



# Introduction to Entrepreneurship

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# Chapter 1: The Entrepreneurial Perspective

## Learning Objectives

1. Define entrepreneur and entrepreneurship.
2. Describe types of entrepreneurial careers and lifestyles.
3. Explain what it means to have an entrepreneurial mindset

## Entrepreneurship Today

As we delve into the study of entrepreneurship, let's define what we mean by the word **entrepreneur**. An entrepreneur is someone who identifies and acts on an idea or problem that no one else has identified or acted on. This combination of recognizing an opportunity to bring something new to the world and acting on that opportunity is what distinguishes an entrepreneur from a small business owner. A small business owner is someone who owns or starts a business that already has an existing model, such as a restaurant, whereas an entrepreneur is someone who creates something new. This new creation can be a new process or product, a business that identifies a new or unique target market, or a combination of ideas that creates a new approach or method, for example.

In a broader sense, what people consider an entrepreneur can vary. Some scholars strictly differentiate between entrepreneurs and small business owners.<sup>1</sup> Others acknowledge that a small business owner may also be an entrepreneur—they are not mutually exclusive. Someone may start a venture that is not a completely new idea, but that introduces a product or service to a new region or market. Where does a franchise fall in this discussion? Again, there is not complete agreement, with some claiming that a franchisee and entrepreneur cannot be the same, and others arguing that a franchise is, indeed, an entrepreneurial venture. According to an article in Forbes, "In the for-profit world, an entrepreneur is someone who creates and runs a new business where one did not exist before. And, no, the McDonald's franchisee didn't create McDonald's. But he certainly created a McDonald's where there never was one before. Franchisees are entrepreneurs."<sup>2</sup> The point is that small business owners and franchisees can be considered entrepreneurs. For the purposes of this course, you will learn the key principles of entrepreneurship alongside the concepts, strategies, and tools needed to succeed as a small business owner or franchisee.

Entrepreneurs have many different talents and focus on a variety of different areas, taking advantage of many opportunities for **entrepreneurial ventures**. An entrepreneurial venture is the creation of any business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established. For some entrepreneurs, this could be a for-profit venture; for other entrepreneurs, this could be a venture focused on social needs and take the form of a nonprofit endeavor.

Entrepreneurs might take a variety of approaches to their entrepreneurial venture, such as those shown in Figure 1.

<b>Types of Entrepreneur</b>	<b>Approach to Venture</b>
Innovators	Find new approaches, methods, or products that add value through solving in a unique manner.
Creators	Making something new or seeing a problem that other people have not noticed.
Market Makers	Innovate or reinvent their market from a future perspective by asking what the market could evolve into
Expanders and Scalers	Seek out opportunities to expand upon previously created methods, processes, or products.

*Figure 1. Table of types of entrepreneurs. In this course, you will explore these myriad avenues toward entrepreneurship.*

## **The Entrepreneurial Lifestyle and Career**

People often have thought of entrepreneurs as corporate rebels, nonconformists, or activists. Being an entrepreneur has become synonymous with being an innovator, a change agent, or a risk taker. Regardless of job titles or descriptive characteristics, entrepreneurship has a universal appeal for how people think and engage with the world.

Choosing the path of entrepreneurship requires a willingness to take on calculated risks. The difference between risk and calculated risk is **due diligence**, or conducting the necessary research and investigation to make informed decisions that minimize risk. Not everyone is comfortable letting go of a steady paycheck, especially when we know that there is no long-term guarantee that the paycheck will continue into the future. In one

approach to minimizing personal financial risk, some startup entrepreneurs continue with their current employment while working on the side to develop their idea into a venture that eventually will generate an income. Until the venture requires near full-time work and generates income, maintaining an outside income works well for many entrepreneurial teams.

Consider the eyeglass startup Warby Parker. Dave Gilboa and Neil Blumenthal, lead entrepreneurs for Warby Parker, were still working their normal jobs when they approached an angel investor with their idea. The angel investor asked a few questions and wasn't impressed. This investor believed that Gilboa and Blumenthal should demonstrate their solid commitment to the venture by quitting their day jobs to dedicate more time and energy to Warby Parker. Instead of following that advice, Gilboa and Blumenthal kept their day jobs while they continued to work toward building their venture, and Warby Parker eventually became highly successful. There are many paths to becoming an entrepreneur, and many paths to creating a successful venture. It is important to identify the path that works best in your life-and for the venture-and that supports your goals and your unique situation and visions.

Within the entrepreneurial world, the idea of a ***lifestyle venture*** has evolved to mean a business in which the founders' primary focus is the lifestyle they will attain through becoming entrepreneurs, rather than a primary interest in financial rewards through the selling of the business. Within the entrepreneurial world, harvesting is the typical exit strategy. The ***harvest*** is the point at which the investors and entrepreneurial team receive their return on creating and building the venture.

For a lifestyle venture, the entrepreneur is more likely to be a solo entrepreneur, someone who moves forward in starting a new venture without the support of a team or group of likeminded individuals who recognize the value or potential of an entrepreneurial idea that could potentially result in significant returns. A lifestyle venture is also more likely to be funded through family and friends, and more traditional methods such as a bank loan or a small business loan. This lifestyle includes greater freedom to decide areas of responsibilities, hours of contribution to the venture, and other decisions that support the desired lifestyle. An example of a startup lifestyle venture is The Wander Girls, a company

that identified the unique concerns of women traveling alone.<sup>3</sup> The Wander Girls organizes trips and events for groups of women traveling in India. A team member organizes the trip, travels with the female tourists, and handles daily interactions and transactions.

Another example of a lifestyle venture is based on how an entrepreneur aligns values, interests, and passions to create a balance between enjoying life and earning enough money to support those passions. Roxanne Quimby had a passion for living off the grid, creating her own life in the woods of Maine, and not being restricted by the rules and regulations required when working as an employee. After becoming a parent, Quimby faced the challenges presented by her lifestyle choices and started making candles to earn enough money to support her family. Eventually, Quimby's lifestyle candle-making business expanded into the highly successful Burt's Bees Corporation, moving her lifestyle business into a career as the CEO of Burt's Bees. After selling Burt's Bees to Clorox Co., Quimby continued her passion for the north woods of Maine by donating land and money to create a wildlife sanctuary and preserve that land from development.

Quimby's latest endeavors include creating a pasta company, My Pasta Art, focused on increasing employment opportunities for people in northern Maine,<sup>4</sup> and building the tourist industry to encourage people to enjoy the region's beautiful habitat and scenery. Although she is highly successful from a financial perspective, money was never the motivation for her ventures. As you can see, there are many paths to finding your career in entrepreneurship, and multiple trigger points at which you might make the decision to become an entrepreneur.

## **The Entrepreneur as a Problem Solver**

What are some challenges you face in your life? Have you ever actively thought about how you could solve those problems? Or have you actively identified exactly what the problem is from an analytical perspective? We often have a tendency to jump quickly from noticing a problem to selecting a solution, with little understanding of whether we have even correctly identified the problem. Identifying the problem-and testing the potential, novelty, and feasibility of your solution-is an important part of resolving the problem. Often, when we start to explore the problem, we find that it has multiple causes. Among them are:



- The need for something to be better, faster, or easier
- The effects of changes in world on your industry, product, or service
- Market trends based on geography, demographics, or the psychology of the customers

One characteristic of a savvy entrepreneur is recognizing the ability to identify a problem from an opportunity- identification perspective. We might identify feeling hungry as a problem, but an entrepreneur would identify the problem using an ***opportunity-identifying perspective*** by determining how the problem could be translated into an opportunity to create a new venture-perhaps combining the problem of feeling hungry between meals into a street kiosk or a vending machine with food choices or creating a new snack that is nutritious, satisfying, and portable. People need to eat, and they get hungry, but during a busy day with no open time or convenient food, people end up hungry. Rephrasing the problem, or need, from an opportunity viewpoint opens the search for a sustainable solution beyond the simple awareness of feeling hungry. We might solve this problem by opening a snack bar with dishes that contain essential vitamins and proteins and are easy to transport with a long shelf life. Understanding the problem from the perspective of how to solve it for one person into how to solve it for multiple people rephrases the problem into an opportunity- identification perspective.

You might also have an interest in solving food-related problems on a larger scale. People trapped in a war- torn region may not be able to leave the safety of their shelters to find food, grow food, or barter for food, or they may not have the money to buy food. How could you reach your target market within a war-torn area? Red Cross emergency response vehicles traveled 2.5 million miles to deliver food, relief supplies, and support to communities affected by disasters during 2017.<sup>5</sup> That's the equivalent of driving around the globe 103 times.

Although this might seem like a simple problem with a simple solution, persevering from the recognition of a problem to finding a realistic solution, then moving that solution forward into a successful venture, requires an entrepreneurial mindset. Every day, people become entrepreneurs as they identify and solve problems, or face new challenges or frustrations, and resolve them in creating products or services to address these issues

## Factors Driving the Growth of Entrepreneurship

Do you know anyone who has lost their job? Or who has been rejected or mistreated at work? Or had their income reduced, or benefits removed? Research shows that 47 percent of all US employment is at risk through artificial intelligence and other technologies, although there will also be new opportunities for jobs that currently don't exist.<sup>6</sup> These types of experiences and outlooks have provided the impetus for many people to start their own businesses. When we work for someone else, we are at the mercy of their decisions and actions, but we get paid and don't carry the full risk of their decisions. When we work for ourselves, we get to make the decisions (not that making decisions is easy). But when we have our own business, we have greater control-in exchange, we also carry the risk for all decisions we make. This control over decision-making is one reason that some people find the world of entrepreneurship attractive.

Another contributing factor to the desire to become an entrepreneur is the excitement and fun of creating something new. Many entrepreneurs are excited at the idea of moving the concept through to the materialization of the idea.

A third factor that supports the growth in entrepreneurship is the combination of retirement and longer life expectancies. Many people enjoy working. For them, retirement consists of too much open time and not enough activities or the type of engagement with the outside world that fulfilled their needs during their working lives. Retirement also presents unique financial considerations, depending on an individual's lifetime savings and planning. The combination of having available time and a desire for continued earnings encourages some older adults to explore their own entrepreneurial opportunities.

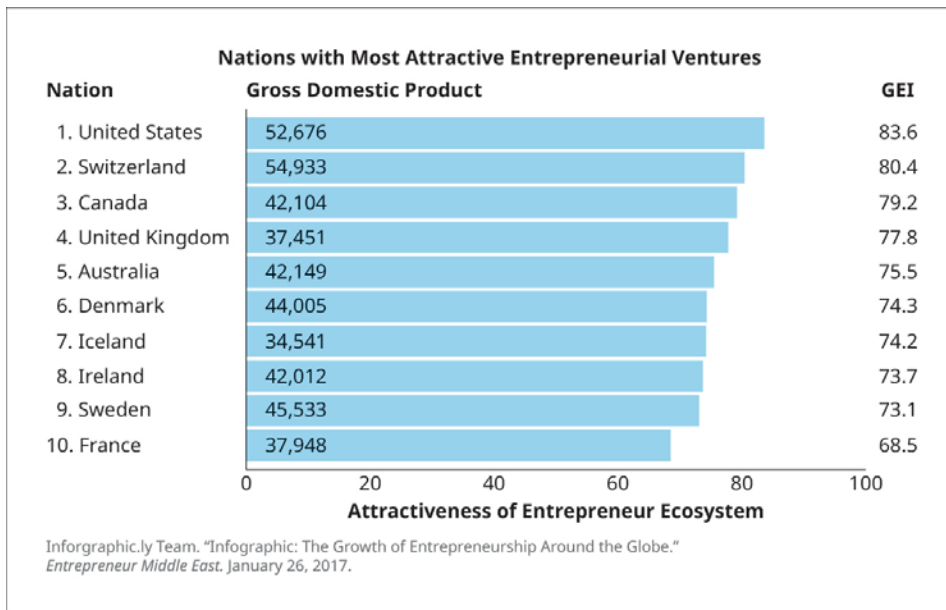
A fourth factor driving the growth of entrepreneurship is the expanding awareness and support of entrepreneurship as a viable career choice. In much of the twentieth century, families encouraged their children to find a stable career with a large corporation. During this era, there was a certain expectation of reciprocal loyalty between the employer and the employee based on some traditional employee-employer roles in that century. The general, informal agreement was that if employees came to work every day and fulfilled their responsibilities, they would have long-term employment with that corporation. But as competition increased and new business practices evolved, this unspoken guarantee no

longer held true. The model of certainty of employment gradually disappeared. As people acquired a new perspective on their careers and income, they increasingly realized that we are all responsible for our own paths. Most studies suggest that people change their careers between three and seven times.<sup>7</sup> Note that this is not how often people change jobs, but how often they change their careers, moving from one industry to another, or moving from one type of work to a different type of work. The older model of stability through working hard for someone else has vanished. This awareness and acceptance have encouraged recent generations to consider creating their own futures through entrepreneurial ventures.

Just as individuals have become aware of the benefits of entrepreneurship, communities and organizations have also become aware of how entrepreneurial ventures add economic development and enhancements worth supporting, bolstering opportunities for those who decide on this path.

## **Entrepreneurship around the Globe**

In the United States, entrepreneurial opportunities abound, relatively speaking. Between 1990 and 2014, the number of campus-based entrepreneurship education programs increased from 180 to over 2,000.<sup>8</sup> Comparing globally, the United States has the greatest number of entrepreneurial ventures, with Switzerland, Canada, Sweden, Denmark, and Australia following in order, according to Global Entrepreneurship Index, a global consulting firm (Figure 2).



*Figure 2: The number of entrepreneurial businesses, in millions, is shown for several countries. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

Why is the United States leading with the greatest number of entrepreneurial ventures? What does it take to become an entrepreneur? In addition to having an entrepreneurial mindset, entrepreneurs also need education and funding to support their new ventures.

You will learn more about funding in Entrepreneurial Finance and Accounting, but as an introduction, you should know there are three primary sources of outside funding: family and friends, angel investors, and venture capitalists. Some family members and friends are willing and able to invest money in helping the entrepreneurial team. An angel investor is someone who has available funds and an interest in supporting a new venture. They are often entrepreneurs who have successfully launched and harvested their own ventures, and who have an interest in helping other entrepreneurs in their startups, staying active in the entrepreneurial world, and a desire to receive a return on their investment in the venture. Angel investors often provide funding early in the life of a venture. As the venture grows, it typically requires more funding, at which time venture capitalists may invest in the venture. A venture capitalist (VC) is a group of people (or organizations) who pool resources to invest in entrepreneurial ventures, contributing larger sums of funds than are available through angel investors. In each funding round, investors receive an equity stake in the venture with expectations that at some point in the future, the venture will be sold, or harvested, at which time the investors will receive a return on their investment. Because

they tend to be in larger groups, VCs typically have access to larger amounts of money and resources than individual angel investors. (You will also learn about other types of financing, such as bank loans and bootstrapping, in Entrepreneurial Finance and Accounting.)

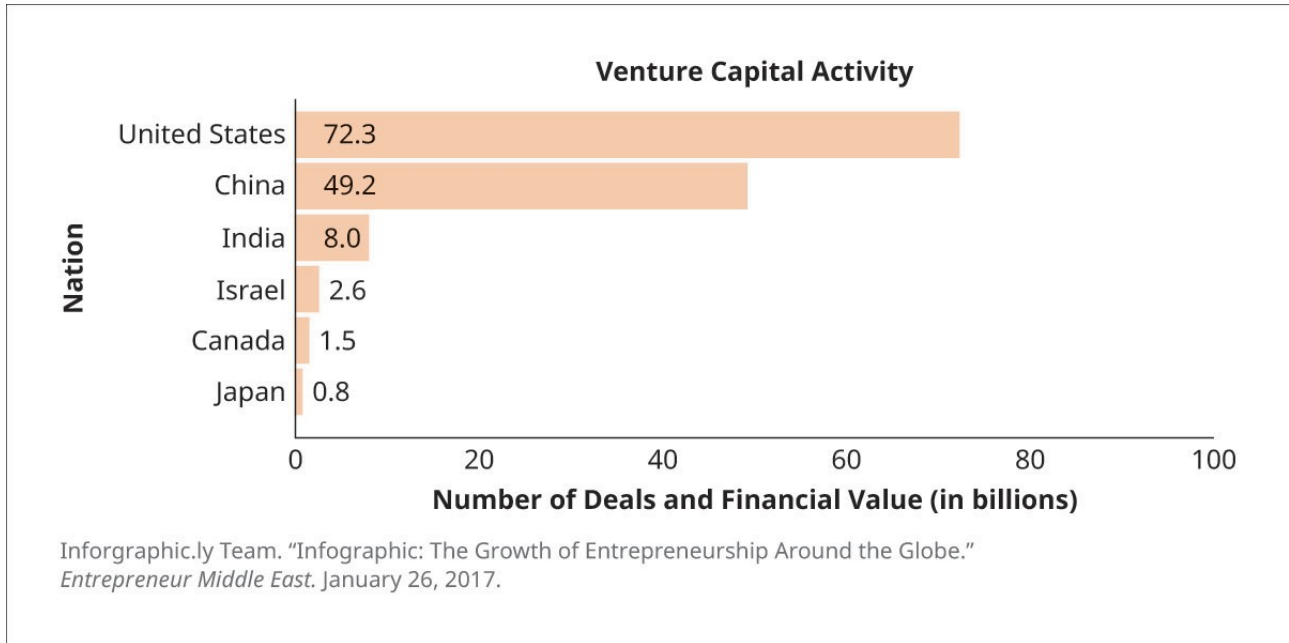


Figure 3: The total venture capitalist investment and number of deals for several countries are shown. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In the United States, VCs contributed \$72.3 billion in 2015 for 3,916 deals, or funding rounds. In China that same year, \$49.2 billion were invested in 1,611 ventures.<sup>9</sup> European VC investment totaled \$14.4 billion and 1,598 deals. Tracking these numbers over time shows steady increases in VC funding as entrepreneurial ventures have become more common (Figure 3).

Other factors that can affect entrepreneurial opportunity include employment rates, government policies, and trade issues. For example, in the Middle Eastern kingdom of Saudi Arabia, a newer driver of entrepreneurship includes a high unemployment rate with a large percentage of the population in its prime earning years. In the past, employment was less of a concern because of dependency on state support from oil revenue. The population received monthly allotments to cover expenses from state-owned oil production. More recently, the population has become restless, with a desire to become

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productive and have greater control over their own resources. And the rulers recognize that oil production income is volatile and unsustainable. Today, with more future-oriented leaders, countries in the Middle East desire to encourage their citizens to consider starting their own businesses.<sup>10</sup> The example of entrepreneurship in the United States has spread around the globe, with other countries taking an interest in developing support systems to encourage their populations to become entrepreneurs.

As noted, the United States is a world leader in entrepreneurial innovation. Perhaps because the United States is, in large part, a nation of immigrants, with people arriving from all over the world, Americans have few prescribed traditions that encourage conformity. America's longstanding traditions and reputation for individualism, ingenuity, and self-reliance have reinforced this mindset. However, the governments of other nations have discouraged their citizens from independent or innovative thinking. Some cultures emphasize political, cultural, and economic unity, and place a strong value on not being noticed, blending in, and following prescribed habits and traditions. Countries like Japan, France, Russia, China, and others continue to reflect these norms. Other countries have complex bureaucracies that prevent quick responses and place barriers to entrepreneurial activities. Parts of worldwide economic structures (banking, investments, and technology) are not accessible or even explicitly exclude some nations and the poor. Systems like this discourage people from coming forward with entrepreneurial ideas because the culture and bureaucracy prevent people from finding access to information necessary for the successful advancement of an idea. In contrast, other countries are noticing the benefits of encouraging their populations to become more open-minded and creative through new ventures.

### **Link To Learning**

Transparency International is an organization that tracks corruption, which can be an inhibitor to entrepreneurship. The Transparency International website (<https://openstax.org/l/52Transparencyl>) provides information to rank 180 countries in identifying the abuse of entrusted power for private gain.<sup>11</sup>

Key characteristics that encourage entrepreneurship include support for freedom to create and innovate. What conditions encourage creativity and innovation? Acceptance of failure

is a key characteristic for success as an entrepreneur. Many of the great inventions in the United States resulted after dozens of failures, as when Thomas Edison eventually developed a working light bulb. Edison identified a problem: Once the sun set, working hours were restricted, as were daily activities such as reading a book or washing dishes. Edison, along with many other inventors, recognized the need for an artificial light source. Consider how complex this idea was and how many failures must have occurred before creating a product that emitted light.

Another condition that encourages entrepreneurial behavior is the ability and opportunity to connect with other people to discuss ideas, problems, challenges, and solutions. This connection with other people, in an open environment that supports the exchange of ideas, is essential for encouraging creativity and innovation.

With the advent of the Internet, people around the planet are becoming increasingly aware of geopolitical and environmental situations across the globe. As more people observe these changes and situations, more people exchange ideas. These discussions can generate new opportunities for people to discover methods for solving problems. Any one of us could be living in one country but identifying a problem in another country.

Given our interests and backgrounds, we could actively choose to develop a solution for that problem. What we need, as a general approach, is an efficient and transparent way to form companies and enable constructive competition, along with continued free and fair trade.

These are just some of the areas that many nations and organizations consider as they seek to encourage a transition away from group-prescribed thinking toward uniquely individual entrepreneurial ideas. Each of us encounters life from a different perspective. Although we all might recognize the restrictions presented by the sun setting every night, only a few people might question why we could not change that situation by creating our own light. Similarly, someone in another country may observe our country (or vice versa) and ask why that country has a particular problem. Meanwhile, people living with that problem may have become so accustomed to it that they might not recognize the opportunity to seek solutions.

Increasing opportunities in entrepreneurial education are also driving growth. More colleges and universities are teaching entrepreneurial studies and opening entrepreneurial centers that encourage students from every discipline to become entrepreneurs.<sup>12 13</sup> As the employment and entrepreneurial landscape continue to evolve, some institutions have started offering courses to prepare students for work in the gig economy.<sup>14</sup> In fact, some of the best new entrepreneurial ideas come from groups of students in different majors who collaborate to create new, innovative business ideas that meet specific needs and challenges in today's world. In some cases, students from different universities around the globe are connecting to come up with business ideas to solve global problems, such as the lack of clean drinking water and the need for medical vaccination programs. Technology and global travel have made such partnerships more common and very productive.

The world of entrepreneurship opens doors for each of us to look beyond our own self-created barriers and explore opportunities around the world. Consider the creation of Starbucks, borne from the realization of how pleasant it can be to sit at a European cafe and drink excellent coffee. Awareness of an idea that is commonplace in one country, but new to a different country, presents the possibility of introducing that idea to another nation. In the Starbucks example, was there a problem that needed to be solved? Not necessarily, but the founder, Howard Schultz, had a desire to bring a specific quality-of-life element from one country to another, a business idea with an entrepreneurial aspect. One of the entrepreneurial aspects of creating Starbucks was the idea of mass expansion of coffee shops. Prior to Starbucks, the idea of creating a high-quality coffee drink hadn't been developed. Even more significant was the idea of expanding the business across the United States and then around the world.

Given the growth of coffee shops throughout the United States, we might not think that this idea is innovative, but before Starbucks, coffee typically was served at a diner, and it was served out of habit, rather than as the main attraction. With Starbucks, people changed their ideas about coffee and their coffee-drinking habits.

Although businesses like Dunkin' Donuts served coffee, their focus was on selling donuts, not coffee. As Starbucks grew through repositioning coffee as their main product, other



companies like Dunkin' Donuts and McDonalds realized the missed opportunity in not reinventing the coffee market with multiple choices of high- quality coffee. In fact, Dunkin' Donuts has changed its name to just "Dunkin," removing the emphasis on doughnuts.<sup>15</sup>

## **Social and Environmental Issues and Opportunities**

A **social entrepreneur** has an interest in solving a social, environmental, or economic problem. A social entrepreneur identifies a problem with a social or community focus, a concern for quality of life, or concern for our entire planet's health. One such person is Angad Daryani, a young serial inventor. Daryani left school in the ninth grade to join the Media Lab at the Massachusetts Institute of Technology (MIT), where he worked on an industrial-scale air filter to clean pollutants and carcinogens out of our planet's air. Daryani's home country of India is the world's third largest emitter of carbon dioxide, according to Global Carbon Atlas, behind China and the United States.

Not only is Daryani interested in solutions for air pollution, but his product will also provide financial gains and add to his personal credibility as a **serial entrepreneur**, or someone who starts and harvests multiple entrepreneurial ventures. Daryani describes himself as an inventor and social entrepreneur, combining his interest in improving lives through a variety of entrepreneurial ventures including products like Sharkits (a do- it-yourself-kit company that teaches children how to build technology), the SharkBot 3D Printer (an attractive, low-cost, and reliable 3D printer), and several other projects that combine technology and human needs. As each of these products advance to commercialization, the products and technology are becoming more applicable for other uses as well. For more examples of projects that Daryani is working on, take a look at his website (<http://www.angadmakes.com>), which includes videos and articles, and highlights the international recognition he has received for his innovative work.

## **The Entrepreneurial Mindset**

Entrepreneurship takes many forms (see Figure 1), but entrepreneurs share a major trait in common: an entrepreneur is someone who identifies an opportunity and chooses to act on that opportunity. Most business ventures are innovative variations of an existing idea that has spread across communities, regions, and countries, such as starting a restaurant or opening a retail store. These business ventures are, in some ways, a lower-risk

approach but nonetheless are entrepreneurial in some way. For example, Warby Parker, a profitable startup founded by four graduate students at Wharton, disrupted a major incumbent (Luxottica) by providing a more convenient (online initially), affordable, and stylish product line for a large segment of consumers. In this sense, their innovation is about creating something new, unique, or different from the mainstream. Yet they attracted an existing, and in some ways mature, sector of an established industry. In a different way, McDonalds, which is 90 percent owned by franchisees, introduced an "all day breakfast" menu in 2017 that was hugely successful; it also targeted a larger segment (in part younger consumers) and brought back consumers who had chosen other options. In summary, many entrepreneurs start a new venture by solving a problem that is significant, offering some value that other people would appreciate if the product or service were available to them. Other entrepreneurs, in contrast, start a venture by offering a "better mousetrap" in terms of a product, service, or both. In any case, it is vital that the entrepreneur understands the market and target segment well, articulates a key unmet need ("pain point"), and develops and delivers a solution that is both viable and feasible. In that aspect, many entrepreneurs mitigate risks before they launch a venture.

Being aware of your surroundings and the encounters in your life can reveal multiple opportunities for entrepreneurship. In our daily lives, we constantly find areas where improvements could be made. For example, you might ask, "What if we didn't have to commute to work?" "What if we didn't have to own a vehicle but still had access to one?"



*Figure 4: A bike-sharing program in Pella, Iowa, allows users to access bikes at a variety of locations. (credit: "Corral of VeoRide Dockless Bike Share" by "paul.wasneski"/Flickr, Public Domain)*

"What if we could relax while driving to work instead of being stressed out by traffic?"

These types of questions inspired entrepreneurial ventures such as ride-sharing services like Uber, the self-driving vehicle industry,<sup>16</sup> and short-term bicycle access in the free bike-sharing program in Pella, Iowa (Figure 4).<sup>17</sup>

These ideas resulted from having an **entrepreneurial mindset**, an awareness and focus on identifying an opportunity through solving a problem, and a willingness to move forward to advance that idea. The entrepreneurial mindset is the lens through which the entrepreneur views the world, where everything is considered in light of the entrepreneurial business. The business is always a consideration when the entrepreneur makes a decision. In most cases, the action that the entrepreneur takes is for the benefit of the business, but sometimes, it helps the entrepreneur get ready to adopt the appropriate mindset. The mindset becomes a way of life for the entrepreneur. Entrepreneurs often are predisposed to action to achieve their goals and objectives. They are forward thinking, always planning ahead, and they are engaged in "what if" analyses. They frequently ask themselves, "What if we did this?" "What if a competitor did that?"-and consider what the business implications would be.

Most people follow habits and traditions without being aware of their surroundings or noticing the opportunities to become entrepreneurs. Because anyone can change their perspective from following established patterns to noticing the opportunities around them, anyone can become an entrepreneur. There is no restriction on age, gender, race, country of origin, or personal income. To become an entrepreneur, you need to recognize that an opportunity exists and be willing to act on it. Note, however, that the execution of the entrepreneurial mindset varies in different parts of the world. For example, in many Asian cultures, group decision-making is more common and valued as a character trait. In these regions, an entrepreneur would likely ask the advice of family members or other business associates before taking action. In contrast, individualism is highly valued in the United States and so many US entrepreneurs will decide to implement a plan for the business without consulting others.

## Entrepreneurial Spirit and Passion

An entrepreneurial spirit allows entrepreneurs to carry a manner of thinking with them each day that allows them to overcome obstacles and to meet challenges with a can-do attitude. What does it mean to have an entrepreneurial spirit? For the purposes of this discussion, it could mean being passionate, purposeful, positive, bold, curious, or persistent.

The founders of Airbnb have a passion for supporting individual rights to rent out unused space. Why should the established model of hotels prevail? Why shouldn't an individual homeowner have the freedom to rent out unused space and leverage that space into an income? Airbnb has succeeded in creating more flexible and affordable options in the space of the rapidly growing "sharing" economy. At the same time, some states and municipalities have raised issues about the regulations monitoring ventures like this. While entrepreneurial spirit is partly about fighting for individual rights and freedoms, there should be a balance between economic freedom and consumer protection. The entrepreneurial spirit involves a passion for presenting an idea that is worthwhile and valuable, and a willingness to think beyond established patterns and processes, while still keeping in mind local laws and regulations, in the quest to change those established patterns, or at least to offer alternatives to those established patterns.

Passion is a critical component of the entrepreneurial process. Without it, an entrepreneur can lose the drive to run the business. Passion can keep an entrepreneur going when the outside world sends negative messages or less-than-positive feedback. For example, if you are truly passionate about starting an animal shelter because of your love of animals, you will find a way to make it happen. Your internal drive to help animals in need will spur you on to do whatever it takes to make the shelter become a reality. The same is true of other types of startups and owners with similar passions. However, passion needs to be informed by the entrepreneur's vision and mission—passion of the sake of passion is not enough. A clear mission statement—which details why the business exists and the entrepreneur's objectives for achieving that mission—will guide an entrepreneur's passion and keep the business on track. Passion, vision, and mission can reinforce each other and keep the entrepreneur on the right track with next steps for the business.

Some ideas might seem small or insignificant, but in the field of entrepreneurship, it's

important to recognize that for every new startup, someone else may recognize a spin-off idea that expands upon the original idea. The opportunities for identifying new possibilities are endless. Review your work in creating spinoff ideas for Angad Darvani's projects, or Kevin F. Adler's Miracle Messages venture. Or consider possible spin-off ideas around the technology used in agriculture. Creating spin-off ideas fits well with our discussion of divergent thinking and brainstorming. Through these processes, we can discover new uses for existing technology, just as Ring did by using video technology to add security by allowing customers to see who is at the door without opening it.

## **An Entrepreneurial Mindset in Your Discipline or Field**

Within your industry of interest or area of study, what are the challenges that create frustration? How can these be turned into opportunities? Earlier in this chapter, we discussed Evernote, a company that focuses on expanding our memories by storing and organizing information. Let's look at some other examples of entrepreneurial endeavors in specific industries to help you plan your own venture in your own industry.

In the agriculture industry, insects, weeds, weather conditions, and the challenges of harvesting crops are all ripe for entrepreneurial activities. The move toward organic produce has also affected this industry. From an entrepreneurial perspective, what products could you invent to support both organic farming and the problems of insects that damage or destroy crops? The old method was to use chemical sprays to kill the insects, but today, the growing demand for organic foods and increased awareness of the impact of chemical sprays on our environment are changing this scenario. One new idea to solve this problem combines a vacuum cleaner with an agriculture product.

### **Link to Learning**

Watch this video on the creation of a crop vacuum that sucks up insects and bugs (<https://openstax.org/l/52BugVacuum>) to learn more.

A bug vacuum is an example of how using divergent thinking contributed to the solution of removing bugs from crops without using chemicals. In the group activity of creating divergent ideas, this idea may not have been received well. However, in the incubation stage, the idea must have come forward as a viable solution. Entrepreneurs frequently

face the challenge of pressure to conform to established habits and patterns within industries.

Often, the entrepreneurial mindset includes futuristic ideas that shake up the normal, conventional processes that are grounded in experience over time. Tried-and-tested processes and products that have a proven history of success can be a formidable obstacle to new ideas. A new idea may even appear as impossible or outlandish, perhaps even an embarrassment to the steady and predictable practices established within an industry. This can create a dilemma: Do we try something new and unproven that lacks documented research? Sometimes, we must disregard our past successes and research to be open to new possibilities for success and failure. An entrepreneurial mindset includes creativity, problem-solving skills, and a propensity to innovation.<sup>18</sup> Open-mindedness is one characteristic that supports creativity, problem solving, and innovation. Taking the time to explore new ideas, dream, reflect, and view situations from a new perspective contribute to the entrepreneurial mindset. Some innovations can lead to disruptions within the industry, or even create a new industry.

The innovator's dilemma was presented by Clayton Christensen to explain **disruptive technology**, which are technologies that, once introduced, displace established patterns, processes, and systems previously accepted as normal or accepted. One example of a disruptive technology is Airbnb, a company that threatens the established hotel industry by connecting personal resources to people who desire those resources. If you have a spare bedroom that you aren't using, why not sell that space to someone who wants and needs the space?

