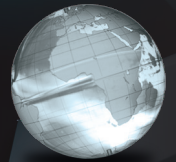# ENTREPRENEURSHIP
Successfully Launching New Ventures

Updated 6e

Bruce R. Barringer | R. Duane Ireland

Entrepreneurship

SUCCESSFULLY LAUNCHING NEW VENTURES

UPDATED SIXTH EDITION
GLOBAL EDITION

Bruce R. Barringer
Oklahoma State University

R. Duane Ireland
Texas A & M University

Pearson

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*

Brief Contents

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Preface

New to This Edition

This sixth edition is a thorough revision of our book. Each chapter has been revised for the purpose of presenting you, our readers, with a foundational understanding of entrepreneurship as well as with current examples of actions being taken by entrepreneurs and by entrepreneurial firms. We use insights from the academic literature and the experiences of practicing entrepreneurs to inform our explanation of entrepreneurship. To present you with specific examples of entrepreneurs' actions and the actions taken by entrepreneurial firms, we again use insights from entrepreneurs as well as from business people. These insights from practicing entrepreneurs and their firms and from business people were drawn from many sources including podcasts, blogs, newspapers, companies' websites, and popular business publications such as *The Wall Street Journal* and *Fortune* magazine among many others. As we'll explain later in greater detail, we also draw from the academic literature to make certain that we are presenting you with accurate and current descriptions of what researchers have learned about successful entrepreneurs and effective entrepreneurial firms.

Opening Profile Each of the book's 15 chapters opens with a profile of an entrepreneurial firm that was started while the founder or founders were in college or shortly after graduating. All "Opening Profiles," with each one being linked to an individual chapter's topic, are new to this edition. Each "Opening Profile" is based on a personal interview with the student entrepreneur or entrepreneurs who founded the company around which each profile is written.

Updated Boxed Features The majority of the "Savvy Entrepreneurial Firm," "Partnering for Success," and "What Went Wrong?" boxed features are new to this edition. The few features that are not new have been updated. These features alert readers to contemporary issues facing entrepreneurs and their firms. In addition, the content of the features suggest actions

Getting Personal with ATHLETIC PROPULSION LABS

Athletic Propulsion Lab/Photo Credit: Ryan Goldstar

Cofounders
RYAN GOLDSTON
BBA, Entrepreneurship, Finance & Marketing, University of Southern California, 2009

ADAM GOLDSTON
BS, Sociology, University of Southern California, 2009

BEST ADVICE I'VE RECEIVED
Better to ask for forgiveness than for permission

MY ADVICE FOR NEW ENTREPRENEURS
Invest in yourself

MY BIGGEST WORRY AS AN ENTREPRENEUR
Not maximizing every opportunity

BEST PART OF BEING A STUDENT
Free time and the environment

MY FAVORITE SMARTPHONE APP
Instagram

SAVVY ENTREPRENEURIAL FIRM

Prototyping: How to Build What the Customer Wants

A **prototype** is an early sample, model, or release of a product that is built to test a concept or a process. The idea is to show the sample users and then use their feedback If you are making a hardware produ Monitor, you may iterate on your pr before you have a final design. used to describe the process of i "fail early and often." That phrase ure in the broad sense. It's more It's a philosophy that suggests that involves running a lot of tests wit Each test will allow you to discard uct the potential customers didn' the parts of the product they did. Y For example, Owlet learned by wa after they put their baby to sleep, th Owlet Baby Monitor Base Station they moved about the house, so th baby. This told Owlet that the Bas

Step 1: A Drawing. A simple drawing of the device, with a paragraph or two that describes how it will

PARTNERING FOR SUCCESS

Collaborative Software: Helping New Venture Team Members Achieve Their Goals

What Is Collaborative Software?
Collaborative software is a computer program designed to help people involved in a common tas goals. Think of a basketball team. Althou five members of a team are individuals, t dinate their efforts to achieve the best situations occur in business organizatio software engineers may be working on th Collaborative software helps them coordi to achieve the best possible outcome.

Tools That Are Normally Included
The way collaborative software programs offer a common shared environment for

Most collaborative software systems are judged by their usefulness and ease of use. The ultimate test of a system is whether it allows its members to effectively

WHAT WENT WRONG?

Be Careful what You Wish for: How Growing too Quickly Overwhelmed One Company's Cash Flow

When Jim Picariello started Wise Acre Frozen Treats, no other company was making organic popsicles from unrefined sweeteners. Working out of a makeshift kitchen in 2006, Picariello developed his recipes using maple syrup and honey. He worked alone for a year and a half before hiring his first employee. About that time, his frozen popsicles really took off; by 2008, Wise Acre Frozen Treats had 15 employees, a 3,000-square-foot manufacturing facility, and was distributing its product to natural food stores and supermarkets across the East Coast. The company was awarded a contract to

to potential investors, Wise Acre Frozen Treats found itself in somewhat of a no-man's-land. Although its future was bright, the entrepreneurial venture wasn't big enough yet for investors to take notice. As time went on, serious cash flow difficulties kicked in. According to a blog post that Picariello wrote about Wise Acre Frozen Treats' failure, the company was burning through about $30,000 a month at its peak but didn't have the capital to back it up.

In retrospect, many things lined up well for Wise Acre Frozen Treats. It had a product that sold well, it had national distribution, and it had a business plan that indicated that it

entrepreneurs can take to deal with various contemporary issues. The boxed features appearing in this new edition of our book focus on many different topics such as how entrepreneurial firms can use collaborative software to help team members reach their goals, the need to develop and test a prototype of a product or service as a means of determining how to meet customers' needs, and how growing too quickly overwhelmed a firm's ability to properly manage its cash flow.

