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Chapter One

The Global Entrepreneurial Revolution for a Flatter World

Learning Outcomes:

*After reading this chapter you will be able to understand:*

* 1. The company founder, their role and examples
  2. The global entrepreneurial revolution
  3. Nobel Prizes in entrepreneurship
  4. Entrepreneurship’s effect on management, education, not-for-profit and philanthropy paradigms
  5. How innovation and entrepreneurship leads to prosperity and philanthropy
  6. Entrepreneurial job creation and the impact on economics
  7. New venture formation
  8. Famous young entrepreneurs
  9. Formation of new industries
  10. The role of innovation
  11. Venture and growth capital
  12. Philanthropy and entrepreneurship
  13. Self-made millionaires
  14. Private equity
  15. Building an entrepreneurial society
  16. The equal opportunities, economic and social mobility created by entrepreneurship

Teaching Pedagogies

There are four pedagogical options in the chapter to consider when conducting class sessions. The IM is organized to enable you to create the unique format and blend of teaching formats you prefer. The four pedagogies are:

1. Lecture or mini-lecture

2. Traditional case study

3. Use of exercises or role plays

4. Combination of the above.

Lecture Outline

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| --- | --- |
| I. Entrepreneurship Flattens the World.  A. In 2011 there were over 2.1 billion Internet users in the world and only 13 percent were in the United States.  B. Entrepreneurship and the Internet continue to flatten the world at a staggering pace and in the process are spawning fertile fields of opportunities on every continent.  C. The spread of global entrepreneurship reaches far beyond how the Internet is shaping the world.  II. Two Nobel Prizes Recognize Entrepreneurship.   1. In 2006, the new Nobel Prize Winner, Professor Edmund S. Phelps, argued for entrepreneurship and provided an academic recognition of the field and the subject of entrepreneurship. 2. Similarly another Nobel Peace Prize winner, Muhammad Yunus, referred to a $90 bank loan that changed the life of a Bangladeshi villager pulling her out of poverty by starting a business. 3. This recognition should stimulate even more and wider interest in entrepreneurship as a field of study and research.   III. A Macro Phenomenon  A. Dynamic entrepreneurs and their firms are altering the landscape in a global entrepreneurial explosion.  B. 80 percent of all small-to-medium-sized enterprises are affected by or involved with international trade, and advances in technology, manufacturing, and logistics have created opportunities where firms of all sizes can compete internationally.  C. Thomas Friedman in his book, *The World is Flat*, notes an emerging world market is accessible to even the most resource-constrained and remote national and organizations. He traces the convergence of technology and world events and its role in bringing about significant changed in traditional value chains.  D. America’s entrepreneurial revolution has become a model for business people, educators, and policy makers around the globe.   1. Four Entrepreneurial Transformations That Are Changing the World.   A. Entrepreneurship as the New Management Paradigm  1. Virtually every management model in vogue today can find its roots in great entrepreneurial companies and organizations founded within the last 40 years.  2. Much of what is sought and emulated by companies trying to reinvent themselves and compete globally today embodies many of the principles and characteristics and concepts of entrepreneurship.  3. Business schools are including more topics and issues relating to entrepreneurship including new start-up focus for traditional courses.   1. Entrepreneurship as a New Education Paradigm – Entre-preneurship programs have quickly become successful, attracting large enrollments, fueled by the use of seasoned entrepreneurs in the classroom.   C. Transformation of What and How Business Leaders Learn – entrepreneurship faculty are more likely to see their role as mentors, coaches, and advocates for students. Another important aspect of this new paradigm is the highly integrative and multidisciplinary nature of the courses and curricula.   1. Entrepreneurship as the New Not-for-Profit and Philanthropy Management Paradigm – During the last several decades, hundreds of new philanthropic foundations and other not-for-profit organizations have been created from scratch using the entrepreneurship and new venture development model. 2. The Energy Creation Effect    1. The energizing process for faculty and students alike is also driving the rapid explosion of entrepreneurship education worldwide.    2. The field seems to attract highly entrepreneurial people.    3. Second their entrepreneurial bent brings a new mind-set to universities and schools.    4. Third, entrepreneurship faculty constantly thinks in terms of opportunity.    5. Fourth, they create powerful strategic alliances with others – colleagues, alumni, and entrepreneurs – by practicing the teamwork principles of entrepreneurship they teach.      