Instructor's Resource Manual (Download only) for Entrepreneurship: Successfully Launching New Ventures

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Entrepreneurship

Updated Sixth Edition
Global Edition

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CHAPTER 1

INTRODUCTION TO *ENTREPRENEURSHIP*

LEARNING OBJECTIVES

After studying this chapter students should be ready to:

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

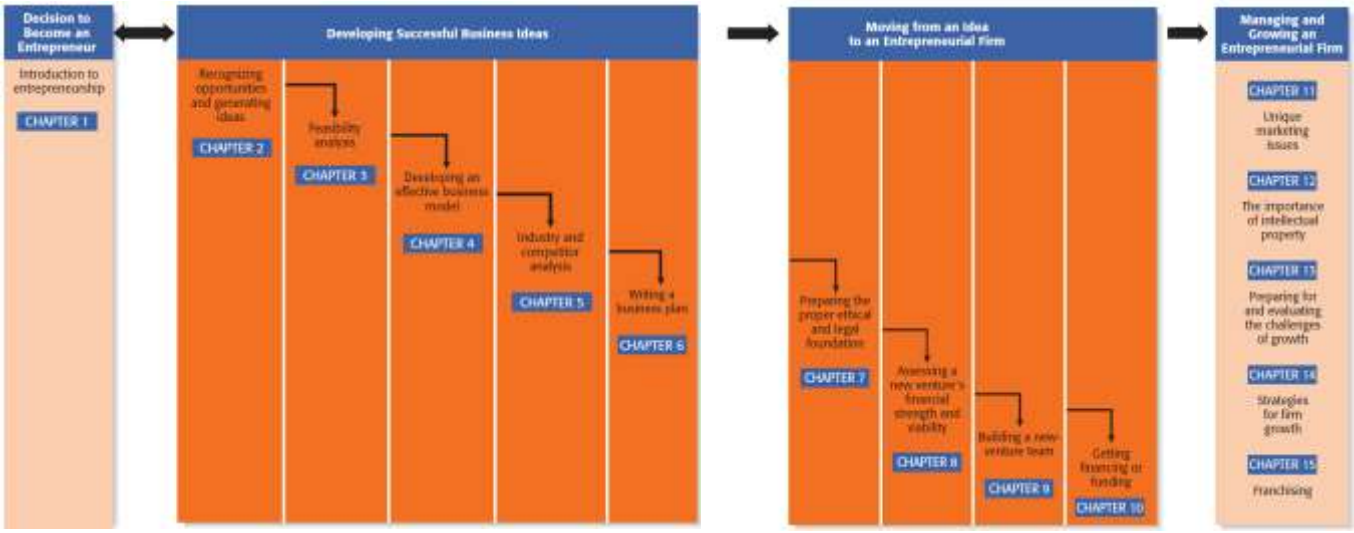
CHAPTER OVERVIEW

This chapter (1) introduces the book, (2) provides an overview of the entrepreneurial process, and (3) introduces a conceptual model that shows how the entrepreneurial process typically unfolds. The model, which is shown at the top of the next page, depicts the entrepreneurial process as a 10-step process, beginning with the decision to become an entrepreneur. The chapters of the book follow the model. We hope that this approach provides your students a nice visual way of understanding how the entrepreneurial process unfolds.

The chapter focuses on why people become entrepreneurs, the characteristics of successful entrepreneurs, the changing demographics of entrepreneurs, and the importance of entrepreneurship to the economy and society. The three boxed features, which appear in every chapter, are introduced. The chapter ends with a brief discussion of each of the major sections of the book.

The chapter, like the rest of the book, is written in an upbeat yet realistic manner.

Basic Model of the Entrepreneurial Process
The Model Parallels the Chapters in the Book



CHAPTER OUTLINE

I. Introduction to Entrepreneurship
II. What Is Entrepreneurship and Why Is It Important?
III. Why Do People Become Entrepreneurs?
  A. Be Their Own Boss
  B. Pursue Their Own Ideas
  C. Pursue Financial Rewards
IV. Characteristics of Successful Entrepreneurs
  A. Passion for the Business
  B. Product/Customer Focus
  C. Tenacity Despite Failure
  D. Execution Intelligence
V. Common Myths About Entrepreneurs
  A. Myth 1: Entrepreneurs Are Born, Not Made
  B. Myth 2: Entrepreneurs Are Gamblers
  C. Myth 3: Entrepreneurs Are Motivated Primarily by Money
  D. Myth 4: Entrepreneurs Should be Young and Energetic
  E. Myth 5: Entrepreneurs Love the Spotlight
VI. Types of Start-Up Firms
VII. Changing Demographics of Entrepreneurs
  A. Women Entrepreneurs
  B. Minority Entrepreneurs
  C. Senior Entrepreneurs
  D. Millennial Entrepreneurs
VIII. The Positive Effects of Entrepreneurship and Entrepreneurial Firms

A. Economic Impact of Entrepreneurial Firms
B. Entrepreneurial Firms' Impact on Society
C. Entrepreneurial Firms' Impact on Larger Firms

IX. The Entrepreneurial Process
A. Decision to Become an Entrepreneur (Chapter 1)
B. Developing Successful Business Ideas (Chapters 2–6)
C. Moving from an Idea to an Entrepreneurial Firm (Chapters 7–10)
D. Managing and Growing an Entrepreneurial Firm (Chapters 11–15)

X. Developing Skills for your Career

CHAPTER NOTES

I. Introduction to Entrepreneurship

- There is tremendous interest in entrepreneurship around the world.
- Although the highest rates of entrepreneurial start-up activity occur in low-income countries, where good jobs are not plentiful, the rates are also impressive in high-income countries.

