

Essentials of Entrepreneurship and Small Business Management

EIGHTH EDITION



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Section 1: The Challenge of Entrepreneurship



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The Foundations of Entrepreneurship

Learning Objectives

- ❖ Define the role of the entrepreneur in business in the United States and around the world.
- ❖ Describe the entrepreneurial profile.
- ❖ Describe the benefits of entrepreneurship.
- ❖ Describe the drawbacks of entrepreneurship.
- ❖ Explain the forces that are driving the growth of entrepreneurship.

Learning Objectives

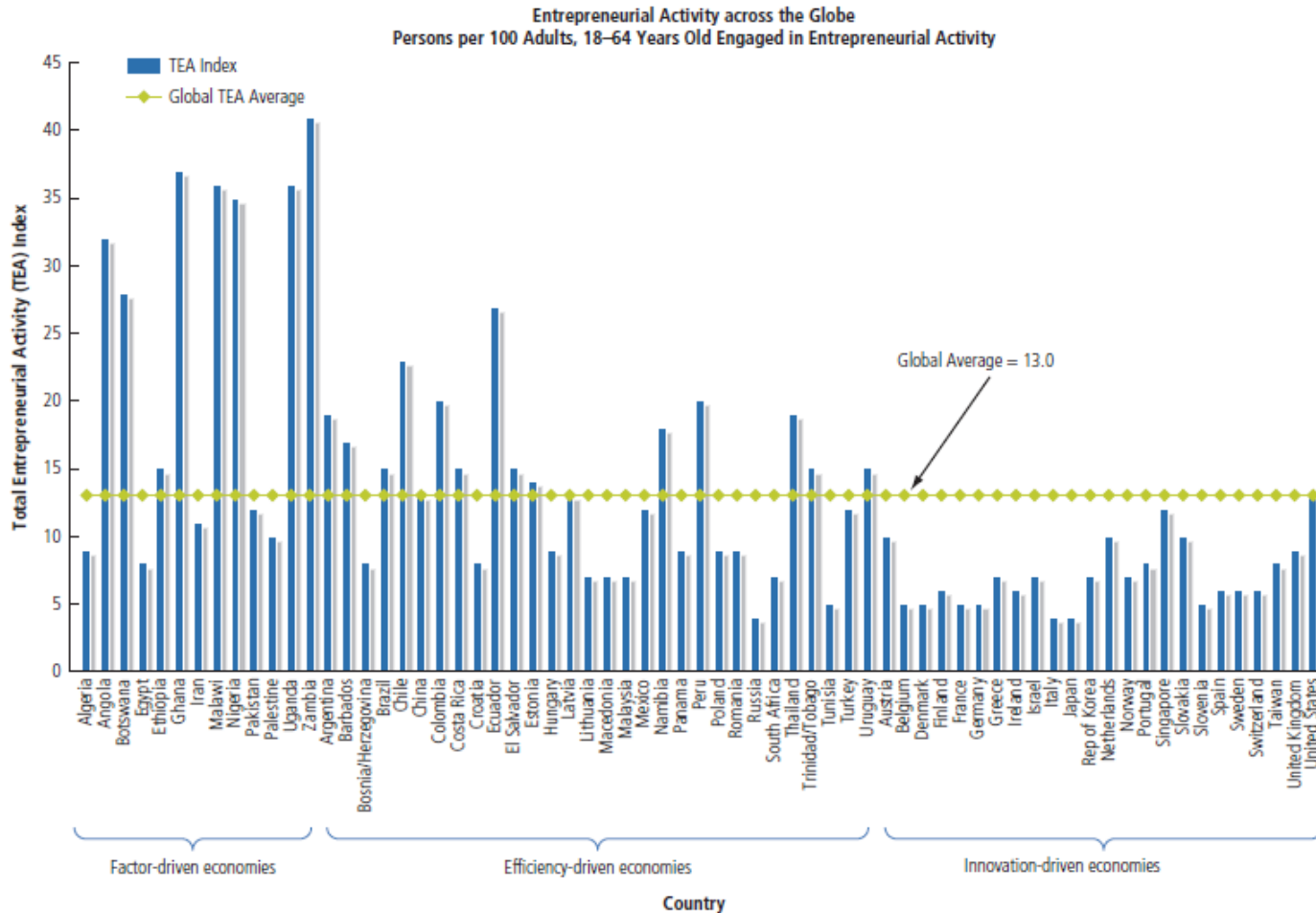
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- ❖ Explain the cultural diversity of entrepreneurship.
- ❖ Describe the important role that small businesses play in our nation's economy.
- ❖ Put failure into the proper perspective.
- ❖ Explain how an entrepreneur can avoid becoming another failure statistic.

