

# Entrepreneurship

## Successfully Launching New Ventures

Fifth Edition



**Bruce R. Barringer**  
**R. Duane Ireland**



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**SUCCESSFULLY LAUNCHING NEW VENTURES**

**FIFTH EDITION**

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Oklahoma State University

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## Dedication

To my wife, Jan. Thanks for your never-ending encouragement and support. Without you, this book would have never been possible. Also, thanks to all the student entrepreneurs who contributed to the chapter opening features in the book. Your stories are both insightful and inspiring.

—Bruce R. Barringer

To my family: I am so proud of each of you and so blessed by your perseverance and never-ending love and support. I know that sometimes it seems as though “we lose ourselves in work to do and bills to pay and that it’s a ride, ride, ride without much cover.” But you are always in my heart, a gift for which I remain deeply grateful.

—R. Duane Ireland

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# Preface

## What Is New to This Edition?

This fifth edition is a thorough revision of our book. Each chapter was revised to reflect examples of current entrepreneurial firms and the latest thinking about entrepreneurship from academic journals and practitioner publications. Specifically, the following is new to the fifth edition.

**Opening Profile** Each chapter begins with a profile of an entrepreneurial firm that was started while the founders were in college. All 15 Opening Profiles (one for each chapter) are new to this edition. Each profile is specific to the chapter's topic. The profiles are based on personal interviews with the student entrepreneurs involved.

**Updated Boxed Features** The majority of the “What Went Wrong?” “Savvy Entrepreneurial Firm,” and “Partnering for Success” features are new to this edition. These features not only alert students and readers to contemporary issues facing entrepreneurial firms, but are meant to be helpful to them in a practical sense as well. Select features focus on topics such as how to find a mentor, how to select a business co-founder, and how to avoid the types of mistakes that typify unsuccessful entrepreneurial ventures. The two “You Be the VC” features at the end of each chapter have been a staple of the book since its inception. A total of 29 of the 30 “You be the VC” features in the fifth edition are new.

**Barringer/Ireland Business Model Template** One of the strongest additions to the fifth edition is the inclusion and thorough explanation of the Barringer/Ireland Business Model Template. We introduce this template to you in Chapter 4. It provides a nicely designed way for students to think through and articulate the business model for a proposed or existing firm. The template, which is similar in its intent and usefulness to the popular Business Model Canvas created by Alexander Osterwalder and Yves Pigneur, contains four sections and 11 parts. Chapter 4 fully explains each section and part. An enlarged version of the template is included in the Appendix to Chapter 4. It can be photocopied and used to assist students in completing business models for proposed or existing firms.

**New and Updated Cases** The majority of end-of-chapter cases are new to this edition. Those that were retained have been completely updated. The cases were carefully selected to illustrate the principles introduced in their respective chapters. The questions included at the end of each case can be used to stimulate classroom discussion or for quizzes or tests.

**Updated References** The amount of academic research examining entrepreneurship-related topics continues to grow. To provide the most recent insights from academic journals, we draw upon recent research from journals such as *Strategic Entrepreneurship Journal*, *Entrepreneurship Theory and Practice*, *Journal of Business Venturing*, and *Academy of Management Journal*. Similarly, we relied on the most current articles appearing in business publications such as *The Wall Street Journal* and *Entrepreneur* among others, to present you with examples of the actions being taken by today's entrepreneurs as they lead their ventures.

## Introduction to Entrepreneurship

There is tremendous interest in entrepreneurship on college campuses and around the world. One indicator of this interest is the fact that of the approximately 2,000 colleges and universities in the United States, about two-thirds of the total now offer a course in entrepreneurship. As a result, a growing number of students are forgoing traditional careers and starting their own businesses. Ordinary people across the world are equally interested in launching entrepreneurial careers. According to the 2013 Global Entrepreneurship Monitor, in the United States a total of 12.7 percent of the adult population is starting a business or has started a business in the past three-and-a-half years. There are regions of the world where the percentage is even higher. In Brazil, for example, 17.3 percent of the adult population is starting or has started a business in the past three-and-a-half years. The percentage is 24.3 percent in Chile.

The lure of entrepreneurship is the ability to create products and services that enhance people's lives. You'll see this through the many examples of entrepreneurial firms provided in the book. Particularly inspiring are the examples of businesses started while the founders were still in college. We begin each chapter of this book with a profile of a business that was founded while the founders were still in college. Several of the end-of-chapter cases are focused on student-founded businesses as well. The opening profile for Chapter 3, for example, focuses on LuminAid, a business started by Andrea Sreshta and Anna Stork, two students at Columbia University. The three children pictured on the front cover of the book are looking at what Sreshta and Stork created—solar powered pillows that provide light for people in disaster relief situations. What we hope to accomplish via the profiles and cases about businesses that were started while their founders were still in college is to inspire the students who are using the book. Hopefully they'll look at students like Sreshta and Stork and realize that they aren't too different from them, and that they have the capacity to conceive a business idea and launch a successful company too.