II. What Is Entrepreneurship and Why Is It Important?

- Entrepreneurship is defined as the process by which individuals pursue opportunities without regard to resources they currently control for the purpose of exploiting future goods and services.
- We want to note here that established firms with an orientation toward acting entrepreneurially practice corporate entrepreneurship.
- All firms fall on a conceptual continuum that ranges from highly conservative to highly entrepreneurial.

III. Why Do People Become Entrepreneurs?

A. Be Their Own Boss. Many entrepreneurs want to be their own boss because either they have had a long-term ambition to own their own business or they have become frustrated working in traditional jobs.

B. Pursue Their Own Ideas. Some people are naturally alert, and when they recognize ideas for new products or services, they have a desire to see those ideas realized.

C. Pursue Financial Rewards. People start their own firms to pursue financial rewards. This motivation, however, is typically secondary to the first two and often fails to live up to its hype.

IV. Characteristics of Successful Entrepreneurs

A. Passion for the Business. The number one characteristic shared by successful entrepreneurs is passion for the business. This passion typically stems from the entrepreneur's belief that the business will positively influence people's lives.

B. Product/Customer Focus. An entrepreneur's keen focus on products and customers typically stems from the fact that most entrepreneurs are, at heart, craftspeople.

C. Tenacity Despite Failure. Because entrepreneurs are typically trying something new, the failure rate associated with their efforts is naturally high. Developing a new business may require a certain degree of experimentation before a success is attained. Setbacks and failures inevitably occur during the process. The litmus test of entrepreneurs is their ability to persevere through setbacks and failures.

D. Execution Intelligence. The ability to effectively execute a business idea means developing a business model, putting together a new-venture team, raising money, managing finances, leading employees, and so on.

V. Common Myths About Entrepreneurs

A. Myth 1: Entrepreneurs Are Born, Not Made. This myth is based on the mistaken belief that some people are genetically predisposed to be an entrepreneur.

B. Myth 2: Entrepreneurs Are Gamblers. Entrepreneurs are usually moderate risk takers, as are most people.

C. Myth 3: Entrepreneurs Are Motivated Primarily by Money. It is naïve to think that entrepreneurs don't seek financial rewards. As discussed previously, however, money is rarely the primary reason entrepreneurs start new firms.

D. Myth 4: Entrepreneurs Should Be Young and Energetic. Although it is important to be energetic, investors often site the strength of the entrepreneurs (in terms of business experience, skill, and talent) as their most important criterion in the decision to fund a new venture.

E. Myth 5: Entrepreneurs Love the Spotlight. While some entrepreneurs are flamboyant, the vast majority of them do not seek or attract public attention. Typically those that are working on proprietary products or services avoid public notice.

VI. Types of Start-Up Firms

A. Salary-Substitute Firms. Are small firms that afford their owner or owners a similar level of income to what they would earn in a conventional job.

1. Examples of salary-substitute firms are dry cleaners, convenience stores, restaurants, accounting firms, and hairstyling salons.

B. Lifestyle Firms. Provide their owner or owners the opportunity to pursue a particular lifestyle and earn a living while doing so.

1. Examples of lifestyle firms include ski instructors, golf pros, and tour guides.

C. Entrepreneurial Firms. Bring new products and services to market by creating and seizing opportunities.

1. Examples of entrepreneurial firms are Dropbox, Facebook, and Uber.

VII. Changing Demographics of Entrepreneurs

A. Women Entrepreneurs. Although men are still more likely to start businesses than women, the number of women-owned businesses is increasing. According to All Raise, there were 4,399 female-founded startups in 2019 around the world.

B. Minority Entrepreneurs. There has been a substantial increase in minority entrepreneurs in the United States. There were more than 4 million minority-owned companies and sales of nearly $700 billion annually in 2020.

C. Senior Entrepreneurs. The number of seniors (those 50 years of age and older) starting businesses is substantial and growing. In 2015, 5.4 percent of new businesses were started by people 62 years and older.

D. Millennial Entrepreneurs. A desire to pursue an entrepreneurial career is high among young people. According to a survey by GoDaddy, reported that 62 percent of millennials around the world intended to start a business before 2026. The GEM 2017–18 report also noted that 41 percent of Gen Z want to become entrepreneurs.

VIII. The Positive Effects of Entrepreneurship and Entrepreneurial Firms

A. Economic Impact of Entrepreneurial Firms. For two reasons, entrepreneurial behavior has a strong impact on an economy's strength and stability.