Airbnb has become a significant threat to the established hotel industry's business model of building large hotels and renting rooms within those hotels to their customers. Airbnb has reconfigured that model, and since its 2008 launch, 150 million travelers have taken advantage of 3 million Airbnb listings in more than 191 countries. Airbnb has raised more than \$3 billion (plus a \$1 billion credit line) and is considering selling stocks to support significant expansion. The value of Airbnb is approximately \$30 billion. Compare this market value to Hilton's market capitalization of \$19 billion and Marriott's of \$35 billion. If you were the CEO of Hilton or Marriott, would you be worried? The hotel industry

recognized Airbnb as a threat, and in 2016, began a campaign to create legislation to rein in Airbnb's growth and popularity. From the hotel industry's perspective, Airbnb is not playing by the same rules. This is the definition of disruptive technology, the focus on creating a new idea or process that negates or challenges established process or products.<sup>19</sup>

Sometimes disruptive technologies result from not listening to customers. Customers don't always know what they want. Customer groups might need to be redefined by the entrepreneurial team on the basis of better models, knowing when to invest in developing lower-performance products that promise lower margins while still satisfying the need, and knowing when to pursue small markets at the expense of larger or established markets. Basically, disruptive technologies occur through identifying new and valuable processes and products.

## Chapter 1: Multiple Choice Review Questions

- 1) According to chapter 1, this type of entrepreneur approach is making something new or seeing a problem that other people have not noticed.
- a) Expanders and scalers
  - b) Market makers
  - c) Creators
  - d) Innovators

*Note: for the test, it may be the exact question or similar, for instance there could be a question like "this type of entrepreneur approach is Find new approaches, methods, or products"*

- 2) According to chapter 1, due diligence is:
- a) The difference between risk and calculated risk
  - b) Analytical calculated risk
  - c) Weighing multiple alternatives
  - d) Throwing caution to the wind
- 3) According to chapter 1, an entrepreneur is someone who
- a) creates a small business based on other existing businesses
  - b) creates a home-based business that sells products available through other retailers
  - c) creates a business around the idea of solving a problem
  - d) is highly creative
- 4) According to chapter 1, this is not one of the causes considered when starting to explore a problem
- a) The need for something to be better, faster, or easier
  - b) The effects of changes in the world
  - c) Market trends
  - d) The projected return-on-investment
- 5) According to chapter 1, besides the USA, which three countries attract the most entrepreneurial ventures?
- a) UK, Australia, Canada
  - b) Switzerland, Canada, UK
  - c) Switzerland, Canada, Australia
  - d) Canada, UK, France



- 6) According to chapter 1, this type of investor is typically a group of people who pool resources and contribute larger sums of money.
- a) Family and friends
  - b) Banks
  - c) Angels
  - d) Venture capitalists
- 7) According to chapter 1, which country has the second largest number of venture capital activities
- a) India
  - b) Israel
  - c) China
  - d) Canada
- 8) According to chapter 1, this is one of the key characteristics for success as an entrepreneur.
- a) Acceptance of failure funds to entrepreneurs.
  - b) Prior family experience or history as entrepreneurs
  - c) Risk avoidance
  - d) Global mindset
- 9) According to chapter 1, this company is an example of entrepreneurial spirit:
- a) McDonalds
  - b) Starbucks
  - c) Warby Parker
  - d) Airbnb
- 10) According to chapter 1, this type of business is an example of divergent thinking:
- a) Donut making
  - b) A bug vacuum
  - c) Coffee
  - d) Bicycle sharing

## Chapter 1: Short Answer Review Questions

1. According to chapter 1, identify and explain the approach difference between the four (4) types of **entrepreneurs**.
2. According to chapter 1, describe the four (4) factors driving the growth of entrepreneurship.
3. According to chapter 1, describe the three (3) primary sources of outside funding?
4. According to chapter 1, explain the difference between a social entrepreneur and serial entrepreneur
5. According to chapter 1, describe the difference between an entrepreneurial mindset and entrepreneurial spirit?

## Chapter 2: Overview of the Entrepreneurial Journey

### Learning Objectives

1. Explain the entrepreneurial journey to explore and discover entrepreneurship as a career choice
2. Identify the steps, decisions, and actions involved in the entrepreneurial journey
3. Recognize the rewards and risks of the steps in the entrepreneurial journey

When the economy and the job market are strong, the entrepreneur has a safety net that decreases the risks in creating a new venture, a startup company or organization that conducts business or is created to satisfy a need, and allows for a quick recovery if the venture is not successful. There are more new startups when there are high levels of confidence in both the venture's success and the entrepreneur's confidence in finding employment if the venture fails. People over 40 years of age account for most new startup activity, in part because of the continuing trend in which a business may choose not to hire an employee but instead hire an independent contractor, a person who provides work similar to an employee without being part of the payroll for the contracting business, and who is responsible for paying their own taxes and providing their own benefits. With previous knowledge and expertise, this group of entrepreneurs recognizes opportunities created by this move away from hiring full-time employees to more outsourcing to independent contractors. One contributor is the gig economy, which involves using temporary and often transitional positions hired on a case-by-case basis, rather than keeping a full staff of hired employees. Advantages for the employer include a decrease in cost of benefits and loyalties to specific employees. Advantages for the hired worker or independent contractor (sometimes called a freelancer) include no long-term commitment and flexibility in accepting contracts. From an entrepreneurial perspective, the creation of websites that support the gig economy offers opportunities for independent ventures. Many people today are becoming small entrepreneurs. This process goes by a variety of names, such as the sharing economy, the gig economy, the peer economy, or the collaborative economy. Maybe it means driving for a company such as Lyft, Uber, or GrubHub, or perhaps offering services through TaskRabbit, UpWork, or LivePerson. The projected numbers of independent contractors and on-demand workers are stated as 42 percent for small businesses by the year 2020, a growth of 8 percent from current

figures.<sup>20</sup> And a projection of greater than 50 percent of the workforce will be independent contractors by 2027 if this trend continues at the current pace.<sup>21</sup> In the “Freelancing in America: 2019” report, the sixth annual study by UpWork and Freelancers Union, 57 million United States citizens are estimated to freelance, with income approaching 5 percent of US gross domestic product (GDP) at nearly \$1 trillion and earning a median rate of \$28.00 an hour, representing a hourly income greater than 70 percent of workers in the overall US economy.<sup>22</sup> One report found that 94 percent of net job growth from 2005 to 2015 was in alternative work categories, with 60 percent due to independent contractors and contract company workers.<sup>23</sup>

According to the US Bureau of Labor Statistics, the number of self-employed Americans is growing, with 9.6 million self-employed people at the end of 2016. That number is expected to grow to 10.3 million by 2026.<sup>24</sup> A more recent study by FreshBooks’ second annual “Self-Employment” report predicts that 27 million US employees will leave traditional work in favor of self-employment by 2020, tripling the current population of full-time self-employed professionals to 42 million. The main driver for this change in the workforce is a greater desire for control over one’s career with the ability to have greater control over working hours and acceptance of work.<sup>25</sup> <sup>26</sup>Of course, self-employment is a broad category that includes small-business owners as well as entrepreneurial startups and freelance gig employees. Since 2016, there has been a downward slide in the number of employees working for self-employed businesses, which results from a variety of factors, including difficulties in finding qualified employees, qualified employees having more employment options, such as employment through the gig economy, outsourcing activities, and technology actions that decrease the need for employees, with entrepreneurial activity remaining steady.<sup>27</sup>

## **Entrepreneurship around the World**

In a 2017 *Business Insider* article, “America Needs Immigrant Entrepreneurs,” David Jolley writes that immigrants constitute 15 percent of the US workforce and 25 percent of the country’s workforce of entrepreneurs.<sup>28</sup> Forty percent of startups include at least one immigrant. Jolley’s article cites a study that identified immigrants as twice as likely to start a business as native-born Americans. In 2016, 40.2 percent of Fortune 500 companies

were founded by at least one immigrant or a child of immigrant parents. Dinah Brin, writing for *Forbes*, stated in a 2018 article that immigrants form 25 percent of new US businesses and that new immigrant-owned firms generated 4 to 5 million jobs.<sup>29</sup>

These statistics and other findings have prompted countries such as Canada to revise their immigration policies to attract more entrepreneurial-minded immigrants. A World Bank report from May 2018 ranked the United States 53rd out of 190 countries for ease in starting a business, with higher scores representing greater ease.<sup>30</sup> The same report ranks the United States eighth for ease of doing business. The difference in these rankings indicates that once a business is established, factors such as regulations, permits, access to credit, and infrastructure support the business owner's ability to continue the business, but actually starting the business is more challenging. For any given country, ease in starting a business and the country's interest in supporting entrepreneurial activity are crucial in both attracting entrepreneurial people and supporting their ability to open a business. Imposing restrictive regulations and processes on new ventures significantly decreases the number of new ventures.

According to a 2018/2019 report, the highest rate of entrepreneurial activity worldwide in 2018 was in Angola at 41 percent.<sup>31</sup> Angola's low-income economy meant fewer employment opportunities, creating pressures to find other ways to earn an income. Guatemala and Chile reported 28 percent and 25 percent of entrepreneurial activity, respectively, with medium- and high-income economies. These percentages are quite high, considering that these economies offer employment opportunities in existing companies. In terms of innovation, India at 47 percent, and Luxembourg and Chile at 48 percent each, take the lead in offering new products and services not previously available. This entrepreneurial activity reflects the ease of starting a business. The Netherlands, Poland, and Sweden were reported as the easiest countries in which to start a new business, in part because many people in those countries view entrepreneurship as an attractive lifestyle. As you can see, both economic opportunities and a country's specific support for entrepreneurial behavior contribute to the number of people who enter entrepreneurial activities.

From a gender perspective, there are currently over 11 million woman-owned businesses in the United States. This number includes both small business owners and entrepreneurs. Thirty years ago, there were only 4 million woman-owned businesses.<sup>32</sup> The number of woman-owned businesses has increased 45 percent between 2007 and 2016, five times faster than the national average, with 78 percent of new women-owned businesses started by women of color.

## **Starting Your Entrepreneurial Journey**

How do you fit into this entrepreneurial journey? This chapter will help you to explore and discover your potential for entrepreneurship as a career choice. Think of this exploration and discovery experience as a way to map out a strategy to reach your goals or dreams. Let's imagine that your dream vacation is a hiking trip to Glacier National Park in the US state of Montana. Just as hikers have different levels of experience, so do entrepreneurs. Just as your plan for a wilderness hike would involve many stages, your entrepreneurial journey involves multiple levels of self-discovery, exploration, experiences, and accomplishments on your way to success. For our purposes, the term entrepreneurial venture means any type of new business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established. For each story of entrepreneurial success that is shared—such as that of Facebook or Airbnb—there are even more lesser-known entrepreneurial success stories such as Zipline, a company that delivers medical supplies in Rwanda and Ghana by drone. These entrepreneurs faced the same dilemmas in pursuing their passion, or opportunities, which led them to their entrepreneurial destiny. They courageously stepped out of their comfort zones to explore the possibilities that lie ahead. What is the difference between entrepreneurs and you? The main difference is taking that first step. Many people have ideas that fit into the definition of an entrepreneurial idea but never take that first step. Just as the Chinese philosopher Lao Tzu suggests, every journey begins with a single step.

Opening your future to the possibility of starting your own venture brings new and exciting experiences. Every entrepreneur moves through several steps in considering the entrepreneurial journey. Once you understand this journey, the steps will help you define your path toward creating and starting your new venture. Each step of this process offers

another level of understanding that prepares you for long-term success. How will you achieve this success? By taking one step at a time, exploring and learning, considering new ideas and expectations, and applying these experiences to achieve your personal outcome. Think of the entrepreneurial journey as a guide to knowing what is in store for you as you start your new venture.

One benefit of outlining a step-by-step process is the opportunity to explore different paths or behaviors that may lead to an entrepreneurial venture. Think again of your dream visit to Glacier National Park. How would you get there? What equipment would you need? What kinds of experiences would you expect to have? Think of the Glacier National Park journey as your entrepreneurial journey, a metaphor intended to help you as you create your career as an entrepreneur.

What makes someone ready or willing to choose entrepreneurship over becoming an employee of an established business or a small business owner? It takes confidence, courage, determination, resilience, and some know-how to select entrepreneurship as a career as well as the recognition of the opportunity. An entrepreneur is defined as someone who not only recognizes an opportunity but who also is willing to act on that opportunity. Both actions are required. We might identify an opportunity, but many people do not act on the idea. Confidence, courage, and willingness are necessary to take that first step, as well as remembering the following:

- You are unique. Even if two similar people attempted to launch identical ventures, the results would likely not be the same. This is because each one of us has different ideas, approaches, available resources, and comfort levels, all of which influence the venture's development and eventual success.
- Although there are no hard and fast rules or theories of the best way to launch into entrepreneurship, we can gain wisdom from the lessons learned by experienced entrepreneurs.
- Selecting an entrepreneurial career requires honesty, reflection, and a tendency to be action oriented. You will need to recognize your own strengths, limitations, and commitment as part of that honesty. Reflection is required for self-growth—seeking improvements in your own skills, interactions, and decision making—and commitment is required to maintain consistency in your willingness to make the new venture a top priority in your life. You will also need to understand that you cannot accomplish everything by yourself, and you may need to ask for help. It helps to be curious, open, and able to take calculated risks and to be resourceful and resilient when faced with challenges or obstacles.

## The Entrepreneurial Journey as a Trip

The entrepreneurial journey is your exploration to discover if entrepreneurship is right for you. Every entrepreneurial journey is unique; no two individuals will experience it in the same way. Along the way, you will find opportunities and risks coupled with challenges and rewards. It's useful to think about the entrepreneurial journey as an exciting trip or other adventure. Most of the preparations and steps involved with planning a trip are like those for starting a venture. Just as you would plan and prepare for a trip—starting with inspiration and leading up to finally traveling on the trip—you might follow similar steps to launch a venture. And just as you would prepare for any challenges that you might encounter on a trip—bad weather, lost luggage, or detours—so you should consider potential obstacles or barriers along your entrepreneurial journey. Think of these difficulties as opportunities to learn more about the entrepreneurial process—and about yourself and how you manage challenges.

Developing a venture can be an exciting and active experience. It is also a lot of hard work, which can be equally rewarding and enjoyable. Here we present the entrepreneurial journey as seven specific steps, or experiences, which you will encounter along the road to becoming an entrepreneur. You'll find more information about the entrepreneurial journey in other chapters in this book.

- Step 1: Inspiration – What is your motivation for becoming an entrepreneur?
- Step 2: Preparation – Do you have what it takes to be an entrepreneur?
- Step 3: Assessment – What is the idea you plan to offer through your venture?
- Step 4: Exploring Resources – What resources and characteristics do you need to make this venture work?
- Step 5: Business Plan – What type of business structure and business model will your venture have?
- Step 6: Navigation – In what direction will you take your venture? Where will you go for guidance?
- Step 7: Launch – When and how will you launch your venture?

As you work through each step of the entrepreneurial journey you should prepare for



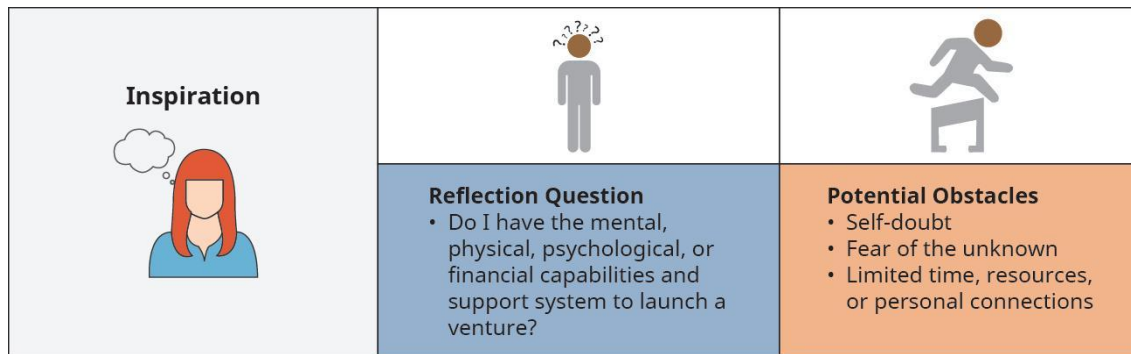
significant aspects of this experience. You will meet with rewards and challenges, the consequences that result from the decisions made at various points along your journey. To visualize the steps of the entrepreneurial journey, imagine your possible hiking trip to Glacier National Park. Just as hikers have different levels of experience, so do entrepreneurs. Compare the following aspects of preparing for a hike with aspects of your entrepreneurial journey.

Type of Hiker	Mountain Hiking Skill Level	Entrepreneurial Journey Equivalent
Walker	<ul style="list-style-type: none"> <li>Basic or limited hiking experience</li> </ul>	<ul style="list-style-type: none"> <li>New or limited entrepreneurial exposure</li> <li>Never started a venture</li> </ul>
Climber	<ul style="list-style-type: none"> <li>Moderate hiking experience</li> <li>Special skills for adventure, difficult terrain</li> </ul>	<ul style="list-style-type: none"> <li>Some entrepreneurial knowledge or experience</li> <li>Exposure to entrepreneurship (family or friend in business)</li> </ul>
Mountaineer	<ul style="list-style-type: none"> <li>Experienced hiker with technical skills for climbing hills and mountains</li> </ul>	<ul style="list-style-type: none"> <li>Experienced entrepreneur</li> <li>Attempted or launched a venture (solo or with partner)</li> </ul>

**Table 1: Hiking and Entrepreneurial Journey Metaphor**

**Step 1: Inspiration**

When you think of being an entrepreneur, what is the inspiration for your venture? Just as you might have an inspiration for a hiking trip to Glacier National Park, you will have an inspiration behind the decision to become an entrepreneur. When you’re planning a trip to a new and exciting place, one thing you might do is to imagine what you will experience along the journey and on arriving at your destination. This portion of the entrepreneurial journey includes imagining yourself as an entrepreneur or as part of an entrepreneurial team. For this stage, you need a creative, open, and innovative state of mind, also known as an entrepreneurial mindset, which is discussed in more detail in *The Entrepreneurial Mindset and Creativity, Innovation, and Invention*. Dream *big* about your potential future and opportunities (Figure 1).



*Figure 5: When inspired to start an entrepreneurial venture, one questions whether they can do it and identifies obstacles that might present challenges. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

## Step 2: Preparation




Just as when you are preparing for a trip, you need a plan to move forward on your entrepreneurial journey. Before your dream hiking trip, you might gather information about Glacier National Park from a trusted source, such as a good friend with travel experience, or you might conduct online research. Your friend's feedback could be just the motivation you need to try this experience yourself. Or you might use your research to determine if the trip is possible. You will need to look at maps, either online or on paper. Either way, you might also consider travel and accommodation options, such as booking a flight and finding a place to stay. You might want to create benchmarks to align your journey with your available resources, such as the amount of time and the amount of money you have to spend on the trip. Benchmarking is a method of tracking target expectations with actionable results by comparing one's own company's performance with an industry average, a leader within the industry, or a market segment. Benchmarking can help design the trip to meet incremental goals and timelines. From both a travel plan and an entrepreneurial perspective, although benchmarking is used as a control mechanism, we know that situations can arise that require an alteration in the plan, causing the benchmarked items to also need adjustments.

### Link to Learning

Which type of benchmarking will help you the most in beginning your entrepreneurial journey? Visit the [American Society for Quality's resource page on benchmarking](#) for help.

To plan for an entrepreneurial journey, you should first conduct some preliminary research regarding your venture idea. Your research must be honest and objective if it is to give you a clear picture of the venture. Next, you might organize and prioritize your research and thoughts. For instance, you might see an idea like yours online or on television, and feel disappointed that someone stole your great idea or beat you to the punch. This is a common occurrence in entrepreneurship, but it should not discourage you. Instead, use that knowledge and energy to find an overlooked or different aspect of your original idea. The difference might even be the focus on a different target market, a specific group of consumers for whom you envision developing a product or service. Further, it is critical to maintain a fluid focus upon expanding the scope of a product or service to uniquely differentiate provisions of benefits apart from existing benefits or those offered by competitors. A focus on a different target market is exactly how the Jitterbug smartphone was created, because it targeted senior citizens. The Jitterbug smartphone offers a larger screen, larger buttons, and simpler features that make it easier for older people to make quick calls or send texts.




Preparation also includes opening space in your life to the time and energy commitment needed to support your new venture. Are the important people in your life willing to support the interest and passion you will need to dedicate the time, energy, and other resources to this new venture? Review the questions shown in (Figure 2) to consider your answers to these questions. Preparation through research and other activities is discussed in more detail in Identifying Entrepreneurial Opportunity.

<p><b>Preparation</b></p> 		
	<p><b>Reflection Questions</b></p> <ul style="list-style-type: none"> <li>• What do I want to accomplish now and in the future?</li> <li>• What will I offer, create, or change that might have an impact on the world?</li> <li>• Is there a better way to solve a problem or address an issue?</li> <li>• What are the conditions of my target market or environment?</li> </ul>	<p><b>Potential Obstacles</b></p> <ul style="list-style-type: none"> <li>• Lack of ideas or inspiration</li> <li>• Idea or venture already exists</li> <li>• Unrealistic expectations for the “perfect” or “right” solution</li> <li>• Fear of risks</li> <li>• Being too practical or too logical</li> </ul>

*Figure 6: In preparing for your venture, you need to ask what you want to accomplish, what you want to offer, and who you want to target. You also need to consider what potential obstacles might present challenges. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

### Step 3: Assessment

Now that you have decided where to go for your trip and have gathered information to prepare for it, the next action is to create and set your schedule. This action is simple but critical, because it involves connecting and coordinating information and resources that fit your lifestyle and needs. For example, you might schedule an early-morning Uber or Lyft to the airport and electronic delivery of your plane tickets to your smartphone. For the entrepreneurial journey, this phase might also include recognizing appropriate relationships and gathering needed resources. For many entrepreneurs, the opportunity to receive guidance from trusted advisors or mentors may provide valuable insights on how to manage the process. This step allows for reflection on your idea and intentions. After you’ve done your researching and gathering knowledge about your idea through the preparation step, is the idea still viable? Is the idea still interesting to you? With a better understanding of the industry, your idea, and your own interests that you gained in Step 2, is this idea something that you still want to explore? This step is discussed more fully in Problem Solving and Need Recognition Techniques with deeper coverage on the topic of opportunity recognition (Figure 3).

<p><b>Assessment</b></p> 		
	<p><b>Reflection Questions</b></p> <ul style="list-style-type: none"> <li>• Where will I find partners, customers, location(s), or other key resources?</li> <li>• Who can help me achieve my goal(s) and maintain a healthy business operational status?</li> </ul>	<p><b>Potential Obstacles</b></p> <ul style="list-style-type: none"> <li>• Limited connections</li> <li>• Partners without skills and resources that match your needs or goals</li> <li>• Limited education or experience</li> </ul>

*Figure 7: Assessing relationships and resources allows for reflection on your idea and intentions. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

#### **Step 4: Exploring Resources**

Regardless of where you might travel, you could not complete your trip without adequate resources such as available financing. There are many ways you might fund a hiking trip: savings, loan, pay-as-you-go, sponsorship (family or friends), or any combination of these options, to name a few. No matter how you finance your trip, it might help to have a balance of available credit and cash on hand to support your day-to-day expenses and any extracurricular activities or even unforeseen emergencies. As discussed in *Entrepreneurial Finance and Accounting*, the US Small Business Administration (SBA) provides funding opportunities.

This scenario is mirrored in the entrepreneurial journey. Just as you wouldn't begin a trip without adequate resources, including access to cash, you wouldn't begin your entrepreneurial journey without the necessary resources, including cash. The options between funding a trip and funding a new venture are similar, but they have different names. For example, on a trip, you might use the cash you have on hand, from savings or a personal loan. For an entrepreneurial journey, you might address cash management—management of cash inflows and outflows to support cash needs of the venture—to include bootstrapping, a funding strategy that seeks to optimize use of personal funds and other creative strategies (such as bartering) to minimize cash outflows. (See *Entrepreneurial Finance and Accounting* for more information on bootstrapping.)

Bootstrapping includes ideas like leasing instead of purchasing, borrowing resources, or

trading unneeded resources for needed ones. Another example of cash management includes a business model that offers subscriptions rather than a payment received for an item purchased. Subscriptions provide the entrepreneur with cash up front, with the buyer receiving benefits throughout the year. Consider the example of Amazon. Amazon offers Prime with a yearly subscription service, as well as Subscribe & Save, Amazon Instant Video, Amazon Mom, and Amazon Web Services, all based on a subscription business model.

According to Entrepreneur.com, other potential subscription-based models include services or products geared to older consumers, with 8,000 people turning sixty-five every day. A similar idea offers services to college students. Both ideas would offer family members a subscription that sends monthly gifts or products to either the elderly person or college student. We also see this model offered to pet owners who pay a monthly subscription to receive treats and toys for the family dog. Looking back at Amazon, we see the company offering the ease of repeat purchases for frequently used products such as vitamins and air filters.




### **Entrepreneur in Action**

Prospurly is a subscription-based company that uses Cratejoy's subscription platform to sell small-batch artisanal products for bath, body, and home, marketing a natural lifestyle focused on the happiness of living a simple and appreciated life. Conduct your own research on Prosperly and other subscription-based businesses. Read the [article, "How I Built a Subscription Business That's Made over 50k in 6 Months," on Cratejoy](#) for more information about this company and Prosperly's move from ideation to profitability.

Other ideas for finding funding include applying for grant funding. The importance of cash and cash management requires in-depth coverage, which is presented in Entrepreneurial Finance and Accounting and Business Structure Options: Legal, Tax, and Risk Issues.

The idea of exploring resources includes many other options besides how to fund a new venture. In a trial run, you would offer your product or service for sale within a limited market on a test basis to evaluate what additional resources are needed to support the success of the venture (Figure 4). Examples of places where a trial run fits well, depending

on your product, include farmers markets, in-home sales, or through friends and family. The idea is to track the feedback you receive about your product or service. How do people react to the price, the quality of the product, the packaging? You can experiment by selecting one variable to adjust—changing the price, the packaging, the sales pitch, the presentation, or the quantity—to track reactions and make improvements based on this feedback. You may then decide to adjust other variables to gather more information, as well as considering what other resources are needed for the success of the new venture. Financing and ideas to preserve your financial stability are discussed more fully in Entrepreneurial Finance and Accounting.

<p><b>Trial Run</b></p> 	 <p><b>Reflection Questions</b></p> <ul style="list-style-type: none"> <li>• How can I afford to achieve my goal and maintain my financial status once I get there?</li> </ul>	 <p><b>Potential Obstacles</b></p> <ul style="list-style-type: none"> <li>• Limited or little access to appropriate or adequate capital</li> <li>• Limited or few connections to obtain capital</li> <li>• Limited negotiation experience or knowledge</li> </ul>
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*Figure 8: During a trial run, you can use a limited market to test your product or service. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

### Step 5: Business Plan

The ability to travel and visit new locations is a privilege and a great opportunity to gain exposure to new experiences and opportunities. In addition to the work involved in preparing for a trip, the act and process of traveling involves constant decision making to achieve your desired goals and outcomes. For instance, should you travel to one location in Glacier National Park and explore that area in depth? Or should you attempt to visit as many areas of the park as possible with your given resources and abilities?

The challenge at this step of your entrepreneurial journey is to remain focused on managing your resources to meet your goals and outcomes as you write your business plan for your new venture. You will need to focus on the skills, experience, and resources



necessary for your venture, and the management and decision making required to ensure success and adjust your plan based on changes and new information. Just as you might find a location in Glacier National Park where you want to stay for a couple of nights, a deviation from your original business plan (discussed in Business Model and Plan) will also require adjustments and changes based on new information and insights.

Be honest with yourself by running a reality check about your ability to manage a venture, especially from a personal-capacity perspective. For example, if you start a business, will it be a part-time or full-time venture? Will you start while in school? Or will you wait until after graduation? The timing of opening the venture can be the difference between success and failure. Consider the difference between hiking in Glacier National Park in the middle of winter, when the daytime temperature is thirteen degrees below zero, and hiking in the middle of summer, when the daytime temperature is seventy-nine degrees. The timing of your visit to the park is an important part of your enjoyment and success in reaching your destination. In planning for your trip, you would pay attention to your departure time to ensure enjoyment and success in your adventure. Similarly, as part of your business plan, you would also research the best time to open your venture.




Finally, during your travels, getting lost, overwhelmed, or sidetracked is always possible. If you get lost when traveling, you might refer to social navigation apps such as Google Maps, Waze, or HERE WeGo, to find turn-by-turn directions and information. Or you might refer to a weblink, a printed map, or a local expert or guide familiar with the area. The business plan is your map. You should identify decision points and milestones, significant key accomplishments, in your plan. Milestones could include points such as hitting your breakeven point, the point at which income from operations results in exactly enough revenue to cover costs. If the financial projections in your business plan are unattainable, what is your next move within the plan? If you don't reach the milestones identified in your business plan, what alternative choices can you make to redirect your venture? The business plan, in its first draft, should inform you whether your venture has a chance at success. If there are negative areas, what can you change? Building this plan before starting the business provides you with knowledge and insights about your idea. Make any necessary changes to the plan to strengthen the possibility of success. Then when you open the venture, track whether the reality of the venture aligns with your business plan's



projections and expectations. The business plan functions as both a road map to help you see where you are going next in building your venture and as a checklist to track whether you are on course or need to make adjustments. When entrepreneurs get off track, they can check out self-help websites, speak with a business coach or counselor, or contact local agencies or organizations, including those affiliated with the federal SBA. Organizations that offer free (or low-cost) small business counseling, mentoring, and training, include:

- SCORE (Service Corps of Retired Executives): <https://www.score.org/>
- Small Business Development Center (SBDC): <https://www.sba.gov/offices/headquarters/osbdc/resources>
- Women’s Business Center (WBC): <https://www.sba.gov/local-assistance/find/?type=Women%27s%20Business%20Center&pageNumber=1>
- US Export Assistance Center: <https://www.export.gov/welcome>
- Veterans Business Outreach Center (VBOC): <https://veteransoutreachcenter.org/>

These and other resources will be discussed in more depth in Building Networks and Foundations. Look at the review questions and the discussion questions at the end of this section to prepare for creating your business plan. Business plans (Figure 5) are discussed more fully in Business Model and Plan.

<p style="text-align: center;"><b>Business Plan</b></p> 	<p style="text-align: center;"></p> <p><b>Reflection Questions</b></p> <ul style="list-style-type: none"> <li>• How can I manage and juggle the related operational and administrative responsibilities for the venture?</li> <li>• How quickly (or slowly) should I grow the venture?</li> </ul>	<p style="text-align: center;"></p> <p><b>Potential Obstacles</b></p> <ul style="list-style-type: none"> <li>• Limited experience or knowledge of the operational and administrative needs of a business</li> <li>• Limited access to resources and a support system</li> </ul>
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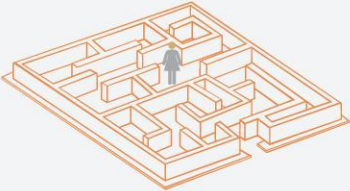


*Figure 9: Writing a business plan before launching a venture can give you important insights into your idea and can help you modify your business before launch to give it a better chance of success. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

## Step 6: Navigation

Once you've completed your trip, reflect on the experiences you had. No matter how well you feel you have planned, there is no way you can prepare for all of the potential challenges, changes, and obstacles that may occur: missed or changed flights, poor weather, an unexpected illness, a trail or road closed for repairs, or sudden good fortune. What parts of the trip went well? If you ran into a problem, how did you handle it? Was the problem something you could have anticipated and planned for? Or was it unexpected? What did you learn from the experience? If you were planning a trip to another national park, what would you do differently in your planning stage? Just as seasoned travelers adjust to their circumstances and learn from their experiences, so should you, as an entrepreneur, learn to adjust by meeting and managing challenges head on.

After completing your business plan, you will probably need to adjust your plan (Figure 6). You might decide that you will not have enough resources to survive the time until your venture reaches the breakeven point, or you might determine that the location you selected is no longer available. There are multiple variables that require further exploration and research.

By nurturing an entrepreneurial mindset, you will be better prepared when opportunities, challenges, or obstacles surface. Although you won't be able to predict or plan for every potential scenario along the entrepreneurial journey, an entrepreneurial mindset helps you to be resourceful when opportunities, challenges, or disappointments occur. By unpacking, or by taking an inventory of your available resources, you can also get a better picture of what you may need to unload, retain, or discard, or even if a new direction is the best course of action. On your entrepreneurial journey, evaluating the experience or situation is a perfect opportunity for you to determine how realistic, overambitious, or shortsighted your dreams and goals for your venture may be. This chapter will explore your vision for your future and your venture. Does your vision include a level of flexibility when you discover new information that supports exploring a new area?

<p style="text-align: center;"><b>Navigation</b></p> 		
	<p><b>Reflection Questions</b></p> <ul style="list-style-type: none"> <li>• How should I prepare for or deal with any potential obstacles or challenges, such as having no money or no solid business idea?</li> <li>• What are some alternative routes to achieve my goals or dreams?</li> </ul>	<p><b>Potential Obstacles</b></p> <ul style="list-style-type: none"> <li>• Limited outlook for the appropriate strategies, goals, or opportunities</li> </ul>

*Figure 10: Navigation involves being prepared for and making changes when faced with obstacles. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

## Step 7: Launch

The actual launch is the exciting event when you open your business. By this point, you have made improvements to your product through feedback received in your trial run; you've identified the value or benefits provided by your product; you've identified your target market; and you've identified the location of your launch, whether it is a geographical location or an Internet location.