1. The Road Ahead    1. In essence, the cumulative programmatic experiences of students engaging in courses, and field projects, and business plan competitions, actually starting new businesses, and having numerous interactions with faculty, outside entrepreneurs, and classmates puts them in collisions and competition that enable them to see far more clearly what is possible – and to have the courage to try.    2. Beyond the functional business skills, these are teachable and learnable skills, concepts, and principles that when translated into strategies, tactics, and practices can significantly improve the chances for business success.   VII. Entrepreneurship: Innovation + Entrepreneur ship = Prosperity and Philanthropy. - the creation of the National Commission on Entrepreneurship in 1999 launched an awareness of the entrepreneurial economy.  A. **Job Creation.**  1. MIT researcher David Birch published studies showing that smaller firms created 81.5% of new jobs from 1969 to 1976.  2. Small businesses (those with less than 500 employees) represent more than 99.9% of the 26.8 million businesses in the US).  3. Today the Fortune 500 companies employ less than 9% of the workforce.  B. **New Venture Formation.**  1. Classical entrepreneurship means new venture creation. It is arguably the single most powerful force to create economic and social mobility.  a. The changed role of women is particularly noteworthy—today women-owned businesses account for almost one-third of all new jobs and 16% of total US employment.  b. Entrepreneurship is opportunity centered and rewards only for talent and performance—nondiscriminatory. Black-owned businesses continue to increase and has the highest rate of increase for any minority group.  c. A similar pattern can be seen for a variety of ethnic and racial groups, particularly Hispanics.  C. **The American Dream**  1. Aspiring to work for oneself is deeply embedded in American culture.  2. A poll of parents found 90% would approve if one of more of their children pursued entrepreneurship.  3. Young entrepreneurs in their twenties have conceived of and launched new companies that have spawned entirely new industries.  4. The text gives numerous examples of twenty-something entrepreneurs.  D. **Formation of New Industries.**  1. The E-Generation of entrepreneurs has become the creators and leaders of entire new industries.  2. These new industries replace and displace older ones, the outcome of downsizing and right sizing of large companies.  3. The text uses the example of the Skype – the free VoIP Internet phone provider – who created a new industry.  4. Time and again, in industry after industry, the vision, drive, and innovations of entrepreneurial ventures demolish the old Fortune 500 group.  E. **Innovation.**  1. At the heart of the entrepreneurial process is the innovative spirit.  2. Research has found that small entrepreneurial firms have been responsible for half of all innovation and 95% of all radical innovation in the U.S.  3. This innovative engine of America’s economy has led to the creation of major new inventions and technologies.  4. The fast pace of innovation is actually accelerating, including a new class of nano-size products.  F. **Venture and Growth Capital.**  1. Private risk capital is the rocket fuel of America’s entrepreneurial engine.  2. Classic venture capitalists work as coaches and partners with entrepreneurs at a very early stage.  3. The text gives examples of major inventions by U.S. small firms.  4. Venture capital investing goes in cycles with waves of investment in, for example, Internet-related companies and now solar investments and entirely new industries.  5. Thousands of companies exist today because of venture capital support.  6. Similar to the venture capitalists, these angels bring far more than money to the entrepreneurial process. As successful entrepreneurs themselves, they bring experience, networks, wisdom, and maturity to the companies they fund.  G. **Philanthropy and Leadership: Giving Back to the Community.**  1. American entrepreneurs have been generous philanthropists and creative community leaders.  2. Universities, churches, hospitals, museums, orchestras, and schools have also benefited.  3. Entrepreneurs also provide creative leadership and give their time to community institutions.  4. Examples of entrepreneurial philanthropists who have given back to the community include Carnegie, Olin, Ford, Kellogg, Lilly, Gates, and Buffett. | **PP 1-5 “Entrepreneurship Flattens the World”** reviews the recent global changes supporting entrepreneurship  **Text Exhibit 1.1 “Send in the Clones”** highlights just how far international Web entrepreneurs have penetrated the world with 39 Web clone knockoffs of leading Websites.  **Also: PP 1-6**  **PP 1-7 “Entrepreneurship Around the Globe”** reviews the EU’s stance on the importance of entrepreneurship for the economy.  **PP 1-8 “Four Entrepreneurial Transformations -** That Are Changing the World”  **PP 1-9 “Innovation + Entrepreneurship = Prosperity and Philanthropy”** highlights the importance of entrepreneurial activity to support philanthropy.  **PP 1-10 “Job Creation”** provides statistics on the growth of new jobs attributed to entrepreneurship.  **PP 1-11 “New Venture Formation”**  **Text Exhibit 1.2**  **“Growth of Entrepreneurship Among Ethnic and Racial Groups”** shows the growth of entrepreneurship among African American, Hispanic, Asian/Pacific Islander, and American Indian/Alaska Native groups.  **Also: PP 1-12**  **PP 1-13 “American Dream”** profiles the appeal of entrepreneurship  **PP 1 -14 “The Self-Employed Report:”** lists the benefits of self-employment  **Text Exhibit 1.3**  **“Mega-Entrepreneurs Who Started in Their 20s”** lists 20 firms founded by twenty-somethings or younger.  **Also: PP 1-15**  **PP 1-16 “Consider Popular Examples of Mega-Entrepreneurs Who Started in Their 20s ”** highlights the most famous entrepreneurs and their industry (good for extended class discussion)  **PP 1-17; 1-18; and 1-19 “New Industries Launches by the E-Generation**” lists the various new industries – good for class discussion as time permits.  **Text Exhibit 1.4**  **“New Industries Launched by the E-Generation”** lists many industries started by E-generation entrepreneurs.  **Also: PP 1-20**  **PP 1-21 “Innovation”** highlights the role of innovation.  **Text Exhibit 1.5**  **“The Impact of Entrepreneurship on America: Giants Old and New”** highlights the different growth patterns of old and new generation companies including automotive, computer technology, and airlines.  **Also: PP 1-22**  **PP 1-23 “Venture and Growth Capital”** highlights the work of classic venture capitalists.  **PP 1-24 “Angel Investors”** defines the angel investor and provides a profile.  **Text Exhibit 1.6**  **“Major Inventions by U.S. Small Firms”** lists numerous new industries created by inventions by small firms.  **Also: PP 1-25**  **Text Exhibit 1.7**  **“Solar Investments Soar”** shows the surge in investments in solar power.  **Also: PP 1-26**  **PP 1-27 Philanthropy and Leadership: Giving Back to the Community”** highlights the key points in this section. |
| VIII. Entrepreneurs: America’s Self-Made Millionaires.  A. The vast majority of the new generation of millionaires does not fit the stereotype seen in the media.  B. The authors of *The Millionaire Next Door*, Thomas J. Stanley and William D. Danko, characterize this group as “not by and large ostentatious but, rather, are very persistent and disciplined people running ordinary businesses.”  1. These 3.1 million individuals (those having a net worth of $1 million or more) accumulated their wealth through hard work, self-discipline, planning, and frugality.  2. Two-thirds of them are still working are self-employed.  3. Most have accumulated their wealth in one generation.  4. Their businesses are basic low-tech companies or ordinary. | **PP 1-28 “Entrepreneurs: America’s Self-Made Millionaires”** are defined. |
| IX. Private Equity - A New Era of Equity Creation.   1. Value creation is not a linear process; it requires a long-term perspective.   B. U.S. private equity (PE) funds raised a total of $1.5 trillion through 1,674 funds from 2001 to 2010.  C**. Building an Entrepreneurial Society.**  1. **The Poorer Get Richer.**  a. Entrepreneurship is indifferent to race, religion, sex, or geography.  b. It rewards persistence, self-direction, and a strong work ethic.  c. Persistence pays off in the form of educational degrees, better living standards and well-paying jobs with benefits and passion.  d. Three individuals that made the journey  **i. Adam: The Union Path.**  **ii. Helena: The Corporate Ladder.**  **iii. Lanice: The Enterprising Route.**  D. **Create Equal Opportunities, Not Equal Incomes.**  1. Equal incomes are neither desirable nor possible.  2. However, opportunities are available for anyone who wants to prepare and to compete.  3. The entrepreneurial process will result in economic expansion and accompanying social mobility.  E. **Entrepreneurship = Economic and Social Mobility.**  1. From 1975-1991 a significant portion of those in the lowest income quintile in 1975 had moved up.  2. The standard of living of the bottom ten percent of American families in 1995 was actually higher than the average family’s living standard in 1970. | **PP 1-29 “Private Equity - The New Era of Equity Creation”** profiles the nation’s wealth as a result of entrepreneurship.  **PP 1-30 “Building an Entrepreneurial Society”** highlights the benefits.  **Text Exhibit 1.8**  **“Moving Up”** highlights the number of individuals in the highest income bracket and that growth over time.  **Also: PP 1-31**  **Text Exhibit 1.9**  **“The Poor are Getting Richer Faster”** shows the growth of lower income levels due to entrepreneurship over time.  **Also: PP 1-32** |
| X. Chapter Summary. |  |
| XI. Study Questions. |  |
| XII. Internet Resources for Chapter 1. |  |
| XIII. Exercise 1: Create a Lifelong Learning Log and Visit with an Entrepreneur. |  |
| XIV. Exercise 2: The Venturekipedia Exercise – Time is Everything! |  |
| XV. Case: Image Café´. |  |