1. Innovation. Innovation is the process of creating something new, which is central to the entrepreneurial process. Small innovative firms are 16 times

more productive than larger innovative firms in terms of patents per employee.

2. Job creation. According to the SBA, small businesses create a substantial number of net new jobs in the United States. Firms with 500 or fewer employees created more than 7 million out of the 11 million new jobs created during the recent economic recovery.

B. Entrepreneurial Firms' Impact on Society. The innovations of entrepreneurial firms have a dramatic impact on society. Think of all the new products and services that make our lives easier, enhance our productivity at work, improve our health, and entertain us. Many of these products and services were conceived and brought to market by entrepreneurial firms.

C. Entrepreneurial Firms' Impact on Larger Firms. In addition to the impact entrepreneurial firms have on the economy and society, entrepreneurial firms have a positive impact on the effectiveness of larger firms.

1. For example, some entrepreneurial firms are original equipment manufacturers, producing parts that go into products that larger firms manufacture and sell.

2. Thus, many exciting new products are not solely the result of the efforts of larger companies with strong brand names. They were produced with the cutting-edge component parts or research development efforts provided by entrepreneurial firms.

3. The evidence shows that many entrepreneurial firms have built their entire business models around producing products and services that help larger firms be more efficient or effective.

IX. The Entrepreneurial Process

- Figure 1.3 in the book (and reproduced earlier in this review) models the entrepreneurial process. This process is the guide or framework we use to develop this book's contents.

A. Decision to Become an Entrepreneur (Chapter 1). As discussed earlier, people become entrepreneurs to be their own boss, to pursue their own ideas, and to realize financial rewards.

B. Developing Successful Business Ideas (Chapters 2–6). Many new businesses fail not because the entrepreneur didn't work hard but because there was no real opportunity to begin with.

1. Developing a successful business idea includes opportunity recognition, feasibility analysis, developing an effective business model, industry and competitor analysis, and writing a business plan.

C. Moving from an Idea to an Entrepreneurial Firm (Chapters 7–10). This is a critical stage in the entrepreneurial process.

1. This section deals with preparing the proper ethical and legal foundation, assessing a new venture's financial strength and viability, building a new-venture team, and getting financing or funding.

D. Managing and Growing an Entrepreneurial Firm (Chapters 11–15). Given today's competitive environment, all firms must be managed and growth properly maintained to ensure their ongoing success. This is the final stage of the entrepreneurial process.

1. This section deals with unique marketing issues, the importance of intellectual property, preparing for and evaluating the challenges of growth, strategies for growth, and franchising.

X. Developing Skills for your Career

A. Whether you want to be an entrepreneur or not, the contents of this book address a number of "employability" skills that are critical to have a successful career in organizations. Key among these skills are ethics and social responsibility, critical thinking, collaboration, and data literacy.

BOXED FEATURES: QUESTIONS FOR CRITICAL THINKING

Note: Each boxed feature in the textbook is followed by four questions. The questions can be used for individual or group assignments or can be used to stimulate classroom discussion. The following are suggested answers for the questions at the end of each boxed feature.

What Went Wrong?
Prim: How a Lack of Passion and Resolve Can Kill a Business

1. Why is passion such a critical part of entrepreneurial success? Prim's founders were apparently passionate about building a company but not the laundry business specifically. In what ways is this combination problematic?

   Answer: The number one characteristic shared by successful entrepreneurs is a passion for their business. The passion typically stems from the entrepreneur's belief that the business will positively influence people's lives. Prim's founder may have mistakenly developed a passion for starting a business rather than a

passion for the business they started. This is problematic because once the initial excitement of starting the business was over (and the business started experiencing challenges), the founders were left with the day-to-day grind of running the business and may have found that they weren't as interested in the (laundry) business as they originally thought they would be. One way to check whether one's passion is real is to work in the industry your firm will participate in (over an extended period of time, if possible) to see if you like it. Some franchise organizations, for example, require prospective franchisees to work in one of the company's franchise outlets for a period of time, just to ensure that they like the work before they become franchisees.

As illustrated throughout the book, starting a business is a rewarding yet challenging process. There will be many ups and downs. A person's passion for the business that he or she starts is what sustains one during the challenging periods.

2. How could Prim's co-founders have better anticipated that laundry services would eventually see Prim as siphoning off their own business and be reluctant to work with them?

   Answer: Students will vary in terms of their answer to this question. One thing Prim's co-founders could have done prior to starting the business is complete a thorough feasibility analysis. This topic is addressed in Chapter 3. By talking to laundry services in advance, the founders may have gained an awareness that their business model was not viable.

3. Rather than employ its own drivers to pick up and deliver laundry for its customers, Prim relied on the use of third-party delivery services. In what ways do you think this approach could have limited Prim's growth in other markets?