*Inc.* magazine provides an analysis of the best locations to launch a new venture, with Austin, Texas, taking the lead (see "Surge Cities: These Are the 50 Best Places in America for Starting a Business," in Suggested Resources). Consider your target market and the resources necessary to support your venture when choosing the location for your launch. Advice from within the entrepreneurial world suggests that sometimes the launch should take place "under the radar," meaning in a location where you can make mistakes, fine-tune your business model and offerings, and even become successful without competitors noticing that you have created a disruption within the industry. (You will learn more about this in Launch for Growth to Success).

Even as you are launching your venture, many variables will require your attention, just as we covered in Step 7. Navigating through these variables as your venture grows requires constant attention as new potential opportunities arise.

## Entrepreneur in Action

Sixto Cancel successfully faced the harsh challenges of aging out of the foster-care system without adult support or guidance. He imagined a better foster-care system for young people then cofounded the firm Think of Us. Think of Us is a platform that helps young people in foster care build their own personalized digital advisory board of supportive adults who act as a virtual life-coaching group. The adults guide the young people through the foster-care system and ensure that they are able to become independent when they leave the system at age eighteen. For more information about this venture, visit [www.thinkof-us.org](http://www.thinkof-us.org).

## Chapter 2: Multiple Choice Review Questions

- 1) According to chapter 2, about \_\_\_\_\_ percent of entrepreneurs are immigrants in the USA.
  - a) 10
  - b) 15
  - c) 25
  - d) 30
- 2) According to chapter 2, in 2018, the highest rate of entrepreneurial activity worldwide was in what country.
  - a) USA
  - b) China
  - c) Canada
  - d) Angola
- 3) According to chapter 2, this is not a part of the entrepreneurial journey.
  - a) It is unique
  - b) It is exciting and active
  - c) It follow rules and theories
  - d) It is risky
- 4) According to chapter 2, this step addresses the question – “What is the idea you plan to offer through your venture”.
  - a) Preparation
  - b) Assessment
  - c) Navigation
  - d) Launch
- 5) According to chapter 2, this is a good source for funding.
  - a) SCORE – p. 14
  - b) Chambers of Commerce
  - c) Better Business Bureau
  - d) SBA

- 6) According to chapter 2, this is a good source for training, mentoring and counseling.
- a) SCORE
  - b) Chambers of Commerce
  - c) Better Business Bureau
  - d) Angels
- 7) According to chapter 2, the reflective question of “what are some alternative routes to achieving the goal” occurs in this step.
- a) Preparation
  - b) Assessment
  - c) Navigation
  - d) Launch

## **Chapter 2: Short Answer Review Questions**

1. According to chapter 2, describe the three (3) reminders about what is necessary to take the first step as an entrepreneur.
2. According to chapter 2, describe the seven (7) steps of the entrepreneurial journey.
3. According to chapter 2, explain the potential obstacles during preparation.
4. According to chapter 2, explain the function of the business plan.

## Chapter 3: The Process of Becoming an Entrepreneur

### Learning Objectives

1. Describe the evolution of entrepreneurship through American historical periods
2. Understand the nine stages of the entrepreneurial life cycle

Scholars of business and entrepreneurship have long debated how people become entrepreneurs. Are entrepreneurs born or made? That is, are some people born with the natural skills, talent, and temperament to pursue entrepreneurship? Or can you develop entrepreneurship skills through training, education, and experience? These questions reflect the classic debates known as “nature versus nurture” or “born versus made,” which attempt to explain the determinants of a person’s personality and character.

This debate has been around for centuries. In classical Greece, Plato supported the nature argument, whereas Aristotle believed in the nurture perspective. During the eighteenth-century Enlightenment period, Immanuel Kant (1724–1824; supported the supremacy of human reason) and John Locke (1632–1704; opposed authoritarianism) argued their views. Kant firmly believed that obedience was the expected and desired behavior, whereas Locke believed in allowing some degree of freedom and creativity. The focus of the aspects of this argument changed when late-nineteenth-century psychologists sought to understand how individuals obtain knowledge, and as modern psychologists concentrated on additional factors such as intelligence, personality, and mental illness.

Scott Shane, a professor of entrepreneurial studies at Case Western Reserve University, codirected a study using identical twins and fraternal twins as the research subjects. Shane determined that entrepreneurs are about 40 percent born and 60 percent made, meaning that nature—that is, an individual’s DNA—is responsible for 40 percent of entrepreneurial behaviors, whereas nurture is responsible for about 60 percent of entrepreneurial behaviors.<sup>33</sup> Although “nature versus nurture” and “born versus made” are parallel arguments, researchers and experienced entrepreneurs suggest a combined viewpoint. You can unite your natural talents and abilities with training and development. Once you determine that entrepreneurship is in your future, the next action is to establish a process to follow, such as identifying useful reading materials, attending classes or workshops, finding a mentor, or learning by doing through simulations or firsthand

experiences. Firsthand experiences occur throughout our days and lives as we gain relevant experiences and as we develop a mindset to seek out opportunity-recognition behaviors. Completing coursework, such as reading this textbook, and reviewing the suggested resources provided within this textbook are actions that can support your knowledge and awareness of entrepreneurship as a valid option for your future.

## **Historical Perspective**

The evolution of entrepreneurship in the United States has spanned centuries. Entrepreneurs have responded to and innovated within the political and economic conditions of their times. The United States' economic and industrial spirit has inspired generations of entrepreneurial Americans. Understanding this history might help you appreciate the importance of entrepreneurship as you consider your own entrepreneurial journey.

During the late 1700s, the Pembina Band of Chippewa Indians lived along the Red River of the North, which flows through North Dakota and Minnesota, and into Canada. European explorers established trading posts in this region and bargained with the Pembina and others for pemmican, a buffalo or fish jerky created by tribes for survival during harsh winters when food was scarce. The Pembina pemmican was exported internationally through trading with French, Canadian, British, and other explorers.<sup>34</sup> The Pembina solved a problem of food scarcity, then leveraged the product to trade for other products they needed that were available through the trading posts.

In the late 1880s, Madam C. J. Walker, an African American hair-care entrepreneur, developed and marketed her products across the United States (Figure 7), hiring sales agents and founding the Madam C. J. Walker Hair Culturists Union of America and the National Negro Cosmetics Manufacturers Association in 1917.<sup>35</sup> She started her company with a philosophy of "hair culture," which quickly became popular and eventually led to steady employment for African American women. Another African American,

Charles Drew, established the national blood bank in the late 1930s, just before World War II gave rise to the need for quick access to blood.<sup>36</sup> He researched transfusion medicine and saw a need that he wanted to fulfill. Drew applied the ideas from his doctoral thesis to



create the blood bank and continued to innovate, developing mobile blood donation stations.



*Figure 1: Madam C. J. Walker developed her own hair care line, which is still sold today. (credit: Collection of the Smithsonian National Museum of African American History and Culture, Gift from Dawn Simon Spears and Alvin Spears, Sr.)*

Many innovations and entrepreneurial activities are not achieved by one person acting alone. One example is the invention of the cotton gin in 1794, attributed to Eli Whitney, and possibly based on a design by Catherine Greene and African Americans working as slaves. Some scholars believe that the cotton gin had the unintended consequence of hardening the grip of slavery in the South.<sup>37</sup> Eli Whitney, a descendant of a British immigrant, leveraged his status as the creator of the cotton gin to manufacture muskets for the US government, becoming known as a pioneer of American industry with a focus on standardization.<sup>38</sup>

The earliest concept of an “entrepreneur” can be traced to this era, from the French *entreprendre*, which translates as “to do something” or “to undertake.”<sup>39</sup> Jean-Baptiste Say (1767–1832), a French philosopher, economist, and businessman, supported lifting restraints to encourage business growth, a highly liberal view in the late 1700s. “The

"Introduction to Entrepreneurship" by Tom Atchison, Tillamook Bay Community College, is licensed under CC BY 4.0 / A derivative from "Entrepreneurship" by Michael Laverly and Chris Littel, OpenStax.

entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield,” is a concept attributed to Say, as is the word Entrepreneur.<sup>40</sup>

Entrepreneurial-minded persons included merchants, landowners, manufacturers in textile-related trades, shipbuilders, explorers, merchants, and world market traders.<sup>41</sup> The first immigrants to the British colonies took advantage of several key inventions developed before this era, such as printing, double-entry bookkeeping, and improvements in ship design and navigational instruments. The first North American patent was granted in 1641 by the Massachusetts General Court to Samuel Winslow for a new process for making salt. The entrepreneurial spirit of the early colonists helped shape an economic landscape that lasted for generations.

A plethora of inventors and their inventions transformed several industries and economic classes across the growing nation. During this era, the country benefited from inventions that created, expanded, or revolutionized industry and increased wealth and expansion. These revolutionary inventors included Eli Whitney (cotton gin, 1794), Elias Howe (sewing machine, 1845), and Samuel Morse (telegraph, 1830s–1840s) Many other people contributed to these and other inventions.

Although he was not an inventor but an industrialist, Andrew Carnegie provides an interesting example. A manufacturer who focused on the value of innovations and how to implement them, Carnegie adopted newly developed techniques to improve steel production. He also was among the first to implement **vertical integration**, the strategy of gaining control over suppliers of raw materials and distributors of finished products to expand or control the relevant supply chain. He developed a reliable network of suppliers to support his steel factories. Carnegie also was one of the first magnates to practice philanthropy. He gave away much of his immense fortune to support community and public library systems, concert halls, museums, and scientific research.<sup>42 43</sup>

These entrepreneurial pioneers, and many others like them, sought ways to earn a return on investment on an invention and to protect themselves legally through the patent process. A **patent** is a legal grant of protection for an inventor over the rights, usage, and

commercialization of an invention for a set time period. <sup>44</sup> An early US patent was issued in 1790 to Samuel Hopkins for his process of making potash as a fertilizer ingredient. <sup>45</sup>

The innovations of women, African Americans (slaves or free persons), and other marginalized groups were crucial during this era. As we saw earlier, Sybilla Masters invented a method for grinding Indian corn. She received a patent from the English king in 1715. But because women were not allowed to file for patents or even to own property at that time, the patent was filed in her husband's name. <sup>46</sup> Although the invention of the cotton gin is attributed to Eli Whitney, as we have seen, it may have been based on a design by Catherine Greene and African American slaves. Social and legal discrimination could limit or conceal the identities of actual inventors, especially if they were women or slaves. <sup>47</sup> Most patent applicants and awardees were white males. One exception was Mary Dixon Kies, who in 1809 became the first woman awarded a patent for her process of weaving straw with silk or thread. This was a key innovation for the hat industry, due to an embargo on European goods. <sup>48</sup> Likewise, many slaves were extremely innovative, but laws and prejudice prevented them from filing independently for patents. Because slaves had no rights, many sought patent submissions under their owners' names but received no recognition or compensation for their efforts. <sup>49</sup> It was not until 1820 that an African American, Thomas Jennings, was granted a patent for a process called "dry scouring" for cleaning fabric. <sup>50</sup> As the successes and failures of inventors and innovations expanded, so did the consumer demand for better-performing products and services. This led to the Second Industrial Revolution.

### Link to Learning

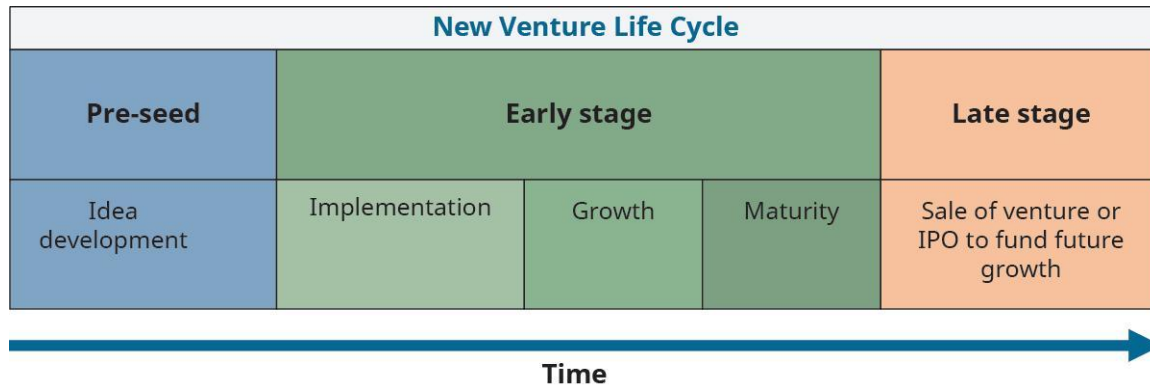
Visit the [History site on the Great Depression](#) or [PBS's American Experience article on the Great Depression](#) to understand the background and circumstances that led to the stock market crash of 1929, the Great Depression, and how the United States rebounded during this period.

### The Entrepreneurial Process: Venture Life Cycle and Product Life Cycle

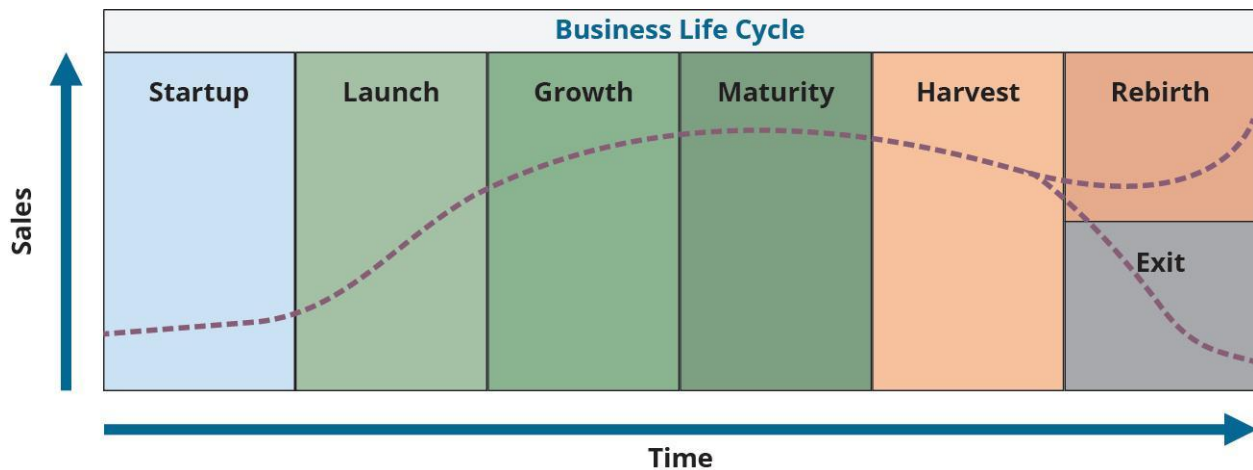
In general, the entrepreneurial process includes several key stages or some variation of these stages. Keep in mind that these stages do not always follow a sequential pattern, as circumstances and opportunities change. One popular method of understanding and

connecting to this entrepreneurial process is to think of your new venture as similar to the human life cycle, the major stages that humans pass through in their life development, and the different growth processes in between.

As we can see in Figure 2 and Figure 3, the startup stage is similar to the birth of an infant. During the startup stage, or the birth of the idea, the venture requires resources to support the startup as the entrepreneur develops the idea, creates the prototype, and builds the infrastructure to support production. During the startup stage, cash supports building the venture. Meanwhile, the startup is seldom ready to generate sales. Planning for this situation, knowing that cash is needed but not replenished through sales, is an important consideration.



*Figure 2: This image displays the phases that a new venture moves through as the idea is developed then created as a prototype. The prototype is then perfected in preparation for stage 4, when sales are generated. Stage 4 leads to the start of the growth stage, shown in Figure 9. Growth occurs through an increase in sales of the product. At this point, adding features or enhancements to the product will encourage increasing sales. attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*



*Figure 3: This image demonstrates the phases a business moves through from origination through the death of the business. The yellow line represents sales, or success of the business's products. We see the most sales dollars in the growth and maturity phases. At this point, the owner or entrepreneurial team must make decisions for the rebirth of the business, at which time the business returns to the growth phase. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

Just as a child grows rapidly in their early years, often a business venture experiences quick growth as the product or service becomes commercialized and experiences strong demand, reflected through increasing sales and stronger knowledge and access to the target market. Again, this stage requires resources to support growth. The difference between this stage and the startup stage is cash is generated through sales activity. In some entrepreneurial ventures, however, the growth stage is about building the venture, rather than generating sales. For ventures like YouTube, the growth stage entails increasing the inventory of videos as well as an increase in people accessing the videos.

Just as humans achieve maturity during their life cycle, the business might reach a point where growth slows and perhaps moves into a decline stage. In our human experience, we can take actions to improve or lengthen the maturity stage of our lives through better life choices, such as nutritious eating habits and exercise, to increase longevity and delay decline. We can also extend the maturity of the business and even move into a rebirth and a new growth phase through insightful decisions, such as adding new features to the product or service, or offering the product or service to a new target market. The goal in our lives, and in this analogy, is continued growth and success. Products can be altered or enhanced to extend the product's life cycle, which also extends the life cycle of the venture.

Examples of avoiding the decline and death of a business fit well into the concept of product life cycle and are prevalent in technology-related products such as the television, the personal computer, and the cell phone. For example, black-and-white televisions underwent a growth stage after World War II. Color televisions were introduced in the 1950s. As technology improved, television manufacturers have repeatedly moved through the life cycle and avoided declines in sales with new features and adaptations with options such as plasma, LED, and smart technology. An example of a product that started and then quickly declined into the death stage of the business is the eight-track player, a music player available between the mid-1960s to the early 1980s. The eight-track player replaced the reel-to-reel tape recorder as a more accessible product for installation in moving vehicles, from cars to Lear jets, to offer individual music purchased by the vehicle owner for listening while traveling. Even as the eight-track player was becoming popular, moving from the introductory stage into the growth stage of the product life cycle, the compact cassette was being developed. In the early 1980s, the compact cassette format replaced the eight-track player, abruptly ending the product life cycle of the eight-track player.

Some products lend themselves more easily than others to managing the life cycle. The goal is to manage the product for continuous growth, whereas other products, such as the eight-track player, are based on technology that quickly becomes obsolete when a better option becomes available. Other examples of products with short life cycles are categorized as fads, like the hula hoop and pet rocks—fads from the past that were reintroduced to a new generation of consumers and that moved quickly through the product life cycle into the last stage—the death of the product with sales either nonexistent or so few that the product becomes a novelty item.

The life cycles of the venture and of the product are two different concepts but are closely related. The venture will need different resources during each stage of the cycle to support the growth and success of the venture. Knowing what stage of the life cycle the product is in assists in decision making. For example, a decrease in sales triggers the need to enhance the product's value to extend and continue strong levels of growth. From the venture's perspective, managing the product life cycle also supports the continued success of the venture.

A successful venture avoids decline or death with the potential to prepare for either the sale of the venture or a public offering of stock, known as an initial public offering (IPO), which gives the company access to significant funds for future growth. Two entrepreneurial IPOs in May 2019 were Zoom and Uber. Zoom is a company that offers video conferencing, web conferencing, webinars, and cross-platform access. Uber is a ride-sharing company. Both entrepreneurial ventures used IPOs to support their future plans for growth.

Think about some of the friends you've known since childhood compared with those you've met in recent years. Suppose you plan to work on a project together and want to figure out who should handle which parts of the work. You might learn some information about a newer friend's past experiences through conversations, observations, or other collaborations. Even so, it would not be possible—or necessary—to learn everything about their childhood and how they learned a specific set of skills or acquired certain connections. You would just start your interaction and work with your friend from the current time. The same is the case for a venture. You might start a venture from the idea-generation stage or from infancy as part of the pre-launch stage. Or you might join the process after someone else has already completed the early stages of the business—for example, by purchasing an existing business or entering into a partnership. You might not have been around when the business was launched, but you can continue with the development of the business from the present moment. Just as each stage of human experience involves different concerns and milestones, the same holds true for your venture. The venture is your responsibility to manage during each stage of the development process.

### **Stage 1: Startup**

In stage 1, startup activities are related to your perceptions about a potential idea, how you develop your idea, and how you might recognize appropriate opportunities. At this stage, the crucial activity is defining the opportunity to develop your concept into a realizable business venture with a strong potential for success. In this stage, you work on developing the idea more thoroughly to determine whether it fits your current and future circumstances and goals. You will also work through exercises to distinguish ideas from viable opportunities. Each of these actions is addressed in greater detail in future chapters. The

goal of this section is to introduce concepts for a greater understanding of these stages.

Key actions or exercises in this stage include:

- Idea development
- Opportunity recognition
- Identification of a market opportunity
- Research and **due diligence**, or conducting the necessary research and investigation to make informed decisions that minimize risk, such as ensuring you are not duplicating an idea that already exists

## **Stage 2: Development**

Now that you have confidence in your idea, it is time to develop a structure to determine what type of venture will work best for the idea. In Stage 2, you might select a business model (discussed further in [Business Model and Plan](#)) and pull together a team (discussed in [Building Networks and Foundations](#)) to make your dream venture a reality. **The business model** identifies how a business will build revenue, deliver value, and receive compensation for that value. Some examples of business models include monthly subscriptions, pre-sale orders, kiosk sales, and other choices. Entrepreneurial decisions in the development stage include many options to consider, including bootstrapping, starting out with limited funds, receiving venture funding from external sources, licensing to receive royalties on a per-item basis, purchasing another business, inheriting a business, franchising either through the purchase of a franchise or building your company with the goal of eventually creating your own franchise, creating a virtual web-based company, using mobile apps that support your business or connect with other businesses, founding a social venture to support a cause, consulting, or freelancing. Choosing among these options or creating your own unique approach to supporting the success of your business will change your results and success level.

Key activities in this stage include:

- Formulation or refinement of your concept
- Design of business model, plan, goals, launch team, and operational structure
- Creation of prototype product to fit market (sample or model for customer feedback)
- Further research and due diligence, as needed



### Stage 3: Resourcing

Using knowledge you gained in the first two stages, in the resource stage, you will evaluate the necessary resources to support your new venture. Resources include financial support; support and selection of a manufacturing location or facility (if you are producing a physical product); personnel talents, knowledge, and skills; possible political and community support; and family support, because the new venture will require time commitments that will cut into time with your family.

The key activities in this stage include:

- Gathering pertinent resources, such human and financial capital, investors, facilities, equipment, and transportation
- Establishing connections, networks, and logistics
- Further research and due diligence, as needed

### Stage 4: Market Entry

Market entry—the launch of your venture—is often undertaken in a soft launch, or soft open, within a limited market to minimize exposure to unforeseen challenges. As an entrepreneur, you are presenting your new venture to a specific market to see how well it is received and supported. You might make last-minute adjustments at this stage, but the crucial part is to see how the market reacts to your venture. This is an excellent time to scrutinize all aspects of your business for solutions to unexpected problems and improvements in efficiencies, and to track customer reactions to your venture.

One of your most important responsibilities at this point is managing your **cash flow**, or the money coming into and going out of a business, as cash is essential for the success of the venture. In the early stages of the venture, you will need large amounts of cash to fund the operational activities, because your sales are not yet guaranteed. Production costs, payroll, supplies, inventory, lease payments, and marketing: All of these expenditures involve cash outflows from your venture as part of the startup costs. A successful business needs available cash as well as customers for its products and services, or it will not survive. Key activities at this stage include:

- Assessing management structure and needs, adjusting as necessary
- Managing cash flow
- Launching the entity

- Monitoring progress
- Further research and due diligence, as needed

### **Stage 5: Growth**

The growth stage includes making decisions that support the future growth of your venture. In the growth stage, your decisions reflect the scalability of your venture. There is a big difference between a small-scale venture and a venture that must handle significant levels of sales. At this point, your organizational structure needs an update. You might need new functional levels, such as a finance department, or a human resources department, or perhaps an assistant manager. Other considerations include the size of your facilities. Is the current size, or capacity, appropriate for the growth of the venture? Other questions relate to the appropriateness of your suppliers or inventory providers. Are quality and delivery time meeting your needs? Is the payment system appropriate for your venture? In this stage, you should also monitor the growth of your venture and make appropriate adjustments. For instance, if your venture is not growing as expected, then you might go back to your business plan and see what adjustments you can make. Key actions in this stage include:

- Managing the venture
- Making key adjustments, as needed
- Further research and due diligence, as needed

### **Stage 6: Maturity**

In the maturity stage, your venture has moved into the maintenance phase of the business life cycle. Entrepreneurs monitor how a venture is growing and developing according to the business plan, and its projections and expectations. Is your venture growing faster or slower than you expected? What milestones has it reached? What changes are needed to continue the success of the venture? How can you address those changes?

Depending on your situation, you still will need to take action to support the venture. Even if the venture is operating efficiently and in a predictable manner, external changes could compel you to change your venture, for example, by making improvements to the product or service, finding new target markets, adopting new technologies, or bundling features or offerings to add value to the product.

One of the key points to understand at this stage is that ventures can, and often do, fail. Entrepreneurship is about taking calculated risks to achieve a reward. Sometimes your venture may not turn out how you planned. Keeping an open mind and learning from experience presents new opportunities for either changes to the existing venture or even a new venture. Consider these examples of early entrepreneurial failures by people who later went on to achieve great success:

- Bill Gates's early Traf-O-Data company failed because the product did not work
- Walt Disney was told he lacked creativity and was fired from a newspaper job
- Steve Jobs was once fired by his own company, Apple
- Milton Hershey started three candy companies before he founded the successful Hersey Company

Key actions of this stage include:

- Strengthening market position
- Awareness and willingness to change
- Reaping return on investment (ROI)

### **Stage 7: Harvest**

At some point, your company may outgrow your dreams, ambitions, or interests. At this stage, you are harvesting or collecting the most return on your investment while planning how to retire or make a transition away from this venture. Many entrepreneurs enjoy the excitement of starting and building a venture but are less interested in the routine aspects of managing a company. In the field of entrepreneurship, the entrepreneurial team creates a venture with the goal of harvesting that venture. Harvesting is the stage when all your hard work and ingenuity are rewarded through a sizable return on the invested money, time, and talents of the startup team, including any investors. During this stage, the entrepreneurial team looks for the best buyer for the venture to achieve both a return on investment and a match for the continued success of the venture. Key actions in this stage include:

- Identifying what the entrepreneurial team, and investors, want out of the venture, their ROI
- Planning for your future: What's next on your entrepreneurial journey?

### **Stage 8: Exit**

The exit stage is the point at which your venture either has fulfilled its purpose as a harvested success that is passed along to the next generation of business owners or has not met your needs and goals. These two situations give rise to vastly different scenarios. In the harvesting of the venture, you might receive a sizable cash payment, or a combination of cash payment and a minority share of stock in the venture's buyout. In an exit that reflects the closing of the venture, your option is most likely liquidation of assets, which you would sell to pay off any remaining creditors and investors. In both harvesting and liquidation, the challenge for you as an entrepreneur can be to accept the emotional withdrawal from a venture that has consumed your thoughts, time, and energy. The time has come for you to step out of the picture and allow the venture to be cared for by a new "parent" or to close the venture completely. Key actions in this stage include:

- Exit strategy and plan
- Transition to the next generation of owners

### **Stage 9: Rebirth**

For some entrepreneurs, the excitement of creating a new venture supersedes the financial gain from harvesting a successful venture. The thrill of transforming an idea into a realizable opportunity and then creating a thriving venture is difficult to find elsewhere. In the rebirth phase, the entrepreneur decides to seek out another new venture to begin the process all over again. As an experienced entrepreneur, you can create a new type of venture or develop a new spin-off of your original venture idea. At this point, you have become a **serial entrepreneur**, an entrepreneur who becomes involved in starting multiple entrepreneurial ventures. Key actions in this stage include:

- Redesigning or creating a new venture
- Bringing in a new entrepreneurial team or the team from the previous venture

### **Link to Learning**

“Drop into” Man Crates to learn about this entrepreneurial venture. Who is their clientele? Does this company sell an experience, a product, or both? What life cycle stage is this business in now? Applying your assessment of the company’s life cycle stage, pretend that you are the CEO of the company. What recommendations do you have for the company’s continued success and growth?

Visit the Man Crates site (<https://www.mancrates.com/>) to learn more.

## Key Terms

**benchmarking** - comparing one's own company's performance with an industry average, a leader within the industry, or a market segment

**bootstrapping** - funding strategy that seeks to optimize use of personal funds and other creative strategies (such as bartering) to minimize cash outflows

**business model** - plan for how venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture's offerings are made and distributed to the end users; and the how income will be generated through this process

**entrepreneurial journey** - your exploration to discover if entrepreneurship is right for you

**entrepreneurial process** - set of decisions or actions that can be outlined and followed as a guide to developing or adjusting a venture

**entrepreneurial spirit** - describes a quality of those individuals who are productive self-starters focused on making changes happen

**entrepreneurial venture** - any business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established

**franchising** - form of licensing that allows the business (franchisor) to share its business model to expand through various distributors (franchisees) for a fee

**independent contractor** - (also, freelancer) people or businesses that provide work similar to an employee without being part of the payroll for the contracting business, and who pay their own taxes and pay for their own benefits

**innovation** - new idea, process, or product, or a change to an existing product or process

**patent** - legal grant of protection for an inventor over the rights, usage, and commercialization of an invention for a set time period

**venture** - startup company or organization that conducts business or is created to satisfy a need

## **Summary**

### **Overview of the Entrepreneurial Journey**

As you prepare for your journey into entrepreneurship, it is critical to consider the multiple aspects associated with preparing for, experiencing, and completing a journey unique to you. The key is an honest and introspective assessment of how you can make a journey that brings your desired outcomes and results. The seven steps outlined in this section will provide you with a perspective of what you might encounter on your entrepreneurial venture.

### **The Process of Becoming an Entrepreneur**

The entrepreneurial process provides a flexible guideline for launching a venture with an individualized approach. This process should be a fluid, not static, exercise that adjusts to market needs and demands until you achieve an appropriate fit to reap the rewards of your investment. The material in this section will be covered in greater depth as you progress through the rest of the chapters. For now, gaining a perspective on the entire process provides you with a background understanding of what an entrepreneurial venture involves, from ideation through creating the venture to harvesting the venture with the potential to begin the process all over again with a new idea.

### Chapter 3: Multiple Choice Review Questions

- 1) According to chapter 3, the earliest concept of an “entrepreneur” can be traced to \_\_\_\_\_.
  - a) Madam C. J. Walker
  - b) Jean-Baptiste Say
  - c) Plato
  - d) Andrew Carnegie
- 2) According to chapter 3, when a business reaches a point where growth slows, it is said to be in this phase.
  - a) Implementation
  - b) Idea development
  - c) Growth
  - d) Maturity
- 3) According to chapter 3, the key activity in this stage includes establishing connections, networks, & logistics.
  - a) Resourcing
  - b) Startup
  - c) Development
  - d) Market entry
- 4) According to chapter 3, the key action in this stage includes awareness & willingness to change and reaping return on investment.
  - a) Exit
  - b) Growth
  - c) Maturity
  - d) Harvest



### **Chapter 3: Short Answer Questions Review Questions**

1. According to chapter 3, describe the three (3) phases of a new venture life cycle.
2. According to chapter 3, describe the seven (7) phases of the business life cycle.
3. According to chapter 3, explain the difference between rebirth versus exit.

# Chapter 4: Creativity, Innovation, and Inventions

## Learning Objectives

1. Describe popular, well-supported, creative problem-solving methods
2. Understand which innovation or problem-solving methods apply best in different settings
3. Distinguish between creativity, innovation, and invention

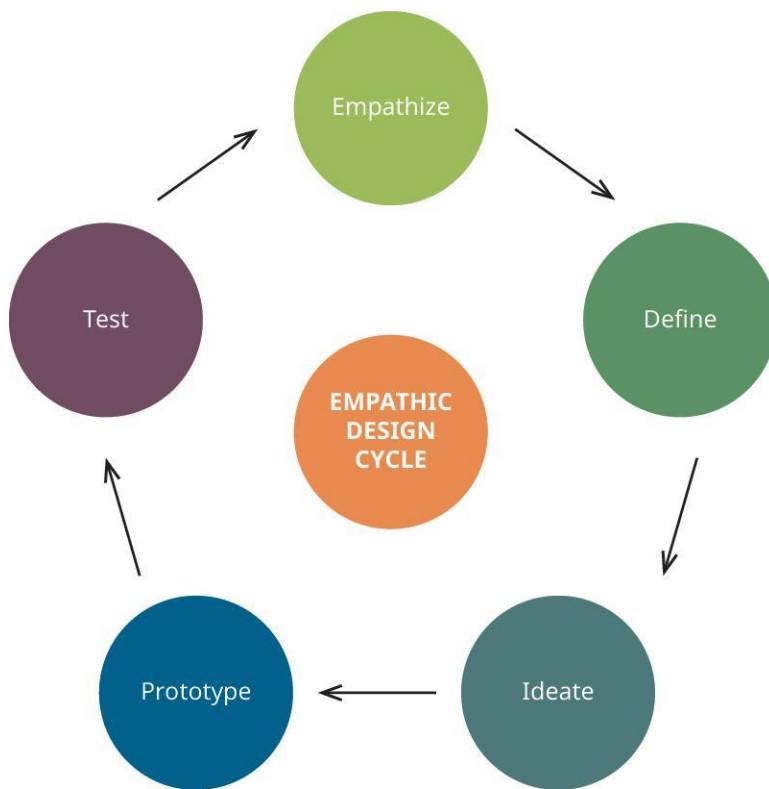
Creativity, innovation, and invention are key concepts for your entrepreneurial journey. Fostering creativity and innovation will add essential tools to your entrepreneurial toolkit. In this chapter, first you'll learn about a few practical tools that can assist you in your efforts to create and innovate. Then, we'll define and distinguish creativity, innovation, and invention, and note the differences between pioneering and incremental innovation. Finally, we'll cover models and processes for developing creativity, innovation, and inventiveness. The science, study, and practice of creativity and design thinking are constantly evolving. Staying on top of well-documented, successful approaches can give you a competitive advantage and may remind you that entrepreneurship can be fun, exciting, and refreshing, as long as you keep your creative spirit alive and in constant motion.

