Chapter 9. Entrepreneurship Starting and Managing Your Own Business

9.1 Entrepreneur or Small-Business Owner?

The term *entrepreneur* is often used in a broad sense to include most small-business owners. The two groups share some of the same characteristics, and we'll see that some of the reasons for becoming an entrepreneur or a small-business owner are very similar. But there is a difference between entrepreneurship and small business management. Entrepreneurship involves taking a risk, either to create a new business or to greatly change the scope and direction of an existing one. Entrepreneurs typically are innovators who start companies to pursue their ideas for a new product or service. They are visionaries who spot trends. Although entrepreneurs may be small-business owners, not all small-business owners are entrepreneurs. Small-business owners are managers or people with technical expertise who started a business or bought an existing business and made a conscious decision to stay small. For example, the proprietor of your local independent bookstore is a small-business owner. Jeff Bezos, founder of Amazon.com, also sells books. But Bezos is an entrepreneur: He developed a new model—web-based book retailing—that revolutionized the bookselling world and then moved on to change retailing in general. Entrepreneurs are less likely to accept the status quo, and they generally take a longer-term view than the small-business owner.

9.2 Types of Entrepreneurs

Entrepreneurs fall into several categories: classic entrepreneurs, multipreneurs, and intrapreneurs.

Classic Entrepreneurs

Classic entrepreneurs are risk-takers who start their own companies based on innovative ideas. Some classic entrepreneurs are *micropreneurs* who start small and plan to stay small. They often start businesses just for personal satisfaction and the lifestyle. Miho Inagi is a good example of a micropreneur. On a visit to New York with college friends in 1998, Inagi fell in love with the city's bagels. "I just didn't think anything like a bagel could taste so good," she said. Her passion for bagels led the young office assistant to quit her job and pursue her dream of one day opening her own bagel shop in Tokyo. Although her parents tried to talk her out of it, and bagels were virtually unknown in Japan, nothing deterred her. Other trips to New York followed, including an unpaid six-month apprenticeship at Ess-a-Bagel, where Inagi took orders, cleared trays, and swept floors. On weekends, owner Florence Wilpon let her make dough.

In August 2004, using $20,000 of her own savings and a $30,000 loan from her parents, Inagi finally opened tiny Maruichi Bagel. The timing was fortuitous, as Japan was about to experience a bagel boom. After a slow start, a favorable review on a local bagel website brought customers flocking for what are considered the best bagels in Tokyo. Inagi earns only about $2,300 a month after expenses, the same amount she was making as a company employee. "Before I opened this store I had no goals," she says, "but now I feel so satisfied."

In contrast, growth-oriented entrepreneurs want their business to grow into a major corporation. Most hightech companies are formed by growth-oriented entrepreneurs. Jeff Bezos recognized that with Internet technology he could compete with large chains of traditional book retailers. Bezos's goal was to build his company into a high-growth enterprise—and he chose a name that reflected his strategy: Amazon.com. Once his company succeeded in the book sector, Bezos applied his online retailing model to other product lines, from toys and house and garden items to tools, apparel, music, and services. In partnership with other retailers, Bezos is well on his way to making Amazon's vision "to be Earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online." a reality.

Multipreneurs

Then there are multipreneurs, entrepreneurs who start a series of companies. They thrive on the challenge of building a business and watching it grow. In fact, over half of the chief executives at Inc. 500 companies say they would start another company if they sold their current one. Brothers Jeff and Rich Sloan are a good example of multipreneurs, having turned numerous improbable ideas into successful companies. Over the past 20-plus years, they have renovated houses, owned a horse breeding and marketing business, invented a device to prevent car batteries from dying, and so on. Their latest venture, a multimedia company called StartupNation, helps individuals realize their entrepreneurial dreams. And the brothers know what company they want to start next: yours.

An entrepreneur should have four major skills:

- Great selling skills
    - Enjoy being around people.
    - Easily accept rejection and move on.
    - Love the feeling of closing a deal
- Marketing Skills
    - Ability to appeal to peoples needs and wants
    - Gets gratification from seeing their ideas have their intended effects in the marketplace.
- Creative skills
    - Thrives on creativity
    - Enjoys problem-solving

    - Enjoys the process of invention but not necessarily selling an invention or idea
- Analytical skills
    - Enjoys thinking through existing systems and processes and making them work better.