   Answer: Prim was not developing core competencies in the logistics of its operations. At its heart, Prim was a pick up and delivery service. It picked up its customers' laundry, took the laundry to a laundry service to have washed and folded, and then returned the laundry to the customer. If Prim had developed unique capabilities in performing this task, it could have extended its pick up and delivery service to other industries. Instead, Prim outsourced this service so it developed no core competencies in this area.

4. San Francisco, the city in which Prim launched, has several innovative laundry services. These services include LaundryLocker, where you drop your clothes in a public locker; Sfwash, a delivery service where you pay by the pound; and Sudzee, which requires special lockable bags. Spend some time studying LaundryLocker (https://laundrylocker.com), Sfwash (https://sfwash.com), and Sudzee (http://sudzee.com). Select the service that you think has the most potential and explain the rationale for your selection. Compare the service to Prim's approach.

Answer: LaundryLocker's customers place their laundry in a locker and the customers are notified by text when the laundry is finished and returned to the locker (within two business days). Sfwash picks up your laundry (at your home or business) and returns it to the same address. The pick up and delivery times are done within agreed upon windows of time. Sudzee offers two options. It offers home pick up and return, similar to Sfwash. It also offers a service where customers can place their laundry in a large secure container in a Sudzee bag. Sudzee will notify the customer when the laundry is done. The laundry can be retrieved from the container via a secure four-digit code. Pricing seems to be similar across the companies. Sudzee seems to be the best—capturing the advantages of both Sfwash, which offers a pick up and delivery service, and LaundryLocker, which offers a dropoff and retrieval service as explained. It also beats out Prim, which offered only the pick up and delivery service.

Savvy Entrepreneurial Firm

Start-Up Incubators and Accelerators: A Smart Way of Gaining Access to Mentors, Partners, Investors, and Other Critical Start-Up Resources

1. If you were starting a new venture, do you think you would benefit from participating in a business incubator or accelerator program? If so, what do you think the primary benefits would be?

   Answer: Most students will say they would benefit from participating in a business incubator or accelerator program. The obvious benefits are gaining access to mentors and advisors. Start-up incubators and accelerators are also fertile places for entrepreneurs to meet potential co-founders, business partners, and equity investors.

2. Find an example of a start-up incubator or accelerator at the college or university you are attending or in the town you live in or a nearby city. Describe the program. Which one of the programs mentioned in this feature does it resemble the most?

   Answer: Answers will vary for this question. Many university entrepreneurship programs support a start-up incubator or accelerator, as do many towns and cities. The incubators and accelerators will vary in terms of the programs and terms they offer, but the benefits are similar across locations.

3. If you have a promising business idea, what can you do while you're in college to improve your chances of being admitted to a prestigious start-up incubator or accelerator program when you graduate?

   Answer: Answers will vary to this question. Most students will say that involvement in the following college activities will boost their chances of being accepted into an incubator:

- Coursework in entrepreneurship.
- Participation in entrepreneurship-related activities, such as pitch competitions and business plan competitions, and winning awards in those activities.
- Participating in a college or university-sponsored incubator.
- Networking (to the extent that the student could ask several high-profile entrepreneurs or investors to write letters of support).
- Make good headway on a business idea, so the student is partway down the runway prior to applying for admittance to the incubator.

4. Make a list of the types of mentors that a participant in a start-up incubator or accelerator program might encounter.

   Answer: There are a number of partnership opportunities that are likely to emerge from participating in an accelerator program. They include:

   - Identifying a potential co-founder for a business.
   - Identifying potential channel partners.
   - Identifying potential investors.
   - Identifying potential advisory board members and other mentors and advisors.

Partnering for Success
Partnering with College Students via Campus Ambassador and Campus Rep Programs

1. As part of your college experience, do you think you would benefit from participating in a campus ambassador or campus rep program? Why or why not?

   Answer: Most students will say they would benefit from participating in a campus ambassador or campus rep program. These are more like paid internships and so the obvious benefits are gaining access to prospective employers and gaining experience at the same time. In addition, such positions also help to defray living costs.

2. In what ways would participating in a campus ambassador or campus rep program help you prepare to own your own business someday?

   Answer: The main way is that a campus ambassador or a campus rep becomes an evangelist for the product. This helps when marketing the product of one's own business. It also helps in creating a network which would be useful in helping a start-up succeed.

3. Why do you think companies such as Apple, Flex Watches, and Her Campus Media sponsor campus ambassador or campus rep programs? How do the companies benefit?

Answer: The companies benefit because they get low cost grassroots marketing. Also, when a company's target market is young people, this allows for peer-to-peer selling. Finally, it helps these companies in their recruitment process.

4. What types of start-ups would benefit the most from starting campus ambassador programs?

Answer: It is likely that such programs help companies that sell a product or a service to consumers and not businesses. In addition, if the target demographic is young people, these programs help in grassroots marketing.

REVIEW QUESTIONS

1-1. What are the characteristics of firms with higher entrepreneurial intensity? How can they be achieved?

Answer: Firms with higher entrepreneurial intensity are proactive innovators and are not averse to taking calculated risks. In order to be proactive, fast decisions have to be made, so bureaucracy or levels in the organizations have to be cut.