Answers to Study Questions

1. How has the economy changed in your region and country over the past generation?

Over the past generation, entrepreneurship has gained popularity and validity. Entrepreneurs have started businesses that created entire new industries, from express delivery to genetically-engineered drugs. Huge companies such as IBM were supplanted by smaller, more nimble firms such as Microsoft, Dell Computer, and Apple. Students should give examples of new venture creation and job growth due to entrepreneurship in their region and country. Students can bring financial data and references to class to support their examples.

2. How has the number of new venture formations in the United States changed in the past 30 years? Why has this happened? Why will this pattern continue?

The number of new firms being launched each year has increased five-fold in just a generation. The annual number of start-ups in 1996 was between $1.1 and $3.5 million. The engine behind this new venture generation is entrepreneurship. Entrepreneurship is opportunity centered and rewards only for talent and performance, not race, sex, geography, or religion. In the year 2000, one in every ten adults in the U.S. was attempting to start a new business. The future belongs to young entrepreneurs. Have students update statistics to today and bring local examples to class.

3. From where do the new jobs in America derive? Why?

Smaller firms created 81.5 percent of the net new jobs in the economy from 1960 to 1976. These small businesses (those with less than 500 employees) represent more than 99 percent of all employers and provide about 75 percent of all (net) new jobs. Small companies employ somewhat more than half of the U.S. workforce. Entrepreneurial firms account for a significant amount of employment growth. A handful of “gazelles,” those who grow by twenty percent a year for four years, added 5 million jobs from 1994 to 1998. Even in a tough economy, entrepreneurs continue to start businesses.

4. Which contribute more to all innovations and to radical innovations – large companies or new and emerging companies? Why?

Small firms have been responsible for half of all innovation and 95 percent of all radical innovation in the United States. Smaller firms generated twice as many innovations per R&D dollar spent as the giants and 24 times as many innovations per R&D dollar versus those mega-firms with more than 10,000 employees.

Moore’s Law—the power of the computer chip will double every eighteen months at constant price—is actually being exceeded by modern chip technology. Peter Drucker’s Postulate states that a tenfold increase in the productivity of any technology results in economic discontinuity. Thus, every five years there will be a tenfold increase in productivity. These innovations have led to creation of major new inventions and technologies.