Key elements of “hot” businesses

- They address a “screaming need”. Something the market really wants already.
- Find a niche and fill it.
- Streamline your operations. Example: Dell
    - Sells over the internet, cutting out retail expenses
    - Customer-financed just-in-time production of each computer
    - Pays its suppliers on 30-day terms
- Leverage technology
    - This edge allows online retailers to keep costs low as opposed to their brick and mortar brethren.
- Kick up your customer service
- Be the expert in your industry
- Monitor the trends; macro and micro
    - The graying of America
    - Women and Hispanics are examples of population segments that have ever increasing buying power
    - Desire to be more healthy and more spiritual
    - Mentoring is becoming highly desired
    - Disintermediation – Cutting out the middleman

If there is one person responsible for the mainstream success of solar energy and electric vehicles in the past 10 years, it's Elon Musk, founder and CEO of Tesla. Since the 2000s when he founded Tesla, launching innovation in solar technology, and commercial space exploration with SpaceX, Musk has pioneered countless innovations and has challenged traditional automobile, trucking, and energy companies to challenge and rethink their businesses. What entrepreneurial type best describes Elon Musk?

Intrapreneurs

Some entrepreneurs don't own their own companies but apply their creativity, vision, and risk-taking within a large corporation. Called intrapreneurs, these employees enjoy the freedom to nurture their ideas and develop new products, while their employers provide regular salaries and financial backing. Intrapreneurs have a high degree of autonomy to run their own minicompanies within the larger enterprise. They share many of the same personality traits as classic entrepreneurs, but they take less personal risk. According to

Gifford Pinchot, who coined the term intrapreneur in his book of the same name, large companies provide seed funds that finance in-house entrepreneurial efforts. These include Intel, IBM, Texas Instruments (a pioneering intrapreneurial company), Salesforce.com, and Xerox.

The Post-It note. Facebook's "like" button. The Sony PlayStation. These products are all held up as legendary examples of the power of intrapreneurship — entrepreneurial creativity and innovation within large, established organizations. Since the term was coined in the 1980s, intrapreneurship has been sold to companies as a catch-all solution for fostering innovation. It's been promoted to workers as a way to capture the creativity and excitement of entrepreneurship, but with more resources and less risk.

The PlayStation as we know it is the brainchild of an intrapreneur in Sony. Ken Kutaragi, an employee of Sony, wanted to make a better version of the Nintendo console and came up with the idea of the PlayStation which was recognized and rewarded by the CEO of the company.

Gmail was developed by one of the intrapreneurs in Google, Paul Buchheit, who worked on this project for 4 years till its launch on April 1, 2004.

Intrapreneurs are supposed to be rebels, breaking the rules and swimming against the corporate tide. While this vision of the intrapreneurial maverick is certainly alluring, in truth it's an ineffective way to drive innovation. After more than 20 years of researching innovation in large companies, it’s clear to me that the successful intrapreneur is often more myth than reality.

The experience of the typical intrapreneur looks less like Spencer Silver, who developed the Post-It note while at 3M, and more like Steven Sasson, the engineer at Kodak who invented the portable digital camera. As is now well-known, instead of propelling Kodak into the future, the digital camera became a massive missed opportunity.

9.3 Entrepreneur vs Intrapreneur

The ways in which entrepreneurs and intrapreneurs work are similar yet differentiable. An entrepreneur has full liberty over his decisions which he uses to envision and create the company and its products from scratch. While an intrapreneur experience less liberty but a broader vision in decision making as he is entitled to create a new product for a brand that already exists and can also capitalize on its existing brand equity and positioning.

The following points may clear the difference between an entrepreneur and an intrapreneur:

Independence

An entrepreneur is independent to take any decision for his company. He may or may not consult anyone before taking any decision. However, an intrapreneur usually reports to the owner and other top official and is usually dependent on them.

Risks

An entrepreneur is always at a risk to lose everything he has invested in the company whereas the risks of new products developed by intrapreneurs are usually borne by the company.

Funds

An entrepreneur has to struggle with fund generation and there are cases when the startup fail because entrepreneur could not generate enough funds for its survival. Funding is not much of a problem in intrapreneurship. They get the fund if the company feels it’s necessary.