1-2. What key insights does the GEM study provide us about entrepreneurship?

Answer: The key insight provided by the GEM study is that entrepreneurial activity is taking place across the world. In addition, although the highest rates of entrepreneurial start-up activities occur in low-income countries, where good jobs are not as plentiful, the rates are also impressive in high-income countries such as France, United Kingdom, and the United States. The GEM study also identifies whether its respondents are starting a new business to take advantage of an attractive opportunity or because of necessity to earn an income. The majority of people in high-income countries are drawn to entrepreneurship to take advantage of attractive opportunities. The reverse is true of people in low-income countries, who tend to be drawn to entrepreneurship primarily because of necessity.

1-3. What does evidence show us about the rate of failure associated with entrepreneurial ventures?

Answer: One criticism of entrepreneurship, which is often repeated in the press, is that the majority of new businesses fail. It simply isn't true. The often used statistic that 9 out of 10 businesses fail in their first few years is an exaggeration. According to the Bureau of Labor Statistics, over half the businesses started are still in existence five years later.

1-4. What is entrepreneurship?

Answer: The standard definition for entrepreneurship is that it's "the process by which individuals pursue opportunities without regard to resources they currently control." It can occur at the individual level, the team or group level, or at the corporate level. There are other definitions of entrepreneurship. Fred Wilson, a venture capitalist, defines entrepreneurship as "the art of turning an idea into a business." Both definitions focus on behaviors. In general, entrepreneurship is associated with the task of identifying opportunities and putting useful ideas into practice.

1-5. In what ways is an entrepreneur who just launched a restaurant different from someone who just took a job as the general manager of a restaurant owned by a major restaurant chain?

Answer: Entrepreneurial firms, which are the focus of this book, bring new products and services to market by seizing opportunities. The person who just launched a restaurant is bringing a new product or service to market, and is assuming the risk associated with doing that. The person who just took a job as the general manager of a restaurant isn't bringing something new to market. Although the person is assuming employment risk, he/she isn't assuming the risk of owning a business.

1-6. What are the three main attributes of firms that pursue high levels of corporate entrepreneurship?

Answer: Entrepreneurial firms are typically proactive, innovative, and not averse to taking risks.

1-7. How are the reasons for becoming an entrepreneur usually ranked?

Answer: Normally, the ranking places being your own boss as first; a close second is the desire to pursue your own ideas or exploit an interest or skill. Usually, the financial advantages are ranked third; many entrepreneurs earn little more than an individual in a traditional job role.

1-8. How might an entrepreneur transition from a traditional job to owning their own business over time?

Answer: An entrepreneur may choose to take a longer view in terms of committing themselves to their own business. They may use the traditional job as security in order to subsidize the new business, gain valuable skills and experience, as well as develop contacts and understanding of the industry. They run their new business on a part-time basis, gradually shifting their time and commitments over to it.

1-9. Why is passion such an important characteristic of successful entrepreneurs?

Answer: The passion that an entrepreneur feels for his or her business typically stems from a belief that the business will positively influence people's lives. It is important that this passion exist because the process of starting and building a new firm is demanding.

1-10. What is it about passion that makes it particularly compatible with the entrepreneurial process?

Answer: Passion is particularly important because, although rewarding, the process of starting a firm or building a business is demanding. Absent passion, the demands would outweigh the potential rewards for people who are not passionate about what they're doing.

1-11. What are the skills and abilities required to effectively execute a business idea?

Answer: In order to effectively execute a business idea, execution intelligence is required. This involves putting together a new venture team, raising money, establishing partnerships, managing finances, leading and motivating employees, and so on. It also includes the ability to translate thought, creativity, and imagination into positive results.

1-12. What are the three types of start-up firms?

Answer: Salary-substitute firms are small firms that enable the entrepreneur to earn an income that is similar to what they would earn when working for an employer. Lifestyle firms enable the entrepreneur to follow a certain lifestyle and earn a living while doing so. Entrepreneurial firms allow the owner to bring new products and services to the market.

1-13. What are the five common myths of entrepreneurship?

Answer: The five common myths of entrepreneurship are as follows:

Myth 1: Entrepreneurs are born, not made.
Myth 2: Entrepreneurs are gamblers.
Myth 3: Entrepreneurs are motivated primarily by money.
Myth 4: Entrepreneurs should be young and energetic.
Myth 5: Entrepreneurs love the spotlight.

1-14. What is the evidence that debunks the myth that entrepreneurs are motivated primarily by money?

Answer: Money is rarely the primary reason that entrepreneurs start new firms. The desire to reap financial rewards from one's entrepreneurial endeavors is secondary to other reasons, like a passion for your business idea and being your own boss. Entrepreneurs need to work hard to ensure that their business is

sustainable and financially stable and to understand the potential flaws and risks. Pursuing only profit can be distracting.

1-15. What are the four distinctive parts of the entrepreneurial process and what is the relationship among the parts?