New and Updated End-of-Chapter Cases   The majority of the end-of-chapter cases are new to this edition. For example, through Case 10.2 on p. 402, you will learn about how Kickstarter is becoming an increasingly important pathway through which entrepreneurs obtain seed capital for their ventures. The few cases that have been retained have been updated. Two cases are presented at the end of each chapter. Comprehensive in nature, the cases have been selected to represent the principles examined within individual chapters and to provide readers with opportunities to think about how principles apply to situations particular companies are facing. The questions appearing at the end of each case can be used to stimulate classroom discussion or for quizzes or tests. MyLab Entrepreneurship offers additional discussion questions and practice questions to enhance your learning experience.

New and Updated "You Be the VC" Features   Two features called "You Be the VC" appear toward the end of each chapter. Each of these unique features present readers with a "pitch" for funding an emerging entrepreneurial venture. The features are designed to stimulate classroom discussion by sparking a debate about whether a particular entrepreneurial venture should or should not be funded by a venture capitalist. In essence, students are asked to take on the role of a venture capitalist when evaluating the commercial viability of what are real-life entrepreneurial ventures. This updated edition includes eight brand-new "You Be the VC" features.

Updated References   The amount of academic research being completed to add to our understanding of entrepreneurship and how entrepreneurs practice it continues to expand. Importantly, the quality of this research, in terms of its ability to inform entrepreneurial practices, is increasing. To provide our readers with the most recent insights from academic journals, we draw ideas and insights from recent research articles appearing in well-established and highly respected journals such as *Strategic Entrepreneurship Journal*, *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, *Academy of Management Journal*, *Strategic Management Journal*, and *Organization Science* among others. All of these journals are recognized for their contributions to entrepreneurship that are made by the articles they publish. Similarly, and as mentioned previously, we draw from podcasts, blogs, companies' websites, and publications such as *The Wall Street Journal* and *Entrepreneur* among others to find materials that describe how entrepreneurs rely on their hard-earned practical experience in order to achieve success when leading their entrepreneurial ventures. The references we drew from academic journals are very current as are the stories and experiences that are described in the podcasts, blogs, and established publications that we consulted while writing this edition of our book.

Solving Teaching and Learning Challenges

The lure of entrepreneurship for people who launch their own businesses is the ability to create a product or a service with the potential to enhance people's lives. While entrepreneurs want to earn profits from the money, time, and energy

they invest in their firms, they typically also want to make a difference—to individuals who buy their product or service and to the local community in which they operate. To do this though, entrepreneurs need to follow a process to fulfill their dreams and to be successful.

As has always been the case with our book, we remain committed to the position that to be successful, entrepreneurs must follow a specific set of activities. We call this set of activities "The Entrepreneurial Process," around which this book is written. This process includes four interrelated steps: (1) deciding to become an entrepreneur, (2) developing successful business ideas, (3) moving from an idea to an entrepreneurial firm, and (4) managing and growing the entrepreneurial firm. While entrepreneurship is not easy, we strongly believe that following the entrepreneurial process presented in this book will increase the likelihood that entrepreneurs will be successful in their efforts to launch and operate a business that is based on their identification of an opportunity and the development of their unique idea, in the form of a product or a service, to pursue it.

By following this unique process, aspiring entrepreneurs increase the likelihood that the investments they make will pay dividends and will bring them great satisfaction as they meet the needs of various groups including customers, those working for the entrepreneurial venture, and the local communities in which those ventures operate. We use the following features to clearly and concisely explain the entrepreneurial process and to bring that process to life for readers in the process of doing so.

The Entrepreneurial Process   The process' 4 major steps are explained in a total of 15 chapters. Studying this process informs an understanding of entrepreneurship and how to practice it for the purpose of establishing and then successfully growing an entrepreneurial venture. Once a venture has been launched, entrepreneurs should continuously revisit and study the parts of the process to verify that the venture is taking actions with a high probability of leading to entrepreneurial success.
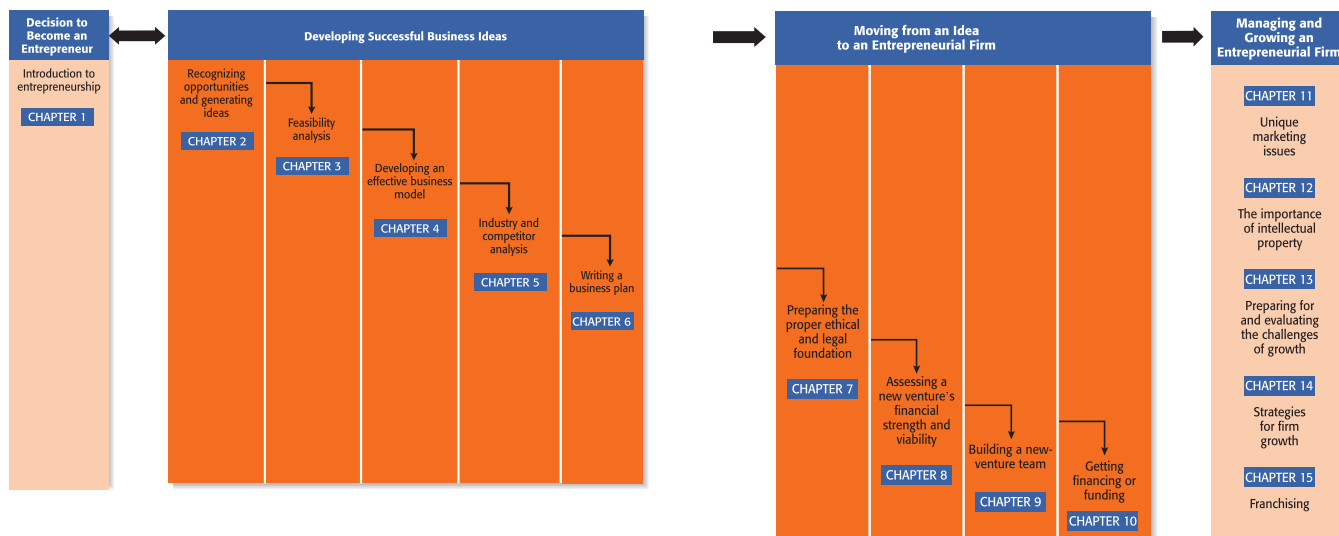
Opening Profiles   Each of the book's 15 "Opening Profiles" describes the launching of an entrepreneurial venture by entrepreneurs when they were university or college students (or shortly after graduation). The individual profiles are related to individual chapters' core topic—a topic that is part of the entrepreneurial process. In addition to demonstrating how entrepreneurs apply a particular part of the entrepreneurial process, the "Opening Profiles" show that