Many of the examples of student-inspired businesses provided in the book are both instructive and heartwarming. For example, Case 3.2 focuses on a company named Embrace, which was started by four Stanford University students. Embrace makes a product, called the Embrace Baby Warmer, which literally saves the lives of premature babies born in remote villages in developing countries. It looks like a small sleeping bag and contains a warming element that when turned on emulates the heat provided by a more sophisticated incubator in a hospital. No one can read the case without being inspired and somewhat awed by what a motivated group of college students, surrounded by a supportive university and dedicated faculty and mentors, were able to accomplish when they set their sights on becoming entrepreneurs. A photo of the Embrace Baby Warmer is provided in the case. We invite you to go to Case 3.2 now to glance at the Embrace Baby Warmer.

There is one caveat to successful entrepreneurship, and it's a big one. People, regardless of age, need a process to follow to successfully navigate the entrepreneurial journey. This is where our book offers unique value. The book describes entrepreneurship as a four step process, beginning with the decision to become an entrepreneur and culminating with managing and growing a successful firm. There is a lot in between, as you'll see. Entrepreneurship is not easy, which is a sentiment that we express throughout the book. But it is doable, as evidenced by the many success stories provided. The process, pictured nearby, provides a framework or roadmap of the entrepreneurial process that many professors, students, and others that have used the book have told us has been particularly helpful to them. In the book, we're also careful to talk about failures as well as successes. Each chapter includes a boxed



feature titled “What Went Wrong?” The feature contains a real-life example of something that went wrong with an entrepreneurial firm. Professors have commented to us that they appreciate having failure stories as well as success stories as teaching tools in their classrooms. At the other extreme, each chapter also includes a boxed feature called “Savvy Entrepreneurial Firm.” In these features, we describe actions entrepreneurial firms have taken that contributed to their success. Complementing these features is a third one that is presented in each chapter. Called “Partnering for Success,” these features discuss relationships entrepreneurial firms form with various parties (such as suppliers and distributors) in order to increase the likelihood of being successful.

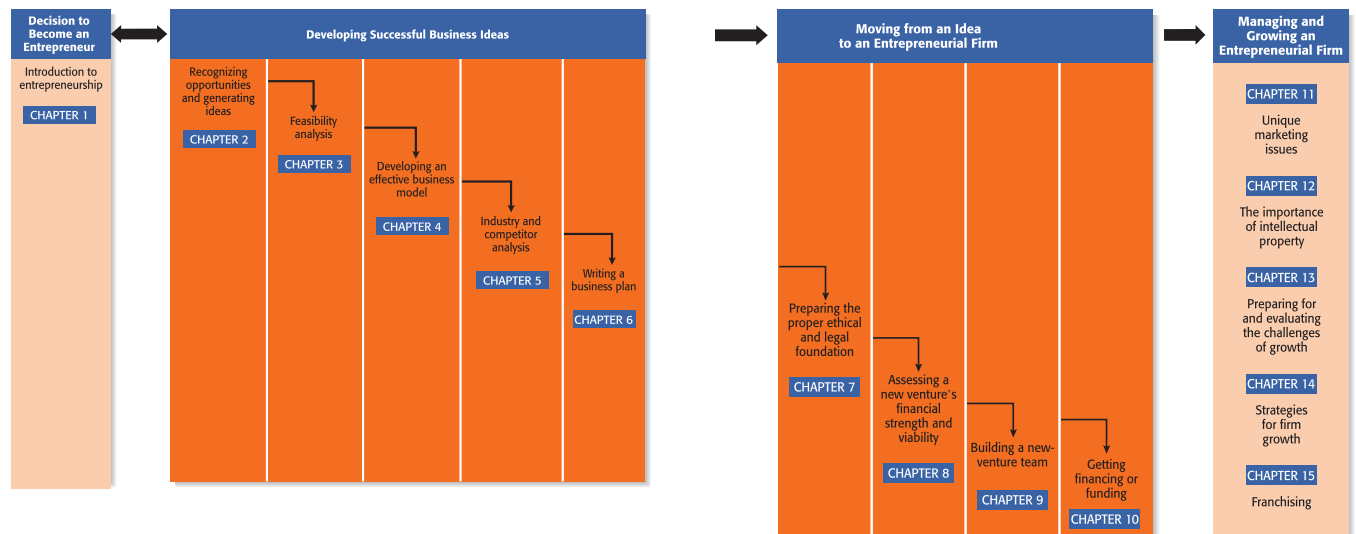
We sincerely hope that college and university students and their professors as well as others who choose to read this book will find it thoughtful, instructive, helpful, and inspiring. Our goal is to place into your hands—our readers—a book with the ability to both inspire and lead you through the steps in the entrepreneurial process.

## How Is This Book Organized?

As mentioned above, the book is organized around the entrepreneurial process. The four parts of the entrepreneurial process are as follows:

- Part 1: Decision to Become an Entrepreneur
- Part 2: Developing Successful Business Ideas
- Part 3: Moving from an Idea to an Entrepreneurial Firm
- Part 4: Managing and Growing an Entrepreneurial Firm

The book mirrors this process. It is laid out in four parts and 15 chapters. The nearby figure depicts the parts of the process and the chapters that are included in each part.