Answer: The four distinct parts of the entrepreneurial process are as follows:

Part 1: Decision to become an entrepreneur.
Part 2: Developing successful business ideas.
Part 3: Moving from an idea to an entrepreneurial firm.
Part 4: Managing and growing an entrepreneurial firm.

Each part is intimately interrelated and interdependent with one another.

1-16. Do you agree with the notion that entrepreneurs are born and not made?

The general consensus is that entrepreneurs are not any different from other people. They are the product of their environment, upbringing, experiences, and choices. These may mold the person and give them certain advantages and drives, but they are not born to be entrepreneurs as such.

1-17. How do entrepreneurial firms have a positive impact on larger firms?

Answer: Many entrepreneurial firms produce products and services that increase the efficiency or effectiveness of larger firms. Some small entrepreneurial firms are suppliers to large manufacturing firms. For example, some entrepreneurial firms are original equipment manufacturers, producing parts that go into products that larger firms manufacture and sell. Some small firms are raw material suppliers to larger firms, and some provide specific services to larger firms such as cleaning services.

1-18. What did Joseph Schumpeter mean by the term *creative destruction*?

MyLab Question.

1-19. In general, what effects does entrepreneurship have on economies and societies throughout the world?

Answer: Entrepreneurship has a positive effect on both economies and societies throughout the world. For two reasons, entrepreneurial behavior has a strong impact on an economy's strength and stability. The reasons are innovation and job creation. According to the Small Business Administration Office of Advocacy, small innovative firms are 16 times more productive than larger innovative firms in terms of patents per employee. Small firms also create a substantial number of new jobs in the United States. In regard to the impact of

entrepreneurial firms on societies, the new products and technologies created by entrepreneurial firms have a dramatic impact. Think of all the new products and services that make our lives easier, enhance our productivity at work, improve our health, and entertain us. Many of these products and services were created by entrepreneurial firms.

1-20. What are the changes to the demographic makeup of entrepreneurs in the United States that are described in this chapter?

Answer: Over the past 10 years, the demographic makeup of entrepreneurial firms has changed in the United States and around the world. Of all the businesses in the United States, a growing number are owned by women, minorities, seniors, and young people. The changing demographic makeup of entrepreneurs is changing for two reasons. First, the United States itself is changing, and is becoming a much more diverse society. As a result, the changing demographic makeup of entrepreneurs reflects society as a whole. Second, pursuing an entrepreneurial career is an exciting career choice, which is open to people across all demographic groups. As the ability to enter an entrepreneurial career becomes available to a larger number of people, it is not surprising that people across all demographic groups would be drawn to this alternative.

APPLICATION QUESTIONS

1-21. After rereading the opening case, identify all of the effective and smart moves made by Fraser Doherty in the early days of SuperJam.

Answer: Students can identify a number of effective and smart moves, including growing slowly by building solid local and then regional demand, pitching the brand to the ideal retailer, having the audacity to seek support from manufacturers and marketers with no guarantees to offer (or money), getting associated with iconic existing brands and retaining a retro image and approach while embracing social media.

1-22. Assume that you are the dean of a business school and that you are interested in more entrepreneurship courses being offered in your school. Surprisingly to you, some professors are resisting the idea of offering these courses on the basis of their view that entrepreneurship is a skill that can be learned only through experience. Using materials in this chapter, make an argument that entrepreneurship can be taught.

Answer: First, there are many examples of entrepreneurs that launched successful firms without prior entrepreneurial or business experience. Zach Schau and his founding team at Pure Fix Cycles is an example. So it's not fair to argue that entrepreneurship can be learned only through experience. Second, the

four-step entrepreneurial process, introduced in the chapter, depicts the sequential nature of starting a new business. Anyone who "learns" this process and studies each step in the process is better equipped to start a business than someone who is not familiar with the process. As a result, entrepreneurship clearly can be "taught."

1-23. As a business lecturer, Peter asked students in his class to form groups and present a few business ideas that they plan to pursue after their graduation. One particular group caught his attention with their idea of developing an ecotourism center in their neighborhood, which seems realistic and achievable. There might be a good opportunity for them to take this to the next level. However, when Peter spoke to them, it became clear that they had many misconceptions about entrepreneurship and were afraid to pursue it as a career. How can Peter ease their fears and convince them to fulfil their potential?

Answer: Peter should try to dismiss the following misconceptions about entrepreneurship: (a) entrepreneurs are born, not made; (b) entrepreneurs are gamblers; (c) entrepreneurs are motivated primarily by money; (d) entrepreneurs should be young and energetic; and (e) entrepreneurs love the spotlight. He should share with them the benefits and joy of entrepreneurship, such as being one's own boss, being able to pursue their own ideas, and reaping the financial rewards.

1-24. One question that is often asked by people thinking about launching an entrepreneurial venture is "what should first-time entrepreneurs know before they launch?" Based on information featured in Chapter 1, what should entrepreneurs know before they commit to launching their firm?