The World of the Entrepreneur

- ❖ Every month U.S. entrepreneurs launch 514,000 new businesses.
- ❖ Entrepreneurial spirit - the most significant economic development in recent history.
- ❖ GEM (Global Entrepreneurship Monitor) study: 12.7% of adult population in the United States is actively involved in trying to start a new business. (<https://www.gemconsortium.org/>)

Entrepreneurial Activity Across the Globe



Entrepreneurship-Friendly Nations

Which nations provide the best environment for cultivating entrepreneurship? A recent study ranked 121 countries on the quality of the entrepreneurial environment using the Global Entrepreneurship and Development Index (GEDI), which includes a variety of factors that range from the availability of capital and workforce quality to attitudes toward entrepreneurs and technology available. The maximum GEDI score is 100.

GEDI Score, Top Ten Countries

1. United States 82.5
2. Canada 81.7
3. Australia 77.9
4. Sweden 73.7
5. Denmark 72.5
6. Switzerland 70.9
7. Taiwan 69.5
8. Finland 69.3
9. Netherlands 69.0
10. United Kingdom 68.6

GEDI Score, Bottom Ten Countries

109. Madagascar 19.6
110. Ivory Coast 19.4
111. Uganda 19.3
112. Mali 18.8
113. Pakistan 18.7
114. Mauritania 18.5
115. Sierra Leone 17.6
116. Burundi 15.5
117. Chad 15.0
118. Bangladesh 13.8

The World of the Entrepreneur

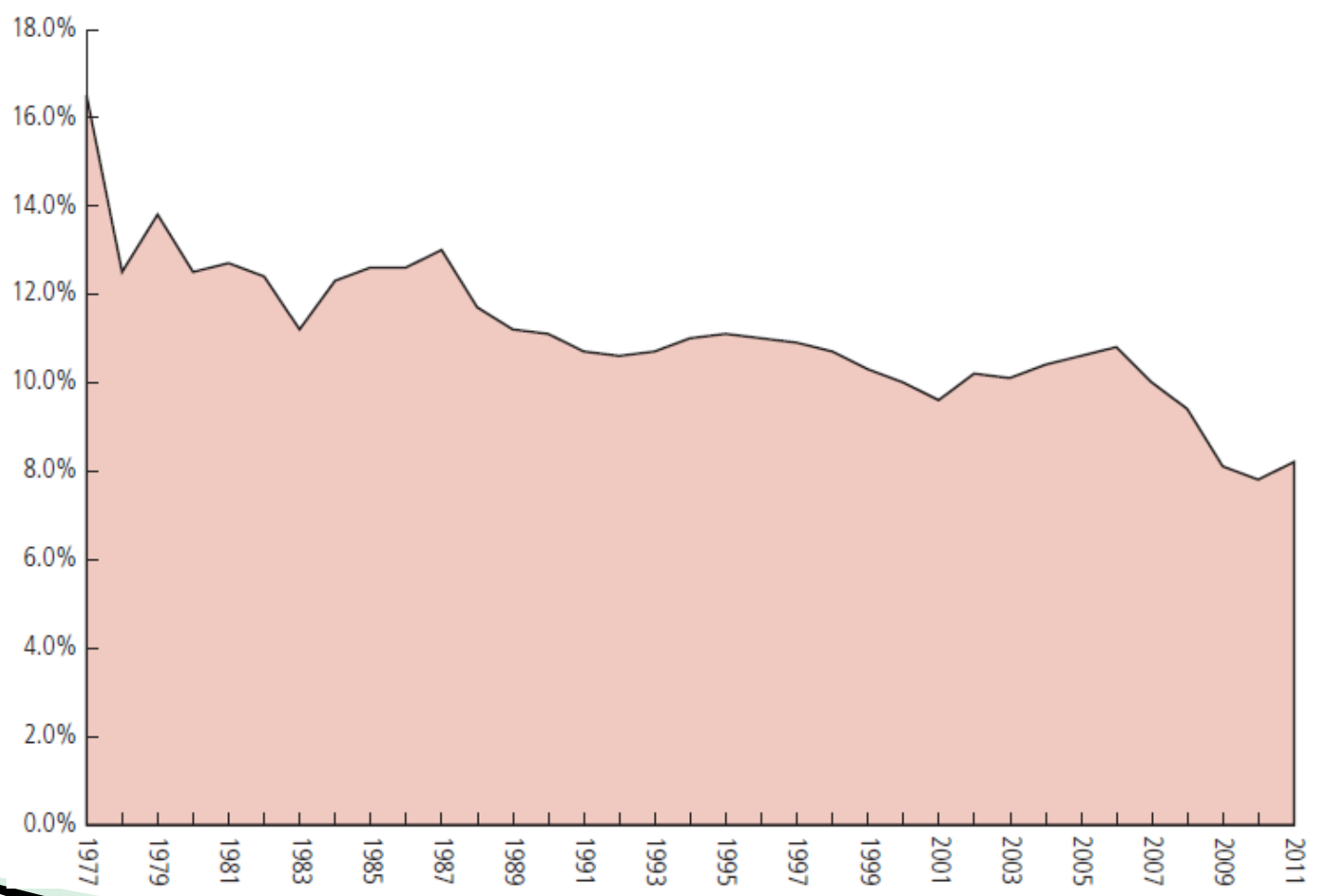
- ❖ Global Entrepreneurship Monitor (GEM) study:
 - ❖ Men are twice as likely to start a business as women.
 - ❖ Entrepreneurs are most likely to launch businesses when they are between the ages of 35 and 44.
 - ❖ Most people see entrepreneurial activity as a good career choice.