## Creative Problem-Solving Methods

Creative thinking can take various forms. This section focuses on a few creative thinking exercises that have proven useful for entrepreneurs. After discussing ideation practices that you can try, we conclude with a discussion of an in-depth innovation exercise that can help you develop a habit of turning creative ideas into innovative products and services. In this section, outcomes are vital.

Three ideation practices are discussed here. Several others are offered in links at the end of this section. The first ideation practice comes from Stanford's Design School.<sup>51</sup> The objective is to generate as many ideas as possible and start to develop some of those ideas. This practice is the quintessential design thinking practice, or human-centric design thinking exercise, and it consists of five parts: accessing and expressing empathy, defining the problem, ideating solutions (brainstorming), prototyping, and testing (Figure 1). Empathy is the human ability to feel what other humans are feeling, which in the context of creativity, innovation, and invention is essential to beginning a process of human-centric

design. Practicing empathy enables us to relate to people and see the problem through the eyes and feelings of those who experience it. By expressing empathy, you can begin to understand many facets of a problem and start to think about all of the forces you will need to bring to bear on it. From empathy comes the ability to proceed to the second step, defining the problem. Defining the problem must be based on honest, rational, *and* emotional observation for human-centric design to work. Third in the process is brainstorming solutions. The other two ideation exercises or practices in this section delve more deeply into brainstorming (also discussed in [Problem Solving and Need Recognition Techniques](#)), what it means, and how you can brainstorm creatively beyond the basic whiteboard scribbling in almost every organization. Designing for other people means building a prototype—the fourth step—and to test it. Once you apply this process to developing a product or service, you need to return to the empathetic mindset to examine whether you have reached a viable solution and, thus, an opportunity.



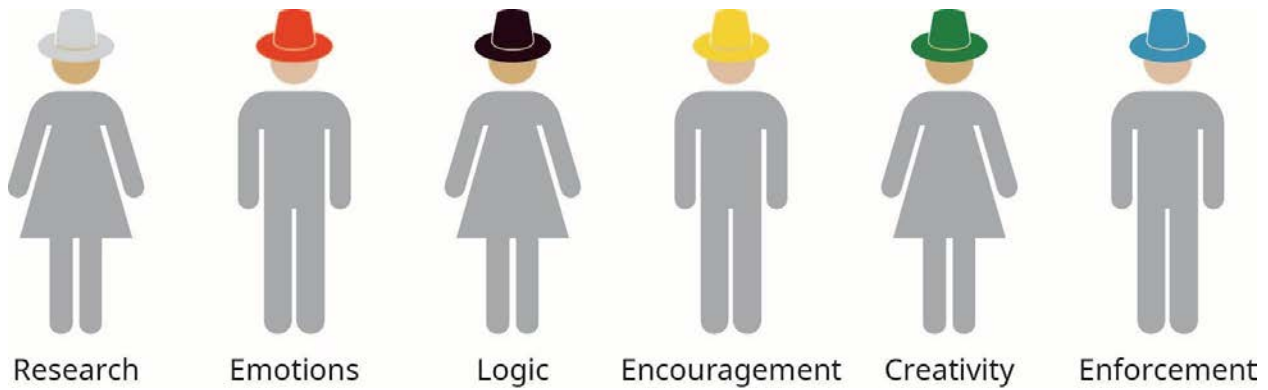
*Figure 11: The empathetic design cycle is human-centric. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

## Link to Learning

Watch this [video on human-centered design](#) for more information, including an explanation of the phases involved.

To delve more deeply into ideation as a practice, we introduce here the Six Thinking Hats method (Figure 2).<sup>52</sup> There are different versions of this ideation game, but all of them are quite useful for encouraging thought by limiting the mindset of those involved in the game. Being encouraged to embody one mode of thinking frees you from considering other aspects of a problem that can limit creativity when you are looking for a solution. The six hats are:

- White Hat: acts as information gatherer by conducting research and bringing quantitative analysis to the discussion; sticks to the facts
- Red Hat: brings raw emotion to the mix and offers sensibilities without having to justify them
- Black Hat: employs logic and caution; warns participants about institutional limitations; also known as the “devil’s advocate”
- Yellow Hat: brings the “logical positive” of optimism to the group; encourages solving small and large problems
- Green Hat: thinks creatively; introduces change and provokes other members when needed; new ideas are the purview of the Green Hat
- Blue Hat: maintains the broader structure of the discussion and may set the terms by which progress will be judged; makes sure the other hats play by the rules, or stay in their respective lanes, so to speak



*Figure 12: The Six Thinking Hats exercise is designed to have each participant focus on a particular approach to the problem or discussion. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

You can apply the Six Thinking Hats exercise to force structure on a discussion where, without it, several members of the group might try to wear several hats each. This game is not always easy to implement. If members cannot follow the rules, the process breaks down. When it works best, the Blue Hat maintains control and keeps the practice moving quickly. What you and your group should experience is a peculiar freedom arising from the imposition of limitations. By being responsible for only one mode of thinking, each participant can fully advocate for that point of view and can think deeply about that particular aspect of the solution. Thus, the group can be deeply creative, deeply logical, deeply optimistic, and deeply critical. This practice is meant to move entire groups past surface-level solutions. If you practice this exercise well, the challenges of implementing it are well worth the effort. It gives you the opportunity to vet ideas thoroughly while keeping many personality clashes at bay.

Your instructor may have your group members try different hats in different ideation exercises so you all can more fully develop each mindset.<sup>53</sup> This exercise forces you out of your most comfortable modes of thinking. You and your classmates can recognize in each other skills that you may not have realized you possess.

The third ideation practice is quite simple. If stagnant thinking has begun to dominate an ongoing discussion, it can be helpful to inject an ideation framework. This is the “statement starters” method.<sup>54</sup> Ask, “How might we \_\_\_\_\_?” or “What if we \_\_\_\_\_?” in order to open up new possibilities when you seem to have reached the limits of creativity. This

method is more than simply asking “Why not?” because it seeks to uncover *how* a problem might be solved. For entrepreneurs, the simplest form of framing a problem in the form of a question can be eye opening. It assumes open possibilities, invites participation, and demands focus. Statement starters assume that, at least, there *might* be a solution to every problem. Ideation is about starting down new paths. This mode of thought applies to social problems as well as consumer pain points (discussed later). Creating a list of statement starters can help entrepreneurs examine different possibilities by simply adopting different points of view when asking questions. For example, the question, “How might we keep rivers clean?” is similar to the question, “How might we prevent animal waste runoff from entering our city’s waterways?” but the implications of each question are different for different stakeholders. Recall that stakeholders are individuals who have a vital interest in the business or organization. Statement starters almost always lead to a discussion of stakeholders and how they might be involved in finding solutions, offering support, and perhaps one day purchasing or contributing to dynamic, disruptive inventions or changes in social practice.

### **Link to Learning**

Are you curious about ways to improve your ability to think creatively? Consider trying out some of the [creative thinking exercises](#) provided at this site:

<https://www.indeed.com/career-advice/career-development/creativity-exercise>

### **Matching Innovation Methods to Circumstances**

Searching for innovation methods will often reveal many of the same, or similar, creativity exercises as we’ve just discussed. Simply put, open innovation involves searching for and finding solutions outside of the organizational structure. Open innovation is somewhat difficult to pin down. The educator and author Henry Chesbrough was one of the first to define it: “Open innovation is ‘the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively.’”<sup>55</sup> In other words, firms built on a structure of open innovation look beyond their own research and development capabilities to solve problems. This outlook can guide all sorts of product and service development processes. Open innovation models also allow innovations to be shared widely so that they can seed other innovations outside the

original firm or institution.

Open innovation takes an optimistic view of sharing information and ideas across a society connected by instantaneous communication networks. It is also a shift from the classic research and development model. In a sense, you allow others to solve problems in your business, startup, or social entrepreneurship project. In this reciprocal world, you are open to the reality that information is difficult to keep under wraps. You may seek patents for your intellectual property, particularly in fixed product or service practice form, but you should expect, or even encourage, the widespread circulation of key elements of your solutions. This makes sense: If, as an entrepreneur or an innovative corporation, you are going to look beyond your own ideation, research, and development capabilities for solutions, you must expect that others will look to your solutions for ideas to borrow.

The open innovation model is far easier to describe in idealistic terms than it is to put into practice without ethical consequences. Unfortunately, industrial and corporate espionage, theft of intellectual property, and lawsuits are commonplace. Nevertheless, inspiration in innovation can come from myriad sources when constant streams of information are available to anyone with a high-speed data connection. Open innovation is a simple but essential framework for future innovation and for managing, even possibly guiding, disruption in an industry as discussed previously (i.e., disruptive innovation). Table 1 provides some examples of companies using disruptive technology.

Company	Disruptive technology
Amazon	Speed based delivery Multiple delivery processes from drones to strategically located fulfillment centers Disruptive technology including processing the customer order before the customer has even finished the purchase, so that the product is already moving toward delivery
Uber and Lyft	Ride sharing versus taxi driving Apps and Beacon and Amp-color coded alert communication system disrupted the taxi system
Bitcoin	Digital currency not connected to a specific country or monetary standard Value based on market forces
Toyota E-Palette	Remote controlled driverless electric shuttle that brings the service to the customer rather than the customer going to the service

*Table 2: Examples of Company Disruptive Technology*

Another element of the open innovation model is the connection between academic research and practical solutions. Reciprocal influence between academia, which often moves slowly, and leading corporate and entrepreneurial forces, which often focus too narrowly on short-term gains, could offer the balance this rapidly changing world needs. If you can manage to plug into the exchange of ideas between longstanding institutions and disruptive technological innovators, you may be positioned to effect positive change on society and to develop products that are received as useful and elegant, wildly new and creative, and essential to the human experience at the same time.

### **Staying on Top of Emerging Practices**

Consider searching for ideation and innovation practice links using a web browser and comparing those results to what you can find in the academic literature via Google Scholar or other academic databases. To adopt a truly open innovation mindset, it is essential to leave yourself open to all sorts of influences, even if it demands time and much cognitive energy. The financial, social, and personal rewards may be great.

### **Creativity, Innovation, and Invention: How They Differ**

One of the key requirements for entrepreneurial success is your ability to develop and offer something unique to the marketplace. Over time, entrepreneurship has become associated with creativity, the ability to develop something original, particularly an idea or a representation of an idea. Innovation requires creativity, but innovation is more specifically the application of creativity. Innovation is the manifestation of creativity into a usable product or service. In the entrepreneurial context, innovation is any new idea, process, or product, or a change to an existing product or process that adds value to that existing product or service.

How is an invention different from an innovation? All inventions contain innovations, but not every innovation rises to the level of a unique invention. For our purposes, an invention is a truly novel product, service, or process. It will be based on previous ideas and products, but it is such a leap that it is not considered an addition to or a variant of an existing product but something unique. Table 2 highlights the differences between these three concepts.



Concept	Description
Creativity	ability to develop something original, particularly an idea or a representation of an idea, with an element of aesthetic flair
Innovation	change that adds value to an existing product or service
Invention	truly novel product, service, or process that, though based on ideas and products that have come before, represents a leap, a creation truly novel and different

*Table 3: Creativity, Innovation, and Invention Concept Description*

One way we can consider these three concepts is to relate them to design thinking. Design thinking is a method to focus the design and development decisions of a product on the needs of the customer, typically involving an empathy-driven process to define complex problems and create solutions that address those problems. Complexity is key to design thinking. Straightforward problems that can be solved with enough money and force do not require much design thinking. Creative design thinking and planning are about finding new solutions for problems with several tricky variables in play. Designing products for human beings, who are complex and sometimes unpredictable, requires design thinking.

Airbnb has become a widely used service all over the world. That has not always been the case, however. In 2009, the company was near failure. The founders were struggling to find a reason for the lack of interest in their properties until they realized that their listings needed professional, high-quality photographs rather than simple cell-phone photos. Using a design thinking approach, the founders traveled to the properties with a rented camera to take some new photographs. As a result of this experiment, weekly revenue doubled. This approach could not be sustainable in the long term, but it generated the outcome the founders needed to better understand the problem. This creative approach to solving a complex problem proved to be a major turning point for the company.<sup>56</sup>

People who are adept at design thinking are creative, innovative, and inventive as they strive to tackle different types of problems. Consider Divya Nag, a millennial biotech and medical device innovation leader, who launched a business after she discovered a creative way to prolong the life of human cells in Petri dishes. Nag's stem-cell research

background and her entrepreneurial experience with her medical investment firm made her a popular choice when Apple hired her to run two programs dedicated to developing health-related apps, a position she reached before turning twenty-four years old.<sup>57</sup>

Creativity, innovation, inventiveness, and entrepreneurship can be tightly linked. It is possible for one person to model all these traits to some degree. Additionally, you can develop your creativity skills, sense of innovation, and inventiveness in a variety of ways. In this section, we'll discuss each of the key terms and how they relate to the entrepreneurial spirit.

### **Creativity**

Entrepreneurial creativity and artistic creativity are not so different. You can find inspiration in your favorite books, songs, and paintings, and you also can take inspiration from existing products and services. You can find creative inspiration in nature, in conversations with other creative minds, and through formal ideation exercises, for example, brainstorming. Ideation is the purposeful process of opening up your mind to new trains of thought that branch out in all directions from a stated purpose or problem. Brainstorming, the generation of ideas in an environment free of judgment or dissension with the goal of creating solutions, is just one of dozens of methods for coming up with new ideas.<sup>58</sup>

You can benefit from setting aside time for ideation. Reserving time to let your mind roam freely as you think about an issue or problem from multiple directions is a necessary component of the process. Ideation takes time and a deliberate effort to move beyond your habitual thought patterns. If you consciously set aside time for creativity, you will broaden your mental horizons and allow yourself to change and grow.<sup>59</sup>

Entrepreneurs work with two types of thinking. Linear thinking—sometimes called vertical thinking—involves a logical, step-by-step process. In contrast, creative thinking is more often lateral thinking, free and open thinking in which established patterns of logical thought are purposefully ignored or even challenged. You can ignore logic; anything becomes possible. Linear thinking is crucial in turning your idea into a business. Lateral thinking will allow you to use your creativity to solve problems that arise. Figure 3 summarizes linear and lateral thinking.

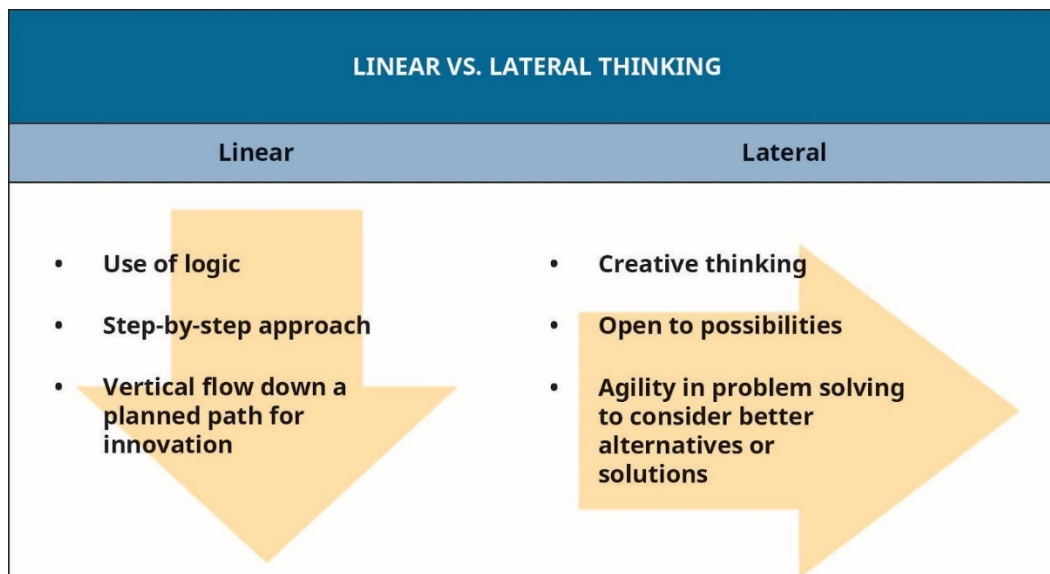


Figure 13: Entrepreneurs can be most effective if they use both linear and lateral thinking. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

It is certainly possible for you to be an entrepreneur and focus on linear thinking. Many viable business ventures flow logically and directly from existing products and services. However, for various reasons, creativity and lateral thinking are emphasized in many contemporary contexts in the study of entrepreneurship. Some reasons for this are increased global competition, the speed of technological change, and the complexity of trade and communication systems.<sup>60</sup> These factors help explain not just why creativity is emphasized in entrepreneurial circles but also why creativity should be emphasized. Product developers of the twenty-first century are expected to do more than simply push products and innovations a step further down a planned path. Newer generations of entrepreneurs are expected to be path breakers in new products, services, and processes.

Examples of creativity are all around us. They come in the forms of fine art and writing, or in graffiti and viral videos, or in new products, services, ideas, and processes. In practice, creativity is incredibly broad. It is all around us whenever or wherever people strive to solve a problem, large or small, practical or impractical.

### Innovation

We previously defined innovation as a change that adds value to an existing product or service. According to the management thinker and author Peter Drucker, the key point

about innovation is that it is a response to both changes within markets and changes from outside markets. For Drucker, classical entrepreneurship psychology highlights the purposeful nature of innovation. <sup>61</sup> Business firms and other organizations can plan to innovate by applying either lateral or linear thinking methods, or both. In other words, not all innovation is purely creative. If a firm wishes to innovate a current product, what will likely matter more to that firm is the success of the innovation rather than the level of creativity involved. Drucker summarized the sources of innovation into seven categories, as outlined in Table 3. Firms and individuals can innovate by seeking out and developing changes within markets or by focusing on and cultivating creativity. Firms and individuals should be on the lookout for opportunities to innovate. <sup>62</sup>

Source	Description
The unexpected	Looking for new opportunities in the market; unexpected product performance; unexpected new products as examples
The incongruity	Discrepancies between what you think should be and what is reality
Process need	Weaknesses in the organization, product, or service
Changes in industry/market	New regulations; new technologies
Demographics	Understanding needs and wants of target markets
Changes in perceptions	Changes in perceptions of life events and values
New knowledge	New technologies; advancements in thinking; new research

*Table 4: Drucker's Seven Sources of Innovation*

One innovation that demonstrates several of Drucker's sources is the use of cashier kiosks in fast-food restaurants. McDonald's was one of the first to launch these self-serve kiosks. Historically, the company has focused on operational efficiencies (doing more/better with less). In response to changes in the market, changes in demographics, and process need, McDonald's incorporated self-serve cashier stations into their stores. These kiosks address the need of younger generations to interact more with technology and gives customers faster service in most cases. <sup>63</sup>

Another leading expert on innovation, Tony Ulwick, focuses on understanding how the customer will judge or evaluate the quality and value of the product. The product

development process should be based on the metrics that customers use to judge products, so that innovation can address those metrics and develop the best product for meeting customers' needs when it hits the market. This process is very similar to Drucker's contention that innovation comes as a response to changes within and outside of the market. Ulwick insists that focusing on the customer should begin early in the development process. <sup>64</sup>

Disruptive innovation is a process that significantly affects the market by making a product or service more affordable and/or accessible, so that it will be available to a much larger audience. Clay Christensen of Harvard University coined this term in the 1990s to emphasize the process nature of innovation. For Christensen, the innovative component is not the actual product or service, but the process that makes that product more available to a larger population of users. He has since published a good deal on the topic of disruptive innovation, focusing on small players in a market. Christensen theorizes that a disruptive innovation from a smaller company can threaten an existing larger business by offering the market new and improved solutions. The smaller company causes the disruption when it captures some of the market share from the larger organization. <sup>65, 66</sup> One example of a disruptive innovation is Uber and its impact on the taxicab industry. Uber's innovative service, which targets customers who might otherwise take a cab, has shaped the industry as whole by offering an alternative that some deem superior to the typical cab ride.

One key to innovation within a given market space is to look for pain points, particularly in existing products that fail to work as well as users expect them to. A pain point is a problem that people have with a product or service that might be addressed by creating a modified version that solves the problem more efficiently. <sup>67</sup> For example, you might be interested in whether a local retail store carries a specific item without actually going there to check. Most retailers now have a feature on their websites that allows you to determine whether the product (and often how many units) is available at a specific store. This eliminates the need to go to the location only to find that they are out of your favorite product. Once a pain point is identified in a firm's own product or in a competitor's product, the firm can bring creativity to bear in finding and testing solutions that sidestep or eliminate the pain, making the innovation marketable. This is one example of an

incremental innovation, an innovation that modifies an existing product or service. <sup>68</sup>

In contrast, a pioneering innovation is one based on a new technology, a new advancement in the field, and/or an advancement in a related field that leads to the development of a new product. <sup>69</sup> Firms offering similar products and services can undertake pioneering innovations, but pioneering the new product requires opening up new market space and taking major risks.

Is a pioneering innovation an invention? A firm makes a pioneering innovation when it creates a product or service arising from what it has done before. Pokémon GO is a great example of pioneering innovation. Nintendo was struggling to keep pace with other gaming-related companies. The company, in keeping with its core business of video games, came up with a new direction for the gaming industry. Pokémon GO is known worldwide and is one of the most successful mobile games launched. <sup>70</sup> It takes creativity to explore a new direction, but not every pioneering innovation creates a distinctly new product or capability for consumers and clients.

Entrepreneurs in the process of developing an innovation usually examine the current products and services their firm offers, investigate new technologies and techniques being introduced in the marketplace or in related marketplaces, watch research and development in universities and in other companies, and pursue new developments that are likely to fit one of two conditions: an innovation that likely fits an existing market better than other products or services being offered; or an innovation that fits a market that so far has been underserved.

An example of an incremental innovation is the trash receptacle you find at fast-food restaurants. For many years, trash cans in fast-food locations were placed in boxes behind swinging doors. They hid the garbage from sight. But they created other problems: Often, the swinging doors would get ketchup and other waste on them, surely a pain point. Newer trash receptacles in fast-food restaurants have open fronts or open tops that enable people to dispose of their trash more neatly. The downside for restaurants is that users can see and possibly smell the food waste, but if the restaurants change the trash bags frequently, as is a good practice anyway, this innovation works relatively well. You might

not think twice about this everyday example of an innovation when you eat at a fast-food restaurant, but even small improvements can matter a lot.

## **Invention**

An invention is a leap in capability beyond innovation. Some inventions combine several innovations into something new. Invention certainly requires creativity, but it goes beyond coming up with new ideas, combinations of thought, or variations on a theme. Inventors build. Developing something users and customers view as an invention could be important to some entrepreneurs, because when a new product or service is viewed as unique, it can create new markets. True inventiveness is often recognized in the marketplace, and it can help build a valuable reputation and help establish market position if the company can build a future-oriented corporate narrative around the invention. <sup>71</sup>

Besides establishing a new market position, a true invention can have a social and cultural impact. At the social level, a new invention can influence the ways institutions work. For example, the invention of desktop computing put accounting and word processing into the hands of nearly every office worker. The ripple effects spread to the school systems that educate and train the corporate workforce. Not long after the spread of desktop computing, workers were expected to draft reports, run financial projections, and make appealing presentations. Specializations or aspects of specialized jobs—such as typist, bookkeeper, corporate copywriter—became necessary for almost everyone headed for corporate work. Colleges and eventually high schools saw software training as essential for students of almost all skill levels. These additional capabilities added profitability and efficiencies, but they also have increased job requirements for the average professional.

Some of the most successful inventions contain a mix of familiarity and innovation that is difficult to achieve. With this mix, the rate of adoption can be accelerated because of the familiarity with the concept or certain aspects of the product or service. As an example, the “videophone” was a concept that began to be explored as early as the late 1800s. AT&T began extensive work on videophones during the 1920s. However, the invention was not adopted because of a lack of familiarity with the idea of seeing someone on a screen and communicating back and forth. Other factors included societal norms, size of the machine, and cost. It wasn’t until the early 2000s that the invention started to take hold in the

marketplace.<sup>72</sup> The concept of a black box is that activities are performed in a somewhat mysterious and ambiguous manner, with a serendipitous set of actions connecting that result in a surprisingly beneficial manner. An example is Febreze, a chemical combination that binds molecules to eliminate odors. From a black box perspective, the chemical engineers did not intend to create this product, but as they were working on creating another product, someone noticed that the product they were working on removed odors, thus inadvertently creating a successful new product marketed as Febreze.

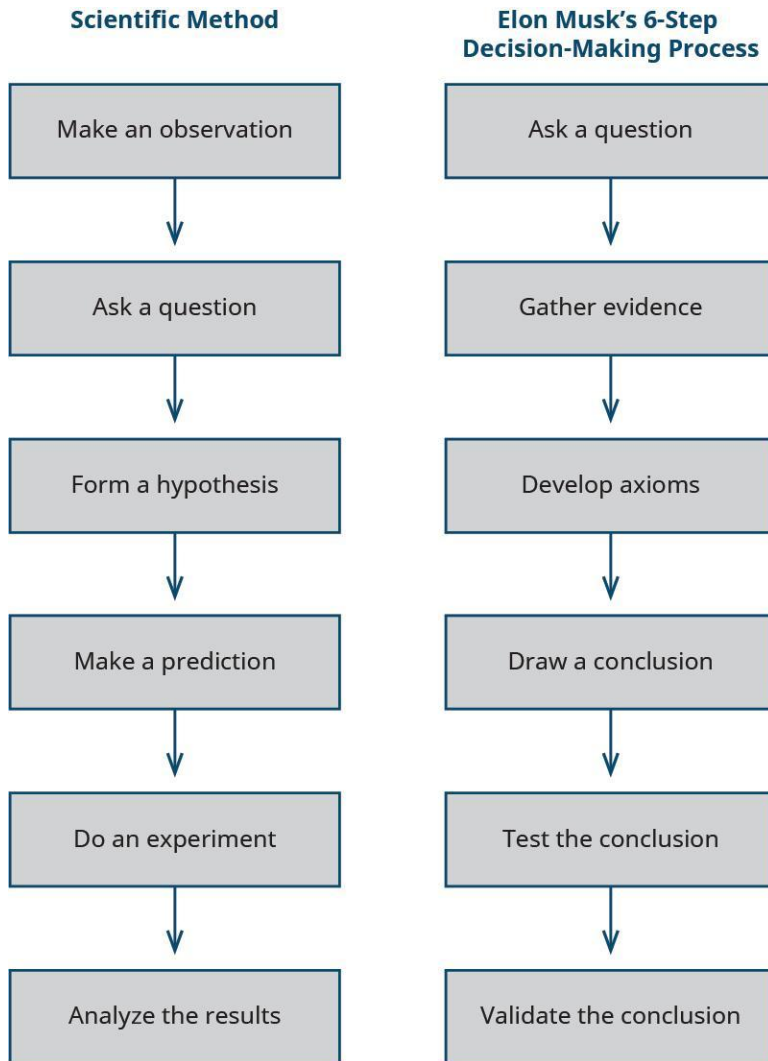
The process of invention is difficult to codify because not all inventions or inventors follow the same path. Often the path can take multiple directions, involve many people besides the inventor, and encompass many restarts. Inventors and their teams develop their own processes along with their own products, and the field in which an inventor works will greatly influence the modes and pace of invention. Elon Musk is famous for founding four different billion-dollar companies. The development processes for PayPal, Solar City, SpaceX, and Tesla differed widely; however, Musk does outline a six-step decision-making process (Table 4):

1. Ask a question.
2. Gather as much evidence as possible about it.
3. Develop axioms based on the evidence and try to assign a probability of truth to each one.
4. Draw a conclusion in order to determine: Are these axioms correct, are they relevant, do they necessarily lead to this conclusion, and with what probability?
5. Attempt to disprove the conclusion. Seek refutation from others to further help break your conclusion.
6. If nobody can invalidate your conclusion, then you're *probably* right, but you're not *certainly* right.

In other words, the constant underlying Musk's decision process is the scientific method.<sup>73</sup> The scientific method, most often associated with the natural sciences, outlines the process of discovering an answer to a question or a problem. "The scientific method is a logical organization of steps that scientists use to make deductions about the world around us."<sup>74</sup> The steps in the scientific method line up quite nicely with Musk's decision-making



process. Applying the scientific method to invention and innovation makes sense. The scientific method involves becoming aware of a problem, collecting data about it by observing and experimenting, and coming up with suggestions on how to solve it.



*Table 5: Elon Musk's six-step decision making process follows a sequence of steps similar to the scientific method. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

Economists argue that processes of invention can be explained by economic forces. Prior to 1940, economic theory focused very little on inventions. After World War II, much of the global economy in the developed world needed to be rebuilt. New technologies were developing rapidly, and research and development investment increased. Inventors and economists alike became aware of consumer demand and realized that demand can

influence which inventions take off at a given time.<sup>75</sup> However, inventors are always up against an adoption curve.<sup>76</sup>

The Rogers Adoption Curve was popularized through the research and publications of the author and scientist Everett Rogers.<sup>77</sup> He first used it to describe how agricultural innovations diffused (or failed to) in a society. It was later applied to all inventions and innovations. This curve illustrates diffusion of an innovation and when certain people will adopt it. First is the question of who adopts inventions and innovations in society: The main groups are innovators, early adopters, early and late-majority adopters, and “laggards” (Rogers’s own term).<sup>78</sup> The innovators are the ones willing to take a risk on a new product, the consumers who want to try it first. The early adopters are consumers who will adopt new inventions with little to no information. Majority adopters will adopt products after being accepted by the majority. And finally, laggards are often not willing to readily adopt change and are the hardest to convince to try a new invention.<sup>79</sup>

Rogers’s second way of looking at the concept is from the point of view of the invention itself. A given population partially or completely adopts an invention or rejects it. If an invention is targeted at the wrong population or the wrong population segment, this can dramatically inhibit its chances of being adopted widely. The most critical point of adoption often occurs at the end of the early adoption phase, before the early majority steps in and truly confirms (or not) the diffusion of an invention. This is called the diffusion chasm (though this process is usually called the *diffusion of innovations*, for our purposes, it applies quite well to new inventions as we define them here).

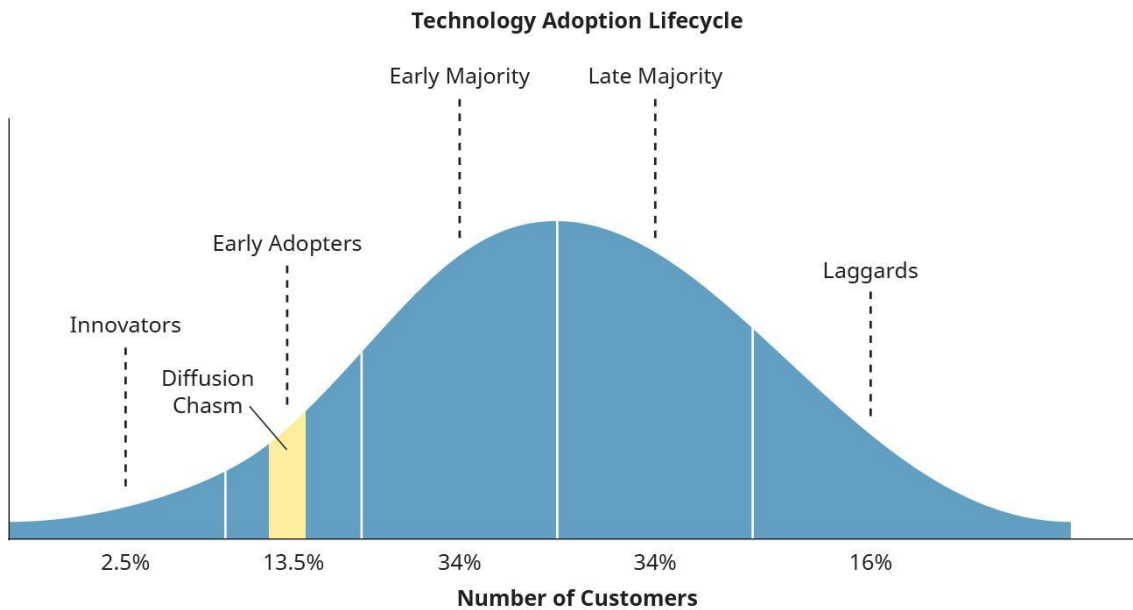


Table 6: The diffusion curve shows the adoption lifecycle according to the research of Everett Rogers. The diffusion chasm occurs during early adoption. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The diffusion curve depicts a social process in which the value of an invention is perceived (or not) to be worth the cost (Table 5). Early adopters generally pay more than those who wait, but if the invention gives them a perceived practical, social, or cultural advantage, members of the population, the popularity of the invention itself, and marketing can all drive the invention over the diffusion chasm. Once the early majority adopts an innovation (in very large numbers), we can expect the rest of the majority to adopt it. By the time the late majority and the laggards adopt an innovation, the novelty has worn off, but the practical benefits of the innovation can still be felt.