as university-level students, some individuals decide at that time to become entrepreneurs. Owlet Baby Care, for example, is the subject firm of Chapter 3's "Opening Profile." This firm's product, called the Owlet Baby Sock, is also pictured on the cover of this book. By placing the Owlet Baby Sock on a foot, parents are able to monitor a baby's heartbeat and oxygen level while she or he sleeps. Chapter 3's topic is Feasibility Analysis, meaning that the discussion about Owlet Baby Sock in the chapter's "Opening Profile" revolves around efforts the firm's cofounders took to see if their product was indeed commercially feasible. Overall, the "Opening Profiles" show students reading this book that they, too, may have the potential to establish an entrepreneurial venture while attending a university or college or shortly after graduating.

Partnering for Success Boxed Feature   The ability for entrepreneurial ventures to partner with other firms is becoming an increasingly important attribute of successful entrepreneurial ventures. This boxed feature exposes students to a number of different ways entrepreneurial ventures partner with others for the purpose of increasing their success. Sometimes entrepreneurial firms partner with companies their own size while they partner with very large organizations in other instances. The purpose of this boxed feature, which appears in each of the 15 chapters, is to describe collaborative relationships that benefit entrepreneurial ventures. Questions about each feature's content appear at the end of the feature. These questions challenge students to think critically about the feature's content and can be used to stimulate classroom discussions.

Savvy Entrepreneurial Firm   Each chapter contains a feature called "Savvy Entrepreneurial Firm." These features, which explain practices entrepreneurs follow that help their ventures become successful, present students with tools and techniques entrepreneurs use when leading entrepreneurial ventures. Essentially, this feature describes entrepreneurship in action. After reading all 15 "Savvy Entrepreneurial Firm" features, students will have a set of practices entrepreneurs use for the purpose of increasing their firm's operational success. Questions that can be used to facilitate discussions among students or as quizzes or tests appear at the end of each feature.

What Went Wrong?   Mistakes are made in entrepreneurial firms. With this feature, with one appearing in each chapter, we describe for students "What Went Wrong?" for an entrepreneur and the venture she or he was leading. Reading these features explains actions to students that they want to avoid as entrepreneurs. The questions appearing at the end of each feature can be used as discussion starters, and as a foundation for asking students to describe actions that could have been taken to avoid the problem that is described in a particular "What Went Wrong?" feature.

PARTNERING FOR SUCCESS

Franchises Partner with Nonprofits to Give Back

An increasing number of franchise organizations are partnering with nonprofit organizations in an effort to give back. An example is Panera Bread. At the end of each day, Panera's bakery-cafés donate their unsold bread and baked goods to local hunger relief and charitable organizations. By doing this, Panera Bread extends its goal of providing wholesome food to people in the communities in which it operates.

The following are three rules-of-thumb that franchise organizations with successful partnerships with nonprofits follow.

#1 Find the Right Partner

Most franchise organizations have a mission or set of values that defines their purpose. For example, a franchise organization that sells children's clothing or provides after-school tutoring for kids might partner with an organization like St. Jude Children's Research Hospital. St. Jude provides medical assistance to children who are sick free of charge. By raising money for St. Jude or a similar nonprofit, a franchise organization that caters to children allows the children and their families to provide help to other children who are less fortunate than they are.

#2 Involve Your Employees and Customers

#3 Have Skin in the Game

For a partnership between a franchise organization and a nonprofit to be authentic, it is important that the franchise organization have skin in the game. Employees and customers respond more positively when they are not only being asked to donate money or time but the franchise organization is making a sacrifice, too. For example, in 2014, about 1,400 Denny's restaurants sold coupons in support of No Kid Hungry's efforts to help more than 16 million American children who struggle with hunger. For a $3 donation, customers received $9 worth of coupons that could be used at participating Denny's restaurants. Similarly, Sport Clips Haircuts sponsors an annual campaign titled "Saving Lives Never Looked So Good." It's a partnership between the sports-theme barbershop franchise and the American Red Cross. During the annual month-long campaign, Sports Clips gives a free haircut coupon to everyone who donates blood.