What Is an Entrepreneur?

❖ Entrepreneur:

- ❖ One who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalize on them.

Percentage of Start-Up Companies in the United States



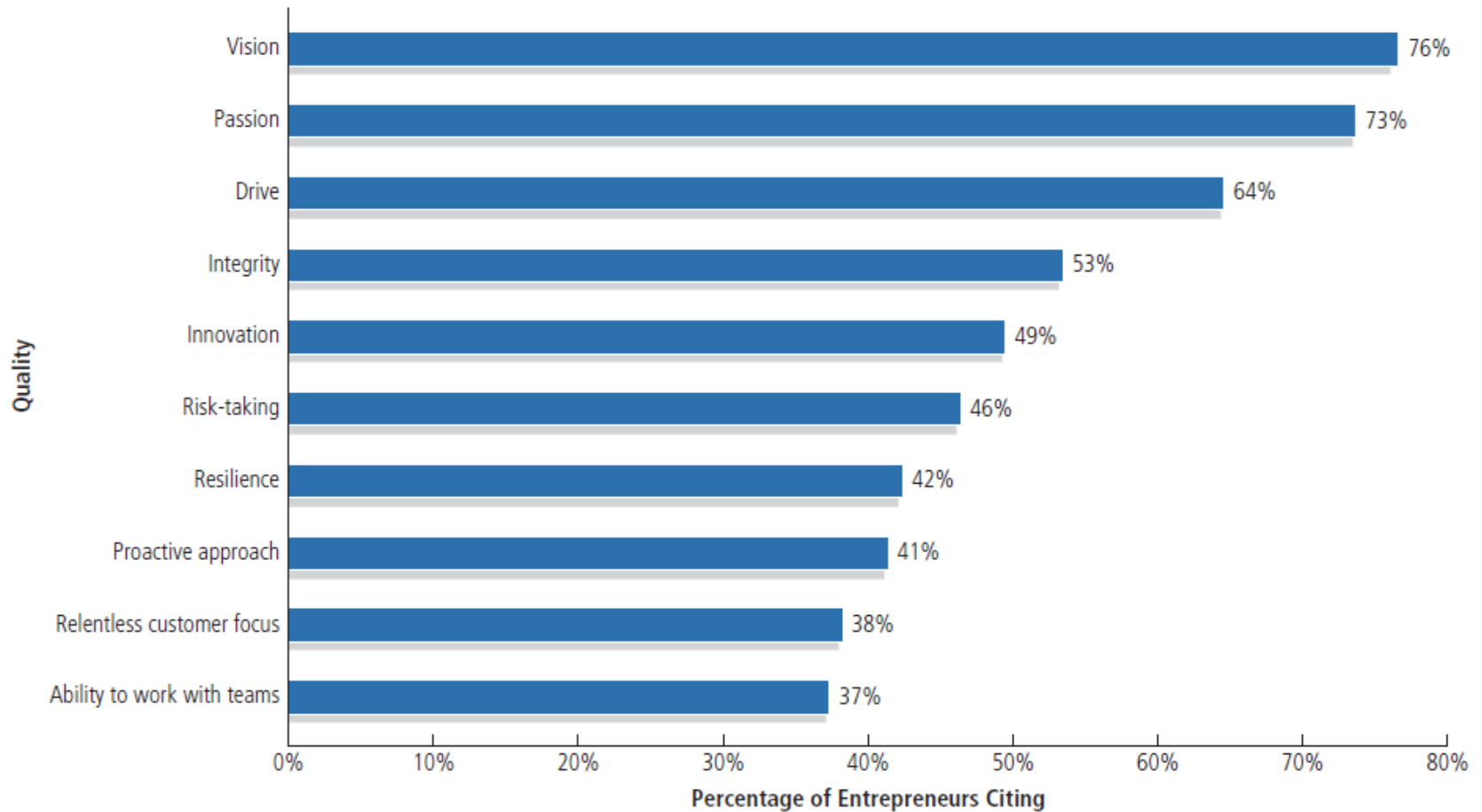
Characteristics of Entrepreneurs

- ❖ Desire for responsibility
- ❖ Preference for moderate levels of risk: *risk eliminators*
- ❖ Self-reliance
- ❖ Confidence in their ability to succeed
- ❖ Determination
- ❖ Desire for immediate feedback
- ❖ High level of energy
- ❖ Future orientation
 - ❖ Opportunity entrepreneurs
 - ❖ Necessity entrepreneurs
 - ❖ Serial entrepreneurs
- ❖ Skilled at organizing
- ❖ Value achievement over money

Characteristics of Entrepreneurs

- ❖ Entrepreneurs tend to exhibit:
 - ❖ A high degree of commitment
 - ❖ Tolerance for ambiguity
 - ❖ Creativity
 - ❖ Flexibility
 - ❖ Resourcefulness
 - ❖ A willingness to work hard
 - ❖ Tenacity

Most Important Qualities of an Entrepreneur



Entrepreneurship

- ❖ One characteristic of entrepreneurs stands out: diversity!
- ❖ *Anyone* – regardless of age, race, gender, color, national origin, or any other characteristic – can become an entrepreneur (although not everyone should).