1. When was the vast majority of wealth created in America, and by whom: (a) Carnegies, Vanderbilts, and Rockefellers before 1990? (b) Automobile, food, and real estate magnates after 1900 but before 1970? (c) Founders of companies since 1970?

Answer (c). The overall wealth of the nation grew from $550 billion in 1970 to about $9 trillion by the end of 1997. Over 95 percent of the nation’s wealth has been created since 1980, a direct result of this entrepreneurial revolution.

6. Who are the millionaires today?

According to the authors of *The Millionaires Next Door,* the truly wealthy are “very persistent and disciplined people running ordinary businesses.” These 3.5 million (defined as having a net worth of $1 million or more) accumulated their wealth through hard work, self-discipline, planning, and frugality. Two-thirds of those still working are self-employed. Most have accumulated their wealth in one generation. Their businesses are not the sexy, high tech, Silicon Valley variety, rather basic low-tech firms.

7. Name some exceptional companies whose founders were in their twenties when they launched the company?

Bill Gates and Paul Allen (Microsoft), Marc Andressen (Netscape), Michael Dell (Dell Computers), Ted Waitt (Gateway 2000), Craig McCaw (McCaw Cellular), Steve Jobs and Steve Wozniak (Apple Computers), Ken and Stan Olsen (Digital Equipment Corporation), Fred Smith (Federal Express), Robert Swanson (Genentech), Edward Land (Polaroid), Phil Knight (Nike), Mitch Kapor (Lotus Development Corporation), and Kevin McCurdy ([Ipix.com](http://www.Ipix.com)), to name a few.

8. What role has venture capital played in this economic transformation?

Private risk capital has been the rocket fuel of America’s entrepreneurial engine. Classic venture capitalists work as coaches and partners with entrepreneurs and innovators at a very early stage. In 1957, General George Doriot, father of modern American venture capital, and his young associate Bill Congelton at American Research & Development (ARD) invested in a new company created by four MIT grad students, led by Kenneth Olsen. By the time their investment was sold in 1971, their initial $70,000 investment was worth $355 million—the company was Digital Equipment. There are numerous other examples, some given in the text, of how venture capital has impacted the formation of new industries. The pattern of growth and investment for upstart companies is for venture capital to come in early. Success often takes a decade or more.

9. It is often argued that “the rich get richer and the poor get poorer.” How and why has the entrepreneurial revolution affected this stereotype? What are its implications?

Entrepreneurship is the great equalizer and mobilizer of opportunity. In our society, opportunities are available for anyone who wants to prepare and to compete. The entrepreneurial process results in economic expansion and accompanying social mobility.

According to a Federal Reserve study, from 1975 to 1991, a significant portion of those in the lowest income quintile in 1975 had moved up, including 29 percent all the way up to the top quintile. The standard of living of the bottom ten percent of American families in 1995 was actually higher than the average family in 1970.

10. What has happened to large and established companies as a result of this surge by entrepreneurial upstarts?

The prevailing wisdom until recently was that huge dominant firms were the key to America’s strong economy. An example was IBM, with 70 percent plus market share and more cash on its balance sheet than the combined sales of the rest of the computer industry. Then by the late 1980s and 1990s, IBM shrank by nearly half in employment and its stock plummeted—as a result of competition from entrepreneurial upstarts like Microsoft, Lotus Development, Dell Computer, Gateway 2000, and others. Small, nimble firms outperformed older, larger companies, creating jobs and wealth.

Notes on Exercises

**Exercise 1: “Create a Life-Long Learning Log”**

Students are to create a computer file, or acquire a notebook or binder, and begin to record their goals, triumphs, disappointments, and lessons learned. This can be done as key events happen or some other frequent basis. One of the authors has kept such a log since his graduate school days, usually when key life events have occurred, times of crisis, and at year’s end to sum up accomplishments and new goals. The record of personal insights, observations, and lessons-learned can provide valuable anchors during times of difficult decisions, as well as very interesting reading—for the student at least.

The pace of life in today’s business world is so fast that little time is available for reflection and introspection. The Life-Long Learning Log provides a structure to put key events into perspective. It is also a great backup to one’s memory—what year did you make that investment?