Relationship With The Business

In the early life of a startup, the entrepreneur and the business act as one. The entrepreneur and his startup cannot be separated. However, the intrapreneurs often lack this relationship with the company they work with.

9.4 The Entrepreneurial Personality

Studies of the entrepreneurial personality find that entrepreneurs share certain key traits. Most entrepreneurs are

• Ambitious: They are competitive and have a high need for achievement.

• Independent: They are individualists and self-starters who prefer to lead rather than follow.

• Self-confident: They understand the challenges of starting and operating a business and are decisive and confident in their ability to solve problems.

• Risk-takers: Although they are not averse to risk, most successful entrepreneurs favor business opportunities that carry a moderate degree of risk where they can better control the outcome over highly risky ventures where luck plays a large role.

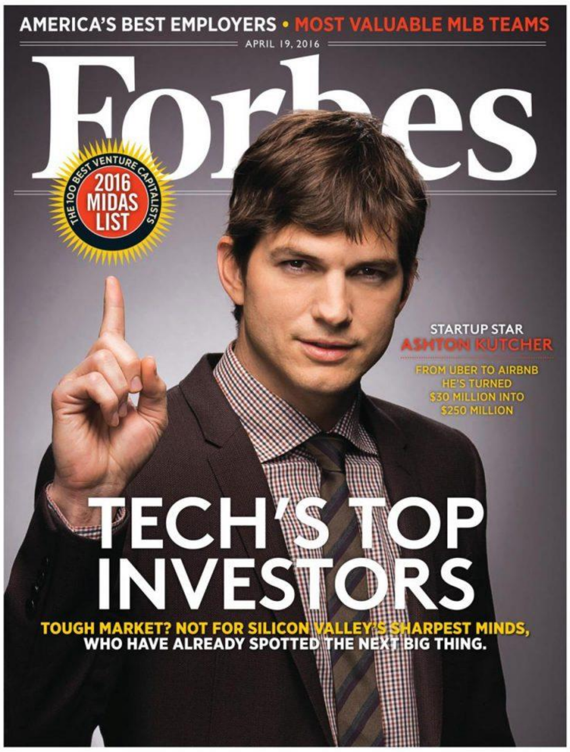
• Visionary: Their ability to spot trends and act on them sets entrepreneurs apart from small-business owners and managers.

• Creative: To compete with larger firms, entrepreneurs need to have creative product designs, bold marketing strategies, and innovative solutions to managerial problems.

• Energetic: Starting and operating a business takes long hours. Even so, some entrepreneurs start their companies while still employed full-time elsewhere.

• Passionate. Entrepreneurs love their work, as Miho Inagi demonstrated by opening a bagel shop in Tokyo despite the odds against it being a success.

• Committed. Because they are so committed to their companies, entrepreneurs are willing to make personal sacrifices to achieve their goals.



Celebrity Ashton Kutcher is more than just a pretty face. A well-known technology investor today, Kutcher is one of the most successful celebrities investing and helping promote Silicon Valley start-ups. Some of his investments include stakes in high-profile companies such as Skype and social 'check in' site Foursquare through the venture capital fund A-Grade Investments which he co-founded. Other investments of Kutcher include Airbnb and social magazine concept Flipboard and online textbook rental company Chegg.

From his modeling and acting career, Ashton Kutcher managed to build a $50 million fortune but it was his investments in entrepreneurs that helped him to become a multi-millionaire. Following is how investments in entrepreneurs helped Ashton Kutcher to turn $50 million into a $250 million wealth.

Kutcher invested as an individual in the social network Foursquare before he co-founded the venture capital firm A-Grade Investments. The investment in Foursquare helped put Ashton Kutcher on the map of the startup scene and in 2009, he invested in Skype. Two years later, Skype was bought by Microsoft, and according to reports, this helped Kutcher triple his wealth.

Kutcher also invested in Spotify and Yplan mobile app which allows users find last-minute events happening that evening and allows them to buy tickets through one click. The app, which is very popular in London, has expanded to New York and San Francisco.