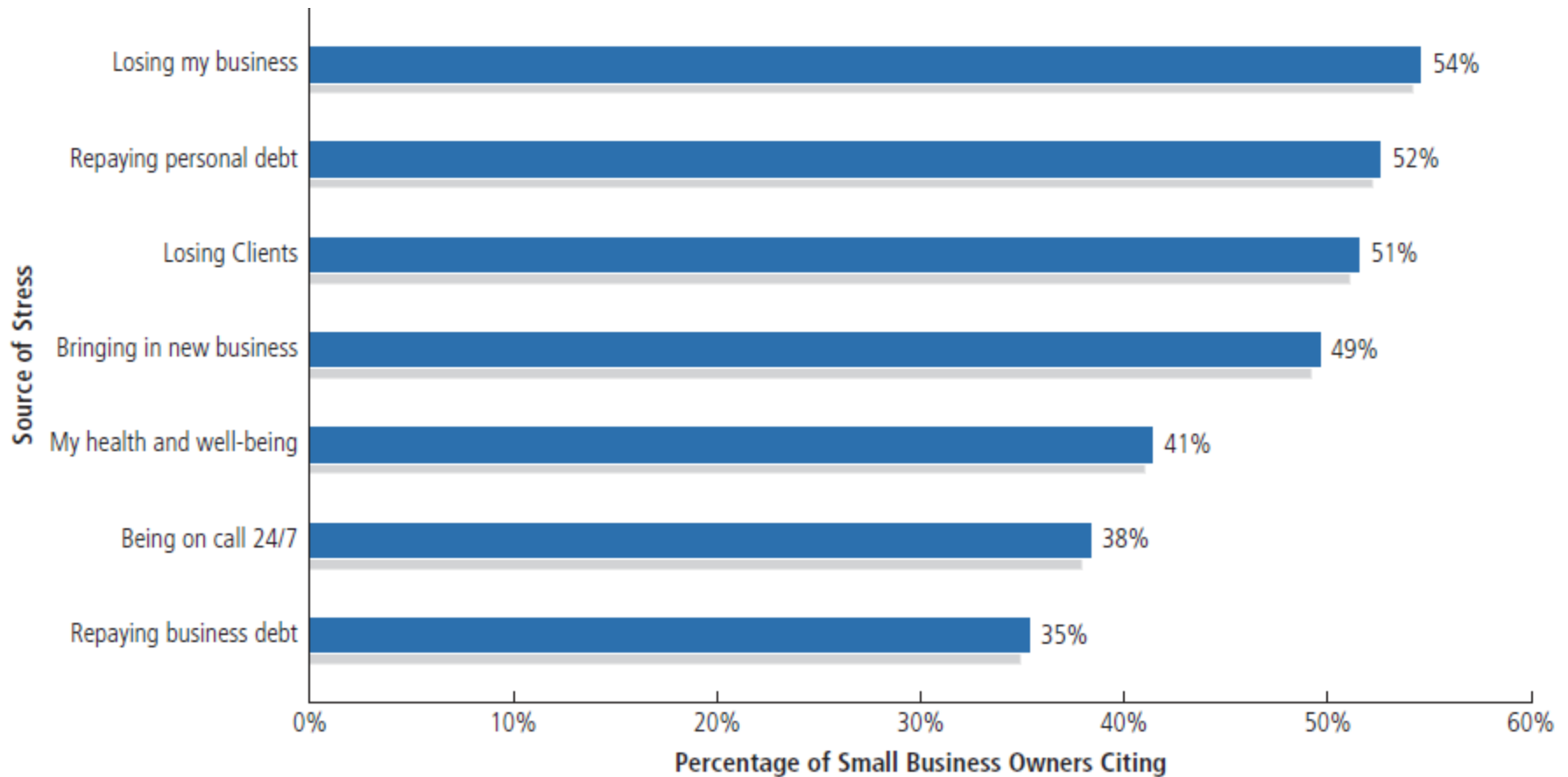
Benefits of Entrepreneurship

- ❖ The opportunity to:
 - ❖ Create your own destiny.
 - ❖ Make a difference.
 - ❖ Reach your full potential.
 - ❖ Reap impressive profits.
 - ❖ Contribute to society and to be recognized for your efforts.
 - ❖ Do what you enjoy and to have fun at it.

Drawbacks of Entrepreneurship

- ❖ Uncertainty of income
- ❖ Risk of losing your entire investment
- ❖ Long hours and hard work