## What Are the Unique Aspects of the Book?

While using the book, we think you'll find several unique features to be particularly helpful. The following table lays out the most unique features of the book followed by an explanation.

UNIQUE FEATURE OF THE BOOK

EXPLANATION

Focus on opportunity recognition, feasibility analysis, and the developing of an effective business model.

The book opens with strong chapters on the front end of the entrepreneurial process, including opportunity recognition, feasibility analysis, and the development of an effective business model. These are activities that must be completed early when investigating the merits of a business idea.

First Screen (template for completing feasibility analysis).

Chapter 3 (Appendix 3.1) provides a template for completing a feasibility analysis. The template can be copied and used to complete a feasibility analysis for a business idea.

Internet Resource Table.

Chapter 3 (Appendix 3.2) contains a table of Internet resources that can be used in completing a feasibility analysis and in other aspects of investigating the merits of a business idea.

Barringer/Ireland Business Model Template.

The Barringer/Ireland Business Model Template is a nicely designed template for helping students think through and articulate the business model for a proposed or existing firm. Each section of the template is fully explained in Chapter 4. The template can be easily copied and used by those wishing to develop a business model for an entrepreneurial venture.

Opening Profiles.

Each chapter starts with a profile of an entrepreneurial firm started while the founder of founders were still in college. Photos of the entrepreneurs and a Q&A format that allows readers to get to know a little about each of the student entrepreneurs personally are included. All 15 opening profiles are unique to the fifth edition.

What Went Wrong? Boxed Features.

Each chapter contains a boxed feature titled “What Went Wrong?” This feature has been a very popular aspect of the book. The features explain the missteps of seemingly promising entrepreneurial firms. The purpose is to provide students a healthy dose of stories about firms that either failed or suffered setbacks rather than focus just on success stories. The features are followed by discussion questions that allows students to identify the causes of the setbacks or failures.

Savvy Entrepreneurial Firm Boxed Features.

Each chapter contains a boxed feature titled “Savvy Entrepreneurial Firm.” These features illustrate the types of business practices that facilitate the success of entrepreneurial ventures.

Partnering for Success Boxed Features.

Each chapter contains a boxed feature titled “Partnering for Success.” We present this feature in each chapter to highlight the fact that the ability to partner effectively with other firms is becoming an increasingly important attribute for successful entrepreneurial ventures.



You Be the VC end of chapter features

Two features, titled “You be the VC,” are provided at the end of each chapter. These features present a “pitch” for funding for an emerging entrepreneurial venture. The features are designed to stimulate classroom discussion by sparking debate on whether a particular venture should or shouldn’t receive funding. All of the firms featured are real-life entrepreneurial ventures.

End of chapter cases

Two medium-length cases, written by the authors of the book, are featured at the end of each chapter. The cases are designed to stimulate classroom discussion and illustrate the issues discussed in the chapter.

## Instructor Resources

At the Instructor Resource Center, [www.pearsonhighered.com/irc](http://www.pearsonhighered.com/irc), instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- **Instructor’s Resource Manual**
- **Test Bank**
- **TestGen® Computerized Test Bank**
- **PowerPoint Presentation**
- **Image Library**

## Student Resources

**LivePlan**—Through a partnership with Palo Alto Software, we’re able to provide 6-month access to LivePlan at a reduced rate with the purchase of a textbook. LivePlan simplifies business planning, budgeting, forecasting, and performance tracking for small businesses and start-ups. Set business goals, compare performance to industry benchmarks, and see all your key numbers in an easy-to-use dashboard so you know exactly what’s going on in your business. To order LivePlan with the textbook, use package ISBN 0134113519.

## Feedback

If you have questions related to this book about entrepreneurship, please contact our customer service department online at <http://247.pearsoned.com>.

# Acknowledgments

We are pleased to express our sincere appreciation to four groups of people for helping bring both editions of our book to life.

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**Academic Reviewers** We want to thank our colleagues who participated in reviewing individual chapters of the book while they were being written. We gained keen insight from these individuals (each of whom teaches courses in entrepreneurship) and incorporated many of the suggestions of our reviewers into the final version of the book.

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We wish each of you—our readers—all the best in your study of the entrepreneurial process. And, of course, we hope that each of you will be highly successful entrepreneurs as you pursue the ideas you'll develop at different points in your careers.

# About the Authors

**Bruce R. Barringer** Bruce R. Barringer holds the Johnny D. Pope Entrepreneurship Chair in the Department of Entrepreneurship at Oklahoma State University. He earned his PhD from the University of Missouri and his MBA from Iowa State University. His research interests include feasibility analysis, firm growth, corporate entrepreneurship, and the impact of inter-organizational relationships on business organizations. Over the years, he has worked with a number of technology-based incubators and student-led entrepreneurship activities and clubs.