Inventors are constantly trying to cross the diffusion chasm, often with many products at a time. Crossing the diffusion chasm is a nearly constant concern for business-focused or outcomes-focused inventors. Inventors put many of their resources into an invention during the innovation and early adoption stages. Inventions may not turn a profit for investors or the inventors themselves until they are well into the early majority stage of adoption. Some inventors are pleased to work toward general discovery, but most in today's social and cultural context are working to develop products for markets.

One shortcoming of the diffusion of innovations model is that it treats inventions and innovations as though they are finished and complete, though many are not. Not all inventions are finished products ready for market. Iterative development is more common, particularly in fields with high levels of complexity and in service-oriented ventures. In the iterative development process, inventors and innovators continuously engage with potential customers in order to develop their products and their consumer bases at the same time. This model of business learning, also known as the science of customer development, is essential.<sup>80</sup> Business learning involves testing product-market fit and making changes to an innovation or invention many times over until either investment funding runs out or the product succeeds. Perhaps the most accurate way to summarize this process is to note that many inventions are hit-or-miss prospects that get only a few chances to cross the diffusion chasm. When innovators follow the build-measure-learn model, they try to work their way across the diffusion chasm rather than making a leap of faith.

## Chapter 4: Multiple Choice Review Questions

1. According to chapter 4, this is the third step in the empathic design cycle.
  - a) Define
  - b) Prototype
  - c) Test
  - d) Ideate
2. According to chapter 4, this hat brings raw emotion and offers sensibility.
  - a) White
  - b) Blue
  - c) Red
  - d) Green
3. According to chapter 4, this innovation model takes an optimistic view of sharing information and ideas across a society.
  - a) Open
  - b) Disruptive
  - c) Idealistic
  - d) Empathic
4. According to chapter 4, this concept involves truly novel products.
  - a) Creativity
  - b) Invention
  - c) Innovation
5. According to chapter 4, Drucker describes this source of innovation as weaknesses in the organization, product, or service.
  - a) Perceptions
  - b) Incongruities
  - c) Unexpected
  - d) Process needs

## Chapter 4: Short Answer Review Questions

1. According to chapter 4, explain the six (6) thinking hats for ideation.
2. According to chapter 4, describe the concepts of creativity, innovation, and invention.
3. According to chapter 4, describe how entrepreneurs use both linear and lateral thinking.

# Chapter 5: Developing Ideas, Innovations, and Inventions

## Learning Objectives

1. Describe and apply the five stages of creativity
2. Discuss innovation as a system for problem solving and much more
3. Outline the sequence of steps in developing an invention

The previous section defined creativity, innovation, and invention, and provided examples. You might think of creativity as raw; innovation as transforming creativity into a functional purpose, often meant to eradicate a pain point or to fulfill a need; and invention as a creation that leaves a lasting impact. In this section, you will learn about processes designed to help you apply knowledge from the previous section.

## The Creative Process: The Five Stages of Creativity

Raw creativity and an affinity for lateral thinking may be innate, but creative people must refine these skills in order to become masters in their respective fields. They practice in order to apply their skills readily and consistently, and to integrate them with other thought processes and emotions. Anyone can improve in creative efforts with practice. For our purposes, practice is a model for applied creativity that is derived from an entrepreneurial approach (Figure 1).<sup>81</sup> It requires:

- 1) Preparation
- 2) Incubation
- 3) Insight
- 4) Evaluation
- 5) Elaboration



*Figure 14: These are the five stages of creativity, according to Graham Wallas in The Art of Thought.<sup>36</sup> (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

### Preparation

*Preparation* involves investigating a chosen field of interest, opening your mind, and becoming immersed in materials, mindset, and meaning. If you have ever tried to produce

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something creative without first absorbing relevant information and observing skilled practitioners at work, then you understand how difficult it is. This base of knowledge and experience mixed with an ability to integrate new thoughts and practices can help you sift through the ideas quicker. However, relying too heavily on prior knowledge can restrict the creative process. When you immerse yourself in a creative practice, you make use of the products or the materials of others' creativity. For example, a video-game designer plays different types of video games on different consoles, computers, and online in networks. She or he may play alone, with friends in collaboration, or in competition. Consuming the products in a field gives you a sense of what is possible and indicates boundaries that you may attempt to push with your own creative work. Preparation broadens your mind and lets you study the products, practice, and culture in a field. It is also a time for goal setting. Whether your chosen field is directly related to art and design, such as publishing, or involves human-centric design, which includes all sorts of software and product design efforts, you need a period of open-minded reception to ideas. Repetitive practice is also part of the preparation stage, so that you can understand the current field of production and become aware of best practices, whether or not you are currently capable of matching them. During the preparation stage, you can begin to see how other creative people put meaning into their products, and you can establish benchmarks against which to measure your own creative work.

### **Incubation**

*Incubation* refers to giving yourself, and your subconscious mind in particular, time to incorporate what you learned and practiced in the preparation stage. Incubation involves the absence of practice. It may look to an outsider as though you are at rest, but your mind is at work. A change of environment is key to incubating ideas.<sup>82</sup> A new environment allows you to receive stimuli other than those directly associated with the creative problem you are working on. It could be as simple as taking a walk or going to a new coffee shop to allow your mind to wander and take in the information you gathered in the previous stage. Mozart stated, "When I am, as it were, completely myself, entirely alone, and of good cheer—say, traveling in a carriage, or walking after a good meal, or during the night when I cannot sleep; it is on such occasions that my ideas flow best and most abundantly."<sup>83</sup> Incubation allows your mind to integrate your creative problem with your stored memories



and with other thoughts or emotions you might have. This simply is not possible to do when you are consciously fixated on the creative problem and related tasks and practice.

Incubation can take a short or a long time, and you can perform other activities while allowing this process to take place. One theory about incubation is that it takes language out of the thought process. If you are not working to apply words to your creative problems and interests, you can free your mind to make associations that go deeper, so to speak, than language.<sup>84</sup> Patiently waiting for incubation to work is quite difficult. Many creative and innovative people develop hobbies involving physical activity to keep their minds busy while they allow ideas to incubate.

### **Insight**

*Insight* or “illumination” is a term for the “aha!” moment—when the solution to a creative problem suddenly becomes readily accessible to your conscious mind. The “aha!” moment has been observed in literature, in history, and in cognitive studies of creativity.<sup>85</sup> Insights may come all at once or in increments. They are not easily understood because, by their very nature, they are difficult to isolate in research and experimental settings. For the creative entrepreneur, however, insights are a delight. An insight is the fleeting time when your preparation, practice, and period of incubation coalesce into a stroke of genius. Whether the illumination is the solution to a seemingly impossible problem or the creation of a particularly clever melody or turn of phrase, creative people often consider it a highlight in their lives. For an entrepreneur, an insight holds the promise of success and the potential to help massive numbers of people overcome a pain point or problem. Not every insight will have a global impact, but coming up with a solution that your subconscious mind has been working on for some time is a real joy.

### **Evaluation**

*Evaluation* is the purposeful examination of ideas. You will want to compare your insights with the products and ideas you encountered during preparation. You also will want to compare your ideas and product prototypes to the goals you set out for yourself during the preparation phase. Creative professionals will often invite others to critique their work at this stage. Because evaluation is specific to the expectations, best practices, and existing product leaders in each field, evaluation can take on many forms. You are looking for

assurance that your standards for evaluation are appropriate. Judge yourself fairly, even as you apply strict criteria and the well-developed sense of taste you acquired during the preparation phase. For example, you might choose to interview a few customers in your target demographics for your product or service. The primary objective is to understand the customer perspective and the extent to which your idea aligns with their position.

### **Elaboration**

The last stage in the creative process is *elaboration*, that is, actual production. Elaboration can involve the release of a minimum viable product (MVP). This version of your invention may not be polished or complete, but it should function well enough that you can begin to market it while still elaborating on it in an iterative development process. Elaboration also can involve the development and launch of a prototype, the release of a software beta, or the production of some piece of artistic work for sale. Many consumer-product companies, such as Johnson & Johnson or Procter & Gamble, will establish a small test market to garner feedback and evaluations of new products from actual customers. These insights can give the company valuable information that can help make the product or service as successful as possible.

At this stage what matters most in the entrepreneurial creative process is that the work becomes available to the public so that they have a chance to adopt it.

### **Link to Learning**

Test marketing can reveal much information about the potential users of a product. Visit the [Drive Research site on test markets](#) for more information.

### **Innovation as More than Problem Solving**

Innovative entrepreneurs are essentially problem solvers, but this level of innovation—identifying a pain point and working to overcome it—is only one in a series of innovative steps. In the influential business publication *Forbes*, the entrepreneur Larry Myler notes that problem solving is inherently reactive.<sup>86</sup> That is, you have to wait for a problem to happen in order to recognize the need to solve the problem. Solving problems is an important part of the practice of innovation, but to elevate the practice and the field, innovators should anticipate problems and strive to prevent them. In many cases, they

create systems for continuous improvement, which Myler notes may involve “breaking” previous systems that seem to function perfectly well. Striving for continuous improvement helps innovators stay ahead of market changes. Thus, they have products ready for emerging markets, rather than developing projects that chase change, which can occur constantly in some tech-driven fields. One issue with building a system for constant improvement is that you are in essence creating problems in order to solve them, which goes against established culture in many firms. Innovators look for organizations that can handle purposeful innovation, or they attempt to start them. Some innovators even have the goal of innovating far ahead into the future, beyond current capacities. In order to do this, Myler suggests bringing people of disparate experiential backgrounds with different expertise together. These relationships are not guarantees of successful innovation, but such groups can generate ideas independent of institutional inertia. Thus, innovators are problem solvers but also can work with forms of problem creation and problem imagination. They tackle problems that have yet to exist in order to solve them ahead of time.

Let’s examine one multilevel approach to innovation (Figure 2). The base is problem solving. The next level up in the pyramid, so to speak, is prevention. The next level is working toward continuous improvement, and at the top of such efforts is creating the capacity to direct the future of your industry or multiple industries so that you can weather disruption in your career or even to create it.

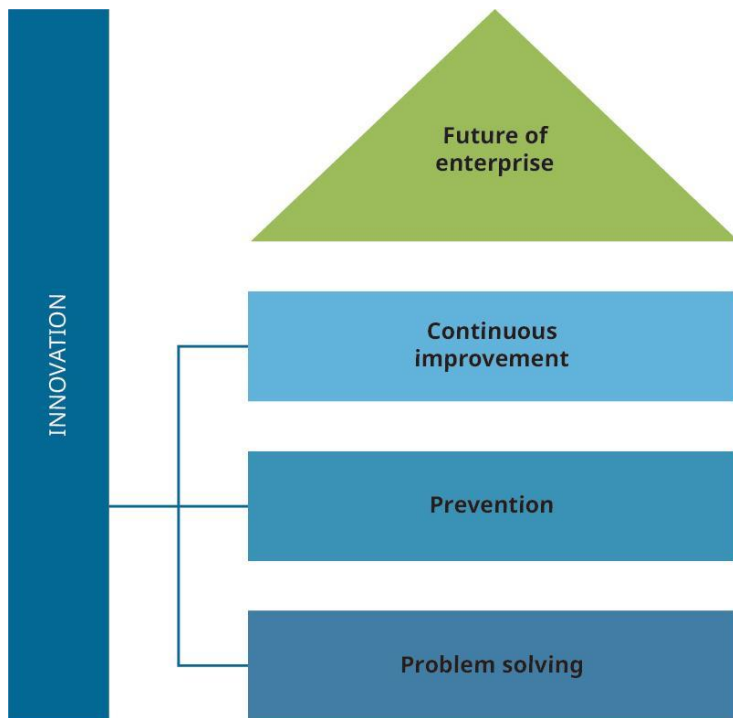


Figure 15: The innovation pyramid is one multileveled approach to innovation. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Even if you are not interested in shaping the future of whole industry sectors, developing future-focused innovation practices still is a good idea. It will help you prepare for disruption. The pace of technological change is such that workers at all levels need to be prepared to innovate. Innovation leaders, such as the marketing guru Guy Kawasaki, have built on psychological principles to suggest new ways to approach innovation. According to Kawasaki, innovative products include five key qualities: deep, indulgent, complete, elegant, and emotive—DICEE (Figure 3).<sup>87</sup> You can strive to infuse individual innovations with these qualities in practical ways.



Figure 16: Innovative products are deep, indulgent, complete, elegant, and emotive. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

*Deep* products are based on the logic of innovation that we've just established and anticipate users' needs before they have them. These types of innovations often have masterful designs that are intuitive for new users while still being capable of completing complex tasks. Adobe is an innovative corporation working in several fields, such as software, marketing, and artificial intelligence. Adobe often creates software applications with basic functions that are easily accessible to new users but that also enable experienced users to innovate on their own.<sup>88</sup> Creating a platform for innovation is a hallmark of deep, forward-thinking innovation.

### **Indulgent**

Innovations with lasting power engage users in ways that make them feel special for having purchased the product or for having found the service. *Indulgence* refers to a depth of quality that does not come from being the fastest solution to a problem. Indulgence may even sound like a negative trait. In humans, it certainly can be, but for someone using an innovative product, feeling indulgent can relate to a richness of experience with the user interface (UI). The UI of a product, particularly a software product, is what the user sees and interacts with. A feeling of indulgence imbues your product with a sense of value and durability that reassures users and encourages them to use your product confidently.

### **Complete**

Kawasaki's vision of a *complete* product includes the services wrapped around it and underlying it such that users understand the product well enough to be comfortable using it. Information about how it works and how it is meant to work is readily available. Thus, product innovation must include marketing and other communication efforts. For Kawasaki, this builds the "total user experience."<sup>89</sup> If you truly have solved a problem in the marketplace, users will understand what that problem is and how your product and related services deliver.

### **Elegant**

*Elegance* also is part of a product's UI. It refers to intuitive design that immediately makes sense to consumers. Elegance conveys more information with fewer words. Elegant design is not afraid of negative space or of the occasional pause. Elegant innovations solve problems without creating new ones. For Kawasaki, elegance is the difference

between a pragmatic, good innovation and something great.

## **Emotive**

*Emotive* innovations evoke the intended emotion and demand to be admired and shared. In other words, truly great innovations create fandoms, not just consumer bases. You can't force people to love your product, but you can give them experiences that create a sense of excitement and anticipation of what you might come up with next.

## **Developing an Invention**

The general process of inventing involves systematic and practical steps that might include linear and nonlinear thinking. You might think that only people with innate artistic skills are creative and that only geniuses become innovators and inventors, but much of creativity is driven by being immersed in a practice. You can build and foster your own creativity. Your idea of an inventor might be someone like Johannes Gutenberg, who developed the printing press. The spread of printing ultimately redrew the map of Europe and resulted in the foundation of new centers of learning. Gutenberg's supposed spark actually was more of a slow burn. He was creative and innovative—one of history's most famous inventors—but his printing press, like all other inventions, was a synthesis of existing technologies. Gutenberg's most important innovation was his use of moveable, interchangeable metal type instead of entire hand-carved wooden blocks of text. Perfecting his printing process took decades and left him all but broke.<sup>90</sup> The notion of the inventor's single stroke of genius is mostly myth. The people that history remembers usually worked very hard to develop their creativity, to become familiar with the processes and tools that were ripe for innovation in their time, and ultimately to make something so unique that society recognizes it as an invention.

The old adage claims that "necessity is the mother of invention," but an innovator needs experience in a field, creative effort, and knowledge to be a successful inventor. Entrepreneurship means taking your efforts and knowledge, and finding a market where your invention can first survive, then thrive.

One model for developing an invention is the first five steps of a plan adapted from Sourcing.com, which specializes in connecting product developers with manufacturers.<sup>91</sup>

This process is succinct and includes suggestions for building a team along the way (Figure 4).



*Figure 17: These are the five steps for developing an invention, according to Sourcify. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

### **Step 1: Educate Yourself**

Before your inventive product can do battle with other inventions, you will need to educate yourself. To prepare yourself to weather the competition, you need to learn as much as you can about the current investing climate, current product development opportunities, and current leadership approaches. Even if you are not deeply interested in leadership dogma, it helps to know what the current trends are in leadership and product development. To succeed as an inventor in a vast marketplace, you need to understand the rules, written and unwritten, of the industry and competitive landscape. The product development process can be quite involved. The process can vary by industry and by availability of resources.

Part of educating yourself is also gaining an understanding of your own strengths and weaknesses, and how those relate to your leadership style. A leadership style inventory can help you better understand your approach to leading others. This is just one example of many that exist to give you a starting point. As the inventor of your product or service, you will manage/lead others as you attempt to make your idea a reality. Also, the environment can constantly change. For this reason, it is important to understand the basic tenets of leadership and management in a dynamic work atmosphere. Many sources will give you insights into the challenges of management.

### **Link to Learning**

A [leadership style inventory](#) can help you understand your leadership style and how to adapt your own style to other situations and people.

Another key step in educating yourself is to find out which kinds of contributors you are going to need to build a successful entrepreneurial team. Building a team is essential to making your invention a reality. Even those who invent alone—and they are quite rare—must have a development team, a manufacturing and/or service team, a marketing team, and other members with specific skill sets such as coders, graphic designers, test marketers, and more.

### **Step 2: Stay Organized**

Most tip sheets for inventors suggest that you find a method for organizing your creativity so that you don't spend time trying to remember previous ideas, plans, and decisions. You must organize information related to your business idea, your business plan, and your potential teammates in the process.

Contact management software has been popular for decades. Nowadays, you can investigate many other productivity and team-chat tools. Research ways to organize information about the people you plan to work with and hope to work for. The team-chat program Slack ([www.slack.com](http://www.slack.com)) enables you to create specific topics for team members to discuss and collaborate on. Slack offers several features to help keep employees connected. Insightly ([www.insightly.com](http://www.insightly.com)) is a customer relationship management tool to stay better connected to your customers. Ryver and Glip incorporate task management. Flock and Microsoft Teams offer a host of features, with Microsoft leveraging its corporate position to bring about deployment in more than 200,000 organizations. Select the tool set that works best for you and consider paying for the software that offers the precise team communication functionality and utility you need.<sup>92</sup>

### **Step 3: Conduct Market Research**

Market research is an obvious must, but many entrepreneurs fail to go as deeply as they should in researching their competition. You must be aware of current and future competitors so that you are prepared to compete in the marketplace when you are actually ready. Being the best on paper now won't be much use when you enter the marketplace with an MVP in six to eight months in competition with competitors' new products and updates.



What should you consider with regard to team development when you're looking at the competition? Within the legal limits of any non-compete clauses, you should be shopping the competition for potential team members. The best leaders are always seeking talented people. If you sense that someone would be a good fit for your team, that they have not only the skill set but also the temperament that would help put your invention in the market, do not be afraid to reach out to them. How you reach out is something you must research for each industry. In some industries, you will have to be highly secretive. Part of market research is understanding the market well enough to understand the soft skills you need to find contributors who are already working in the industry or in an adjacent one

#### **Step 4: Conduct Patent Research**

If you expect to apply for a patent, take the time to read up on policies and procedures. Officials in the US Patent Office, or in similar bureaus in other countries, decide whether an invention is worthy of receiving a patent. A patentable invention must meet the criteria of being novel, useful, and nonobvious; it must be proven to be workable.<sup>93</sup> Those three standards—novel, useful, and nonobvious—are subjective. So is the concept of invention, but conceptualizing invention this way sets a high bar for entrepreneurs who truly wish to make a social impact. Developing an invention that is patentable also creates a barrier against competition, which can make the difference between business success and failure. There are two types of patents. *Utility* patents last twenty years, and *design* patents usually last fourteen years. If a patent is granted, the inventor has a window of time in which to secure further funding, work to produce the product, and try to gain mass-market adoption.<sup>94</sup> After all is said and done, you can apply your creativity to social innovations, product innovations, or service innovations. If you can combine enough innovations, add your unique creativity, and create something that survives the diffusion chasm, you can truly invent something new.

The patent basics page of the US Patent and Trademark Office's website is roughly forty pages long.<sup>95</sup> The utility patent process includes a thirteen-step flow chart<sup>96</sup> that outlines the process. The patent office encourages you to use a registered patent attorney or agent. If you are skilled and diligent enough to secure a patent, you should expect to pay fees and file paperwork to maintain it for years after it is granted. We've already discussed the keys to securing a patent, but to reiterate, here is how an invention is defined in US

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patent law: “In the language of the statute, any person who ‘invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent,’ subject to the conditions and requirements of the law.”<sup>97</sup>

When building a team to make your invention a reality, finding a patent lawyer or agent is key. Even those who have advocated for hiring patent attorneys in the past now suggest that hiring a patent agent might work. What’s the difference? Patent attorneys often bill by the hour, but they offer a full suite of legal advice. As the author Stephen Key indicates, patent agents are narrowly focused on helping you get and defend your patent.<sup>98</sup> The other limitation that Key mentions is that patent agents may write a patent application in such a way that you are less prepared to protect your invention against future legal challenges. Key quotes Gene Quinn, a leading attorney on intellectual property and patent law: “By the time you realize that you are sitting on a million-dollar invention it will be too late to do anything about it....Patent agents as a general rule tend to be very good at describing what it is that you as an inventor show up with.” What they tend to be much less good at is describing what your invention could be. They also frequently will use terms that are more concrete and limiting than would a patent attorney. Attorneys are taught the art of being hyper-specific, which is necessary at times, but also the art of being anything but specific.”<sup>99</sup> Patents cannot be vague, but they can be written with just the right amount of specificity to protect against similar products that may arise and threaten your market share.

### **Step 5: Develop a Prototype**

Developing a prototype can be the most fun or the most tedious part of inventing. Much of your attitude toward developing a prototype depends on available resources, technology, and expertise. In this text, we reference the concept of the lean startup from time to time. In the lean startup model, the prototype is most often an MVP. As we saw earlier, an MVP is a version of your invention that may not be polished or complete in terms of how you envisioned it, but it functions well enough and looks good enough that you can begin to market it with reasonable hopes that it will be adopted. For other inventions, you may need to build a more advanced prototype. This requires serious investment capital, but the payoff is that users will interact with a version of the product that looks and functions more

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like what you had in mind during your ideation phase. As an inventor, you are responsible for establishing quality control minimums for your product. You may have to compromise on your vision, but you should not compromise on basic functionality or basic levels of quality in materials.

You have many options at the prototype development stage. You can build the prototype yourself or with a small team. You can partner with design/invention firms that specialize in helping inventors create, but you must be very careful and involve your legal representation when working with such firms to be sure that you maintain the patents and other rights to your invention. Many inventors have partnered with such firms only to see their intellectual property stolen. Another option is to get funding for your invention on Kickstarter or some other crowdfunding site, but again you must beware that establishing such a campaign puts your idea in the public sphere. “Copycatters are monitoring crowdfunding platforms like Kickstarter and watching for trendy products to go viral,” according to Amedeo Ferraro, an intellectual property attorney.<sup>100</sup> Competing companies, particularly in foreign markets, actively scout Kickstarter and similar platforms for new ideas that they can manufacture and bring to market before your crowdfunding project has run its course. Perhaps most chilling is this comment regarding legal protections that do not function, even when inventors take precautions to protect their intellectual property when working with some Chinese firms: “But even with these protections, there’s no guarantee that you can stop someone from copycatting your product. [One U.S. intellectual property lawyer] said that the problem lies not in China’s courts but enforcing rulings. Winning a case against one factory is relatively easy. But suing every factory and winning is expensive and time consuming.”<sup>101</sup> For this reason, some inventors prefer to start small and local, if possible. It can be better for them to start with a trusted team striving for a small profit and a good market position than to see the market flooded with copycat products.

## Chapter 5: Multiple Choice Review Questions

1. According to chapter 5, this stage in creativity involves the purposeful examination of ideas.
  - a) Insight
  - b) Incubation
  - c) Elaboration
  - d) Evaluation
2. According to chapter 5, Adobe is this type of an innovative product.
  - a) Deep
  - b) Indulgent
  - c) Elegant
  - d) Emotive
3. According to chapter 5, when developing an innovation, this step is obvious, but many entrepreneurs fail to go as deeply as they should.
  - a) Educate yourself
  - b) Stay organized
  - c) Conduct market research
  - d) Conduct patent research

## Chapter 5: Short Answer Review Questions

1. According to chapter 5, describe five (5) stages of creativity.
2. According to chapter 5, explain Kawasaki's approach to innovation.
3. According to chapter 5, describe the five (5) steps for developing an invention

# Chapter 6: Identifying Entrepreneurial Opportunity

## Learning Objectives

1. Define entrepreneurial opportunity
2. Discuss Joseph Schumpeter's theories of opportunity
3. Identify key drivers of opportunity

Aspiring entrepreneurs can come up with ideas all day long, but not every idea is necessarily a good idea. For an idea to be worth pursuing, we must first determine whether the idea translates into an entrepreneurial opportunity. Entrepreneurial opportunity is the point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service. In the field of entrepreneurship, specific criteria need to be met to move from an idea into an opportunity. It begins with developing the right mindset—a mindset where the aspiring entrepreneur sharpens his or her senses to consumer needs and wants, and conducts research to determine whether the idea can become a successful new venture.

In some cases, opportunities are found through a deliberate search, especially when developing new technologies. In other instances, opportunities emerge serendipitously, through chance. But in most cases, an entrepreneurial opportunity comes about from recognizing a problem and making a deliberate attempt to solve that problem. The problem may be difficult and complex, such as landing a person on Mars, or it may be a much less complicated problem such as making a more comfortable pillow, as entrepreneur Mike Lindell did by inventing My Pillow.

## Theories of Opportunity

In the twentieth century, economist Joseph Schumpeter, stated that entrepreneurs create value "by exploiting a new invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry" or similar means.<sup>102</sup>

According to Schumpeter, entrepreneurial innovation is the disruptive force that creates and sustains economic growth, though in the process, it can also destroy established

companies, reshape industries, and disrupt employment. He termed this force creative destruction. Schumpeter described business processes, including the concept of downsizing, as designed to increase company efficiency. The dynamics of businesses advances the economy and improves our lifestyle, but the changes (sometimes through technology) can make other industries or products obsolete. For instance, Schumpeter provided the example of the railroad changing the way companies could ship agricultural products quickly across the country by rail and using ice "cold cars," while at the same time, destroying the old way of life for many ranchers who wrangled cattle from one location to their intended commercial destination.

Today, we might think of the displacement of taxi drivers by ride-sharing services such as Uber and Lyft as a modern-day example of this concept. To own and operate a New York City cab, for instance, one must buy what is called a taxi medallion, which is basically the right to own and operate a cab. Drivers take out loans to buy these medallions, which cost hundreds of thousands of dollars. But now, ride-sharing services have eaten in to the taxi industry, all but destroying the value of the medallions, and the ability of taxi drivers to make the same money they were before the popular services existed. This change has left many taxi drivers in financial ruin.<sup>103</sup> Schumpeter argued that this cyclic destruction and creation was natural in a capitalist system, and that the entrepreneur was a prime mover of economic growth. To him, the goal was to progress, and progression starts with finding new ideas. He identified these methods for finding new business opportunities:

1. Develop a new market for an existing product.
2. Find a new supply of resources that would enable the entrepreneur to produce the product for less money.
3. Use existing technology to produce an old product in a new way.
4. Use an existing technology to produce a new product.
5. Finally, use new technology to produce a new product.

We can understand theories of opportunity as related to supply or demand, or as approaches to innovations in the use of technology. The first situation is a demand opportunity, whereas the remaining situations are supply situations. The final three incorporate technological innovations. Supply and demand are economic terms relating to

the production of goods.

**Supply** is the amount of a product or service produced. **Demand** is the consumer or user desire for the outputs, the products, or services produced. We can use the ideas from Schumpeter to identify new opportunities. Our focus is on identifying where the current or future supply and the current or future demand are not being met or are not aligned, or where technological innovation can solve a problem.

More recent research has expanded on the concept of technological entrepreneurial opportunities, identifying several areas: creating new technology, utilizing technology that has not yet been exploited, identifying and adapting technology to satisfy the needs of a new market, or applying technology to create a new venture. <sup>104</sup>

Regardless of which of Schumpeter's paths entrepreneurs pursue, before investing time and money, the business landscape requires a thorough investigation to see whether there is an entrepreneurial opportunity. Remember, entrepreneurial opportunity is the point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service. "Feasibility" in this definition includes identifying a sizable target market interested in the product or service that has sufficient profitability for the venture's financial success.

### **ENTREPRENEUR IN ACTION**

Chester Carlson, a physicist, inventor, and patent attorney, spent ten years searching for a company to develop and manufacture a new photographic machine for office use to make copies faster and for less money. Carlson went on to found the XEROX Corporation, the company that made the first photocopier machines. Can you imagine a school or office today without a photocopier machine? The companies that Carlson approached with his invention missed the opportunity to invest. For Carlson, it was the beginning of a technology product development company that has been granted more than 50,000 patents worldwide.

Today, Xerox continues to innovate. Visit the innovation section of its website (<https://www.xerox.com/en-us/innovation>) and consider how one of the inventions it's developing now could spur creative destruction in an industry, according to Schumpeter's theory

## Identifying Opportunity

A good place to begin your entrepreneurial quest is to read as much as you can, especially with new technology developments, even outside the field you work in. Remember that as technologies start to emerge, we often do not yet understand their commercial potential. For example, microwave technology was first applied in radars to track military submarines. But, thanks to a curious man named Percy Spencer and the accidental melting of a peanut bar in his pocket one day while tinkering with the technology, the microwave was born. It would take a few decades for it to be produced at a price the mass market could afford. <sup>105</sup>

Think of drones, too. When they were invented, the multiple uses for this technology were not yet identified. Now, drone technology is being used by real estate firms, package delivery services, agriculture, underwater search and scientific research, security, surveillance, and more. Being tuned in to new experiences and information can lead to identifying opportunities. Entrepreneur Fred Smith found a system to solve the problem of overnight package delivery in founding Federal Express. <sup>106</sup> As a college student, he wrote a paper for an economics class where he discussed his business idea. He earned only a C on his paper, by the way. He received his bachelor's degree in 1966 and went on to found Federal Express a few years later, which, in 2019, generated almost \$70 billion in revenue. <sup>107</sup> Prior to starting Federal Express, Smith was in the US Marine Corps serving in Vietnam where he observed the military's logistics systems. <sup>108</sup> This is where he honed his interest in shipping products while in the military. Many entrepreneurs start their business after working for someone else and seeing a better way to operate that business, and then start their own competing business.

Note that entrepreneurs need to be careful about starting competing businesses. See *Telling Your Entrepreneurial Story and Pitching the Idea* and *Business Structure Options: Legal, Tax, and Risk Issues* for information on non-compete clauses and agreements. Indeed, some entrepreneurs, like Smith, conduct research as an idea percolates, paying attention to new experiences and information to further advance their idea into an entrepreneurial opportunity. However, they must ensure that the existing product, service, or business process is not covered by any active and protected intellectual property



(patent, trademark, copyright, or trade secret), as discussed in Creativity, Innovation, and Invention and Fundamentals of Resource Planning.

Identifying consumer needs may be as simple as listening to customer comments such as "I wish my virtual orders could be delivered more quickly." or "I can never seem to find a comfortable pillow that helps me sleep better." You can also observe customer behavior to gather new ideas. If you are already in business, customer feedback can be a simple form of market research.

When purchasing an existing business or franchise, the process is a bit different. The first step will usually be searching for a business that suits your experience, personal preferences, and interests. You will still want to conduct research to understand the industry, the local market, and the business itself. Then, you will begin to examine all available company financial data. If purchasing a franchise, you may want to contact other franchise owners and discuss their experience in working with the franchisor.

## **ENTREPRENEUR IN ACTION**

How Spanx Founder Developed Resilience and Persistence <sup>109</sup>

Another entrepreneur, Sara Blakely (Figure 5.3), admits that for the seven years she spent selling fax machines in the 1990s, many times, she became so frightened of approaching sales prospects that she would burst into tears and then have to drive around the block to collect herself before she could complete the next sales call.

One day in 1998, she was putting on pants and looked in the mirror and did not like how she looked. So, Blakely came up with the idea to wear a pair of control-top pantyhose underneath-but she cut the feet out. Blakely liked the look and comfort of the footless hose and decided to patent her own body-shaping footless version. Just a few years later, Blakely founded her company, Spanx, Incorporated, which since has gone on to launch more than 200 styles of body-shaping garments. This is another case of an entrepreneurial company born out of a simple way to solve an everyday problem.

Blakely is also a master of resilience, which is a quality of many successful entrepreneurs. When she was sixteen years old, right around the time her parents separated, she witnessed a good friend get hit and killed by a car. Her father gave her a set of motivational tapes to listen to: How to Be a No-Limit Person by Wayne Dyer. She found the tapes so helpful that she memorized all of them and still gives copies of the tapes as gifts.

As a child, her father encouraged his children to respect the valuable lessons we can learn through failure. Obviously, it helped Blakely at a young age develop persistence and determination. That persistence and determination helped her develop a business idea into a billion-dollar enterprise.

When researching supply and demand, you should also consider political factors. For example, changes in tax laws can inform decisions. One example is a tax credit that encourages alternative energy use, such as electric or hybrid vehicles. For 2019, the IRS tax credit is between \$2,500 and \$7,500 per new electric vehicle, with a concurrent phase-out of the plug-in electric vehicle tax credit. Changes in the tax code can therefore influence buyer behavior or the demand for vehicles. Another example is the Residential Energy Efficient Property Credit of up to \$4,000 for solar electronic appliances such as solar water heaters and solar panels and for small wind turbines, through the end of 2021.