- ❖ Lower quality of life until the business gets established
- ❖ High levels of stress

Sources of Stress for Entrepreneurs



Drawbacks of Entrepreneurship

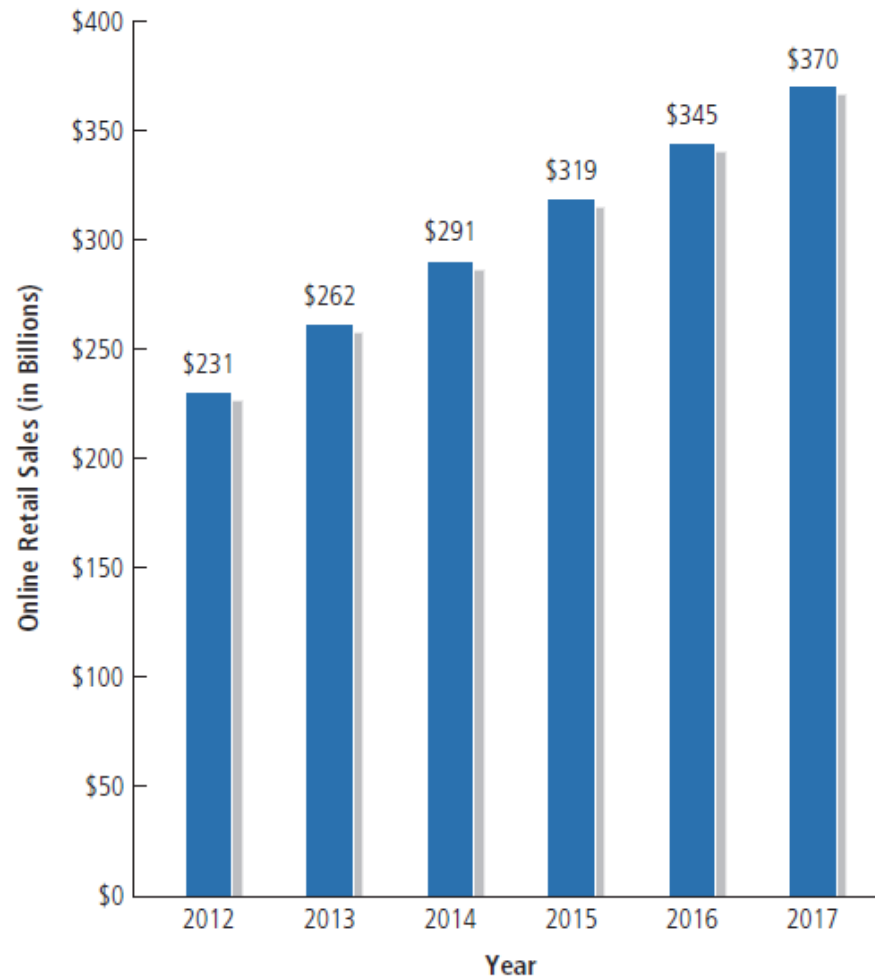
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- ❖ Uncertainty of income
- ❖ Risk of losing your entire investment
- ❖ Long hours and hard work
- ❖ Lower quality of life until the business gets established
- ❖ High levels of stress
- ❖ Complete responsibility
- ❖ Discouragement