He serves on the editorial review board of *Entrepreneurship Theory and Practice* and *Journal of Small Business Management*. His work has been published in *Strategic Management Journal*, *Journal of Management*, *Journal of Business Venturing*, *Journal of Small Business Management*, *Journal of Developmental Entrepreneurship*, and *Quality Management Journal*.

Bruce's outside interests include running, trail biking, and swimming.

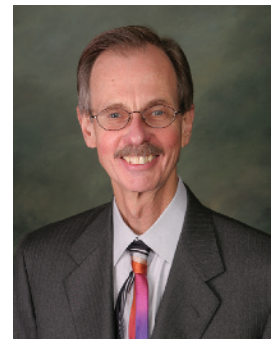


**R. Duane Ireland** R. Duane Ireland is a University Distinguished Professor and holds the Conn Chair in New Ventures Leadership in the Mays Business School, Texas A&M University. Previously, he served on the faculties at University of Richmond, Baylor University, and Oklahoma State University. His research interests include strategic entrepreneurship, corporate entrepreneurship, strategic alliances, and effectively managing organizational resources.

Duane's research has been published in journals such as *Academy of Management Journal*, *Academy of Management Review*, *Academy of Management Executive*, *Strategic Management Journal*, *Administrative Science Quarterly*, *Journal of Management*, *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, and *Strategic Entrepreneurship Journal* among others. He is a co-author of both scholarly books and textbooks, including best-selling strategic management texts. Along with Dr. Mike Morris (University of Florida), Duane serves as a co-editor for the Prentice Hall Entrepreneurship Series. These books offer in-depth treatments of specific entrepreneurship topics, such as *Business Plans for Entrepreneurs* (authored by Bruce Barringer).

Duane has served or is serving on the editorial review boards for a number of journals, including *AMJ*, *AMR*, *AME*, *JOM*, *JBV*, and *ETP*. He just completed a term as Editor for *AMJ*. He has completed terms as an associate editor for *AME* and as a consulting editor for *ETP* and has served as a guest co-editor for special issues of a number of journals including *AMR*, *AME*, and *SMJ*. He is a Fellow of the Academy of Management and a Fellow of the Strategic Management Society. He recently completed a term as the President of the Academy of Management.

Duane's outside interests include running, reading, listening to a variety of music, and playing with his grandson.



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PART 1 **Decision to  
Become an  
Entrepreneur**



LuminAID Lab, LLC

CHAPTER 1 **Introduction to *Entrepreneurship*** 3



# Getting Personal

with PURE FIX CYCLES



## Co-Founders

### ZACH SCHAU

BS in Economics,  
University of Wisconsin, 2009

### AUSTIN STOFFERS

BS in Real Estate,  
University of Wisconsin, 2011

### JORDAN SCHAU

BS in Computer Science,  
Columbia University, 2011

### MICHAEL FISHMAN

BS in Real Estate,  
University of Wisconsin, 2011

## Dialogue with Zach Schau

### BEST ADVICE I'VE RECEIVED

Go with your passion. Makes it so much easier! I love bikes, and it makes my job infinitely easier.

**MY BIGGEST WORRY  
AS AN ENTREPRENEUR**  
Sales

**WHAT I DO WHEN  
I'M NOT WORKING**  
Play piano/guitar and sing

**MY FAVORITE  
SMARTPHONE APP**  
Uber or QuizUp

**MY FIRST ENTREPRENEURIAL  
EXPERIENCE**  
Pure Fix Cycles

**BEST PART OF BEING  
A STUDENT**  
Meeting Best Friends!

# Introduction to *Entrepreneurship*

## OPENING PROFILE

### PURE FIX CYCLES

#### The Classic Entrepreneurial Story

• **Web:** <http://purefixcycles.com> • **Facebook:** *Pure Fix Cycles* • **Twitter:** @PFCycles

It all began in 2010, when Zach Schau and some friends started shopping for a bike. Zach was a senior at the University of Wisconsin. The University of Wisconsin is located in Madison, Wisconsin, one of the most bike-friendly cities in the United States. Schau, along with friends Austin Stoffers, Michael Fishman, and Jordan Schau (younger brother), had been following the bicycling craze in Europe, and in particular admired some of the Italian brands, such as Bianchi. Schau found several bikes he liked, but they were all in the \$1,000 range, which exceeded his budget. He wondered why bikes were so expensive. After doing some research, he found that it was because of the gears. Adding 8 to 30 gears to a bike is expensive. In the nearby photo, from left to right, the Pure Fix Cycle team includes Zach Schau, Austin Stoffers, Jordan Schau, and Michael Fishman.

This experience got Schau, Schau, Stoffers, and Fishman thinking there was a void in the market. What the market needed was an affordable bike that was stylish and durable enough to withstand a daily commute. They knew that the only way this was possible was to take some of the costs out of the making and selling of a traditional durable bike. The solution: build a fixed-gear, single-speed bike, or “fixie.” Fixies have been trendy among city riders for some time, but hadn’t yet popped up on college campuses. Instead of having a multisprocket gear shifter mounted near the rear wheel, fixies have a single gear, like most children’s bikes. Since the bikes have few highly technical moving parts, there isn’t much that can go wrong. And while they may take a little more effort to ride at times than a multigear bike, they’re cheaper to build and more reliable.