<sup>110</sup>Tax incentives do not usually last more than a few years (the tax subsidy for corn farmers to produce ethanol, an ingredient in automotive fuels, is a notable exception due to heavy lobbying by the farming industry), so it is important that entrepreneurs do not rely on these incentives as a permanent "pillar" of their value proposition and business model.

Let's say you have an interest in machinery and art. Taking these two areas of interest, and knowing about this tax credit, you recognize that you have the talents to create artistic backyard wind turbines to create energy for a homeowner. Of course, you will still need to determine whether this is merely an idea, or if the conditions are in place to move forward in translating this idea into an entrepreneurial opportunity.

## Drivers of Opportunity

Some recent drivers for change in the entrepreneurial space include new funding options, technological advancements, globalization, and industry-specific economics.

- Increased access to capital through social media sources like crowdsourcing (see the chapter on Problem Solving and Need Recognition Techniques for a more detailed discussion of crowdsourcing) is having a significant impact on entrepreneurship in that it enables underserved people and communities—such as women, veterans, African Americans, and Native Americans, who otherwise might not be able to start and own a business—to become entrepreneurs.

- Technological advancements continue to provide new opportunities, ranging from drones to artificial intelligence, advancements in medical care, and access to learning about new technology. For example, drone technology is being used to map and photograph real estate, deliver products to customers, and provide aerial security and many other services. Cell phones have spawned many new business opportunities for a wide range of cell phone accessories and related products, ranging from cell phone cases to apps that help make our cell phones faster for business and personal use.
- Increased globalization drives entrepreneurship by allowing importing and exporting to flourish. Globalization also helps spread ideas for new products and services to a world market instead of a local or regional market. Combined with the Internet and computer technology, even small businesses can compete and sell their products around the globe.
- Economic factors could include a strong economy that fuels other businesses. For example, growth in the housing market fuels growth for many housing-related products and services, ranging from interior decorating to landscaping as well as furniture, appliances, and moving services.

David Pridham, CEO of the patent advisory board and transaction firm Dominion Harbor Group in Dallas, cites six reasons that current conditions are excellent for startups:

- 1) Venture capital investment, which you will learn more about in Entrepreneurial Finance and Accounting, has surged to the highest level ever, totaling \$148 billion in 2018.
- 2) The concern over patent protection is improving with better trade protection of intellectual property rights.
- 3) Artificial intelligence could be a tremendous opportunity based on a McKinsey report projection, estimating artificial intelligence to become a \$13 trillion industry by 2025.
- 4) The explosive growth in freelance workers has been a boon to startups and small businesses.
- 5) Another hot sector is technology-driven advancements such as self-driving vehicles.
- 6) Intellectual property now accounts for 38.2 percent of our total Gross Domestic Product (GDP) in the United States. That totals \$6 trillion per year, more than any other nation's GDP except for China. <sup>111</sup>

In addition, Silicon Valley Bank (SVB) Financial Group surveyed new startup businesses in 2017 and found that 95 percent indicated they believe that business conditions will be the same or better. In addition, 83 percent plan to increase their workforce, and 24 percent found fundraising not to be a challenge. <sup>112</sup> These numbers represent the highest levels of optimism among entrepreneurs over the most recent five-year period.

Some other economic indicators favor entrepreneurship. According to the 2019 Goldman Sachs Economic Outlook, consumer confidence is up, business confidence is up, interest rates remain reasonable and steady, more people are working, and wages are higher.[13] When the economy is strong, there are generally more opportunities available and more potential customers with money to purchase your products and services; but of course, there are no guarantees.

### LINK TO LEARNING

There are debates about so-called kill zones—markets that the tech giants like Facebook and Amazon control through aggressive anticompetitive tactics. Some argue that these zones have frightened off investors and stifled competition. But others maintain that investment in young tech startups is as strong as ever and that the creative effects of big tech companies outweigh their destructive forces.

Read this article on how tech giants make it difficult for startups (<https://openstax.org/l/52TechGiant1>) from The Economist and then this blog post refuting the idea that tech giants kill startups (<https://openstax.org/l/52TechGiant2>) from The American Enterprise Institute and see what you think about the issue.

## Researching and Verifying the Entrepreneurial Opportunity

Whether you start your own business, buy an existing business, or purchase a franchise, researching the industry, your target market, and examining the economic and funding options are all part of performing due diligence. Due diligence is the process of taking reasonable steps to verify that your decisions are based on well-researched and accurate information. It means thoroughly researching potential pursuits, asking detailed questions, and verifying information.

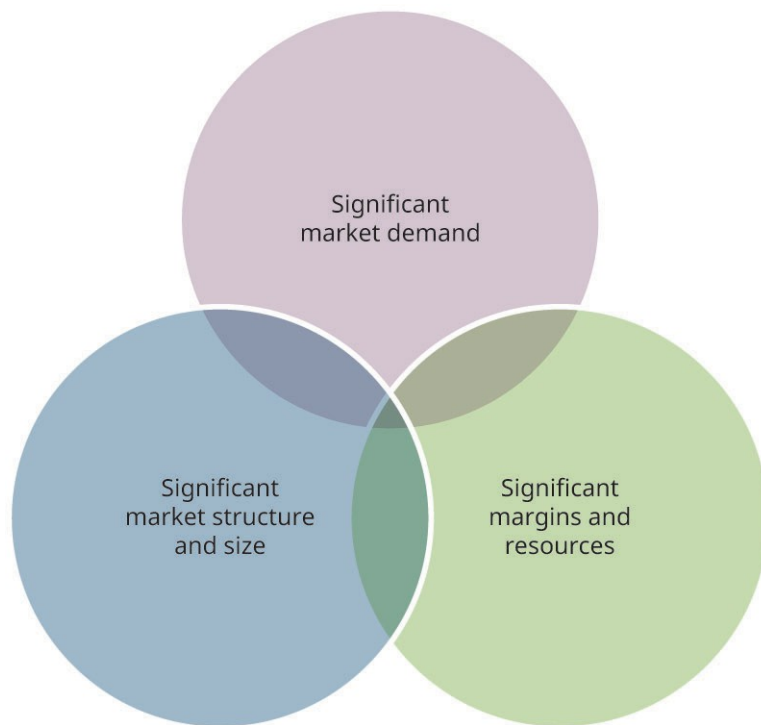
Different industries have different meanings for due diligence. For example, in the legal industry, due diligence involves understanding the terms of a transaction and contract. In business finance, due diligence refers to raising capital or the work involved in merger and acquisition transactions. In the entrepreneurship field, research is necessary to verify whether the idea is really an opportunity, considering the entire process of starting the venture and funding the venture.

One of the more common questions entrepreneurs must ask is whether now is a good time to start a business. This question of timing is addressed in the investigation to determine

whether the idea is merely interesting or fits the criteria of being an entrepreneurial opportunity.

An idea can move to a recognized opportunity when the following criteria are met.:

- 1) Significant market demand
- 2) Significant market structure and size
- 3) Significant margins and resources to support the venture's success



*Figure 1: When these criteria are met, an idea is recognized as an opportunity. (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

Significant market demand means that the idea has value by providing a solution to a problem that the target market is willing to purchase. This value can result from a new product or service that fills an unmet need, a lower price, improved benefits, or greater financial or emotional value. This value can also result from capitalizing on "nonconsumption." For example, in the 1980s, the Disney Corporation realized that it was losing an opportunity to entice visitors to come to their theme parks from 9 p.m. to 9 a.m. when they were closed. So the company started having "school nights" when schools and

students could use the parks at a discount.

Significant market structure and size involve growth potential and drivers of demand for the product or service. Barriers to entry are manageable, meaning that entering the industry or creating a new industry is not exceptionally difficult. If the industry already exists, there must be room within the industry for your venture to gain market share by providing a value that creates a competitive advantage.

Significant margins and resources involve the potential for achieving profit margins at a high-enough level that the work of starting the venture (including the entrepreneur's time and energy) is worth the risks involved. If the operating costs are too high and the profit margin is too low, it is important to analyze whether the idea is truly feasible. Significant margins also include the capital requirements-how much money is needed to start the venture-as well as the technical requirements, the complexity of the distribution system, and similar resources.

Determining whether an idea has significant market demand, significant market structure and size, and significant margins and resources to support the venture's success represents the most basic concerns when screening a business idea as an entrepreneurial opportunity.

After confirming that a business idea is an entrepreneurial opportunity, the entrepreneur should ask more detailed questions in the next phase of screening the business. Here are some examples:

- Would other people value your product or service?
- Does your product or service solve a significant problem?
- Is the market for the product definable/specific?
- Does the market have unique needs or expectations that align with your entrepreneurial opportunity?
- Is the timing right to start the venture?
- Are there infrastructure or supporting resources that need to be commercialized or created prior to your launch of the venture?
- What resources are needed to start the venture?
- What is the competitive advantage your venture offers within the industry and is this competitive advantage sustainable?
- What is the timeline between starting the venture and the first sale?
- How long before the venture becomes profitable and do you have the resources to

support this timeline?

A good starting point in your opportunity screening research is to begin learning about the demographics of the market you are targeting (your target market). Demographics are statistical factors of a population, such as race, age, and gender.

The government collects census data demographics,<sup>113</sup> which can provide a snapshot of the population in your city or town. Census data include the total population, a breakdown of the population by age, gender, race, and income, and some other useful data.

For example, if you were considering opening a new ice cream store with unique flavors preferred by children, census data could tell you the number of children living in the area, the ratio of boys to girls, their ages, and the general income levels of the families in town. The census data would help you determine the size of the market and potential target market, local market growth, income levels, and key demographics that might fit the potential customer profile. Of course, there is other information you might want to collect, such as the percentage of the population that had lactose intolerance. If you found that a significant portion of your market was lactose intolerant, this could be your identified opportunity: You could create a lactose-free ice cream store or expand with a variety of lactose-free flavors. The census data also help identify where to locate your entrepreneurial venture. For example, if your lactose-free ice cream was expensive because of the necessary ingredients, you would not want to open your store in a low-income area.

There is a vast amount of data and information available through the Internet that can support your success in making informed decisions as you explore the feasibility of opening a successful venture. Or you can purchase more detailed consumer data through providers such as Claritas Research, which gathers information on demographics, consumer lifestyles, attitudes, and behaviors (<https://claritas360.claritas.com/mybestsegments/?ID=70>). For many small business startups that cannot afford sophisticated research data, the entrepreneur will probably have to rely on census data along with information that the local economic development council is able to provide.

After analyzing demographic data, the entrepreneur can then develop and conduct some basic research, which could range from observing customers to shopping at potential competitors. Entrepreneurs can also uncover business opportunities by asking questions of, and listening to, their customers, if they are working within the industry or looking for new entrepreneurial opportunities with a similar target market. Sometimes an easy and inexpensive customer survey can uncover problems and opportunities. Entrepreneurs can also gather information using their social media accounts and customer sales records.

For example, imagine a men's clothing store in Denver that maintained a detailed customer database that they used primarily to order the colors and sizes their customers were most likely to purchase. A marketing consultant begins researching customer data and finds a number of former customers who had not shopped at the store for a year or more. The consultant uncovers some lapses in service that had cost the store thousands of dollars in sales. Store management, working with the information from the consultant, develops a direct marketing campaign that helps bring back former customers and adds new customers, resulting in a substantial sales increase.

The lesson here is that research is important at all stages of the business-before you start your business and consistently thereafter. Markets change as new people move in or out of an area, styles and preferences change over time, and new technology can radically impact what customers want to buy. We all know of businesses like Blockbuster or Xerox that ignored evolving technology, to the detriment of their success. Constantly tracking changes in the external environment and competitive arena is an ongoing activity that supports the continued success of the venture.

A popular tool for market analysis is a product from Claritas Research called Potential Rating Index for Zip Markets (PRIZM), which characterizes census data according to certain lifestyle traits, even down to the neighborhood level. As an example, let's see how PRIZM can help us better understand the consumer market of a small town in Massachusetts. Oxford, Massachusetts (zip code 01540), has a population of 11,653, with slightly more half being female; a median income of \$70,444; and a median age of 42.3 years. PRIZM data give us a better understanding of consumers than census data do in Oxford by examining the five dominant lifestyle segments from within PRIZM's sixty-six



segments. The PRIZM segments are based on socioeconomic rank determined by characteristics such as income, education, occupation, and home value. A thorough analysis of available data could suggest the most likely products and sources consumers in this zip code market would likely purchase.

## Chapter 6: Multiple Choice Review Questions

1. According to chapter 6, Schumpeter suggests that entrepreneurial innovation is a ----.
  - a) Renewable resource
  - b) Deliberative process
  - c) Disruptive force
  - d) Driver of opportunity
2. According to chapter 6, this entrepreneur developed the microwave.
  - a) Fred Smith
  - b) Percy Spencer
  - c) Chester Carlson
  - d) Mike Lindell
3. According to chapter 6, researching supply and demand, you should also consider \_\_\_\_\_ factors.
  - a) Economic
  - b) Social
  - c) Environmental
  - d) Political
4. According to chapter 6, a strong economy equates to \_\_\_\_\_.
  - a) Optimism for customers.
  - b) More opportunities available and potential customers
  - c) More opportunities available but less potential customers
  - d) Less opportunities available but more potential customers

## Chapter 6: Short Answer Review Questions:

1. According to chapter 6, explain the five (5) methods for finding new business opportunities.
2. According to chapter 6, describe the six (6) reasons that startup are currently excellent.

# Chapter 7: Competitive Analysis

## Learning Objectives

1. Understand the elements of a competitive analysis
2. Describe tools you can use to refine and focus your planning (three circles, SWOT, PEST)
3. Recognize social media's role in saving time and money on research
4. Understand how a business model helps determine the feasibility of an opportunity

Conducting a competitive analysis helps you focus your idea and identify your unique selling proposition and competitive advantage.

## Competitive Analysis

A competitive analysis should provide the entrepreneur with information about how competitors market their business and ways to penetrate the market by entry through product or service gaps in areas that your competitors do not serve or do not serve well. More importantly, competitive analysis helps the entrepreneur develop a competitive edge that will help create a sustainable revenue stream. For example, a big company like Walmart primarily competes on price. Small companies typically cannot compete on price, since the internal efficiencies and volume sales available to large corporations like Walmart are not available to small companies, but they may be able to compete successfully against Walmart on some other important variable such as better service, better-quality products, or unique buying experiences.

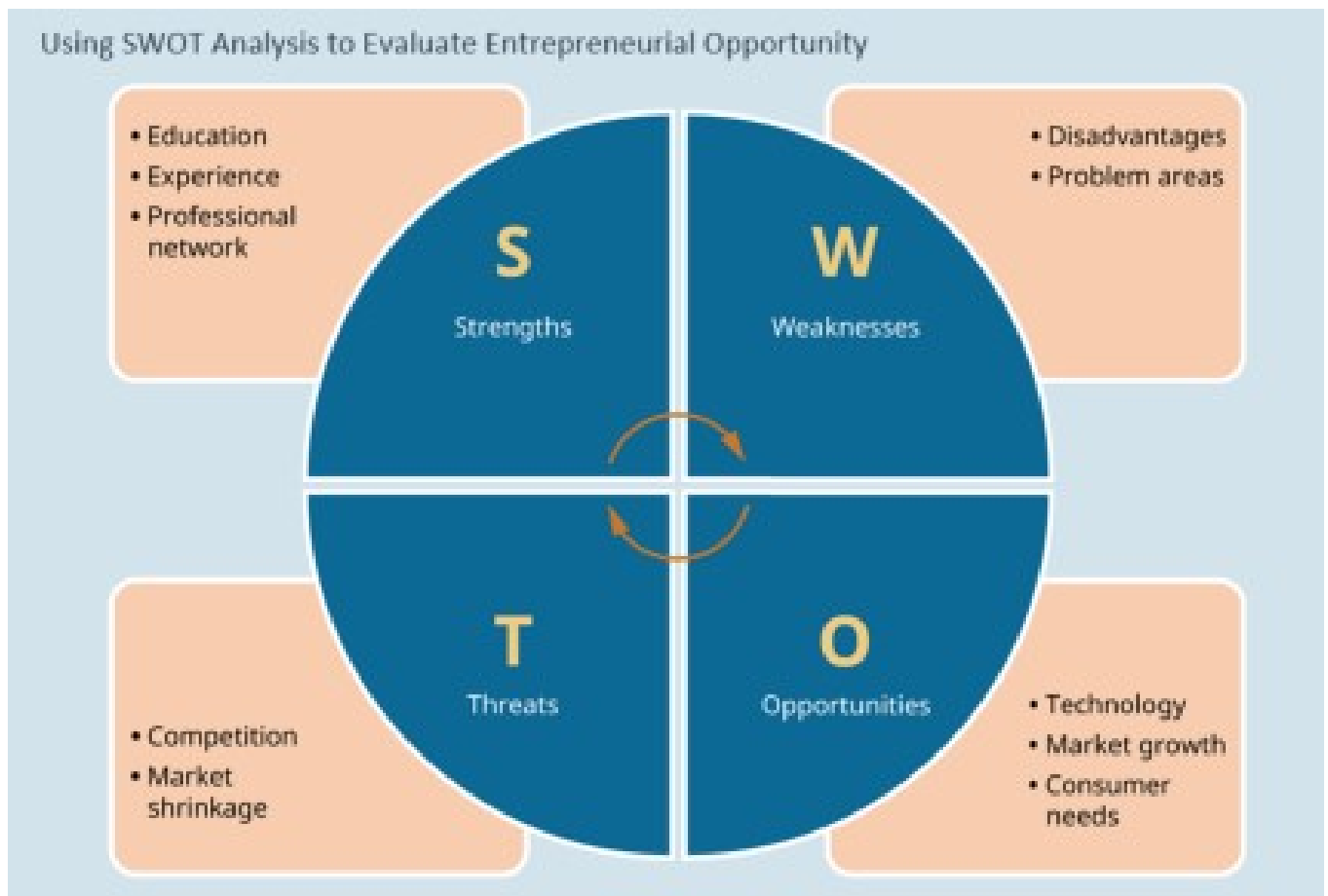
When preparing the competitive analysis, be sure to identify your competitors by product line or service segment. For an entrepreneur, this activity can be difficult when the industry does not yet exist. In the case of Bee Love, Palms Barber didn't have direct competitors, but she did have related competitors of traditional skin care products. Her unique idea of all-natural, honey-based skin care products created a new market. The competitive analysis might need to focus on substitute products rather than direct competitors. There are two main tools used in analysis of competitors: a competitive analysis grid and the "three circles" approach.

## **Competitive Analysis Grid**

The competitive analysis grid should identify your competitors and include an assessment of the key characteristics of the competitive landscape in your industry, including competitive strengths and weaknesses and key success factors.

As you complete an analysis for your venture's competitors, identify what contributes to the competitor's success. In other words, why do people purchase from the company? Some possible reasons include no nearby competitors, lower prices than competitors, a wider variety of products, offering services not offered elsewhere, or branding and marketing that appeals to the target market. Your analysis should inform you of a combination of key success factors within the industry (what it takes to be successful in the industry) and of what your competitors are not offering that is valued by your target market.

A frequently used tool is a SWOT analysis (strengths, weaknesses, opportunities, and threats), which focuses on analyzing your venture's potential and builds on the knowledge gained from the competitive analysis grid and the three circles. You will need to identify the strengths your venture will need to support the competitive advantage identified through the competitive analysis tools. The weaknesses can be identified based on your current and foreseeable expectations. For a new venture, the opportunities and threats sections are based on current factors in the external environment that come from your research. In this context, opportunities are facts, changes, or situations within the external environment that could be favorably leveraged for the venture's success.



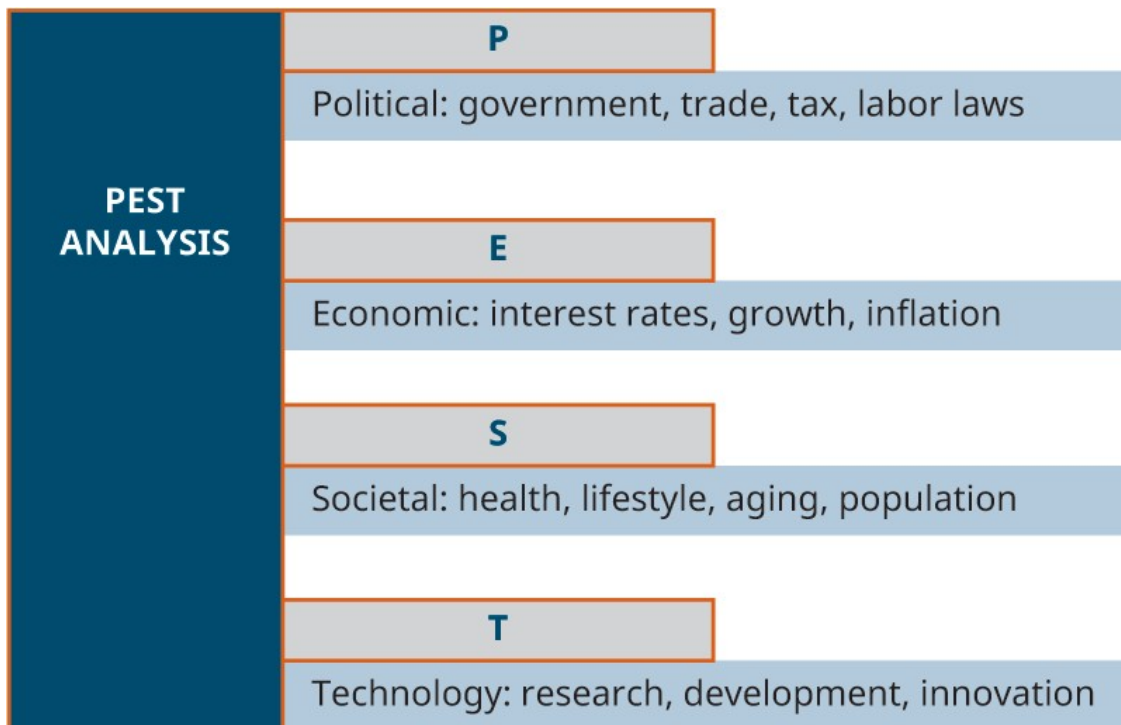
*Figure 1: A SWOT analysis can be used to identify the strengths, weaknesses, opportunities, and threats of a potential entrepreneurial opportunity. (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

One way to evaluate a business idea is to prepare a SWOT analysis. Note that strengths and weaknesses are internal to the entrepreneur, while opportunities and threats are external factors.

Strengths are capabilities and advantages of the entrepreneur, including education, experience, and personal or professional contacts. Weaknesses are disadvantages of the entrepreneur, which could include lack of knowledge or experience. Opportunities are positive events that the entrepreneur can develop to his or her benefit. This could include development of new technologies, changes in consumer tastes and preferences, market growth, and new laws and regulations. Threats can be anything that could potentially harm the business or prevent the business from becoming successful such as competition, negative changes in economic conditions, and new laws or regulations.

- If you were starting a new business venture, what strengths would you be able to leverage that would help help your business be successful?
- Provide some examples of personal or professional weaknesses an entrepreneur might face when starting a new business.
- Discuss three occurring events such as new laws and regulations, changes in consumer tastes and preferences, or developing new technologies that could provide business opportunity for a new business venture.

Another tool that can be used to analyze opportunities and threats section is called PEST analysis (political, economic, societal, technology). In this analysis, we identify issues in each of these categories. Figure 2 shows an example of the topics that could be placed in a PEST analysis. The chapter on Fundamentals of Resource Planning discusses this tool as it relates to resource procurement.

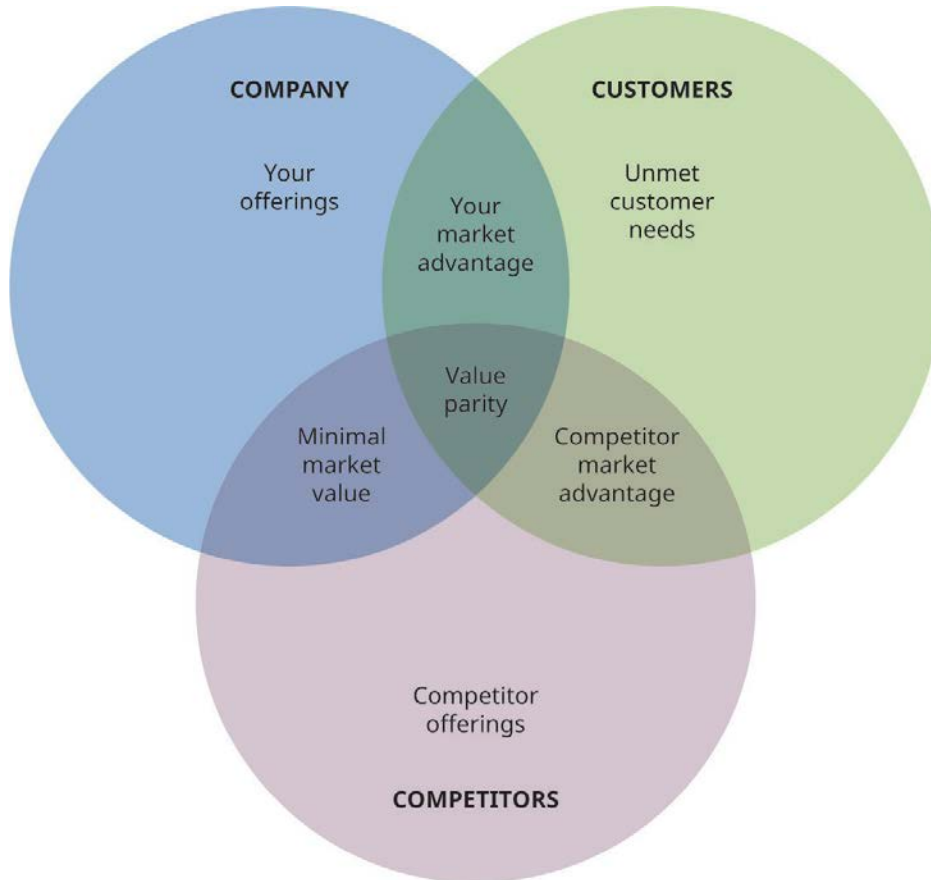


*Figure 2: A PEST analysis can help identify opportunities and threats that can be used in SWOT analysis. (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

Each of these categories should be completed with relevant facts related to your entrepreneurial opportunity. After completing this analysis, you then determine if these facts, or factors, would be placed in the opportunity section or the threat section of the SWOT.

### Three Circles Tool

Another tool that can be used in competitive analysis is the three circles tool, (Figure 3). The goal is to identify competitors' strengths and competitive advantages with any overlaps among competitors. Then, you would identify values or features not offered by competitors. This gap in value or offered services helps to identify your unique selling proposition and thereby your competitive advantage.



*Figure 3: The three circles competitive analysis helps to identify where there is overlap and where there may be a gap in the market that a new venture could fill. The overlaps identify points of parity, the areas where competitors offer the same value with the important identification of the areas of unmet customer needs and how unique your competitive advantage is within the industry. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

The unique selling proposition is important to the marketing plan and is often used as a slogan. It should also align with the value communicated by the product or company brand. These concepts are different from your venture's competitive advantage; the competitive advantage describes your venture's unique benefit, which supports growth of the venture, whereas the unique selling proposition describes the product or service itself, rather than the venture. Although these concepts are different, there should be alignment between the concepts.

For example, Amazon has a competitive advantage in its virtual presence, knowledge of the market, knowledge and application of technology, and knowledge of the industry. Through these competitive advantages, Amazon offers unique combinations of benefits to their customers, such as one-click check out and algorithm-based recommendations using data mining to track an individual customer's preferences. Amazon's unique selling proposition becomes making the purchase as easy and as accurate as possible, whereas their competitive advantage lies in their ability to foresee future advances and act on those predictions, even to the point of shaping the industry.

The competitive advantage results from the analysis of the strengths and unique aspects of a venture, an analysis of the industry, including competitor's advantages, customer needs, and what the venture provides within this competitive landscape. The unique selling proposition should support the competitive advantage, just as the competitive advantage needs to support the unique selling proposition.

### **Social Media's Role in Research**

For almost all new business ventures, two key issues related to research are time and money. Large-scale research projects can take months or longer, and cost a significant amount of money. Social media can offer some opportunities to overcome these concerns. Ray Nelson, writing for Social Media Today, reports several ways that social media can provide speedy, low-cost market research: tracking trends in real-time, helping the entrepreneur "learn the language" of their potential customers, discovering unnoticed trends by engaging consumers, and performing market research using a very cost-efficient means.<sup>114</sup> If the entrepreneur can perform social media research on his or her own, the cost will primarily be in terms of time. But the time it will take to conduct research through

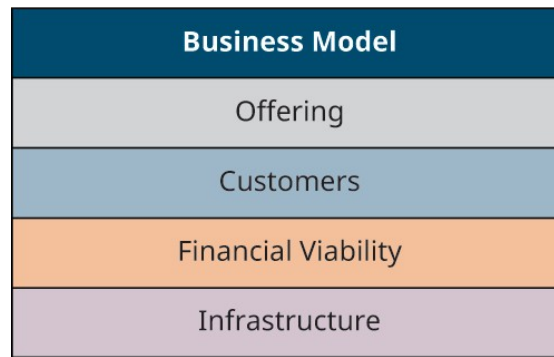


social media platforms such as Facebook or Twitter is usually well spent. This research should include learning the unique selling proposition of competitors, understanding their competitive advantage, and identifying what the customer values, which can be rather difficult. For example, before Amazon recognized that people are busy, were we aware that we wanted faster check-out processes for making purchases? Or were we aware that we wanted the package delivered to our home to be easier to unwrap? And yet, if we asked Amazon shoppers what they value in shopping at Amazon, we will receive answers that support an easier and faster process.

Another technique would be to read through customer reviews on Amazon (or another company related to your entrepreneurial venture) to find out what customers like and don't like about existing products and brands. You can also develop your own surveys on an app like SurveyMonkey and send them to customers and prospective customers. This usually works when sent to persons who have a strong interest in the product or issue rather than randomly sending out surveys.

## **Business Models and Feasibility**

Part of the analysis in determining if your idea is an actual entrepreneurial opportunity is identifying a feasible business model. A business model is a plan for how the venture will be funded; how the venture creates value for its stakeholders, including customers; how the venture's offerings are made and distributed to the end users; and how income will be generated through this process. Basically, a business model describes how a venture will create a profit by describing each of these actions. The business model at this stage is composed of four components: the offering, customers, infrastructure, and financial viability (Figure 4). A fuller version of the business model is covered in Business Model and Plan.



*Figure 4: A business model has four components: the offering, customers, infrastructure, and financial viability. (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

The **offering** refers to the product or service you will be selling, the value proposition, and how you will reach and communicate with your target customers. The customer value proposition includes a detailed description of the products and services you will offer to customers, and what benefits (value) the customer will derive from using your product or service. The customer benefit could be the ability to do something more easily, more quickly, or at a lower cost than customers could before. The benefit could also solve a problem no one else has solved.

**Customers** are the people you will be serving, including potential customers from one or more market segments, or subsections of the market categorized by similar interests or needs. Products seldom appeal to everyone, so the entrepreneur needs to determine, through high-level segmentation and targeting analysis, which segments of the market would make the most sense for the business, and the market environment and dynamics. Some products might appeal to market segments based on age or income, whereas other products might appeal to customers based on their lifestyle. A sign of a potential market opportunity is when a certain market is experiencing rapid growth. This could be a city with a fast-growing population, or it could be a style or consumer trend that is really taking off. The chapter on Entrepreneurial Marketing and Sales goes into more detail about these topics.

**Infrastructure** refers to all the resources the entrepreneur will need to launch and sustain the business venture. These include people, products, facilities, technology, suppliers,

partners, and finances, all of which the entrepreneur must have to fulfill the customer value proposition.

**Financial viability** relates to the long-term financial sustainability of an organization to fulfill its mission. This goes back to our definition of an entrepreneurial opportunity. Knowing that the venture solves a sizable and significant problem that the target market is willing to purchase is a key piece in determining financial viability. This category also addresses how the venture will create profits.

For example, would a subscription-based business model fit the target market and venture's success? Currently, we see a significant growth in startups offering subscription services. What are the benefits to this sales method? For the venture, this model increases upfront cash to support the growth of the venture, especially when customers pay a year in advance for products that will be delivered over the subsequent twelve months. Receiving the payment prior to completing the sales provides the venture with operating cash to support current and future growth. The benefit to the customer in this situation is fewer transactions. The customer knows that the payment covers the next twelve months' worth of benefits (the received product or service) with no further purchases until the subscription runs out.

Another choice involves deciding whether to have a physical location, a virtual location, or both. Financial viability means exploring the benefits and drawbacks of various methods in creating your business model.

### **Researching Target Markets with Census Data**

Practice conducting research by going to [www.census.gov](http://www.census.gov) and two other sources to identify a specific target market for a product that interests you. Include the target market's:

- Disposable income. You might ask whether the target market has sufficient disposable income to purchase this product.
- Demographics
- Psychographics (the combination of buying personality behaviors and demographics)
- How you as the entrepreneur could reach this target market.

When you have a business idea that you have been researching and find that there is a large enough market that has a need that your idea meets, that this target market has the

willingness and ability to satisfy the need through purchasing the provided solution, that you have access to the necessary resources to build an infrastructure for your business, that you have the right mix of products and services with a sound value proposition, and that you can secure funding, you have a real opportunity. This chapter has introduced you to all of these concepts. Further chapters delve into them in more depth.