Questions for Critical Thinking

1. Identify an ideal nonprofit for a fitness center franchise that caters to college students to partner with

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SAVVY ENTREPRENEURIAL FIRM

How Retail Start-ups Compete Against Walmart and Other Big Box Retailers

One of the main fears that retail start-ups have is whether they'll be able to compete against Walmart, Home Depot, and the other big-box stores. It's a legitimate fear. The big-box stores continue to grow, particularly in terms of product line and geographic breadth. There are now big-box stores in towns with populations of 10,000 or less. We've all heard stories about big-box stores moving into small towns and driving local merchants out of business. So it's no wonder that someone with an idea for a men's clothing store or a pet store might wonder "but will I really be able to compete against Walmart?" Couple this fear with the fear of competing with e-commerce sites and it's easy to see why someone might pass on a potentially attractive business idea.

Still, many businesses do compete successfully against big-box stores. Their success, however, is not by chance. Although impossible to compete against Walmart and the others on price, price isn't everything. There are many other forms of competition including product quality, customer service, product knowledge, ties to the local community, and so forth. The following is an analysis of how big-box retailers compete, what their vulnerabilities are, and strategies for competing directly against big-box retailers.

store. The stores themselves also have inherent disadvantages. Customers complain of crowded aisles, long checkout lines, and an inability to find help if they're looking for something in the store. While the category killers, like Home Depot and PetSmart, are better at customer service and product knowledge, they're still trying to sell the most popular products to mainstream customers. For example, although Academy offers an impressive selection of sporting goods, clothing, and outdoor gear, it can't offer everything. This leaves an opening for a store like TrackShack, which is a locally-owned running shoe and running gear store in Orlando, FL.

TrackShack offers a wider selection of running shoes and deeper product knowledge than Academy or DICK'S Sporting Goods could offer. Pause for a moment and look at TrackShack's website (www.trackshack.com). This store is owned by local entrepreneurs—John and Betsy Hughes. If you compare TrackShack to Academy on running shoes, Academy may win on price, but TrackShack wins on selection, product quality, product knowledge, customer service, convenience, and ties to the local community. That's a pretty compelling set of advantages to build upon.

Strategies for Competing against Big-Box Stores

WHAT WENT WRONG?

How One Start-Up Caught the Attention of VCs, Gained 25,000 Daily Users, and Still Failed

DrawQuest was launched in February 2013 by Christopher Poole. It was a pivot—an earlier version of the product was called Canvas. DrawQuest was an app built for the iPad, iPhone, and iPad Touch. The idea was to encourage creativity through a daily drawing challenge.

Here's how it worked. Each day, a drawing challenge was posted. The DrawQuest screen would display part of a picture and challenge the user to complete it. For example, the screen might show a picture of a child looking out into the water, and the challenge would be "What's in the water?" The user would then complete the picture. Other examples include a screen with a hat at the top, and the challenge would be "Who's wearing the hat?" Similarly, the screen might include a person standing on a balcony, and the challenge would be "What can you see from the balcony?" The DrawQuest app provided a basic kit of online drawing tools to complete the picture. The point wasn't to create an elegant drawing. In fact, the tools resulted in the drawings being somewhat cartoonish in nature. The point was to force people to be creative by deciding what to put in the water or what could be seen from the balcony. The app and the basic set of drawing tools were free. DrawQuest made money by selling upgrades to the kit of drawing tools, like better brushes, additional palettes of paint, more vivid colors, and so forth.

The app itself did well. In the short year it was in existence it reached 1.4 million downloads, 550,000 regis-

encountered was the pivot that Poole and his team executed. Prior to DrawQuest, the team built an app named Canvas that did not work out. They pivoted to DrawQuest, which resonated better with users and drew a larger audience. The problem is that they spent half their investors' money on Canvas. Referring to that challenge, Poole wrote, "We built this app (DrawQuest) with less than half of our runway remaining. You have to do twice as much with half as much money. It's really freaking hard."

Ultimately, Poole and his team decided to pull the plug. They investigated selling DrawQuest to another company, but no one bit. In the blog post titled "Today My Startup Failed," Poole provided insight into the human side of business failure. He wrote:

I'm disappointed that I couldn't produce a better outcome for those who supported me the most—my investors and employees. Few in business will know the pain of what it means to fail as a venture-backed CEO. Not only do you fail your employees, your customers, and yourself, but you fail your investors—partners who helped you bring your idea to life.

Questions for Critical Thinking

1. Examine the problems that DrawQuest encountered

Barringer/Ireland Business Model Template   The Barringer/Ireland Business Model Template, developed by the authors specifically for this book, is a nicely designed tool that helps students think through and articulate the business model for a proposed venture or an existing firm. Each section of the template, which is presented as Appendix 1 on p. 182 in Chapter 4, is fully explained in the chapter. The template can be easily copied and used by those wishing to develop a business model for an entrepreneurial venture. Additionally, if students are required to develop an idea for an entrepreneurial venture as a course requirement, they can also be asked to complete the template as part of such an assignment. In Case 4.2, titled "TOMS' One-for-One Business Model: Is It Sustainable?" we use the Barringer/Ireland Business Model Template to present TOMS' business model (see p. 177). This allows students to study a "live" business model and increase their understanding of how to use the template.