The three friends, along with Schau’s brother, Jordan, who was a student at Columbia University, mocked up a design for a fixed-gear bike, which was simple, affordable, and “cool,” at least in their minds. Stoffers’s family, which was in the import-export business, helped the four find an overseas manufacturer to build the bike. The four friends scraped together enough money to fund their first order of 165 bikes, expecting them to sell over the next year. They shipped the bikes to the Los Angeles area, where four of the friends were from. Incredibly, the entire order of bikes sold over winter break.

This experience emboldened the four, and they created a company called Pure Fix Cycles. The name was designed to convey how the founders felt about the experience

## LEARNING OBJECTIVES

*After studying this chapter you should be ready to:*

1. Describe entrepreneurship, corporate entrepreneurship, and the characteristics of entrepreneurial firms.
2. Discuss three main reasons people decide to become entrepreneurs.
3. Identify four main characteristics of successful entrepreneurs.
4. Explain five common myths regarding entrepreneurship.
5. Describe the three types of start-up firms.
6. Discuss the changing demographics of entrepreneurs in the United States.
7. Discuss the positive effects of entrepreneurship and entrepreneurial firms on economies and societies.
8. Explain the entrepreneurial process.

they were trying to create: cycling at its purist. Fishman and Stoffers headed back to Wisconsin, and Jordan Schau made his way back to Columbia University. In 2011, Stoffers and Fishman entered Pure Fix Cycles into a business plan competition at the University of Wisconsin and won \$7,000. This money enabled the team to place a larger, second order. The second batch of bikes sold out in two weeks. That success led to a series of successive orders and sales. “We kept doubling our order, and we’d sell out even before we received the bikes,” Zach Schau said. “We had no grasp of the demand, and never had enough bikes.”

After Fishman and Stoffers graduated from Wisconsin and Jordan Schau graduated from Columbia, the four co-founders of Pure Fix Cycles, Zach Schau, Jordan Schau, Austin Stoffers, and Michael Fishman, settled in the Los Angeles area to work on Pure Fix Cycles full time. The four continued to have the bikes manufactured in China and sold them via the Internet and through bike shops across the United States. From the outset, they found their bikes to be a fairly easy sell. Fixed-gear bikes are mechanically more efficient than any other bike, with the most direct power transfer from the rider to the wheels. The bikes were also simple and good looking and had an attractive price point of around \$325. The founders also introduced several innovations that spurred the sales of their bikes. Over time, they introduced four categories of Pure Fix Cycles, including the Original, Glow, FGFS, and their City line. Each category includes several different styles of bikes, which have distinctive names and looks. For example, the Victor, which is in the Original category, has a Celeste-Green frame with Ghost-White deep dish wheels. The Whiskey, which is in the same line, has a Flat Dolphin-Gloss frame with Ostrich-Blue deep dish wheels. The company’s Glow line—you guessed it—glows in the dark. The frames of the bikes in the Glow line are covered with a glow-in-the-dark paint that makes them visible after dark. Pure Fix Cycle says that an hour of daytime sunlight will make the frame glow in the dark for an hour or more if the moon is out. This feature makes the bike safer to ride and is fun too.

Pure Fix Cycles envisions a bright future; however, the founders also realize that the firm is facing an increasingly competitive marketplace. Several other companies are now selling fixed-gear bikes. To prepare for additional growth and competition, in 2012, Pure Fix Cycles accepted investor funding and hired Andy Abowitz, a former senior executive at Priceline.com, as the company’s president. The founding team remains passionate about biking and continues to innovate and build the Pure Fix Cycles brand. Zach Schau recently remarked, “We have various product lines and pivoting is always a fun challenge. Launching new lines feels like launching new brands and it’s exciting to see it through, from the design process to the product development to the manufacturing and distribution.”<sup>1</sup>

In this first chapter of your book about the successful launching of an entrepreneurial venture or firm, we define entrepreneurship and discuss why some people decide to become entrepreneurs. We then look at successful entrepreneurs’ characteristics, the common myths surrounding entrepreneurship, the different types of start-up firms, and the changing demographics of entrepreneurs in the United States and in nations throughout the world. We then examine entrepreneurship’s importance, including the economic and social impact of new firms as well as the importance of entrepreneurial firms to larger businesses. To close this chapter, we introduce you to the entrepreneurial process. This process, which we believe is the foundation for successfully launching a start-up firm, is the framework we use to present the book’s materials to you.