Answer: Students will vary in terms of their answer to this question. A lot of things have to go right for a business start to be successful. Each step in the entrepreneurial process must be accomplished with a degree of proficiency. As a result, first-time entrepreneurs should acquaint themselves with each step in the process prior to launching a business. The front-end of the entrepreneurial process is particularly important. Special care should be devoted to completing the steps involved with "Developing Successful Business Ideas" in a deliberate and thoughtful manner.

1-25. A friend has come up to you for advice. She has been contemplating starting a new venture for some time now, and after 15 years of being employed in the corporate sector she has finally decided to pursue her dream of starting a wellness center with a focus on healthy living. However, she is still a little hesitant and is hoping to learn more about the positive effects of entrepreneurship. Help her decide why she should undertake this process.

Answer: You may explain to her that people often want to be their own boss as they sometimes feel frustrated as employees. When a person is self-employed,

they have more flexibility to work on their own. Moreover, some may want to pursue their own ideas and make them a reality. Finally, there are some entrepreneurs who pursue financial rewards as they may be able to make more money than when they are employed.

1-26. A group of new students in your entrepreneurship class was heard arguing that being an entrepreneur positively affects the entrepreneur in question only. They do not believe that an entrepreneur somehow benefits the society and the nation as well. They do not understand that creative destruction stimulates economic activity and increases the productivity of all elements of a society. Explain to them the positive effects of entrepreneurship and entrepreneurial firms on economies and societies.

Answer: Entrepreneurship and entrepreneurial firms have positive effects on economies and societies when these create new products and improve technologies, increase consumer demand, and stimulate economic activity. The new products and technologies may also increase the productivity of all elements of a society. An entrepreneur develops new products and technologies that make current products and technologies obsolete over time. For example, in this new era, the smartphone has somehow replaced the need to carry a diary, Walkman, alarm clock, DVD player, and laptop. This is known as creative destruction and has benefitted society and nations as a whole.

YOU BE THE VC EXERCISE

Note: The "You Be the VC Exercise" is short for "You Be the Venture Capitalist." Each "You Be the VC" feature provides an example of a real-life entrepreneurial firm. Each firm is young and its business concept hasn't been fully proven or developed. As a result, an effective way to use these exercises is to ask students to read them (and study the firm's Web site if you'd like to extend the exercise), and say, "You Be the VC. If you were a venture capitalist, would you offer this firm funding? Why or why not?"

We have used these exercises and have found that they stimulate fascinating classroom discussion. By evaluating these young firms, students are forced to think about the same issues that venture capitalists think about. The exercises also make good individual and group assignments.

There are two "You Be the VC" exercises at the end of each chapter of the textbook. We provide our take on each of the "You Be the VC" exercises as shown below.

YOU BE THE VC 1.1

Company: Shyp (www.shyp.com)

Business Idea: Create a shipping service that picks up, packages, and ships items for individuals and businesses via the most affordable option available.

You Be the VC Scorecard
Shyp
(www.welloshyp.com)

Item	**Score/Comments**
Strength of New-Venture Team	1 2 **3** 4 5 Kevin Gibbon, the founder, was a seller on eBay who found that he was spending more and more of his time on shipping. Sensing an opportunity, he shut down his eBay shop and launched Shyp. The website doesn't give us details of Shyp's management team.
Strength of the Opportunity	1 2 **3** 4 5 The strength of the opportunity is unclear. Although shipping is a hassle, it is not clear if people would be willing to pay $5 plus shipping just to avoid going through the process. Also, retailers like Amazon have made it easy to return goods.
Strength of the Industry	1 2 **3** 4 5 Online sales is growing and so shipping needs are exploding. This suggests that the growth prospects in the shipping industry are very attractive. We don't know of Shyp's competition, though.
Strength of Business Model	Shyp makes money in two ways: the $5 fee it charges each customer and the savings it gets from the difference between retail shipping rate and their discounted rate. What is not clear is how the company will overcome the $5 fee that many would consider excessive.
Average Score: 3.0/5.0	

Decision: We would not fund Shyp for two reasons. First, we're not confident that people will be willing to pay $5 plus shipping just to avoid the hassle. Also, we are not sure how Shyp can create a "moat" for itself when competition enters. Its model is replicable.

YOU BE THE VC 1.2

Company: Vital Vio (www.vitalvio.com)

Business Idea: Design, manufacture, and sell LED lights that kill bacteria and other organisms in high-risk environments, such as health-care settings, airplanes, gyms, restaurants, office buildings, and public restrooms.