Feasibility Analysis   Students and entrepreneurs typically find it challenging and difficult to determine if their idea for a product or service is feasible as the foundation for an entrepreneurial venture. Chapter 3 provides a detailed explanation of the steps entrepreneurs should take to complete a feasibility analysis. These steps are shown in Table 3.1. Three additional tools are offered to students in Chapter 3 to enhance their understanding of how to conduct a feasibility analysis. In Appendix 3.1 on p. 139, tips for conducting interviews to assess a product or a service's feasibility, as well as examples of questions to ask and questions not to ask during an interview, are presented. In Appendix 3.2 (see p. 140), we present a tool called First Screen. Students and entrepreneurs can use this template to complete a feasibility analysis regarding an idea they have for an entrepreneurial venture. Finally, Appendix 3.3 on p. 142 contains an Internet Resource Table that provides resources that are helpful when completing the First Screen template. In all, students can use the tools and information featured in these three appendixes to assess the feasibility of an idea they have as the foundation for launching an entrepreneurial venture.

End-of-Chapter Review and Application Questions   Two sets of questions appear at the end of each chapter. By answering the review questions, students have opportunities to see if they have understood the concepts, tools, and techniques that were presented within each chapter. More comprehensive in nature, the application questions can be used to stimulate classroom discussions or to assess students' ability to explain how chapter-specific concepts, tools, and techniques would be used by an entrepreneur or within an entrepreneurial firm.

Review Questions

1-1. What are the characteristics of firms with higher entrepreneurial intensity? How can they be achieved?
1-2. What key insights does the GEM study provide us about entrepreneurship?
1-3. What does evidence show us about the rate of failure associated with entrepreneurial ventures?
1-4. What is entrepreneurship?
1-5. In what ways is an entrepreneur who

1-11. What are the skills and abilities required to effectively execute a business idea?
1-12. What are the startup types available to someone looking to start their own business?
1-13. What are the five common myths of entrepreneurship?
1-14. To what extent are entrepreneurs motivated by money?
1-15. What are the four distinctive parts of the

Application Questions

13-21. Sean Damsey has been running a budget hotel for the past six months and has been doing quite well. He did a quick survey and found that his town still does not have enough hotels to accommodate the number of tourists

that visit, especially during weekends and holidays. At the moment, there are only three hotels, including Sean's. Sean is planning to expand and start another hotel in the same area, but he is afraid that his business might

You Be the VC   Two of these features, which asks students to assume the role of a venture capitalist, appear at the end of each chapter. In each "You Be the VC" feature, the idea behind a newly-launched entrepreneurial venture is described. Given the product or service and the firm, students are asked to decide what additional information they would require to decide if they would or would not fund the venture. Chapter 6's "You Be the VC 6.2" (see p. 250) discusses Go-Jek, a company that has built a smartphone app that helps customers navigate Indonesia's traffic woes by offering the motorcycle

equivalent of Uber. With a total of 30 "You Be the VC" features included in the book, students have multiple opportunities to carefully evaluate the commercial potential of a variety of products and services being offered by newly-established entrepreneurial firms.

YOU BE THE VC 6.2   Company: Go-Jek

• Web: www.go-jek.co   • Twitter: @gojekindonesia

Business Idea: A moped-based transport and delivery service operating in several cities across Indonesia.

Pitch: Go-Jek is a motorcycle ride-hailing phone service in Indonesia established in 2010. Since then, it has developed into an on-demand service using a mobile platform and app and has expanded its operations from the city of Jakarta to over 25 cities across Indonesia. It has also expanded its services to incorporate transportation and logistics, food delivery, and other delivery services.

Go-Jek prides itself on speed and innovation and is determined to make a lasting contribution to the lives of those who work for the business. Their drivers are referred to as partners, not employees, but they do have access to health and accident insurance and other benefits.

Indonesian cities are famous for their traffic conges-

private taxis are unsafe, unregulated, and insanitary (thousands have worn that old crash helmet before you!) Go-Jek solves all these problems with real-time tracking and control as well as free head covers and face masks for customers.

Go-Jek has thus become the motorcycle equivalent of Uber. In cities like Jakarta, due to the heavy traffic, Go-Jek actually has a significant advantage over Uber. Users register when they open the app for the first time, and all they need to do is to fill out the pickup address, the delivery address, and when they need the service. The app will then show the price. Payment can be made in cash, Go-Jek credits, or corporate pin number. Go-Jek also features a referral promotion code system. When a new user keys in an existing customer's promo code, they receive $2 credit, as does the customer whose promo code they used. This way, there is a direct incentive for

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YOU BE THE VC 12.2   COMPANY: Wakoopa

• Web: www.wakoopa.com   • Facebook: wakoopa   • Twitter: @wakoopa

Business Idea: To establish a social network for software users to make it easier to track, share, and find software.

Pitch: Buying software online or from a store is often a tricky task, and staying up-to-date with the latest releases can be confusing. There are thousands of new software releases every year and dozens of different operating systems. Although there are many online websites and magazines offering software reviews, there is no way of knowing how long the reviewer has used the program and what their own preference is. Wakoopa was founded by two Dutch bloggers, Robert Gaal and Wouter Broekhof, to solve these problems and create a social network for software users.

Wakoopa's sign-up process is very simple: Users provide a user name and password and are then sent to a

page with the download links for the Wakoopa tracking software. They then install a small application on their PC or Mac that works by performing a check every 15 minutes to track what software is used. It tracks a range of applications such as music players, office software, and photo editing, and records how long they use it. The information gathered can then be shared with friends, and personal profiles are automatically updated with news, updates, and reviews on each specific application. Users can check out the usage statistics before they decide whether or not to spend money on a program. Wakoopa lets them check whether the program is a one-hit wonder or has proved its value to many users in the long term.