## Introduction to Entrepreneurship

There is tremendous interest in entrepreneurship around the world. Although this statement may seem bold, there is evidence supporting it, some of which is provided by the Global Entrepreneurship Monitor (GEM). GEM, which is a joint research effort by Babson College, London Business School, Universidad del Desarrollo (Santiago, Chile), and Universiti Tun Abdul Razak (Malaysia), tracks entrepreneurship in 70 countries, including the United States. Of particular interest to GEM is early stage entrepreneurial activity, which consists of businesses that are just being started and businesses that have been in existence for less than three and a half years. A sample of the rate of early-stage entrepreneurial activity in countries included in the GEM study is shown in Table 1.1. While the highest rates of entrepreneurial start-up activities occur in low-income countries, where good jobs are not plentiful, the rates are also impressive in high-income countries such as Germany (5.0 percent), United Kingdom (7.1 percent), and the United States (12.7 percent). What the 12.7 percent means for the United States is that almost 1 out of every 8 American adults is actively engaged in starting a business or is the owner/manager of a business that is less than three-and-a-half-years old.<sup>2</sup>

The GEM study also identifies whether its respondents are starting a new business to take advantage of an attractive opportunity or because of necessity to earn an income. The majority of people in high-income countries are drawn to entrepreneurship to take advantage of attractive opportunities. The reverse is true of people in low-income countries, who tend to be drawn to entrepreneurship primarily because of necessity (resulting from a lack of career prospects).<sup>3</sup>

One criticism of entrepreneurship, which is often repeated in the press, is that the majority of new businesses fail. It simply isn't true. The often used statistic that 9 out of 10 businesses fail in their first few years is an exaggeration. For example, evidence indicates that the three-year survival rates for entrepreneurial ventures established in Denmark is 53.5 percent, while it is up to 66.9 percent in other parts of Europe.<sup>4</sup> Historically, survival rates of entrepreneurial firms

**TABLE 1.1 Rates of Early-Stage Entrepreneurial Activity (Ages 18 to 64)**

Country	Percent of Population Starting a New Business
Argentina	15.9%
Brazil	17.3%
Chile	24.3%
China	14.0%
France	4.6%
Germany	5.0%
Nigeria	39.9%
Russia	5.8%
United Kingdom	7.1%
United States	12.7%

Source: Based on J. E. Amoros and N. Bosma, *Global Entrepreneurship Monitor 2013 Global Report* (Babson College, Universidad del Desarrollo, Universiti Tun Abdul Razak, and London Business School, 2013).

launched in the United States have been as high as 50 percent after four years. While overall these figures are heartening, the percentage of firms that do fail in Europe, the United States, and throughout the world shows that a motivation to start and run a business isn't enough; it must be coupled with a solid business idea, good financial management, and effective execution to maximize chances for success. In this book, we'll discuss many examples of entrepreneurial firms and the factors separating successful new ventures from unsuccessful ones.

Many people see entrepreneurship as an attractive career path. Think about your friends and others you know. In all probability, you are acquainted with at least one or two people who want to become an entrepreneur—either now or at some point in the future. The number of books dealing with starting one's own business is another indication entrepreneurship is growing in popularity. Amazon.com, for example, currently lists over 36,900 books and other items dealing with entrepreneurship and over 89,900 books concerned with small businesses. The number of books on small business is up from 62,700 just three years ago.

## What Is Entrepreneurship and Why Is It Important?

### LEARNING OBJECTIVE

1. Describe entrepreneurship, corporate entrepreneurship, and the characteristics of entrepreneurial firms.

The word *entrepreneur* derives from the French words *entre*, meaning “between,” and *prendre*, meaning “to take.” The word was originally used to describe people who “take on the risk” between buyers and sellers or who “undertake” a task such as starting a new venture.<sup>5</sup> Inventors and entrepreneurs differ from each other. An inventor creates something new. An entrepreneur assembles and then integrates all the resources needed—the money, the people, the business model, the strategy, and the risk-bearing ability—to transform the invention into a viable business.<sup>6</sup>

**Entrepreneurship** is defined as the process by which individuals pursue opportunities without regard to resources they currently control for the purpose of exploiting future goods and services.<sup>7</sup> Others, such as venture capitalist Fred Wilson, define it more simply, seeing entrepreneurship as the art of turning an idea into a business. In essence, an entrepreneur's behavior finds him or her trying to identify opportunities and putting useful ideas into practice.<sup>8</sup> The tasks called for by this behavior can be accomplished by either an individual or a group and typically require creativity, drive, and a willingness to take risks. Zach Schau, the cofounder of Pure Fix Cycles, exemplifies all these qualities. Zach saw an *opportunity* to create a new type of bicycle and a new type of bicycling experience for riders, he *risked* his career by passing up alternatives to work on Pure Fix Cycles full time, and he's now *working hard* to put Pure Fix Cycles in a position to deliver a *creative* and *useful* product to its customers.