## Chapter 7: Multiple Choice Review Questions

1. According to chapter 7, this part in a SWOT analysis considers potential harms.
  - a) Strengths
  - b) Weaknesses
  - c) Opportunities
  - d) Threats
2. According to chapter 7, this is another way to consider your competitive advantage.
  - a) Unique selling proposition
  - b) Market value
  - c) Unique benefit
  - d) Unmet customer needs
3. According to chapter 7, the goal this is to identify competitors' strengths and competitive advantages with any overlaps among competitors.
  - a) SWOT
  - b) PEST
  - c) Three Circles
  - d) Business Model
4. According to chapter 7, this refers to all the resources the entrepreneur will need.
  - a) Offering
  - b) Customers
  - c) Infrastructure
  - d) Financial viability

## Chapter 7: Short Answer Review Questions:

1. According to chapter 7, explain each component of a SWOT analysis.
2. According to chapter 7, explain each component of a PEST analysis
3. According to chapter 7, explain each component of Business Model.

## Chapter 8: Your Story

### Clarifying Your Vision, Mission, and Goals

Portions of the material in this section are based on original work by Mark Poepsel and produced with support from the Rebus Community. The original is freely available under the terms of the CC BY 4.0 license at <https://press.rebus.community/media-innovation-and-entrepreneurship/>.

#### Learning Objectives

1. Clarify the vision statement, mission statement, and goals for your enterprise
2. Define and develop a problem-solution narrative that is compelling
3. Define and develop a value proposition that is credible and appealing to customers and investors

Entrepreneurs can sometimes be compared to superheroes: They solve problems. They wield great power and responsibility. They're willing to take on risks the way superheroes are willing to take on villains. They are undaunted in the face of failure. They seek solutions and continuous improvement of their products with their customers in mind so that their solutions go beyond addressing their individual needs. When an entrepreneur succeeds, others say "If only I'd thought of that!"

But thinking isn't enough. And even doing isn't enough. Successful entrepreneurs also understand the need to communicate the origin and value of their venture. They not only solve problems, they tell stories of crises averted, foes bested, and painful defeats from which they learned how to start anew. After all, what's a hero without an origin story and a list of tales, battles lost, and markets won?

In superhero narratives, these origin stories are sacred lore. For an entrepreneur, a problem-solution narrative is like the origin story for their offering. The problem-solution narrative concisely introduces a specific problem that affects many people and presents the good or service as an innovative, unique, and insightful solution.

To stay focused through repeated series of successes and failures, you need more than a problem-solution narrative: You need a vision and, in turn, a mission statement and goals. You learned about these in *The Entrepreneurial Perspective*, but you should revisit them as you develop your story and refine how to pitch that story to potential investors,

customers, and employees. A pitch is a formal presentation in which you ask for something. It is delivered (usually) to potential investors in a startup. More on pitches later in the chapter.

## Vision

A vision statement, as you saw in The Entrepreneurial Perspective, outlines the venture's broader purpose, what the entrepreneur sees the venture growing into in the future. Before you can create a focused mission statement and goals answering who you are, what you do, and what you plan to do in the future, you must develop a vision statement that allows you look into the future to answer this question: "What might we become someday if our organization were the best possible version of itself?"

Drafting a vision statement is an exercise in ideation—a purposeful process of opening up one's mind to new trains of thought that branch out in many directions from a stated purpose or problem—in this case, with the goal of generating new possibilities for goods, services, or processes to make your venture successful. A vision statement is more open-ended than a mission statement. For example, Figure 1 shows Amazon's vision and mission statements. Notice how they differ.<sup>115</sup>

Amazon's Vision Statement	Amazon's Mission Statement
To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online	We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience

*Figure 18: Notice the differences in Amazon's vision and mission statements. The vision statement is broader than the mission statement and looks to the future.*

To create a strong vision statement, look at the broader field in which your organization operates. Be general. State a dream that is not currently attainable but that defines what your collective outcomes would be in a best-case scenario. Crafting a vision statement enables your organization, as a team, to identify key areas for potential growth and key social influences you can have, but it is important to stay focused on changes in your industry or sector as a general rule of thumb and to revisit your vision when those may warrant a change. For example, Netflix started out with the goal of providing optimum

value and convenience for customers renting DVDs but as entertainment consumption platforms evolved it needed to adjust, and it has since shifted into streaming content for television. The company's 2019 vision statement is "Becoming the best global entertainment distribution service." <sup>116</sup>

When crafting a vision statement, write questions beginning with, "How might we?" or statements starting with, "In a perfect world, our organization would." Craft a vision statement that hinges on the organization's service goals and turns it into a lasting social good. (You should not promise to create world peace or give everybody a puppy, but you should look at how businesses operate in your field and dream of doing better strategically and socially.) These steps provide a good starting point:

1. State how your organization would function in a dream scenario.
2. Connect your organization's dreams to broader hopes for progress.
3. Define how you're going to make the world a better place in the future through your products and services.

Dreams do not have to be wild to be broadly appealing or influential. The purpose of the vision statement is not to set unattainable goals but to open minds in the organization. If the vision statement has no grounding in reality, it can easily be written off; if it focuses on market share and product development (that is, tangible, mission-oriented things), the point is lost. Imagine your best team doing its best work with future capabilities and affordances made possible by other entrepreneurs and creators like you, and then state clearly what your influence as world changers could be. Again, the goal is not to develop unmanageable expectations or demand constant innovation from employees and contributors who have jobs that sustain day-to-day operations. The purpose is to develop a conversation about what is possible for the enterprise. For smaller startup enterprises (a deli or coffee shop, for example), the vision can be simpler but still focused on a unique experience they want to create for their customers. In other words, it should still be aspirational, with a link to the mission statement.

A vision statement does not have to be long to be strong. One well-known vision statement contains only fifteen words: "At IKEA our vision is to create a better everyday life for the



many people." <sup>117</sup> This vision statement focuses on what IKEA hopes to accomplish, and what its employees can aspire to be—people who make everyday life better for others. Note the phrase "the many people." This is purposeful: IKEA makes mass-marketed products and chooses to align its vision with its targeted consumers: many people. This vision statement is not framed as a political statement; rather, it is an ideal established for the global brand, and it indicates a broad positive outcome. IKEA's statement is almost pure vision. A vision statement should connect an organization's day-to-day work to a universal ideal rather than trying to draw a roadmap for implementation.

That being said, alongside its vision, the company follows up with what IKEA calls its "business idea." It states: "Our business idea is 'to offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.'" This is something of a value proposition and a mission statement wrapped up in one. A value proposition explains what it is, exactly, that an organization or firm does that people will pay for (or contribute, to in the case of a nonprofit), and it is a central point in any pitch. We learned about value propositions in [Identifying Entrepreneurial Opportunity](#) as being integral to identifying opportunities, and you will learn how they figure into your business model in Business Model and Plan. But the discussion in this chapter is about how and why the value proposition needs to be articulated

## **Mission**

An entrepreneurial mission is a business or nonprofit organization's reason for being. It is expressed as a self-conceptualization in the context of a marketplace and includes a sense of action. In considering a venture's mission, relevant questions are: Who are we? What do we make or do? Why do we exist as an enterprise in the first place? Steve Jobs and Steve Wozniak, cofounders of Apple, had a mission to put personal computing in the hands of everyday consumers, which meant they had to create simple tools (a graphic user interface, mouse, and so on) in parallel with hardware.

A well-developed sense of mission establishes what an organization is and what it seeks to become. Even nonprofit organizations exist in marketplaces. They have to compete for resources and define themselves by the services they provide. Establishing a clear mission helps a nonprofit organization seek funding. It helps entrepreneurs in the for-profit

world explain to investors, to customers, and to employees why their "thing," whatever it is, is worth doing.

For example, the American Red Cross, one of the oldest and most well-known relief organization in the United States, has a very specific mission statement: "The American Red Cross prevents and alleviates human suffering in the face of emergencies by mobilizing the power of volunteers and the generosity of donors." <sup>118</sup> Defining an organization's mission clearly and specifically is essential for success.

A **mission statement**, as you read in the chapter on Identifying Entrepreneurial Opportunity is a clear expression of an organization's reason for being that defines its primary long-term goal and often includes an abbreviated plan of action for how to reach that goal. A mission statement is written by answering these questions:

- Who are we?
- What do we make or do?
- Why do we exist as an enterprise?

Developing an effective mission statement and adhering to it puts members of an organization on the same page, and it communicates to potential partners and consumers that your organization knows where it is going. Mission statements can be revised, but it's best to get it right at the start. A strong mission statement helps stakeholders prioritize the entity's action steps and should guide decisions.

When it comes to crafting an effective mission statement, clarity is key: It must be specific. What is left out of a mission statement is often as important as what is kept in. A good mission statement is focused, direct, and honest about the marketplace in question as well as the organization's capabilities. It strikes the right balance between practicality and hope.

An inadequate mission statement might say this: "At Toys Inc., we make the best wooden toys money can buy, and our mission is to continue to grow to be a market leader in the classic toy industry." A better mission statement might say this: "Toys Inc. is a market leader in North American wooden toy manufacturing. It is our mission to lead the global market in wooden puzzle and wooden toy car manufacturing and to serve customers with

fresh versions of classic toys." Both mission statements leave room for growth, but the second one defines more precisely what the organization is and where it is headed in the long term.

A mission statement should refrain from using cliches since these constrain the specific and unique vision of the venture. It should not limit innovation or creativity, and it should reference consumers or clients.

To create a strong mission statement, start by defining what the organization is. Even in a startup, you have a core problem-solution and an idea of what the product-and therefore the brand-will be. Be specific when defining your organization's reason for being without limiting your avenues for growth. Include or embed the service mission within the broader mission. Again, the mission statement needs to do the following things with a tone of optimism:

- Define who you are.
- Define what you do now and for whom.
- Define what you want to do in the future.

In a startup, the mission may change substantially in the early phases. Mission statements should not be crafted in a way that limits an organization's ability to pivot-that is, to adjust the value proposition to better achieve product-market fit (see the [Launch for Growth to Success](#) for a more in-depth discussion of pivoting). And while they should not be impervious to change, revise the mission statement only when it is necessary and helpful to do so. Companies and organizations usually change their mission statement when they have made a major shift (due to an acquisition, pivot to another market, new growth strategy, etc.) or if their purpose has changed in a major way.

For example, the March of Dimes organization was originally founded to serve people afflicted by polio, but with the success of polio vaccinations, the disease was eradicated in the United States. As a result, the March of Dimes changed its mission to focus on preventing birth defects, premature birth, and infant mortality.<sup>119</sup> In another example, Slack, a venture-backed startup that went public in mid-2019, was founded as a way for online game developers to collaborate. The original venture failed (twice), but the founder

noticed that his engineers used the tool for rapid collaboration and did not need email or other functions of Microsoft Windows. Slack quickly communicated this change in a simple mission statement: "Slack is where work flows. It's where the people you need, the information you share, and the tools you use come together to get things done."<sup>120</sup>

One thing should be clear: It is not the purpose of an organization to come up with better mission and vision statements. The purpose of an organization is to provide value to people and try to get paid or supported in doing so. The point of crafting mission and vision statements is to assist you to that end. Essentially, your vision statement is your dream, and your mission statement is your strategy in a real-world marketplace. The vision is a statement about why you matter as an organization with a view of what the organization will become in the future, while the mission is a statement about those who might be served by the venture. Refining these statements will help you clarify your entrepreneurial story.

## Goals

An organization needs to establish concrete goals for its products and services to remain viable. Goals should be stated in precise terms that are appropriate for the marketplace. For example, a new "white table" Italian restaurant in Chicago needs an initial goal on how it will attract and retain new customers based on its vision and mission, relative to what is already available. A new company's initial goal is probably not to crush all competition and take over a monopoly position. Instead, it may hope to capture a percentage of a close competitor's market share or create a new product to reach a niche market. In those instances, goals would be stated as specific outcomes to attract competitors' customers, or in the case of a niche business (like Spanx), to define a new category of women's comfort apparel. Lululemon Athletica, which pioneered customer-centered designs for women's athletic apparel, recently established new growth goals that were consistent with its mission: "Management is hard set on growing the company to \$4 billion in revenue by 2020. This involves growing historically small contributors to the top line, such as men's, international, and the digital business."<sup>121</sup>

Goals can be tactical in the short term too. They should be reasonable, influenced by a detailed understanding of the marketplace and the competition, and attainable. Nothing

stunts growth and clouds the path to achieving your vision more quickly than setting unattainable goals and holding members of an organization to impossible standards. Instead, set SMART goals, which you first were introduced to in The Entrepreneurial Perspective. SMART stands for specific, measurable, achievable, relevant, and timely. The best goals clearly communicate all of these elements.

To break these down, SMART goals should be:

- Specific: Your goals should be precise rather than overly broad.
- Measurable: You should be able to test, in some quantifiable manner, whether a goal has been met, meaning that there needs to be some method to determine whether the goal has been met.
- Achievable: The goal must be attainable; it cannot be so lofty that it cannot be accomplished. On the other hand, the goal should not be so easy that it can be accomplished quickly or with little effort.
- Relevant: The goal should be well suited for what you want to accomplish; this means that the goal should be relevant to the outcome needed.
- Timely: Each goal needs to have a defined deadline: the time when the goal must be accomplished. What time frame do you have for completing your goals? How does this timeline fit into your overall plan?

Is it a reasonable goal for a specialty soap company to strive to capture 1.5 percent of the global market share two years after incorporating? Let's deconstruct the goal to assess how SMART it is. It is specific because it establishes a clearly targeted amount (1.5 percent) of a defined market (global specialty soaps). Market share is measurable. We can assume that this is an attainable goal for our imaginary startup. Is it relevant? Capturing market share is always relevant because it translates to near-term earnings and potential for future earnings at the same time. The goal as stated is also timely (within two years). Thus, this is a SMART goal.

SMART goals are not guarantees of success. As an entrepreneur, you could be wrong about whether a goal is attainable, for example. Or you may fail at measuring outcomes correctly, and your idea may not be as well defined or unique as you thought.

Nevertheless, it is much better to set goals with all of these factors in mind than to practice wishful thinking or set abstract goals and hope to reach business benchmarks by luck.

## **Sharing Your Entrepreneurial Story**

### **Learning Objectives**

1. Identify the importance of telling your own story
2. Describe the advantages and disadvantages of using stories to build a startup

The popular reality TV show about entrepreneurs making pitches, Shark Tank, is sometimes erroneously described as a show about pitching. This is false. Shark Tank is a show about people, usually inventors, with interesting back stories who are now looking for help getting their product to its next step. The show offers them the opportunity to pitch their idea to a panel of investors who, if they like the idea, make a financial offer in return to help get the product to market. Every pitch is preceded with what reality TV producers deem to be the more interesting narrative—the entrepreneur's story. Viewers learn what inspires entrepreneurs, how hard they have worked on their prototypes and pitches, and what they have riding on those few minutes in the room with the "sharks." Only after the entrepreneur's story is set up do we get to the punch line, so to speak—the five-minute memorized pitch—which, if the entrepreneurs' ideas seem viable, is followed by further talk about valuation and mentoring.

Shark Tank is not a course in pitching products, but it does highlight an important aspect about the practice: Stories matter. They matter to both investors and customers. Many angel investors base their decision more so on the team giving the pitch than on the product itself.

### **Telling Your Story**

As an entrepreneur, you need to be able to effortlessly discuss your product and its problem-solution narrative, its value proposition, its market niche, and the competition, but in your pitches, you also need to be able to tell your story. Prepare to tell your entrepreneurial story by applying the most universal story format: the fairy tale. Here is a template you can use:

Once upon a time, we had a problem. Then, we thought of the most ingenious solution. We worked really hard and built several versions of the solution until we found The One. This, the innovation you see before you, is The One. We arrived at it through great personal cost, but here it is, and you can own part of it, not just the innovation on the table beside us, but the idea. You can own a sizeable portion of this business and its potential future growth. All you have to do is trust us, and you can be part of the magic. We will deliver this innovation to millions and make their lives better. We'll grow rich together and make the world a richer place at the same time. Join us. Invest, and live happily ever after.

Of course, the fairy tale format is not a formula for giving a practical, professional pitch, but it can help you put the pieces of your own entrepreneurial journey on paper so you can weave key details into your pitch as it develops.

Once a company grows, its story grows. But the original stories of the founders still play a part. This bigger story is called a **corporate narrative**. A corporate narrative is not a fairy tale but relays how a successful company grew from something small, perhaps starting in a garage in California, into a powerful firm or corporation serving millions of people. Companies craft narratives, often with several embellishments, for marketing purposes, but they also serve to remind leaders and employees about the vision and dreams the company's founders once had.

### **The Advantages and Disadvantages of Using Stories**

The primary advantage of using stories in pitch development is that they are relatable. Stories are how we make sense of our lives, so it's natural for stories to help others make sense of our new ventures. Stories are useful for transferring concepts with imagery told from a particular point of view.

When making a pitch, it is best not only to convey the value proposition of your product but to convey the value in the way that a loyal, enthusiastic consumer of the product (a brand advocate) would see it. Your goals become their goals. For example, Nike's Air Jordan brand has one of the most powerful advocate communities in the world. They are motivated by stories of being, in some small way, like one of the greatest athletes of all time. Inspired, they not only buy Nike shoes and clothes, they camp out and wait to be a part of the latest release-like people waiting for the next installment of their favorite film on opening night. Using narrative structures to get your pitch points across can inspire

potential investors to see and share your vision and goals. The downside to narrative-based customer development and marketing is that it can lead to a culture of manufactured need. A new form of consumerism, built on what marketers call the "fear of missing out," is another way of characterizing the euphoria people feel when they are enraptured by a brand. **Fear of missing out (FOMO)** refers to the sense that we need to keep up with our peers and the personas they represent in social settings, particularly on social media. They can say they were there and that they had the best stuff first. Critics would say that building such a strong identity to a brand, or even material goods, clouds people's sense of what is really important in life.

Even as you develop skills in pitching products by crafting inspiring narratives, be aware of the ethical implications of your work. You need to learn how to successfully make pitches to grow a brand and a company or nonprofit, but this is not a license to ignore the impacts of your work. Instead, consider this a call to action to balance your entrepreneurial, consumerist pitches and efforts with pro-social ones as well. Across a career, this kind of balance may be achievable, and, for both mass consumer products and purposeful social entrepreneurship efforts, good storytelling will help you achieve your objectives.

There is another type of narrative that can be pernicious—that of the wildly successful entrepreneur who has it all. Yes, this chapter starts by comparing entrepreneurs to superheroes. They do accomplish things other people only dream about, but many of the most famous ones have anomalous careers marked also by favorable conditions, luck, and hard work. The narrative that matters other than that of your entrepreneurial effort is your own personal one. The same way a successful startup is expected to iterate and overcome failures, so too are you encouraged and expected to persevere after setbacks when it is reasonable to do so.

As with the rapidly evolving tastes and habits of consumers in the face of "omnichannel" marketing practices in the US economy, it is impossible to be out in front of all of the latest information and communication technologies (ICTs). Even manufacturing technology evolves rapidly. If you make it an essential part of your corporate narrative that you are always "on top" of all technologies, you may be setting your business or service up for failure. ICTs and manufacturing are massive sectors in the global economy. You are not



expected to know everything about them. If you can conquer your FOMO regarding the latest technological developments, your story may not be perfect, but you will be able to work from a personal and corporate position of balance.

Also, be realistic about your own entrepreneurial story. Entrepreneurs who focus too much on their own narrative might miss important market challenges or deep-seated problems with their design or key features. Issues may arise and be ignored, to the peril of the endeavor, if entrepreneurs believe their own stories are a matter of destiny. Ignoring hurdles, failures, and shortcomings within yourself, your value proposition, or your organization can seriously hinder your ability to grow your venture. Your role as a communicator is not to spin a fairy tale yarn and try to live in it. Rather, your role in telling your entrepreneurial story is to demonstrate your capability to overcome challenges and show your capacity for growth as it relates to perseverance, thoughtful inquiry, and providing value and solutions to others.

## Chapter 8: Multiple Choice Review Questions

1. According to chapter 8, when crafting a vision statement, write questions beginning with \_\_\_\_
  - a) who are we?
  - b) how might we?
  - c) when might we?
  - d) where might we?
2. According to chapter 8, the purpose of an organization is to \_\_\_\_\_.
  - a) develop a clear mission and vision statement
  - b) serve customer
  - c) be socially responsible
  - d) provide value to people
3. According to chapter 8, this part of a goal should be well suited for what you want to accomplish
  - a) specific
  - b) measurable
  - c) achievable
  - d) relevant
4. According to chapter 8, this is the primary advantage of using stories in pitch development.
  - a) relatable
  - b) functional
  - c) realistic
  - d) relevant

## Chapter 8: Short Answer Review Questions

1. According to chapter 8, explain the difference between a vision and mission statement.
2. According to chapter 8, explain each part of SMART goals.

## Chapter 9: Developing Pitches for Various Audiences and Goal

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### Learning Objectives

1. Understand the various audiences an entrepreneur may pitch to and how the pitch goals vary for each
2. Define and develop the key elements of a pitch
3. Describe a pitch deck and pitfalls to avoid
4. Create and create an elevator pitch

Let's look more closely at how to develop pitches. Remember that we defined a pitch as a formal but brief presentation that is delivered (usually) to potential investors in a startup. As such, a pitch is designed to be clear, concise, and compelling around key areas, typically the key problem or unmet need, the market opportunity, the innovative solution, the management plan, the financial needs, and any risks.

You will often need to craft different types of pitches for different audiences. Key audiences include potential investors, social connectors, potential partners, key employee recruits, and the broader community, particularly if one needs to request permits or regulatory concessions. One misconception about pitching is that it is always done to investors who are ready to fork over a few hundred thousand dollars to the team that presents the best idea of the day. While this is, more or less, the premise of Shark Tank, it is not how pitching works for most entrepreneurs.<sup>122</sup> Entrepreneurs may pitch to friends and family as they develop an idea, and, at another time, they may pitch to well-connected entrepreneurs and investors who have little interest in the market sector in question but who can make the right introductions or helpful connections. Entrepreneurs might make pitches in what is known as a pitch competition, hoping for a shot at funding and mentoring.

Pitches come in many forms, but underlying them is that to pitch is to ask for something. Figure 1 provides an overview of different audiences you might pitch to, outlining how the approach and presentation may vary for each.

<b>Audience</b>	<b>Length</b>	<b>Pitch Approach</b>	<b>Key Content</b>	<b>Notes</b>
Friends and Family	15 minutes	Usually verbal with a simple companion one-page handout explaining the concept, value proposition, and funds needed to get the enterprise off the ground	Should cover basic elements of the business model and concept, unmet need, and solution (including if it seems patentable), market and sales potential, and high-level risks	This common pitch can be emotional as founders are appealing to people they know well and are counting on their personal reputation and credibility vs. detailed data to sell the idea
Elevator pitch competitions	2-5 minutes	Usually a verbal pitch or single slide summarizing need, solution, market, opportunity	Should cover high-level innovation, value proposition, and a “call to action” to close the audience	Very common at accelerator or incubator events.
Judges for pitch competitions	5-15 minutes	Varies from basic verbal to deck of 1-8 slides ending with a “call to action”, might require capital needs	Presentation that may include slides and/or video	These are very common and help the entrepreneur refine the pitch
Early investors	10-20 minutes	Standup presentation with slides and video or demonstration	Presentation is more formal than pitch competitions with a specific “ask” for capital needs and use.	Very common with angel investors, often the deck is required to be sent before the event
Employees	10-20 minutes	Standup presentation with slides and video or demonstration	Major outcome is to inform and inspire, this can be a recurring event and should be informal	Very common in startups, usually monthly until company is profitable
Trade groups/ associations	10-20 minutes	Standup presentation with slides and video or demonstration, maybe tailored to a specific group	Major outcome is to inform and connect to other key groups (investors, customers, etc.)	Very common at trade conferences, some have their own pitch competitions
Grant making agencies (such as NIH, NSF)	10-20 minutes	Usually written but can lead to face-to-face meeting, depending on agency rules	Outcome is to get “scored” to gain grant funding, if not awarded	Grants are often technical and usually awarded for research and cannot be used for commercial activities

Figure 19: Summary of Pitch Scenarios

## Pitch Audiences

No matter to whom you are pitching, you usually need to include references to your problem-solution statement, value proposition, and key features, and how you prioritize that information will change for different audiences. As shown in Figure 1, once those core sections are covered, your different presentations should be tailored for different ultimate "asks." The ask in a pitch is the specific amount of money, type of assistance you request, or outcome you are seeking.

## Investors

You have been introduced to different types of investors and will learn about them in more depth in Entrepreneurial Finance and Accounting. For now, you just need to know the different types so you can start to think about how entrepreneurs structure their pitches to them. Individual investors want to know about team, product, value proposition, and potential return on investment. Angel investors are individuals who use their own money to invest in companies they are interested in. Venture capitalists are investors who pool money from others and use that money to invest in companies.

Pitching to many potential investors without success can be time consuming and disheartening, but in most cases, the investor's time is worth more than that of the people giving the pitch. If an investor offers feedback, it must be considered. You will probably not get all of the answers you need regarding how to make your venture an immediate success after giving a few pitches to individual investors and pitch competition judges, but if they take the time to offer a constructive critique, consider the pitch development and performance feedback a valuable experience.

## Friends and Family

Imagine asking friends and family for money to keep your startup going after you have maxed out your credit cards and secured a small business loan only to build a prototype and realize you do not have enough funds to get it to market. A common entrepreneurial journey starts with this sort of self-funded effort. Between 50 percent and 70 percent of startup companies in United States self-fund (savings, credit cards, or friends and family) their initial capital needs.<sup>123, 124</sup> In one sense, you may be perceived as being more trustworthy with so much riding on the endeavor. Still, you would frame your pitch

differently when going to friends and family than you would if preparing for an investor. You would probably make the tone less formal. You would focus on the value proposition and the immediate outcomes of the loan. You would point out tangible deliverables or milestones that this money would help you attain, and you would need to draw a roadmap from this contribution to likely, not just hoped for, revenues if you were to give yourself the best shot at raising money. Asking friends and family for, say, \$10,000 might be more stressful to an individual than to ask an investor for ten times that amount. Your friends and family may want to invest in you, but they will also want to make their decision with a tangible narrative in mind. You want to build this narrative so that they can say: "I gave my family member X, so that they can finish building Y, to earn revenues of Z and continue forward with their innovation."

### **Potential Employees**

Entrepreneurs also pitch to potential employees by focusing on why they are needed to help the team create something innovative and valuable. Once a product is under development, you must pitch to vendors. Prepare to explain the value proposition and key features in detail and explain how the vendor shares in revenues, such as options about accepting equity in part or in lieu of cash payments for services.

Entrepreneurs might also pitch to each other in hopes of building teams. Since most entrepreneurs are familiar with the structure of the pitch, you might be able to streamline proposals and simply state the value proposition and the ask. You will want to mention your team. The level of detail you share about who is working with you and what their contributions will be depends on the level of interest of the potential collaborator or investor. Future employees will likely want to know who they will be working with. Family and friends may not need to know the employment history of team members, but they, like other investors, will expect to know that there is a team capable of continuing to develop the product.

### **Other Audiences**

Other types of audiences, which you can read more about in the Building Networks and Foundations chapter, include quasi-governmental bodies, individual investors, incubators, trade groups, and competition judges. (Pitch competitions are discussed at length in

Reality Check: Contests and Competitions.) Understand that governments usually care most about creating jobs or retaining jobs in their communities. Advanced competitions and larger investment firms will want to see concrete numbers demonstrating product viability, market relevance, and previous growth. In other words, they will expect to see more details, and they will usually communicate ahead of time their specific interests. That being said, you must network and investigate which elements of your pitch to prioritize based on individual investor or investment firm preferences.

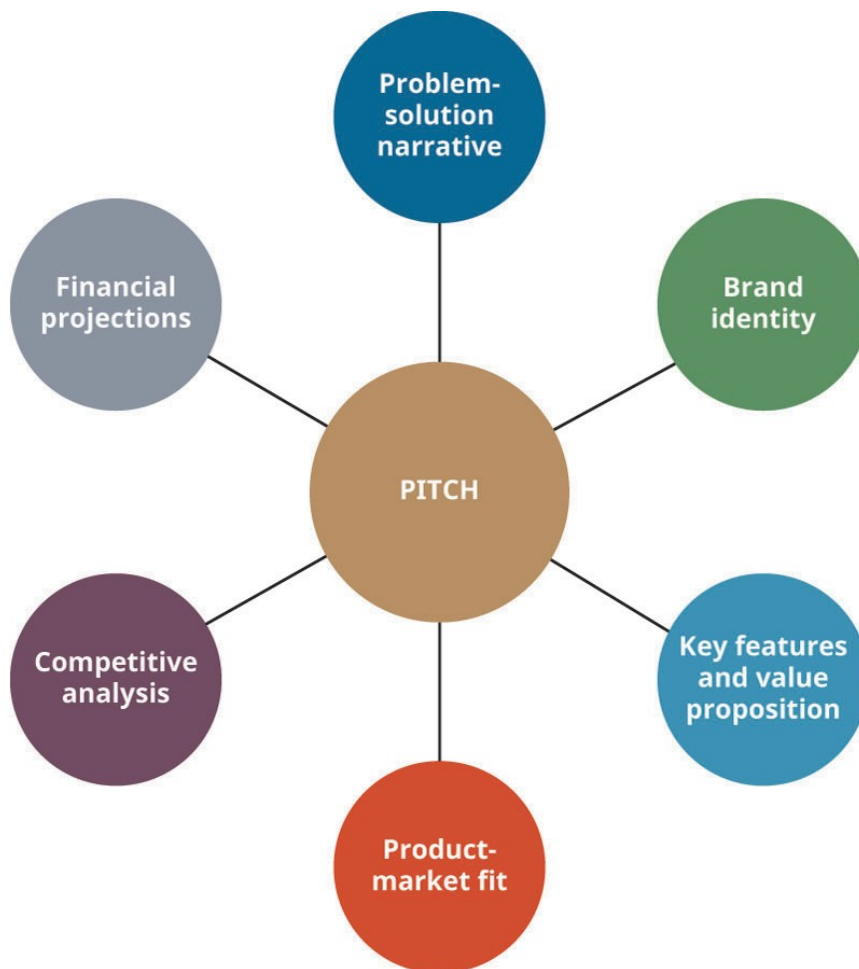
## **Pitch Goals**

Planning a pitch means researching region, potential investors, and current competitors working in the same or similar marketplaces. A good pitch explains not only what makes the product or service good but what makes a market good. Research markets in addition to the individual investors you would like to target. Angel investors are hard to find, but markets can be thoroughly dissected. Marc Andreessen, cofounder of Andreessen Horowitz, one of the most successful Silicon Valley venture capital firms in existence, once wrote, "In a great market—a market with lots of real potential customers—the market pulls product out of the startup."<sup>125</sup> This is presented as an answer to a question Andreessen posed to himself: "What correlates the most to success—team, product, or market?" He set up this question as a rhetorical tool to teach entrepreneurs that without a market, you do not have a product no matter how hard you work or how genius your team is.

Investors specialize: Find investors in the right geographic location and find investors who know the market sector. Your goal should be to find mentors who can explain markets to you in significant, accurate ways. If you find a fertile marketplace, you can practice customer development, and learn and iterate your way to success.

## Key Elements of the Pitch

A pitch is usually presented through what is called a pitch deck, alternately called a slide deck. This is a slide presentation that you create using a program such as PowerPoint, Prezi, Keynote, or Google Slides that gives a quick overview of your product and what you're asking for. As such, a pitch is designed to be clear, concise, and compelling, and should include the key areas as shown in Figure 2. Here are six key elements of an entrepreneurial pitch from *Media Innovation and Entrepreneurship*.<sup>126</sup>



*Figure 2: Key elements of pitch include identifying the need, the market opportunity, an innovative solution, how the venture will be managed, what funding is needed, and how risks will be mitigated. (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*



**Element 1: Brand identity image and tagline.**

Your presentation slide deck should begin with a memorable brand image. It can be a logo representing your product in a stylized way, or it could be a screen grab of your product wireframe (a computer rendering if it is a product, and a schematic or flow chart if it is a software/service business model. The Entrepreneurial Marketing and Sales chapter covers these concepts in detail.

**Element 2: Problem-solution narrative.**

Some entrepreneurial ideas solve common problems. Some solve problems that users didn't know they had. Communicate the problem-solution narrative succinctly. Incorporate visuals and a "hook" (skit, emotional testimonial, deep question, etc.) to connect directly with the audience. An effective technique when addressing a generally common problem is to ask the question while raising your hand to prompt the audience: "How many of you have experienced this issue/problem/ challenge recently?"

**Element 3: Key features and your value proposition.**

Your pitch can introduce potential investors, collaborators, employees, and others to your key features, your value proposition, and your user interface at the same time. Consider using a mockup of your product or images of a prototype to show your design capabilities while at the same time pointing out key features building to a value proposition. Or if you are a service or nonprofit venture, explain what you plan to provide to individuals or the community.

**Element 4: Product-market fit description.**

Define the market niche clearly and explain how your innovation serves the market purpose precisely. Not every problem is one people would pay to fix. Explain why there's a market to overcome this problem, how sizeable it is, and why your value proposition is the best. The chapter on Identifying Entrepreneurial Opportunity can help you hone in on this section and put your idea into words.

**Element 5: Competitive analysis.**

Demonstrate that your product is unique by defining its competition and illustrating how it will stand out in the marketplace. Investors will pay close attention to any missed or

omitted competitors. They will want to see that you can establish barriers to entry, lest some immediate copycat eat up market share. The Entrepreneurial Marketing and Sales chapter covers these concepts as well.