Wakoopa started in 2006 as a social network that acquired around 200,000 registered users who called themselves

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End-of-Chapter Cases   Two cases appear at the end of each chapter. Comprehensive in scope, both cases presented within individual chapters speak to those chapters' core topics. Dealing with real companies, these cases present students with opportunities to evaluate multiple applications of a particular chapter's concepts, tools, and techniques as they are applied within a firm. In some instances, a case asks students to evaluate firms that are not being as successful as those leading them want to be the case. This is true for Quiznos, which is the subject of Case 15.1 (see p. 590). This case describes the challenges a franchisor (Quiznos) has encountered over a number of years following a successful launch and after achieving initial successes. Questions appearing at the end of this case challenge students to decide if they believe that actions this firm is taking today will result in a positive turnaround for Quiznos as a foundation for returning to entrepreneurial success. In other instances, an end-of-chapter case describes an entrepreneurial venture's success and asks students to decide if the firm's positioning will yield additional success across time. This situation describes d.light, the focal firm of Case 6.2 on p. 254. As explained in this case, d.light's business plan was instrumental to its success and appears to have the potential to be the foundation for the firm's continuing success in the future. However, the firm faces challenges, some of which appear in the form of questions that students can answer as a means of fully considering d.light's future.

CASE 6.2

d.light: How Bringing Its Business Plan to Life Helped a Social Enterprise Get Off to a Strong Start

• Web: dlightdesign.com • Facebook: D.lightDesign • Twitter: @dlightdesign

Bruce R. Barringer, *Oklahoma State University*
R. Duane Ireland, *Texas A&M University*

Introduction

Imagine the following. You are in the audience of a business plan competition. The next team up to present is d.light, a for-profit social enterprise that plans to bring light to people without access to reliable electricity. Two young men introduce themselves as the founders of d.light, and say they're going to start their presentation with a demonstration. The lights go out. In a few

kerosene fire, an event that deeply impacted Goldman. At one point during his time in the village, Goldman was given a battery-powered LED headlamp, and was struck by the dramatic difference that simply having light at night can make in a person's life. He could now cook, read, and do things at night that were unimaginable without the benefits reliable lighting provides.

Impacted by this experience, Goldman sought

CASE 15.1

Quiznos: Will It Regain a Leadership Position in the Sandwich and Sub Shop Franchise Industry?

• Web: www.quiznos.com • Facebook: Quiznos • Twitter: @Quiznos

Bruce R. Barringer, *Oklahoma State University*
R. Duane Ireland, *Texas A&M University*

Introduction

In the early 1980s, Jimmy Lambatos moved from New York City to Denver to attend college. Growing up in New York, he frequently ate sub sandwiches made with crusty Italian bread. It was artisan bread, the flavorful kind with spices, oils, and vinegars. Once in Denver, Lambatos kept eating sub sandwiches, but couldn't find a sandwich shop that used artisan bread. He caught

like their sandwiches warm, but that the heat brings out the flavor in artisan breads. After operating solely from Grant and 13th in Denver for two years, Quiznos started franchising in 1983. By 1987, 12 Quiznos restaurants were operating in the United States. That year, Richard Schaden, at the age of 23, and his father, who was an aviation attorney, opened a Quiznos franchise in Boulder, CO. They opened three additional Quiznos sub shops before buying the 18-restaurant chain from th

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MyLab Entrepreneurship

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Developing Employability Skills

To succeed in today's rapidly changing job market, students should develop skills that will facilitate their efforts to achieve career success—whether they intend to be an entrepreneur or not. In this book, we focus on developing "employability skills" that will help students who seek to be entrepreneurs as well as those who seek to achieve business success by pursuing different options. We focus on developing these skills in the following ways:

Business Ethics and Social Responsibility Examples of firms engaging in socially responsible actions and seeking to solve some of society's challenges appear throughout the book. For instance, consider the story of Vélib', the initiative in the "You Be the VC 7.1" feature. This initiative is a bicycle-sharing system that reduces traffic congestion and pollution in the city of Paris. We discuss the need for firms to establish a strong ethical culture as a foundation for how they operate. Specific actions business people can take to "lead by example" when it comes to demonstrating ethical behaviors consistently appear on p. 264. We also describe on p. 265 what should be done to implement an ethics training program in entrepreneurial ventures and all other types of firms. Moreover, when considering each chapter's core topic, instructors can ask students to discuss the "ethical issues" associated with, for example, building effective work teams (Chapter 9) and deciding how to market a firm's product or service (Chapter 11).

YOU BE THE VC 7.1   COMPANY: Vélib'

• Web: www.velib.paris.fr • Facebook: Vélib' • Twitter: @Velib

Business Idea: Reduce traffic congestion, air pollution, and wear and tear on the nation's highways by introducing an easy-to-use, self-service, bike-for-hire system.

Pitch: Traffic congestion is stressful; it causes air pollution and costs millions in tax revenue spent on keeping roads in good repair. Now one company is encouraging people to give up their cars in favor of pedal power. Vélib', located in Paris, France, is pioneering the concept of a public bicycle rental program. On July 15, 2007, 10,000 bicycles were introduced to the city along with 750 automated rental stations holding 15 bicycles each. Customers pay a deposit of $200 for an unlimited number of rentals and are then given a charge card that detaches the bikes from the cycle racks. The rental is $1.80 for unlimited access 24 hours a day or $8.50

people making short journeys. Each bicycle is used 30 times a day on average, and the average trip time is just 18 minutes. To date, nearly 200 million journeys have been made, with an average of 90,000 per day. Visitors to the city can take out short-term subscriptions simply by using their credit cards directly at the cycle-rack terminals.