In this book, we focus on entrepreneurship in the context of an entrepreneur or team of entrepreneurs launching a new business. However, ongoing firms can also behave entrepreneurially. Typically, established firms with an entrepreneurial emphasis are proactive, innovative, and risk-taking. For example, Google is widely recognized as a firm in which entrepreneurial behaviors are clearly evident. Larry Page, one of Google's cofounders, is at the heart of Google's entrepreneurial culture. With his ability to persuade and motivate others' imaginations, Page continues to inspire Google's employees as they develop innovative product after innovative product. To consider the penetration Google has with some of its innovations, think of how often you and people you know use the Google search engine, Gmail, Google Maps, or Google Earth. Google is currently working on a bevy of far-reaching innovations, such as Google Glasses and self-driving cars. Similarly, studying Facebook or Dropbox's ability to grow and succeed reveals a history of entrepreneurial behavior at multiple levels within the firms.<sup>9</sup> In addition, many of the firms traded on the NASDAQ,

such as Amgen, Intuit, Apple, and Green Mountain Coffee Roasters, are commonly thought of as entrepreneurial firms. The NASDAQ is the largest U.S. electronic stock market, with nearly 5,000 companies listed on the exchange.

We want to note here that established firms with an orientation toward acting entrepreneurially practice **corporate entrepreneurship**.<sup>10</sup> All firms fall along a conceptual continuum that ranges from highly conservative to highly entrepreneurial. The position of a firm on this continuum is referred to as its **entrepreneurial intensity**.<sup>11</sup> As we mentioned previously, entrepreneurial firms are typically proactive innovators and are not averse to taking calculated risks. In contrast, conservative firms take more of a “wait and see” posture, are less innovative, and are risk averse.

One of the most persuasive indications of entrepreneurship’s importance to an individual or to a firm is the degree of effort undertaken to behave in an entrepreneurial manner. Firms with higher entrepreneurial intensity regularly look for ways to cut bureaucracy. For example, Virgin Group, the large British conglomerate, works hard to keep its units small and instill in them an entrepreneurial spirit. Virgin is one of the most recognized brands in Britain and is involved in businesses as diverse as airlines and music. In the following quote, Sir Richard Branson, the founder and CEO of Virgin, describes how his company operates in an entrepreneurial manner:

Convention ... dictates that “big is beautiful,” but every time one of our ventures gets too big we divide it up into smaller units. I go to the deputy managing director, the deputy sales director, and the deputy marketing director and say, “Congratulations. You’re now MD [managing director], sales director and marketing director—of a new company.” Each time we’ve done this, the people involved haven’t had much more work to do, but necessarily they have a greater incentive to perform and a greater zeal for their work. The results for us have been terrific. By the time we sold Virgin Music, we had as many as 50 subsidiary record companies, and not one of them had more than 60 employees.<sup>12</sup>

## Why Do People Become Entrepreneurs?

The three primary reasons that people become entrepreneurs and start their own firms are to be their own boss, pursue their own ideas, and realize financial rewards.

### LEARNING OBJECTIVE

2. Discuss three main reasons people decide to become entrepreneurs.

### Be Their Own Boss

The first of these reasons—being one’s own boss—is given most commonly. This doesn’t mean, however, that entrepreneurs are difficult to work with or that they have trouble accepting authority. Instead, many entrepreneurs want to be their own boss because either they have had a long-time ambition to own their own firm or because they have become frustrated working in traditional jobs. The type of frustration that some entrepreneurs feel working in conventional jobs is exemplified by Wendy DeFeudis, the founder of VeryWendy, a company that makes customized social invitations. Commenting on how her experiences working for herself have been more satisfying than working for a large firm, DeFeudis remarked:

I always wanted to be my own boss. I felt confined by the corporate structure. I found it frustrating and a complete waste of time—a waste to have to sell my ideas to multiple people and attend all kinds of internal meetings before moving forward with a concept.<sup>13</sup>

Some entrepreneurs transition from a traditional job to owning their own business more gradually, by starting their business part time to begin with. While this approach isn’t possible in all situations, by starting a business part

time individuals can gain valuable experience, tuck away the money they earn, and find out if they really like the business before deciding to leave their job. In some businesses, such as catering or financial planning, it takes time to build a client list. Some entrepreneurs will time their departure from their job with the point in time where their client list is large enough and profitable enough to support a full-time business.<sup>14</sup>

## Pursue Their Own Ideas

The second reason people start their own firms is to pursue their own ideas.<sup>15</sup> Some people are naturally alert, and when they recognize ideas for new products or services, they have a desire to see those ideas realized. Corporate entrepreneurs who innovate within the context of an existing firm typically have a mechanism for their ideas to become known. Established firms, however, often resist innovation. When this happens, employees are left with good ideas that go unfulfilled.<sup>16</sup> Because of their passion and commitment, some employees choose to leave the firm employing them in order to start their own business as the means to develop their own ideas.

This chain of events can take place in non-corporate settings, too. For example, some people, through a hobby, leisure activity, or just everyday life, recognize the need for a product or service that is not available in the marketplace. If the idea is viable enough to support a business, they commit tremendous time and energy to convert the idea into a part-time or full-time firm. In Chapters 2 and 3, we focus on how entrepreneurs spot ideas and determine if their ideas represent viable business opportunities.