Feeding the Entrepreneurial Fire

- ❖ Entrepreneurs as heroes
- ❖ Entrepreneurial education
- ❖ Demographic and economic factors
- ❖ Shift to a service economy
- ❖ Technology advancements
- ❖ Independent lifestyle
- ❖ The Internet, cloud computing, and mobile marketing

U.S. Online Retail Sales



Feeding the Entrepreneurial Fire

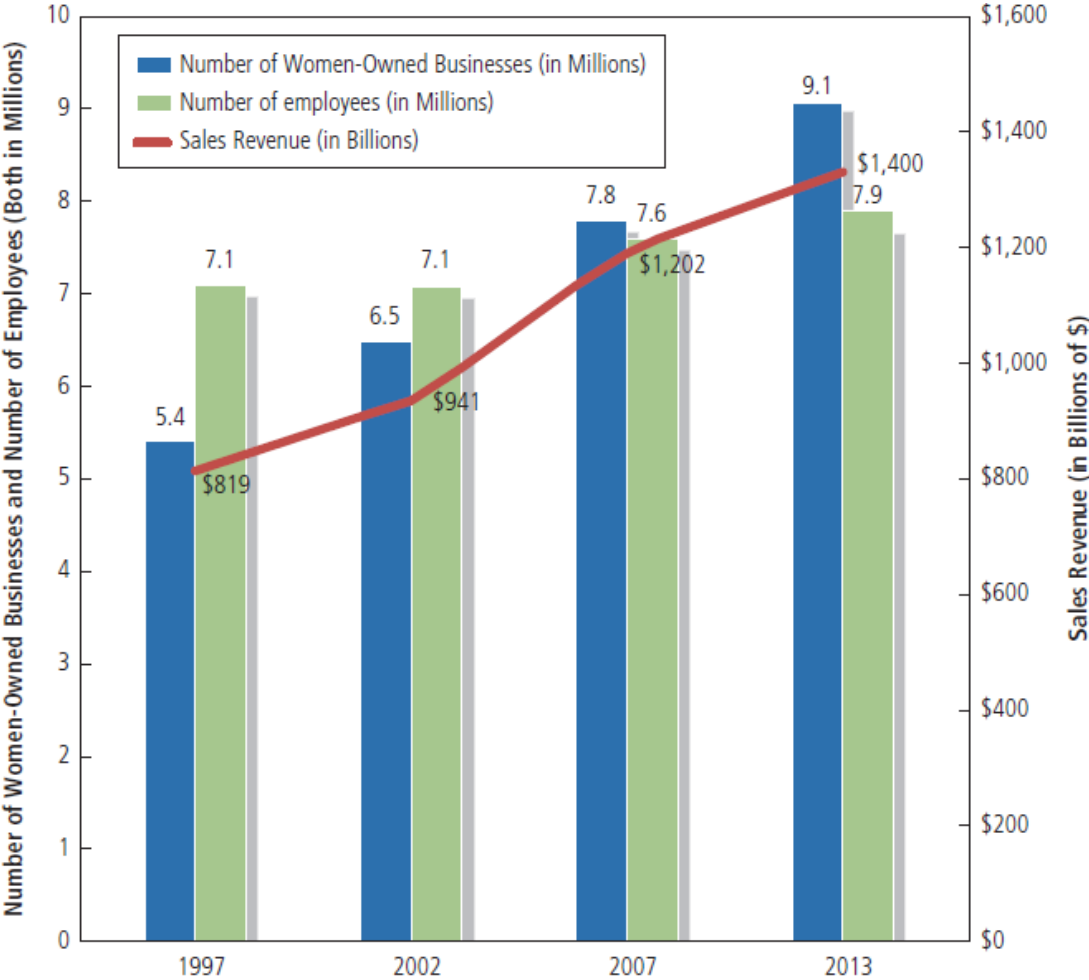
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- ❖ The Internet, cloud computing, and mobile marketing
- ❖ International opportunities