The service is financed by family-controlled advertising company JCDecaux, which provides the bikes in return for an exclusive contract to sell outdoor advertising in prime locations around Paris. JCDecaux paid start-up costs of around $115 million, and the Paris City Council pays the $500 replacement cycle costs, estimated at around $2 million per year.

Since its launch, the number of bicycles available for hire

Critical Thinking Learning how to think critically about issues is foundational to a person's ability to identify opportunities to develop a product or service that meets a certain customer group's needs. The 30 end-of-chapter cases in this edition expose students to an array of products and services that entrepreneurs developed to serve customers. In each instance, the entrepreneurs had to think critically as a foundation for deciding how to proceed to launch their ventures. In Case 1.1, for example (see p. 60), Julie Rice and Elizabeth Cutler decided that they wanted to create an alternative to fitness routines and experiences that felt like work. After thinking through various options, they developed a cardio-workout experience that is relational in nature for their customers. In their view, the exercise experience SoulCycle provides to customers is tribal, primal, and fun.

Collaboration Skills   There is no doubt that being able to collaborate with others (both within and outside a firm) is critical to success for firms competing in today's business environment. In particular, the "Partnering for Success" features allow students to increase their understanding of how collaboration increases the likelihood of a firm improving its performance. In Chapter 8's feature (see p. 305), students learn how entrepreneurial firms participate in groups (often called cooperatives) that are organized and used for the purpose of helping individually small firms gain access to the benefits accrued through collective purchases of products rather than purchasing as individual firms.

Data Literacy   Being able to interpret the business-related meaning of data is a critical skill for today's business people to develop. The Feasibility Analysis Templates appearing as appendixes at the end of Chapter 3 help students understand how to interpret data for the purpose of deciding if a business idea is feasible and as such, worth pursuing. The Barringer/Ireland Business Model Template generates data students can analyze for the purpose of forming a business model for an entrepreneurial venture. Interpreting the meaning of financial data is at the center of Chapter 10's discussion of how entrepreneurial firms obtain the funding required to launch and/or continue their operations. How entrepreneurs interpret financial data though parallels how all business people interpret such data.

Instructor Teaching Resources

This program comes with the following teaching resources:

Supplements available to instructors at www.pearsonglobaleditions.com	Features of the Supplement
Instructor's Manual authored by Ram Subramanian from Stetson University	■ Chapter-by-chapter summaries ■ Teaching outlines ■ Teaching tips ■ Solutions to all questions and problems in the book
Test Bank authored by Ram Subramanian from Stetson University	More than 1,500 multiple-choice, true/false, and short-answer questions with these annotations: ■ Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis) ■ Learning outcome ■ AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)
Computerized TestGen	TestGen allows instructors to: ■ Customize, save, and generate classroom tests ■ Edit, add, or delete questions from the Test Item Files ■ Analyze test results ■ Organize a database of tests and student results
PowerPoints authored by Bruce Barringer from Oklahoma State University	Slides include many of the tables, illustrations, and figures in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to: ■ Keyboard and Screen Reader access ■ Alternative text for images ■ High color contrast between background and foreground colors

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

Finally, we want to express our appreciation to our home institutions (Oklahoma State University and Texas A&M University) for creating environments in which ideas are encouraged and supported.

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

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Bruce's 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 several other outlets. He is the author or coauthor of five books, including *Entrepreneurship Successfully Launching New Ventures* (Pearson, 2019), *Preparing Effective Business Plans* (Pearson, 2015), *Launching a Business: The First 100 Days* (Business Expert Press, 2013), *The Truth About Starting a Business* (FT Press, 2009), and *What's Stopping You? Shatter the 9 Most Common Myths Keeping You from Starting Your Own Business* (FT Press, 2008).

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Duane has served as a member of editorial review boards for many journals including *Academy of Management Journal*, *Academy of Management Review*, *Journal of Management*, and *Journal of Business Venturing*. He completed a three-year term as editor of the *Academy of Management Journal* and was the 69th president of the Academy of Management. He is a fellow of the Academy of Management and a fellow of the Strategic Management Society. He has received a number of awards such as a Lifetime Achievement Award for Scholarship and Research from Mays Business School, a Distinguished Service Award from the Academy of Management, and a Distinguished Service Award from the Strategic Management Division of the Academy of Management. Duane's outside interests include running, reading, and spending time with his family.

PART 1 **Decision to Become an Entrepreneur**

Owlet Baby Care, Inc.

CHAPTER 1   **Introduction to *Entrepreneurship*   29**
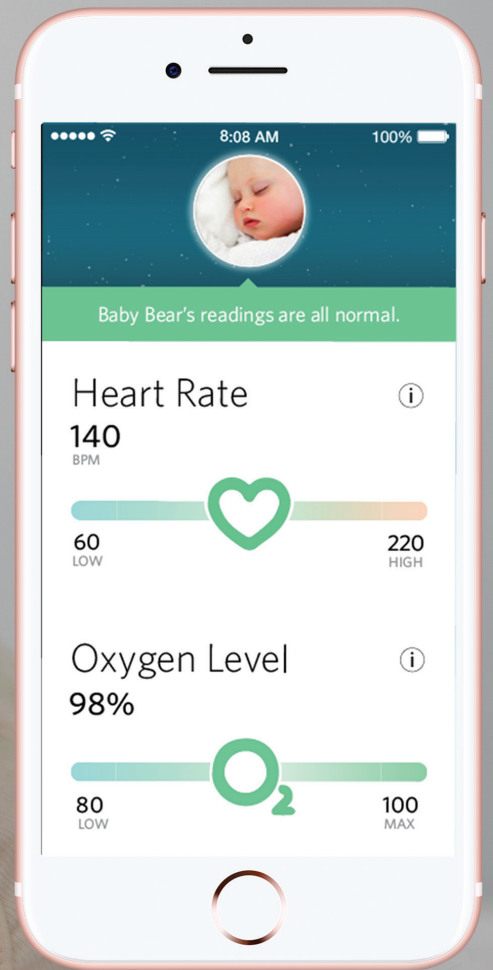
Getting Personal

with **SUPERJAM**

Founder

FRASER DOHERTY

Dialogue *with*
Fraser Doherty

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
That we're not innovating fast enough to keep ahead of the competition

WHAT I DO WHEN I'M NOT WORKING
Drive my 40-year-old VW camper van round the countryside!