An example of a person who left a job to pursue an idea is Melissa Pickering, the founder of iCreate to Educate, a company that is developing software apps that allows students to build, express, and share their creativity through animated videos. Pickering started her career as a mechanical engineer at Walt Disney Corp., a role that she said is more commonly referred to as an imagineer or a roller coaster engineer. She was struck by the fact that even at Disney, a place that some may refer to as the ultimate creative group, there weren't many people who were female or close to her own age, and young engineers didn't seem to be seeking out a Disney career. Her attention shifted to creativity and kids. Commenting on what happened next, she said:

My hunch was kids are not getting enough hands-on opportunities in the classroom to express and engage their creativity and problem solving skills. At that point I sought to launch an education technology business that would provide kids with the tools to create and explore, fostering the natural innovator within.<sup>17</sup>

iCreate to Educate is currently building a portfolio of products, which includes both an iPhone and an iPad app. All of the firm's products are centered on helping kids better develop and express their creativity.<sup>18</sup>

## Pursue Financial Rewards

Finally, people start their own firms to pursue financial rewards. This motivation, however, is typically secondary to the first two and often fails to live up to its hype. The average entrepreneur does not make more money than someone with a similar amount of responsibility in a traditional job. The financial lure of entrepreneurship is its upside potential. People such as Jeff Bezos of Amazon.com, Mark Zuckerberg of Facebook, and Larry Page and Sergey Brin of Google made hundreds of millions of dollars building their firms. Money is also a unifier. Making a profit and increasing the value of a company is a solidifying goal that people can rally around. But money is rarely the primary



motivation behind the launch of an entrepreneurial firm. Some entrepreneurs even report that the financial rewards associated with entrepreneurship can be bittersweet if they are accompanied by losing control of their firm. For example, Sir Richard Branson, after selling Virgin Records, wrote, “I remember walking down the street [after the sale was completed]. I was crying. Tears ... [were] streaming down my face. And there I was holding a check for a billion dollars.... If you’d have seen me, you would have thought I was loony. A billion dollars.”<sup>19</sup> For Branson, it wasn’t just the money—it was the thrill of building the business and of seeing the success of his initial idea.

## Characteristics of Successful Entrepreneurs

Although many behaviors have been ascribed to entrepreneurs, several are common to those who are successful. Those in new ventures and those who are already part of an entrepreneurial firm share these qualities, which are shown in Figure 1.1 and described in the following section.

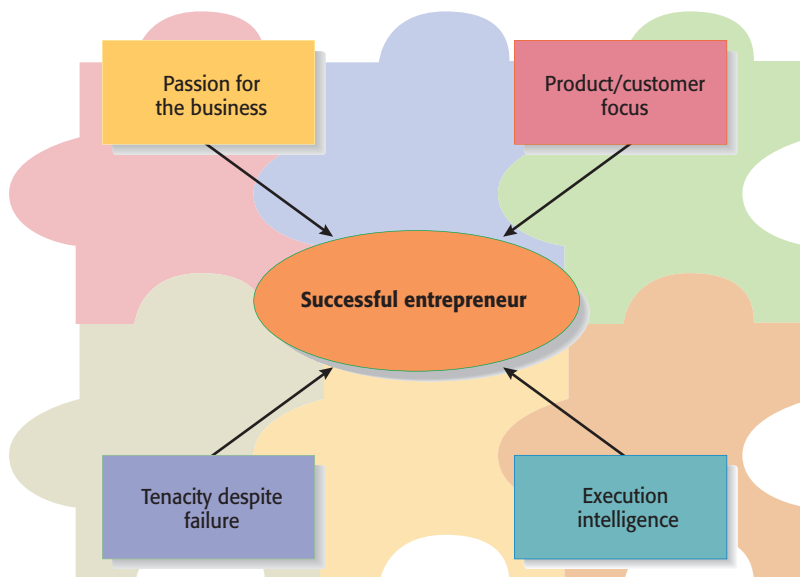
### LEARNING OBJECTIVE

3. Identify four main characteristics of successful entrepreneurs.

### Passion for the Business

The number-one characteristic shared by successful entrepreneurs is a **passion for their business**, whether it is in the context of a new firm or an existing business. This passion typically stems from the entrepreneur’s belief that the business will positively influence people’s lives. Making a difference in people’s lives is also the primary motivator behind many social enterprises, which are often started by people who set aside promising careers to pursue a social goal. This was the case with John Wood, who founded Room to Read and is the author of the book *Leaving Microsoft to Change the World*. Wood’s deep passion to help children in the developing world caused him to start cashing in small amounts of Microsoft stock to buy books and build schools, even before he left the company. In excerpts from an interview published by *Forbes* magazine, Wood said:

During my travels, I met so many children in the poorest parts of the world, lacking access to school, books, and libraries, that I began cashing in small amounts of stocks to help them. Two hundred shares of Microsoft stock was enough to build an entire school in rural Nepal.<sup>20</sup>



**FIGURE 1.1**  
Four Primary Characteristics of Successful Entrepreneurs