may make one difficult to deal with in interpersonal relationships. Some degree of perceived interdependence between employer and employee contributes to mutual respect and cooperative relationships. An excessive desire for a satisfying way of life may dull one’s sensitivity to cost and profit issues. An entrepreneur must achieve a profit goal in order to be able to afford a life-satisfaction goal.

5. **Distinguish between an artisan entrepreneur and an opportunistic entrepreneur.**

   An artisan entrepreneur is a person with technical job experience (e.g., a painter who becomes a painting contractor) and who lacks general abilities in business management. An opportunistic entrepreneur has a more general education than the artisan entrepreneur and thinks in broader terms of strategy and financial planning.

6. **What is the advantage of using an entrepreneurial team?**
Chapter 1  The Entrepreneurial Life

Individual entrepreneurs frequently have weak spots in education or experience. An entrepreneurial team makes it possible to cover such weaknesses by using individuals with varied talents and backgrounds.

7. Explain how customer focus and innovation can be special strengths of small businesses.

Small businesses are generally less bound by bureaucracy and corporate policies and usually maintain closer relationships with their customers. In other words, their flexibility affords them the ability to focus on their customers and meet their needs, which naturally generates customer loyalty. At the same time, small firms often grow out of the innovative ideas of their entrepreneurial founders, and therefore this mindset is likely to prevail in the small business.

8. Why is the period from the mid-20s to the mid-30s considered to be the best time in life for becoming an entrepreneur?

Most individuals in this age category have a significant amount of education and preparatory experience. At the same time, they typically are not locked into salaried positions by heavy commitments to pension plans, extensive family obligations, and so on.

9. Explain the concept of an entrepreneurial legacy.

A legacy refers to what one leaves behind or passes on to others – to one’s heirs and to others. An entrepreneurial legacy refers to the entrepreneurial aspect, the business side, of one’s legacy, and thus is concerned with what the business experience has meant to all those affected. This includes the tangible elements such as financial resources passed on to heirs and others and also the intangible elements such as the impact of the entrepreneurial experience on family relationships and the example of entrepreneurial integrity or avarice given to the community.

10. Explain the following statement: "One can climb the ladder to success only to discover it is leaning against the wrong wall."

Entrepreneurial achievements are varied, and the way we measure them also varies. If an entrepreneur concentrates too much on achieving financial goals, for example, that person may fail dismally in other areas of life such as family relationships. The statement points to the need to have one’s goals properly defined and to have one’s efforts properly forecasted.
Chapter 1  The Entrepreneurial Life

COMMENTS ON CHAPTER “YOU MAKE THE CALL” SITUATIONS

Situation 1

1. Should this venture be regarded as entrepreneurial? Is the owner a true entrepreneur?

Whether this is entrepreneurial depends on one’s definition. The owner may or may not be a founder—the key issue in some definitions of a “true” entrepreneur. In this text, we use a looser definition of entrepreneur, which could include this owner-manager regardless of whether he founded the business. The venture is apparently not the high-growth, high-potential type. It may well be what we have called an “attractive small company.”

2. Do you agree with the philosophy expressed here? Is the owner really doing what is best for his family?

This question calls for opinions and permits some discussion of the conflicting values and rewards in business. Some may feel the owner is insufficiently motivated to grow and even to serve his own family properly in that way. Others will see the family values and careful growth as appropriate. The question permits the instructor to discern the general orientation of students in a class. How many, after discussion, will give a vote of commendation to this owner? You might ask students to guess the owner’s age.

3. What kinds of problems is this owner trying to avoid?

The owner is apparently avoiding or reducing problems related to inadequate customer service and product/service quality—areas of difficulty in a rapidly growing business. Also, the personnel and management functions (e.g., delegation, finding qualified key people) are simplified by slow growth. Slow growth may either postpone a transition to professional management or permit a more orderly transition to it.