9.5 Ready, Set, Start Your Own Business

You have decided that you'd like to go into business for yourself. What is the best way to go about it? Start from scratch? Buy an existing business? Or buy a franchise? About 75 percent of business start-ups involve brand-new organizations, with the remaining 25 percent representing purchased companies or franchises. Franchising may have been discussed elsewhere in your course, so we'll cover the other two options in this section.

Getting Started

The first step in starting your own business is a self-assessment to determine whether you have the personal traits you need to succeed and, if so, what type of business would be best for you. *Table 5.6* provides a checklist to consider before starting your business.

Finding the Idea

Entrepreneurs get ideas for their businesses from many sources. It is not surprising that about 80 percent of *Inc.* 500 executives got the idea for their company while working in the same or a related industry. Starting a firm in a field where you have experience improves your chances of success. Other sources of inspiration are personal experiences as a consumer; hobbies and personal interests; suggestions from customers, family, and friends; industry conferences; and college courses or other education. An excellent way to keep up with small-business trends is by reading entrepreneurship and small-business magazines and visiting their websites. With articles on everything from idea generation to selling a business, they provide an invaluable resource and profile some of the young entrepreneurs and their successful business ventures.

Developing the Business Plan

Once you have the basic concept for a product or service, you must develop a plan to create the business. This planning process, culminating in a sound business plan, is one of the most important steps in starting a business. It can help to attract appropriate loan financing, minimize the risks involved, and be a critical determinant in whether a firm succeeds or fails. Many people do not venture out on their own because they are overwhelmed with doubts and concerns. A comprehensive business plan lets you run various “what if” analyses and evaluate your business without any financial outlay or risk. You can also develop strategies to overcome problems well before starting the business.

The key features of a business plan are a general description of the company, the qualifications of the owner(s), a description of the products or services, an analysis of the market (demand, customers, competition), sales and distribution channels, and a financial plan.

Financing the Business

Once the business plan is complete, the next step is to obtain financing to set up your company. The funding required depends on the type of business and the entrepreneur’s own investment. Businesses started by lifestyle entrepreneurs require less financing than growth-oriented businesses, and manufacturing and high-tech companies generally require a large initial investment.

Who provides start-up funding for small companies? Like Miho Inagi and her Tokyo bagel shop, 94 percent of business owners raise start-up funds from personal accounts, family, and friends. Personal assets and money from family and friends are important for new firms, whereas funding from financial institutions may become more important as companies grow. Three-quarters of Inc. 500 companies have been funded on $100,000 or less.

The two forms of business financing are debt, borrowed funds that must be repaid with interest over a stated time period, and equity, funds raised through the sale of stock (i.e., ownership) in the business. Those who provide equity funds get a share of the business’s profits. Because lenders usually limit debt financing to no more than a quarter to a third of the firm’s total needs, equity financing often amounts to about 65 to 75 percent of total start-up financing.

One way to finance a start-up company is bootstrapping, which is basically funding the operation with your own resources. If the resources needed are not available to an individual, there are other options. Two sources of equity financing for young companies are angel investors and venture-capital firms. Angel investors are individual investors or groups of experienced investors who provide financing for start-up businesses by investing their own money, often referred to as “seed capital.” This gives the investors more flexibility on what they can and will invest in, but because it is their own money, angels are careful. Angel investors often invest early in a company's development, and they want to see an idea they understand and can have confidence in.

Using Outside Consultants

One way to ease the burden of managing a business is to hire outside consultants. Nearly all small businesses need a good certified public accountant (CPA) who can help with financial record keeping, decision-making, and tax planning. An accountant who works closely with the owner to help the business grow is a valuable asset. An attorney who knows about small-business law can provide legal advice and draw up essential contracts and documents. Consultants in areas such as marketing, employee benefits, and insurance can be used on an as-needed basis. Outside directors with business experience are another way for small companies to get advice. Resources such as these free the small-business owner to concentrate on medium- and long-range planning and day-to-day operations.

Hiring and Retaining Employees

It is important to identify all the costs involved in hiring an employee to make sure your business can afford it. Recruiting, help-wanted ads, extra space, and taxes will easily add about 10–15 percent to their salary, and employee benefits will add even more. Hiring an employee may also mean more work for you in terms of training and management. It's a catch-22: To grow you need to hire more people, but making the shift from solo worker to boss can be stressful.