**Exercise 1: “Visit with an Entrepreneur”**

Over the years, students have found it valuable to interview entrepreneurs who have, within the past 5 to 10 years, started firms whose sales now exceed $1 million and which are profitable. Through such an interview, students can gain insight into an entrepreneur’s reasons, strategies, approaches, and motivations for starting and owning a business. Gathering information through interviewing is a valuable skill to practice. They can learn a great deal in a short time through interviewing if they prepare thoughtfully and thoroughly.

The **Create a Lifelong Learning Log and Visit with an Entrepreneur Exercise** is very useful to students to when interviewing successful entrepreneurs. While there is no right way to structure an interview, the format in this exercise has merit because it is chronological and it has been tested successfully on many occasions, over many years. A breakfast, lunch, or dinner meeting is often an excellent vehicle.

Have students select two entrepreneurs and businesses about which they would like to learn the most. At a minimum, they should interview two entrepreneurs in order to have a contrast of a high potential (e.g. five million dollars revenue plus) and a life style business (usually much smaller, but not necessarily).

Most students will know several entrepreneurs, but few will have explored with them in depth the carefully thought through questions in the exercise. It establishes important benchmarks, role models, and comparisons that are referred to throughout the course.

**Exercise 2: “The Venturekipedia Exercise – Time is Everything”**

This exercise centers on “Doing Frugal and Parsimonious Research and Due Diligence. The pace of life in college means you must utilize your time and resources most effectively. This exercise reminds students to consider topics and themes of interest as well as new venture ideas as they take classes and conduct Internet research. By maximizing research and focusing on key themes of interest, it is easier and faster to find themes and the information needed for new venture creation.

Notes on Case

**“ImageCafe´”**

**Pre-class Boards**

**Left Board:**

Learning Objectives:

Entrepreneurial Characteristics

Opportunity Recognition

Resource Marshaling

A glimpse at valuation

**Right Board**

Vote:

1. Raise money \_\_\_\_\_\_\_\_

2. Work to increase valuation \_\_\_\_\_\_\_\_

3. Sell the company \_\_\_\_\_\_\_\_

**Keywords**

Entrepreneurship, start-up, burn rate, Internet, minority entrepreneur, fund raising, entrepreneurial finance, valuation, technology

**Overview**

ImageCafé follows the development of a young man, Clarence Wooten, bent on becoming an entrepreneur. His early childhood through young adulthood is a model of activity that might lead to a career in entrepreneurship. This activity is actualized through involvement in a series of computer related **technologies and start-ups**. Clarence’s college years, and his specific academic interests, are particularly important to the shaping of his career. Clarence eventually launches Envision Design, a company based on the CAD skills for which he won the AutoDesk Caddie Image Award. The idea was to produce 3-D animations for architects. Clarence learns a great deal about **market size** and **pricing** issues in this experience and he eventually winds down the company.

Another start up, Metamorphosis Studios, provided additional learning. The company eventually “morphed” into ImageCafe. ImageCafé designed high-end website templates created to appear like those custom sites designed by a professional web design firm.

Image Café obtained immediate traction (generated revenue). We follow Clarence’s efforts to **raise capital** and grow the company when he receives advances by an industry leader to buy his company.

**Teaching Strategy**

Set the stage for the case discussion by having a student articulate the decision point of the case. Open the class:

**Questions:**

**1: What does burn rate mean?**

It is the amount of negative cash flow a venture is generating; usually calculated on a monthly basis.

**2. When is Clarence OOC (Out of Cash)?**

710,000/50,000 = 14.2 months …if we are starting at point zero. He may have several months under his belt already!

**3. What are Clarence’s options?**

Clarence must either: 1) raise money right away; 2) work to achieve a value inflexion point and then raise money; or 3) sell the company.

NOTE: At the end of the case we will have a brief discussion of valuation. The point here is that you should be thinking about harvest when you start the business. The harvest strategy is a perspective on when the company will be most “ripe” to go public or sell. The ripeness is a metaphor for optimal value. OK, now that we know the key issue let’s look at the entrepreneur who is charged with making a decision about which option to follow and then executing it.