### **Element 6: Financial projections.**

The business model canvas (BMC) can help you understand and be able to visualize how your value proposition sits at the center of two dynamics: input and output cycles. This is covered in Business Model and Plan, but just know that you must pay for inputs and overhead, and that revenues from outputs, sooner rather than later, ought to catch up to initial expenses. Show what the overall market is worth: How big is this pie? Then, show how big your slice and your investor slice is going to be. The Entrepreneurial Finance and Accounting chapter gets into these issues in more depth. In many cases, you will want to end with a description of your team, demonstrating quickly why you are up to the task of growing this innovation. As mapped out here, this could be the basic framework for your pitch deck for a short competition. Some elements can be communicated in a single slide. Some will take more than one. Flesh out your essential pitch decks with further specifics or with data requested by competition organizers for longer contests. It is suggested that you keep your core deck to no more than ten slides and that you practice a two-minute version that covers all six of these concepts in case you meet an angel investor on the street.

If you have followed this discussion, you have established a vision for your innovation and the company you want to build around it. You have established a mission and identified a clear purpose for it. You should have a keen sense of your entrepreneurial story, but if you cannot express these things in a way that makes other people see the value, your innovation may not survive. You don't build pitch decks solely for the purpose of asking for money or support. That may be the primary objective, but when you work on your pitch, you build the narrative case again and again for why your idea has value and why other people should buy into your vision.

## +The Pitch Deck

As you can see, the primary means entrepreneurs have of sharing their vision is the pitch deck. Usually ten to twenty slides can explain your company, its goals, and key information to persuade an audience to take action (usually investors to consider investing in the enterprise). Pitch presentations should be visual and engaging. They should be easy to edit and rearrange, and should engage viewers with art, panache, and reasonable appeals. In general, they communicate the inspiration behind the innovation, its future capabilities, and the strengths of the team. Incorporate as many visuals as you need and make sure the visuals match the script.

As an entrepreneur, you will be judged on your ability to develop and deliver a pitch. It can be taken as shorthand for your ability to research a marketplace, guide a team, and manage a product. Sharing your vision using slideshow software is not easy. Viewers are not impressed by status quo pitch presentations, but critical audiences will also quickly notice when a pitch is all flash and lacks a good value proposition. A strong pitch, content-wise, can be noticed, even if the slide design is less than stellar. In other words, developing a great- looking pitch deck is important, but there has to be substantial content

Let's use the slide deck from Airbnb as an example. It was presented after the company grew from its initial seed funding stage into a viable operation with high hopes for future revenue growth. That is, they were already established and making money when this deck was in use. It was presented after the initial investment stage, when the company had done a good deal of customer development.

The track record is always in question when small firms go asking for big money, so note how Airbnb describes its previous success and potential for future growth. When funded, AirBed&Breakfast would change its name and grow it into a global brand. This relatively straightforward deck from 2008-2009 is a popular example because of its simplicity and its powerful value proposition, although some experts note that the design could be better.<sup>127</sup> Nevertheless, this was a successful pitch deck.

Visit <https://press.rebus.community/media-innovation-and-entrepreneurship/chapter/pitching-ideas/> to see a SlideShare page containing the following

ten slides and two more add-ons from SlideShare. The description of this pitch deck comes from Media Innovation and Entrepreneurship.<sup>128</sup>

- Slide 1: Airbnb started out as "AirBed&Breakfast." Brand identity is established with a sans-serif typeface, use of color, and a clear tagline: "Book rooms with locals, rather than hotels."
- Slide 2: The problem statement is straightforward: Travelers need an affordable alternative to hotels.
- Slide 3: The solution statement focuses on the nature of the product, that is, that it's a web platform, and on key features and how they create value, both financial and cultural capital. Note that key features and the value proposition are already addressed through three simple slides.
- Slide 4: To establish product-market fit, you first have to have a market. The Airbnb pitch deck notes that at the time there were 630,000 users on couchsurfing.com and that there were 17,000 temporary housing listings on Craigslist in San Francisco and New York combined in one week. Thus, there existed a large potential traveler pool and a large pool of people with rooms for lease, but these groups were in need of a unified platform.
- Slide 5: The fifth slide details the size of the market and Airbnb's share, showing potential for growth.
- Slide 6: Completing the case for product-market fit, this slide shows the attractive user interface and provides a mini-narrative for how the product works.
- Slide 7: This slide shows four years' of revenue totals as simple math: 10 million + trips x \$20 average fee = about \$200 million in revenue. This is evidence of product-market fit and whets the investor's appetite for potential future earnings.
- Slide 8: This slide shows how Airbnb has already beaten its competition to own the market for certain events and create partnerships.
- Slide 9: Here, investors get the full picture of the competition.
- Slide 10: The financial expectations are pretty well established by this point and were explained verbally. What this shows are the barriers to competition expected to help preserve Airbnb's position, future earnings, and growth expectations.

Consider what was involved in creating this Airbnb slide deck. The deck is not particularly

complicated. AirBed&Breakfast, as it was called at the time, was a market leader in a niche that other companies had previously tried to exploit. The company's rapid growth was not a guarantee, but this offer was too good for investors to pass up, although at the seed funding stage, some investors did not see the potential in a service that helps people sleep in others' private residences.<sup>129</sup> By the point this deck was in use, the company had gotten past initial concerns about safety and viability, and was ready to grow quite quickly. A 2018 check shows Airbnb has secured funding through six rounds from a variety of major investors.<sup>130</sup>

As we have seen, pitch decks and pitches are developed and delivered for various reasons, to various audiences, with varying content. For example, you may prepare pitches to pursue different long-term visions for your product. Or, if you do not secure seed funding, you might scale back your idea, adjust your vision, and rework your pitch. What remains the same is the need to convey how you will bring value to users or customers, and demonstrate the core pitch elements, adjusted for each altered outlook.

## **Elevator Pitches**

After looking at an exemplary pitch deck adapted by a niche market leader between seed funding and the venture capital quest, it may seem difficult to inspire investors via a one- or two-minute elevator speech for a project under development, but preparing for this type of pitch is essential. An elevator pitch is an abbreviated pitch, a memorized talk that can get you in the door to put your full pitch deck on display. The elevator pitch should touch on the key elements of problem-solution, value proposition, product-market fit, and team, and not much else.

Giving an elevator pitch is an art. The elevator pitch can be memorized and should be. It might be delivered informally at networking events or at dinner parties or other social engagements. You never know when you might need to give an elevator speech. You might find yourself talking to someone who'd be interested in your venture, and it might be at a golf outing, on the ski slopes, on the street, in a store, or, yes, in a giant investment firm's lobby as a courtesy, as in *The Big Short*. And of course, in elevators. That is why it should be memorized and up to date.

The classic example of a good elevator pitch is the one job candidates give that lands them an entry level job in a company for they have always dreamed of working. Adapted from an article in Forbes,<sup>131</sup> there are six elements of a good job-seeking elevator pitch. First, the pitch must be targeted. It cannot sound as though just any job will do. You need to pitch yourself for the specific role the employer is trying to fill. It helps, second, to write your pitch down in order to edit it and perfect it. Third, it should be correctly formatted and, fourth, focused on the company where you hope to work rather than on yourself. Explain how you understand what they are hiring for and let that be the setup to a story that ends with you being the best person to fit their needs. Fifth, clear away the buzzwords and corporate-speak, and, finally, practice performing your pitch aloud. Elevator speeches, after all, are given in person.

However, a personal pitch is a relatively simple and straightforward task. If you are asked to write an elevator pitch for your proposed venture, start with about three sentences, or a 280-character Tweet. Write it first as a set of talking points so that you do not get hung up on trying to present the exact words in the exact order.

Make your elevator speech broad enough that any member of your team could deliver it and any potential investor could comprehend it in passing. Delivering an elevator speech is a linear process, meaning a person cannot be expected to read back or probe for more information the way they might with a written presentation or in a formal pitch presentation with time for follow-up questions. Be sure to bring business cards and keep your smartphone charged and ready for the exchange of contact information, a sign that you have succeeded in this first step.

## Chapter 9: Multiple Choice Review Questions

1. According to chapter 9, the approach for this pitch varies from basic verbal to deck of 1-8 slides ending with a “call to action”,
  - a. Early investors
  - b. Judges for pitch competitions
  - c. Elevator pitch competitions
  - d. Friends and family
2. According to chapter 9, between 50 percent and 70 percent of startup companies in United States come from this funding source.
  - a. Other audiences
  - b. Potential employees
  - c. Investors
  - d. Friends and family
3. According to chapter 9, in this element of the pitch, you incorporate visuals and a "hook".
  - a. Problem-solution narrative
  - b. Key features and your value proposition
  - c. Product-market fit description
  - d. Competitive analysis
4. According to chapter 9, this is a memorized talk that can get your foot in the door.
  - a. The elevator pitch
  - b. The pitch deck
  - c. The tagline
  - d. The value proposition

## Chapter 9: Short Answer Review Questions:

1. According to chapter 9, explain how the pitch approach difference between an elevator pitch in competitions versus judges for pitch competitions versus early investors.
2. According to chapter 9, describe the difference between a pitch deck versus an elevator pitch.

# Chapter 10: Launching Your Venture

## Learning Objectives

1. Explain the importance of creating and discussing the vision statement
2. Determine the documents necessary for managing risks
3. Describe company culture and the purpose of a code of conduct
4. Summarize how to outline and schedule the operational steps of the launch.

The big day has arrived. Your opportunity recognition process noted that your idea solves a significant problem or need, you double-checked that the target market is large enough for potential profitability, you have a method to reach this target market, you have a passion to start this company, and you found resources to support the start-up. Knowing that you analyzed and addressed these topics, you now need to consider some of the more sensitive topics regarding the agreements within your team. Many entrepreneurs overlook the issues discussed here or act on them in a generic manner instead of fitting them to the specific needs of the venture. This lack of due diligence can be detrimental to the success of the business. The advice presented here can help you avoid those same mistakes.

To protect the interests of all parties involved at launch, the team should develop several important documents, such as a founders' agreement, nondisclosure and noncompete forms, and a code of conduct. Before these are drafted, the team should ensure the venture's vision statement is agreed upon. The entrepreneurship team needs to be in complete agreement on the vision of the venture before they can successfully create the founders' agreement. If some team members have an interest in creating a lifestyle business (a venture that provides an income that replaces other types of employment), while other team members want to harvest the venture with significant returns, there is a clash between these expectations. An angel investor will also have a strong opinion on the vision for the venture.

## Founder's Agreement, Nondisclosure Agreement, and Noncompete Agreement

Honest and open discussions between the entrepreneurial team members, including your angel investor if an angel investor is part of your initial funding, must take place before opening the venture. These frank discussions need to include a founders' agreement as



well as the identified vision for the venture. The founders' agreement should describe how individual contributions are valued and fit into the compensation plan and should consider and answer these questions:

- Will the entrepreneurial team members receive a monthly compensation?
- Is there a vesting plan with defined timelines aligned with equity percentages?
- What happens if a team member decides to leave the venture before an exit event?  
How will that team member be compensated, if at all?

Discussing the entrepreneurial team members' expectations avoids the problem of an entrepreneurial team member expecting a large equity stake in the company for a short-term commitment to the venture, and other misguided expectations. Such problems can be avoided by addressing the following questions:

- What activities and responsibilities are expected from each team member, and what is the process or action when individual overstep their authority?
- Is there an evaluation period during which the team members discuss each other's performance? If so, how is that discussion managed, and is there a formal process?
- What happens if a team member fails to deliver on expected actions, or if an unexpected life event occurs?

The founders' agreement should also outline contingency plans if the business does not continue. The following questions help define those next steps and need to be answered prior to opening the venture:

- If the venture is unsuccessful, how will the dissolution of the venture be conducted?
- What happens to the assets, and how are the liabilities paid?
- How is the decision made to liquidate the venture?
- What happens to the originally identified opportunity? Does a team member have access to that idea, but with a different team, or implemented using a different business model?

Once the venture opens, discussing these topics becomes more complicated because the entrepreneurial team is immersed in various start-up activities, and new information affects their thoughts on these issues. Along with these topics, the founders' agreement should also state the legal form of ownership, division of ownership (this refers to the division of equity at either the next round of financing, or harvesting of the company), as well as the buyout, or buyback clause.

The **buyback clause** addresses the situations in which a team member exits the venture prior to the next financing round or harvesting due to internal disputes with team members, illness, death, or other circumstances, clearly stating compensation and profit distribution (with consideration of what is reinvested into the venture). Discussing these topics provides agreement between all team members about how to address these types of situations. The buyback clause should also include a dispute resolution process with agreement on how the dispute solution is implemented. Identifying exactly how these items are handled within the founders' agreement prevents future conflicts and even legal disputes.

If the entrepreneurship team includes an angel investor, the angel investor typically has the final say in these questions. In the best possible scenario, the angel investor has experience creating a founders' agreement and can provide valuable insights into working through this document. One common approach to creating this document, given the angel investor's available time, is for the entrepreneurship team to discuss and agree on the final document, then have the angel investor review the document for final approval. [Making Difficult Business Decisions in Response to Challenges](#) will help in finalizing your founders' agreement.

After completing the formal vision statement and the founders' agreement, you might want to have an attorney evaluate the documents. This checkpoint can identify gaps or decisions that were not stated clearly. After receiving the examined documents back, the team should once again review the documents for agreement. If everyone is satisfied with the documents, each entrepreneurship team member should sign the document and receive a copy. If, later, the entrepreneurship team decides a change needs to be made to either the vision statement or the founders' agreement, an addendum can be created,

again with all parties agreeing to any changes.

Two other formal documents your team might want to consider include a nondisclosure agreement and a noncompete agreement. These documents can be applied to all employees, including the startup team, with consideration of extending to other contributors such as contractual personnel. A **nondisclosure agreement** agrees to refrain from disclosing information about the venture. Topics that might be included in this document include trade secrets, key accounts, or any other information of high value to the venture or potentially useful to a competitor. A **noncompete agreement** states that the person signing the agreement will not work for a competing organization while working for the venture, and generally for a set length of time after leaving the venture. Often, this time period is one year, but it can be longer depending on the know-how or intellectual property the exiting team member has

## **Company Culture and Code of Conduct**

In conjunction with these formal documents, the founding team should determine the culture they would like to build for their venture. Ideally, the organization's company culture is made up of the behaviors and beliefs that support the success of the organization. For example, when you walk into a business, is there a bustle of noise and activity, or is the business calm and restrained? This impression results from the organization's culture. We could compare the difference between walking into a high-end jewelry store and walking into a fast food restaurant. Both businesses have distinctly different cultures. If the venture is highly dynamic with fast-paced decisions and constant change, then the culture should support this type of venture. Perhaps the team wants to create a work hard, play hard culture. In that case, standards that support ad hoc team creation for impromptu discussions should be encouraged, rather than setting up a bureaucratic culture that requires approval of all meetings and deliberation of decisions prior to action. Many tech companies support a work hard, play hard culture. This culture is reinforced with open office spaces that provide opportunities to collaborate with colleagues. Or perhaps ping pong tables and kitchens are provided to encourage interaction. Even the hours of operation contribute to culture creation by either encouraging employees to set their own hours or restricting work hours through regulated entry. In contrast, a more

bureaucratically structured environment may fit a venture whose success relies upon compliance with external regulations and the use of highly sensitive or private information. An example of a bureaucratic culture aligns with many financial institutions. The culture within a bank conveys security of our deposited funds; we want a bank to have processes and systems in place that reinforce that we can trust the bank with our finances.

The culture-defining process should include the entrepreneurship team's creation of a code of conduct. Some organizations develop a code of conduct that includes guiding principles, while other organizations create detailed descriptions of what is acceptable and what is not acceptable. Your venture's code of conduct should fit with your venture's vision, the culture desired, and the entrepreneurship team's values. Codes of conduct should be created as documents that include a sensitivity to people within the company as well as the greater community. A code of conduct addresses the values that the organization supports, as well as ethical considerations. The purpose of a code of conduct is to help guide employee actions to align with the desired behavior. Including uniquely specific examples that align with the specific venture, can further communicate the desired behaviors. There are many varieties of codes of conduct; the main point is to create a code that supports the values and behaviors that you want to advance throughout your organization.

Earlier, we discussed the importance of the lead entrepreneur taking the initiative to discover the investor's business knowledge and learning about the investor's previous experience in funding an entrepreneurial venture. The code of conduct is another area that entrepreneurial teams frequently skip over by accepting a generic code of conduct rather than recognizing that there are a multitude of topics, phrases, and principles that should be uniquely designed to fit the venture. These two examples demonstrate the vastly different topics addressed within a code of conduct as evidence for why your code of conduct must fit your intentions for how you will conduct business and support the success of your venture.

These preparatory documents should be personalized to align with the entrepreneurial team and desired behaviors that support the success of the venture. Although standard language and forms addressing these topics are available online, these generic models

aren't intended to meet your unique venture's needs or the entrepreneurial team's needs. Taking the time to discuss and prepare these documents pays off in well-crafted documents and aligns the entrepreneurship teams' vision, goals, and dreams for their venture.

## **Launch Considerations**

Sage advice in launching the new venture is to quickly recognize when you do not have the answer or information to make the best decisions. In the early stage of launching the venture, the level of uncertainty is high, as is the need for agility and spontaneity. Even identifying the actual moment when the venture becomes a new venture can be difficult to determine. Should the venture be recognized as a new venture after receiving the necessary licenses or tax identification number, or when the first sale occurs, or when funds are first invested, or by some other method?

It is also important to keep in mind the end goal of the venture, often referred to as "begin with the end in mind." For example, many highly successful ventures never earn a dollar in sales. Depending on the entrepreneurial team's vision and the business model selected, the venture could be highly valuable from a harvest, or sale of the venture, perspective. Frequently, this decision is dictated by the angel investor. These people frequently started their own venture, harvested the venture, and as a result have funds available to invest in other new ventures. In most cases, the angel investor expects to cash out of the venture at some point in the future. These are investors who are not interested in holding a long-term equity position but rather expect to grow the venture into a position where another company buys out the venture. This buyout is also known as the harvesting of the venture and the point at which the angel investor receives a percentage of the harvested dollar sale to cover the equity stake in the new venture. Entrepreneurs are often advised to "begin with the end in mind" when launching a new venture. If the goal is to sell the venture to another company, we want to identify that company before launching the venture. Of course, at this point, this is only a desire or hope, as you cannot require or expect another company to have an interest in your new venture. But you can design the new venture to align with this end goal by making decisions that support this end goal.

Launching your venture is a unique experience for every entrepreneurial team and for

every venture. These novel situations and uncertainties create both challenges and new learning opportunities. Accepting that a multitude of possibilities exists and recognizing the importance of researching and discussing actions are valuable to the success of the team. Angel investors hold a wealth of knowledge, and with an equity stake in the venture, these investors should be included in all discussions. If you have an angel investor on your team, you have an added advantage to tap into the expertise available to support the venture. In conjunction with a well-aligned angel investor, conducting research to explore decisions will improve your venture's success.

Although these decisions might seem difficult, the next section addresses how to approach difficult decisions and the role emotional connections for the venture and its team play in those decisions

## **Seeking Help or Support**

You've learned about some of the challenges in starting the venture and the types of decisions that the entrepreneurial team must make, as well as the importance of recognizing when you don't know something or that you have encountered a problem. Facing these issues is easier when you recognize that asking for help should be part of the process. Given the wide range of variables involved in starting a new venture, it's just not possible for one entrepreneur to have all the answers. Asking for help is an intelligent decision: It's an action that recognizes the complexity of starting and managing a venture

### **Types of Assistance**

Fortunately, there are many types of assistance available in the field of entrepreneurship starting with your own network of people. Additionally, there are local, regional, national, and even international groups available to help you navigate the entrepreneurial journey.

Ideally, the entrepreneurial team conducted due diligence in their quest for funding. For those entrepreneurs pursuing financing through angel investors, research on what angel investors contribute to the funded entrepreneur beyond the actual dollars invested highlights the importance of the angel investor's expertise and knowledge as a contributor to the venture's success.<sup>132</sup> While many entrepreneurs focus solely or primarily on receiving funding to start the venture, this study points to the importance in selecting an

angel investor with knowledge of the industry, the distribution system, the technology, product, or the target market, as imperative to the success of the venture.

We've discussed the importance of finding an angel investor who has a background and experience in a similar area as your venture. Finding the right angel investor not only results in receiving the needed funding, but also access to this person's knowledge and personal network. Ideally, the angel investor has knowledge related to your industry, your target market, and your supply chain or distribution channel. This background knowledge provides you with key resources that can give your venture expertise that contributes to the venture's success. The angel investor's network also provides opportunities to gain key insights, seek advice, and discuss ideas or solutions that benefit the venture as a network of well-informed and experienced people.

The other primary network is the entrepreneurial team's network. These people include spouses/partners, family members, business associates, colleagues, and friends. These people can provide ideas and knowledge from a variety of perspectives and backgrounds. Connecting and reaching out for help requires both the ability to build relationships and the ability to recognize that seeking help reflects maturity and wisdom. As you tap into your network and seek advice, consider each person from a long-term relationship-building perspective. Consider how you might return the favor at a future time, if asked to help, or provide your expertise back to the people you access for help.

As you work with your network, keep track of the person's name, your conversation, and any commitments made during the meeting. A commitment might be a follow-up message on how you used the advice or response to the request, or an action that you will perform for someone else. Creating a formal network or contact system helps in developing this network into a long-term relationship-based perspective.

When seeking advice, be respectful of the other person's time. This means identifying exactly what type of help you want to request from the person. Are you requesting an introduction to someone else within that person's network, or advice about solving a problem, or access to physical resources? Setting up an appointment demonstrates respect, as does preparing for the meeting and explaining how you will use the advice.

Remember to thank the person and follow up with feedback on what happened from using the advice.

The types of assistance that can be provided through networking include:

- advice or information
- access to other people's networks
- access to financial resources
- business services such as legal, accounting, or administrative support
- physical resources such as land, buildings, or equipment.

Other free sources of support are instructors of your business courses, other business owners, organizations such as the SCORE (originally called the Service Corps of Retired Executives) and resources within the Small Business Administration (SBA). SCORE is an organization with a network of volunteers across the U.S. and is a resource partner with the SBA. SCORE offers mentor consultants, workshops, and other assistance to support the success of small businesses.

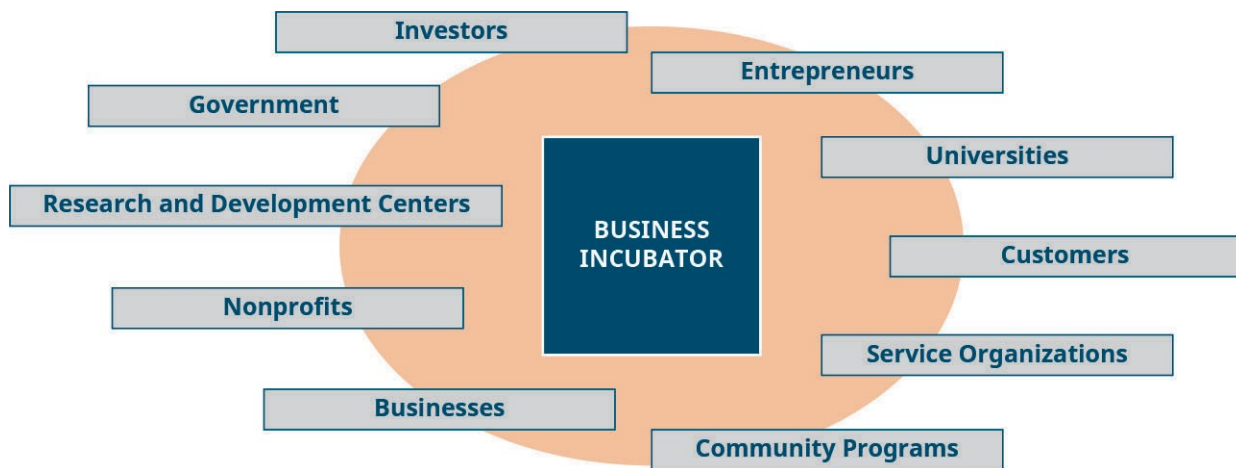
The SBA is a federally funded organization charged with assisting small businesses from startup through their continued existence. The SBA can help in reviewing and improving your business plan, providing assistance in finding funding through loans or grants, and acting as a consultant throughout the venture's existence. The SBA provides help in complying with both state and federal regulations. Depending on your business model, you might need licenses or permits, and your local SBA office will be well informed on these topics and can help you acquire what is needed to support the success of your venture

### **Support System Development**

Although each incubation program offers different-and sometimes uniquely specialized-help, they can be generally categorized by the types of support potentially available through these programs. Some incubators focus on one segment of an industry, or one segment of talent or interest. For example, there might be an incubator intended only for marketing start-ups. In this example, the incubator might assist with providing support in various marketing areas such as digital marketing, business-to-business marketing, global marketing, sports marketing, video creation, or other areas that fit within the topic of marketing. Oftentimes, incubators are sponsored by a municipality or government source.



Incubators are unique to a community's interests and available resources. Some communities have a vision for the community and desire the growth of the community to align with this vision. If a community has this perspective, their incubators would also align with this vision. Other communities create incubators around available resources, such as access and support from specific groups. Figure 1 illustrates the wide variety of approaches used in creating incubators. An incubator is supported by perhaps one or two of these sources, depending on the goal of the incubator.



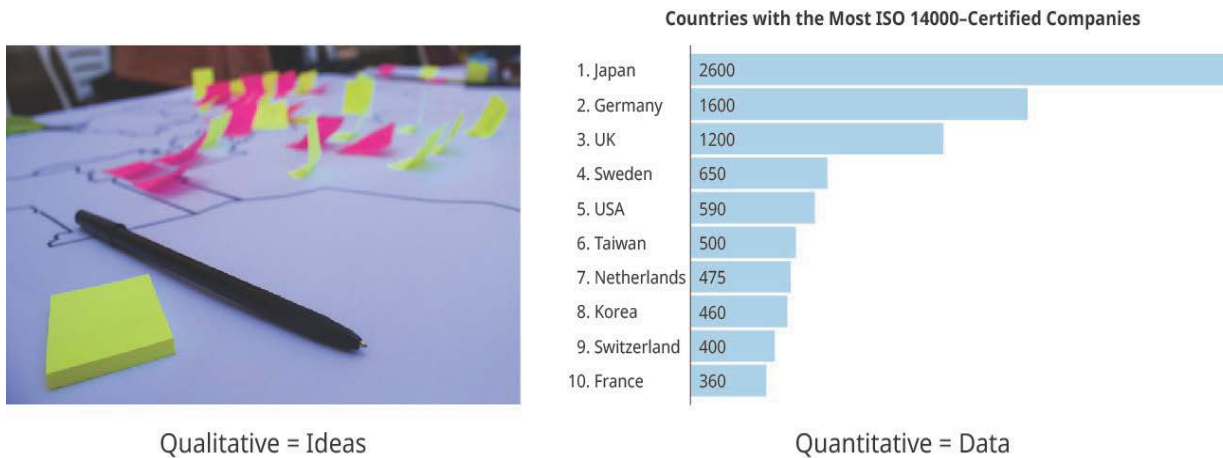
*Figure 1: There are many potential contributors to business incubation programs.  
(Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

As you build your support group, you might want to create an advisory group, which is a formal group of people who provide you with advice. In building your advisory group, select people who demonstrate an interest in your venture and your startup team. You want resources who have expertise related to your industry, your target market, or your business model. You also want a diverse group of people who can provide insights that reflect different backgrounds and knowledge. This diversity of experience and knowledge provides you with the greatest breadth of advice, which leads to your difficult decision: what advice to follow.

### **Deciding What Advice to Follow**

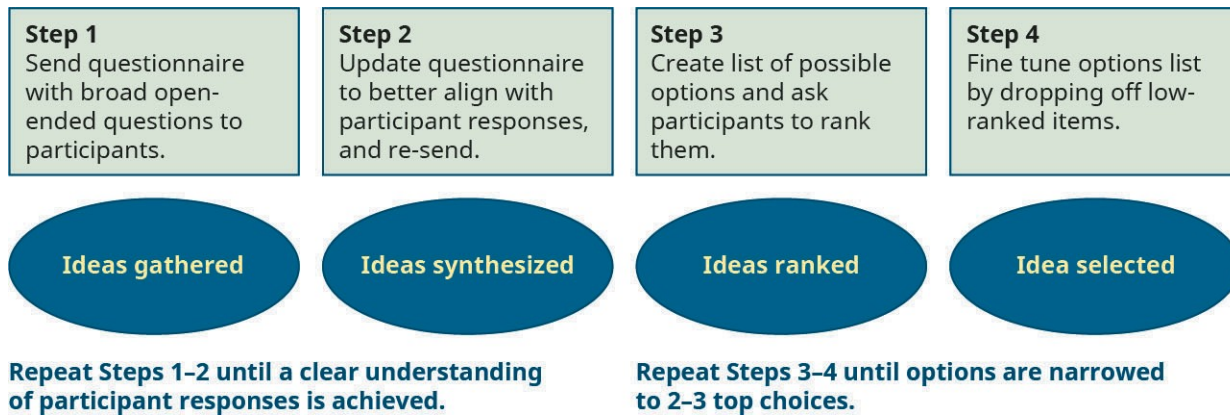
Once you have advice from a variety of sources, how do you decide which recommendations to pursue, which to consider, and which to rule out? One approach is to identify what information is qualitative versus quantitative, and evaluate one type first.

Qualitative information is conceptual-about ideas-whereas quantitative information is statistical or numerical. In both qualitative and quantitative areas, the entrepreneur can create visualizations to clarify the information and support analysis and decision making. The brainstorming and mindmaps discussed earlier, and illustrated in Figure 2, highlight the different types of data you can work with.



**Figure 2:** Both qualitative and quantitative factors inform decisions through ideas and numbers. (credit “left”: modification of “Articulamos nuestras ideas” by Cultura de Red/Flickr, CC BY 2.0; attribution “right”: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Two other tools for sorting through advice are the Delphi method and the Nominal Group technique. Both provide a structured methodology that can be applied to evaluate ideas. In the Delphi method, broad open-ended questions related to the decision being addressed are put into a questionnaire sent out to participants. For example, you might solicit input from your advisory group or another group closely connected to the topic. As responses come in, the questions are updated to align better with the first set of responses. The process repeats until there is a clear understanding of the participants' responses. Next, you create a list of possible options and request each participant to rank the options. Depending on these results, you either fine tune the list by dropping off low-ranked items, or, if the results are satisfactory, the options are narrowed to two or three top choices.



*Figure 3: The Delphi process proceeds through repetitions of the process until an agreed-upon final answer is identified. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)*

The Nominal Group technique occurs in a group setting. Participants are presented with a question or topic and write their thoughts in response on a card. The participants do not share their comments. Once everyone has submitted the cards, the facilitator shares all feedback so that everyone can see all participants' input. The participants discuss all of the ideas. Next, the participants again write down their responses on a new set of cards. The comments are again recorded and shared so that everyone can see the results. The process continues until there is agreement on a final filtered, or narrowed, list or set of options. At this point, the participants vote or rank the remaining set of options with the goal of accepting one option.

Although these techniques and tools take time, the process of thinking through each decision and possible action helps your mind pause to reflect and to be alerted to the importance of the decision. Taking a break at this point allows you to process the information, perhaps while taking a walk or having a lunch break. At some point, you might suddenly have a feeling of knowing the right answer- the decision to make. Sometimes, this experience is attributed to a "gut" feeling or intuition that tells you what you need to do. Resources like Gary Klein's *The Power of Intuition: How to Use Your Gut Feelings to Make Better Decisions at Work* explains how this process works in the human brain. Sometimes, this moment of recognition of the chosen decision results in a decision that wasn't produced through our processes but that offers a new and creative solution.

Taking the time to evaluate and deeply think about the problem, the advice, and possible solutions is an important part of decision making. Just as important are pausing and taking time to select a decision that is not reactive and that you feel comfortable with, keeping in mind that the decision you make might be unique, and the actual decision might not be within the advice provided to you by your support group. As the lead entrepreneur whose goal is the success of the venture, you are ultimately responsible for the decision. If the advice provided doesn't feel right, make the decision that does feel right and make sure you communicate that decision with your team.

## Chapter 10: Multiple Choice Review Questions

1. According to chapter 10, after forming the vision statement and founder's agreement, it is best to \_\_\_\_\_.
  - a. Create nondisclosure agreements
  - b. Hire an accountant
  - c. Have an attorney evaluate the documents
  - d. Develop a code of conduct.
2. According to chapter 10, topics like trade secrets and key accounts are found in this document.
  - a. Code of conduct
  - b. Founder's agreement
  - c. Nondisclosure agreement
  - d. Noncompete agreement
3. According to chapter 10, tech companies often support a \_\_\_\_\_ culture.
  - a. Work hard, play hard
  - b. Bureaucratic
  - c. Fast-paced decisions
  - d. Visionary
4. According to chapter 10, this source of assistance offers mentor consultants, workshops, and other support.
  - a. Angel investors
  - b. Networks
  - c. SCORE Instructors
  - d. Incubators
5. According to chapter 10, this source of assistance are often created around available resources.
  - a. Angel investors
  - b. Networks
  - c. SCORE Instructors
  - d. Incubators

## Chapter 10: Short Answer Review Questions

1. According to chapter 10, compare the three agreements: Founder's agreement, Nondisclosure agreement, and Noncompete agreement.
2. According to chapter 10, explain the type of assistance that can be provided through networking.
3. According to chapter 10, compare the Delphi method with the Nominal Group technique.

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