Situation 2

1. What do you like and not like about the Simple Bills concept?

This is a win-win situation for everyone. The utility companies win because they get paid in a timely fashion and don’t have to incur the cost of collecting past due utility bills. The apartment owners win because the utility bills remain in the tenants name and the owners don’t incur the risk of incurring past due utility bills. The tenants win because they don’t have to take on the task of collecting payment from their roommates. The owners of Simple Bills win because they make money by providing a low-cost, low-overhead service to their customers.
Chapter 1 The Entrepreneurial Life

2. Would you recommend raising funds from outside investors and growing faster or continuing to bootstrap the operations to conserve ownership? Why?

While these entrepreneurs may not want to give away ownership of their business for fear of losing profits, they fail to see the bigger picture. By bringing in investor capital, they will be able to grow the business into something much bigger. By growing the business bigger (from say a $1 million company to a $100 million dollar company), their profits will be bigger. If the owners retain 60% control of the business, wouldn’t it be better to have 60% of $100 million rather than 100% of $1 million? Indeed, by including investors, the company has the opportunity to grow into something much larger, and more quickly, rather than by bootstrapping this operation.

3. What strategy would you suggest for growing the business, assuming new investors are brought in?

As a high-potential venture, this company may want to seek our angel capital financing. Depending on how large Simple Bills wants to grow (state-wide versus nation-wide) will determine the type of financing these owners will pursue. A nation-wide growth plan would require venture capital financing while a smaller growth plan could utilize angel capital.

Situation 3

1. Is Dover’s feeling of unfairness justified? Is his business entitled to some type of legal protection against moves of this type?

Dover’s feeling is understandable but difficult to defend rationally. The business has prospered, to some extent at least, by functioning in a free enterprise system. Capitalism does not protect one from competition. The law, of course, offers some protection from unscrupulous competition—for example, practices such as predatory pricing designed to drive competitors out of business.

2. How should Dover plan to compete against Wal-Mart, if and when this becomes necessary?

Large retailers and discounters are more successful in some fields than in others. They are very strong, for example, in drugs, lumber, and general merchandise. In sporting goods, small firms continue to compete very well. Wal-Mart’s forte will be price competition. Dover must emphasize those factors that give small firms unusual strength: personal attention, excellent product knowledge, product lines that exceed those of a discount chain, advertising programs tailored to the interests of their customers, attractiveness (and possibly renovation) of physical facilities, and activities that will gain attention in the news media and thereby deny Wal-Mart a news monopoly. In brief, the store should do everything it does better than its
competitor is able to do. If this family business can be an aggressive, bold competitor, it can continue to survive and do well.

Meg Whittemore (a writer for Nation’s Business) describes a small hardware business threatened by the advent of Wal-Mart in Sterling, Colorado. To cope with the new competition, the owners of the hardware store dropped product lines in which Wal-Mart was strongest and concentrated on basic hardware lines—paint, tools, electrical items, plumbing, carpentry supplies, lawn and garden supplies—and offering customers advice and instructions on how to use those items. In these areas, they could do better than Wal-Mart, and their sales tripled after Wal-Mart moved into town.

SUGGESTED SOLUTION TO CASE 1: NAU

1. What were Nau’s founders’ primary motivations for founding Nau?

Nau founders were committed to using their business as a force for change. They combined eco-friendly and “mountain-climbing chic with fashion forward urban cool.” They indicated that their goal was “To demonstrate the highest levels of citizenship in everything we do: product creation, production, labor practices, the way we treat each other, environmental practices, and philanthropy.” Chapter 1 calls this “Making Meaning.” This indicates that the entrepreneur is committed to making the world a better place. The design philosophy is built on three criteria: beauty, performance, and sustainability.

2. What kind of entrepreneurial venture is Nau?

Nau sells expensive outdoor-type clothing with the added incentive of style and a donation to charities from each purchase. In their quest to make meaning, the founders of Nau established a Code of Conduct that dealt with human rights for the business, sustainable business practices, environmentally friendly clothes, and social responsibility. The Business DNA includes Nau Rules of Corporate Responsibility: Section 1: Environmental and Social Responsibility, Section 2: Management of the Business and Affairs of the Corporation, and Section 3: Philanthropy.

3. How do you feel about management’s decision to give a percentage of the firm’s sales to charity? Describe the pros and cons of such decision.