MY FAVORITE SMARTPHONE APP
SuperJam's Recipe App

MY FIRST ENTREPRENEURIAL EXPERIENCE
Hatching chickens on top of the TV, age 10, and selling their eggs

FAVORITE BAND ON MY SMARTPHONE LIST
The Smiths

FAVORITE PERSON I FOLLOW ON TWITTER
Has to be Stephen Fry.

CHAPTER 1

Introduction to *Entrepreneurship*

OPENING PROFILE

SUPERJAM
The Classic Entrepreneurial Story

• *Web: http://www.superjam.co.uk* • *Facebook: SuperJam 100% Fruit Spread* • *SuperJam's Recipe App*

Growing up in Scotland, Fraser Doherty spent his childhood coming up with ideas for new products. Not all his money-making ideas were a success—indeed, his fledgling egg-selling enterprise ended abruptly when a fox ate all his chickens—but he had a hunger to set up a business.

At the age of 14, Doherty gave jam-making a try. He had always enjoyed the jam his grandmother made and thought there might be an opportunity here. After making a batch and selling it door-to-door, he discovered people really liked it, and Doherty's jam enterprise gradually spread into local shops and farmers' markets. A feature in the *Edinburgh Evening News* brought in even more orders from further afield.

After resolving to expand the business, Doherty did some research and found that sales of jam had been in decline for the past few decades. Jam had acquired an old-fashioned image and people preferred healthier alternatives on their toast.

The solution the young Scottish entrepreneur came up with was a jam for the modern world. Doherty's SuperJam would be made using traditional recipes, completely from fruit juice. The jars would contain no sugar and no artificial flavoring. He also boldly resolved to target supermarkets to sell his products.

Fraser faced a number of challenges. At this point, he was making hundreds of jars of jam every week in his parents' kitchen. Apart from the fact his parents were struggling to get in there to cook their dinner, the business clearly couldn't grow any further.

At the age of 17, he was in no position to start a factory and did not have any money to pay a design agency to create a brand. He did not have a clue about how to approach supermarkets either. All he had was a passion about his product and a great recipe.

The first supermarket Fraser approached was Waitrose on a "meet the buyer" day. Fraser pitched his idea to the senior jam buyer—he liked it but said it had a long way to go. He advised Fraser to set up a production facility and create a brand before coming back with a well-priced product.

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.

9. Learn how understanding entrepreneurship and the entrepreneurial process can facilitate your career success.

Fraser set off around the United Kingdom trying to convince food manufacturers to believe in his 100 percent fruit jam. He told them that he didn't have any money to invest, but if they took the long-term view, then they too would reap the benefit. He did the same with a string of advertising agencies to persuade them to help him create a brand. Eventually, after two years of persistence, Doherty finally convinced a factory and an advertising agency to work with him.

SuperJam is exhibited in the National Museum of Scotland as an "Iconic Scottish Brand" alongside Irn-Bru and Tunnock's and Baxters, two other brands synonymous with Scotland. In 2010, Fraser shared his jam-making secrets with the world in the SuperJam Cook; this was followed in 2011 by his autobiography and jam story, *SuperBusiness*. Since 2010, Fraser has been the entrepreneur-in-residence at the London Metropolitan University, where he delivers presentations and lectures on aspects of entrepreneurship.

Doherty has kept close to his customers throughout SuperJam's meteoric rise and is conscious of the part technology and, in particular, social networks play in his business and in maintaining a meaningful conversation with his customers.

Against a backdrop of digital social networking, SuperJam Tea Parties are about as far removed from the virtual world as you could imagine. The company runs these events for elderly people who live alone, primarily in care homes or sheltered accommodation. To date, they have run over 350 events across the United Kingdom. The mix of live music, dancing, a heavy dose of scones, and SuperJam attract up to 600 people to each event.

From humble beginnings working at his kitchen table to growing his entrepreneurial venture, Fraser now supplies over 2,000 supermarkets around the world with SuperJam and has won a variety of awards for the range. Fraser has now scooped up over 20 prestigious awards, including Bighearted Scotland Business Person of The Year (2009), Smarta 100 Award (2010), and *Inc*. magazine's 30 under 30 Award (2010). He also made the finals for "Times Young Power List" (2011), NatWest Enterprise Awards Finalist (2012), and Ben & Jerry's "Join Our Core" Finalist (2012).[1]

I n 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 consider 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 other nations as well. We then describe 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 the chapter, we introduce you to the entrepreneurial process. This process, which we believe is the foundation for successfully launching and operating 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 among several international universities and the International Council for Small Business, tracks entrepreneurship in 115 countries, including the United States. Of particular interest to GEM is total early stage entrepreneurial activity (TEA), which consists of businesses that are just being