You Be the VC Scorecard
Vital Vio
(www.vitalvio.com)

Item	**Score/Comments**
Strength of New-Venture Team	1 2 3 4 **5** Co-founder and President Colleen A. Costello has worked as a researcher at two hospitals, as a surgical device designer, and as a tissue engineering researcher. Balance of management team consists of people with medical and business experience. Has both a Board of Directors and an Advisory Board. Board of Directors has two members (in addition to Ms. Costello) who have corporate and venture capital experience. The same is true of the Advisory Board.
Strength of the Opportunity	1 2 **3** 4 5 MRSA infection accounts for 99,000 deaths in a year and so its prevention is important. LED lights have an advantage over UV lights that hospitals use to prevent MRSA infections in that the latter can be harmful.
Strength of the Industry	1 2 **3** 4 5 This is an unknown. While establishments other than

	hospitals are aware of MRSA infections, they don't seem to be willing to put money in remedies.
Strength of Business Model	1 2 3 **4** 5 The business model is appealing. Vital Vio lights can be retrofitted to existing lighting systems and so extensive rewiring is not needed. Licensing will help it expand quickly and cement its first mover advantage.
Average Score	3.75.0/5.0

Decision: We would fund this firm. Vital Vio's management team and its Board of Directors and Advisory Board are strong. It includes a nice mix of people with backgrounds in business, medicine, finance, and sales. We also like the fact that one Board member is from the investment community. The opportunity is also strong. Preventing deaths due to infection is an important market need. We also like the company's business model. It can grow fast via licensing.

We don't know much about the market and the willingness of hospitals to switch from UV to LED lighting. In addition, we do not know the interest in becoming a licensee of the company.

CASES

Case 1.1
SoulCycle: A Classic Entrepreneurial Tale
DISCUSSION QUESTIONS

1-31. Which of the characteristics of a successful entrepreneur, discussed in the chapter, do you see in Julie Rice and Elizabeth Cutler? To what degree do you think these characteristics have contributed to SoulCycle's success?

Answer: Two of the four characteristics of successful entrepreneurs, product/customer focus and execution intelligence—are seen in Julie Rice and Elizabeth Cutler, and these characteristics have no doubt contributed to SoulCycle's success. The founders approached their business from a problem perspective and attempted to "solve" the problem via their venture. Exercise can be a boring activity for the marginally motivated. Combining it with social interaction was a great business opportunity. But what really accounts for SoulCycle's success was that the founders executed on their idea really well.

1-32. How does SoulCycle's basic offering, its 45 minute spinning classes, "add value" to the lives of its customers?

Answer: For 45 minutes, the customer can not only get an intense workout but do it in a congenial setting – the music, the lighting, the instructor. To people whose professional and or personal lives is full of stress, SoulCycle offers a cure.

1-33. On a scale of 1 to 10 (10 is high), rate SoulCycle on execution intelligence. Make a list of at least five things that you think SoulCycle did particularly well in this area. Justify your numerical ranking.

Answer: SoulCycle has excelled on execution and we would give it a score of 10 out of 10. The five things they have executed really well are: the instructor, the music, the atmosphere, the training, and the overall focus. The first three have to do with the "product" – what SoulCycle offers its customers. Well-trained and motivated instructors are key, while the selection of music and the overall ambience add to the value. The last two have to do with growth. Having well-trained people is key to expanding and the company has paid a lot of attention to it. Finally, the co-founders have focused singularly on the business idea.

1-34. Talk about the challenge that Peleton poses to SoulCycle. If you were asked to advise SoulCycle on how to respond to Peleton's threat, what would you tell the company to do?

Answer: Peleton offers a group workout, but unlike SoulCycle, it is from the comfort of one's own home. It is a challenge for SoulCycle because it offers the exercise that SoulCycle does and simulates the camaraderie that comes from doing it collectively, except that Peleton does it via virtual reality. It has the added convenience of being on-demand. To respond, SoulCycle has to work on what made it successful in the first place – the instructors and the ambience.

Case 1.2
PatientsLikeMe: Allowing People with Serious Diseases to Connect with One Another and Exchange Support and Advice

DISCUSSION QUESTIONS

1-35. Of the reasons articulated in Chapter 1 that motivate people to start businesses, which of the three reasons was the primary motivation behind Jamie and Ben Heywood's decision to launch PatientsLikeMe?

Answer: A desire to pursue their own ideas. Also, a desire to make a positive difference in people's lives.

1-36. How do those who are leading PatientsLikeMe practice "product/customer focus"? How do they practice "execution intelligence"?

Answer: While PatientsLikeMe seems to be almost singularly focused on execution intelligence, it does have a product/customer focus in that its key value proposition is to enable patients to interact with other patients in a way that is useful to them. As far as execution intelligence, in looking at the site and how people with serious diseases are able to interact with one another, one gets the impression that a tremendous amount of thought and empathy for people with serious diseases was put into the way the Web site and user experience has been set up. Another sign of execution intelligence is the way PatientsLikeMe makes money. Rather than charging users for its service, it generates revenue by selling aggregated data that it collects from its online patients' communities to medical companies. This lowers a barrier to participation (not having to pay a fee to use the service), which in the end makes its communities larger and richer. It also makes money by helping pharmaceutical companies enlist participants in drug trials and studies. This initiative is a win-win-win proposition. It's a win for pharmaceutical companies via an efficient method for signing up participants for trials. It's a win for patients with serious diseases, who are often eager to sign up for any initiative that might improve their condition or reverse their disease. And it's a win for PatientsLikeMe in that it generates revenue.

1-37. What type of start-up firm is PatientsLikeMe?

Answer: PatientsLikeMe is an entrepreneurial firm.