**4. Can Clarence pull this off?**

**Characteristics of an entrepreneur:** This case can be used at the beginning of a semester to reflect on the entrepreneurial mind and building a career as an entrepreneur. That approach focuses on personal background, skill building and gaining experience. Clarence’s young years are a classic foundation for entrepreneurial behavior. His skill building is focused on computers and computer software and intersects with the emergence of the Internet. He gains experience in a fairly methodical manner; both in his education pursuits and professionally in the creation of three companies.

**5. You are (again) responsible to make a report to the investment committee of Modules Investment Partners, LLC. Your first job is to present a clear view of Clarence Wooten**

* childhood dream to get rich shows a) a propensity to dream and b) a need to
* measure that dream and c) ambition
* immersed himself in computers…became his passion
* “cracking group” computer game pirating, while illegal, required competitively measured skills and a complex network of collaborators. Clarence was only one of 15-20 people in the world to achieve top gun status.
* He describes his “network” as the Wild West...he was a pioneer even at a young age.
* Moving back and forth from city to suburbs seems to have built a capacity for ambiguity.
* His parents were small business entrepreneurs
* Believed that money could impact his quality of life
* Gave up architecture because he’d have to wait 20 years to really make money.
* He won a CAD competition

**6. Opportunity assessment and market analysis (market demand and market size):**

This case can be used in the first third of the course to address issues around opportunity assessment. Clarence launches two businesses Envision Design and Metamorphosis Studios before Image Café. The failure of the first two businesses revolved around market size and margin issues.

Reviewing these experiences and the effect they had on the shaping of ImageCafe is a great example on how failure for an entrepreneur is a learning experience. That learning leads to the launch of a concept that is molded by the classic issues that define an opportunity (including market demand, market size and structure and the robustness of margins).

**7. Describe Clarence’s start-up experience**

Envision Design-3D design for architects

**8. Why did Envision Design fail? If you agree with Clarence’s rationale for the failure, how could he have shaped the deal to make it work?**

He targeted small architectural firms when he should have thought about the end user

Metamorphosis Studios - Special effects and multimedia presentations

**9. Why did Clarence move from a service to a product business model?**

Scalability.

**10. Analyze the ImageCafe opportunity**

1. 4.1M active commercial users

2. Growing to 9M

3. From 80,000 websites in 1996 to 50M in 2001

4. Converging trends – commerce and Internet

**11. Define his customer**

1. Small businesses who can’t afford custom designs or in-house talent

2. Price point of $500 (custom sites $3k – 6K)

3. Is this the right customer definition?

4. Is this the right price? How would you determine the price?

**Marshaling Resources:**

Clarence has a lot to say about being a young African American entrepreneur. In reality, Clarence never talks about race in an emotional way. It is an issue he learned to address. Also, when pressed, Clarence is not certain that whether it is youth or color that affected his fund raising ability. Having said that, Clarence addresses fund raising through relentless networking:

**Power of Networking:**

* Founded Envision: building 50,000 chunks of experience
* Met Forde at party and felt like they could work together
* Start Metamorphsis – build up chunks
* Signed up to prestigious law firm (email contacts)
* Contacted Walker form Microsoft (look for common affinities as ice-breakers)
* Another “black man” who loves computer industry

**12. What do you think about the idea of incubating ImageCafe in Seattle? Many “angel” investors (wealthy individuals who invest in start-ups) want it within an hour drive of their home.**

* First class meeting with Bill Daniels
* Leveraged family to meet Dr. Stern
* Eventually raised $710,000

**13. How do you determine an appropriate valuation?**

A. *Comparables*: Have there been recent transactions (sale of) similar companies (like business models)? **This is a market based method.**

B. *NPV/ DCF*: Discount the trailing or leading income stream. **This is a financial method**

C. *VC method*: What is the profit of the firm in 5 or six years and the expected multiple of those earnings (growth perspective)? **This is the Venture Capital method.**