Students should provide their feeling on the charity issue. Information is available on Nau’s website that discussed the charities chosen by Nau. The philanthropy espoused by Nau is 2% of each sale to one of the partner organizations (chosen by the customer at the point-of-sale). The organizations are Ashoka, Ecotrust, Mercy...
Corps, Breakthrough Institute, and Kiva. (http://www.nau.com/partners-for-change/).

Pros for this decision include the following:
- Purchases of the products make the customers feel good about the purchase because they got a good product and gave to charity
- The charity donations relate to the goal advertised by the business
- The charities are aided by the funds donated by the business

Cons for this decision include the following:
- The cost of the products must be increased to provide the donation to charity
- The customers may not relate well to the charities chosen by the business
- Forces customers to give to charity

4. Nau’s owners think of their clothing line as part Patagonia (http://www.patagonia.com) and part Prada (http://www.prada.com). Review the websites of these two companies. What do you believe Nau’s owners saw in Patagonia and Prada that was relevant to their idea for a startup?

Patagonia has a large imprint of environmentalism on its website called The Footprint Chronicles®. These chronicles include the tracking of “the impact of specific Patagonia products from design through delivery.” The mission statement is very similar to that of Nau: “Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.” In addition, the site lists their corporate social responsibility in detail and the Footprint Library provides insight to the environmental impact of Patagonia. Patagonia reinforces their commitment to protect and support wildlife.

Prada, on the other hand, has a very creative website that supports the arts and includes exhibitions, books, and support of culture. The clothing and accessories created by Prada support these cultural activities and reinforce their commitment to the support of the arts.

5. Describe Nau’s competitive advantage.

Nau’s competitive advantage was developed utilizing a creative approach. Nau established stores about half the size of typical specialty apparel stores. Smaller inventories meant a huge cost savings. In establishing this approach they must rely on shipping from a warehouse directly to customer homes which customers liked. In addition, their choice of a top Patagonia designer to work for Nau meant that they had up-to-date knowledge of what would sell well from that viewpoint.

6. What characteristics of successful entrepreneurs do the founders embody?
Chapter 1  The Entrepreneurial Life

The founders determined that the company bylaws should prohibit any Nau executive from earning more than 12 times what the lowest-paid U.S. worker earned. This carries their idea of good labor practices into their own salaries. In addition, they carefully thought through the profit must be there in order to reach the business goals they established. Therefore, they were good role models for their employees. The qualities of creativity and innovation, self-confidence based on research, giving back to the community, and citizenship aspects considered within the profit focus are important when establishing the business.

7. **What mistakes do you believe Nau’s management made in executing their strategy?**

One problem is expanding too rapidly without prior preparation. Expansion must be supported with money to backup the early startups. Unfortunately the capital market was not there to support the expansion. Capital markets were stepping back from funding businesses in 2008, which was a factor in the problems that developed. Capital should have been obtained before expanding. Careful expansion built on research of the markets, the funding, and customer commitment is vital to the success of new locations.

8. **Do you believe it was a wise decision for Nau to partner with Horny Toad? Why or why not?**

Student answers may vary. Nau’s partnership with Horny Toad should improve the distribution system to the many locations made available. This partnership allows new sales locations as well. The partnership may cause the Nau brand to be looked at as less chic than before. The partnership allows Nau to continue to operate and develop its brand.

**ACTIVITIES**

1. **Now that you are familiar with Nau and its history, do some research to determine the latest status of the firm.**

2. **Go to Nau’s website** ([http://www.nau.com](http://www.nau.com)) **to find stores that sell its clothing near your location. If you find one, visit the store and interview the manager about Nau’s products.**

   Stores are located in Colorado (Boulder, Denver), Michigan (Ann Arbor, Traverse City), Vermont (Bondville, Stowe), New York, (Brooklyn, Mount Kisco, New York), Illinois (Chicago, Evanston, Highland Park), Maine (Freeport), Wyoming (Jackson Hole), Oregon (Manzanita, Portland), California (Mill Valley, San Francisco), New Mexico (Santa Fe), New Jersey (Stone Harbor), and Wisconsin (Madison). The actual stores are available on the Nau website.