The Cultural Diversity of Entrepreneurship

- ❖ Young entrepreneurs
- ❖ Women entrepreneurs

Characteristics of Women-Owned Businesses

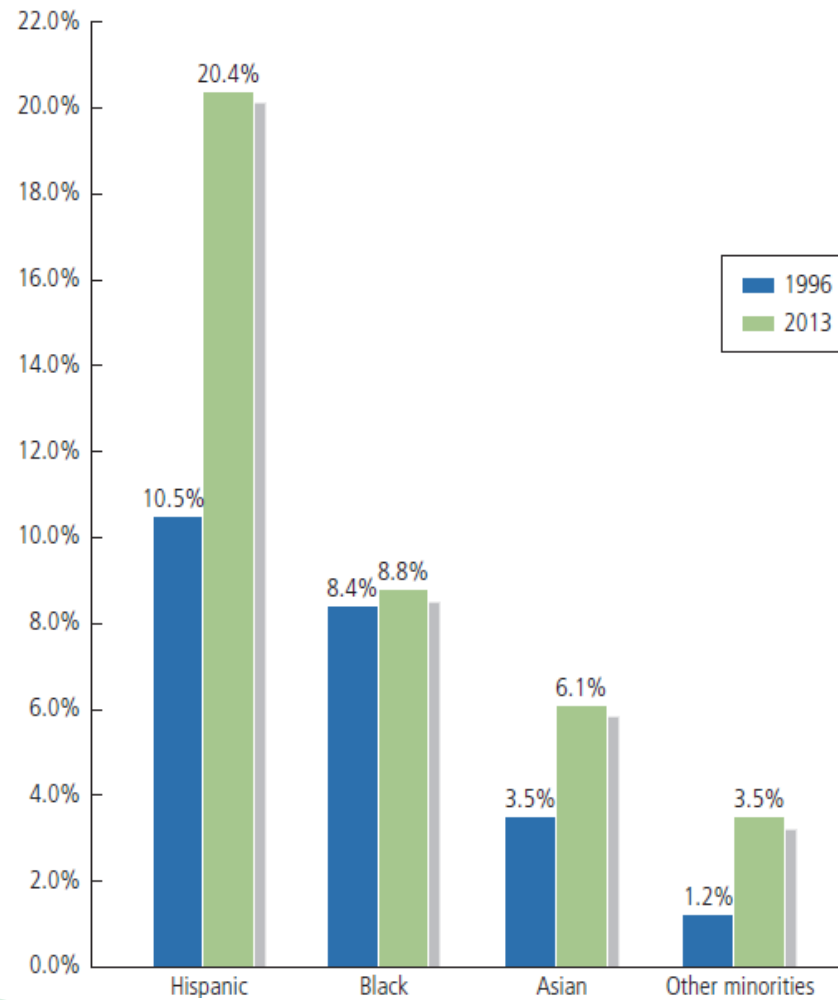


The Cultural Diversity of Entrepreneurship

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- ❖ Young entrepreneurs
- ❖ Women entrepreneurs
- ❖ Minority-owned enterprises

Growth of New Entrepreneurs by Minority Group



The Cultural Diversity of Entrepreneurship

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- ❖ Young entrepreneurs
- ❖ Women entrepreneurs
- ❖ Minority-owned enterprises
- ❖ Immigrant entrepreneurs
- ❖ Part-time entrepreneurs

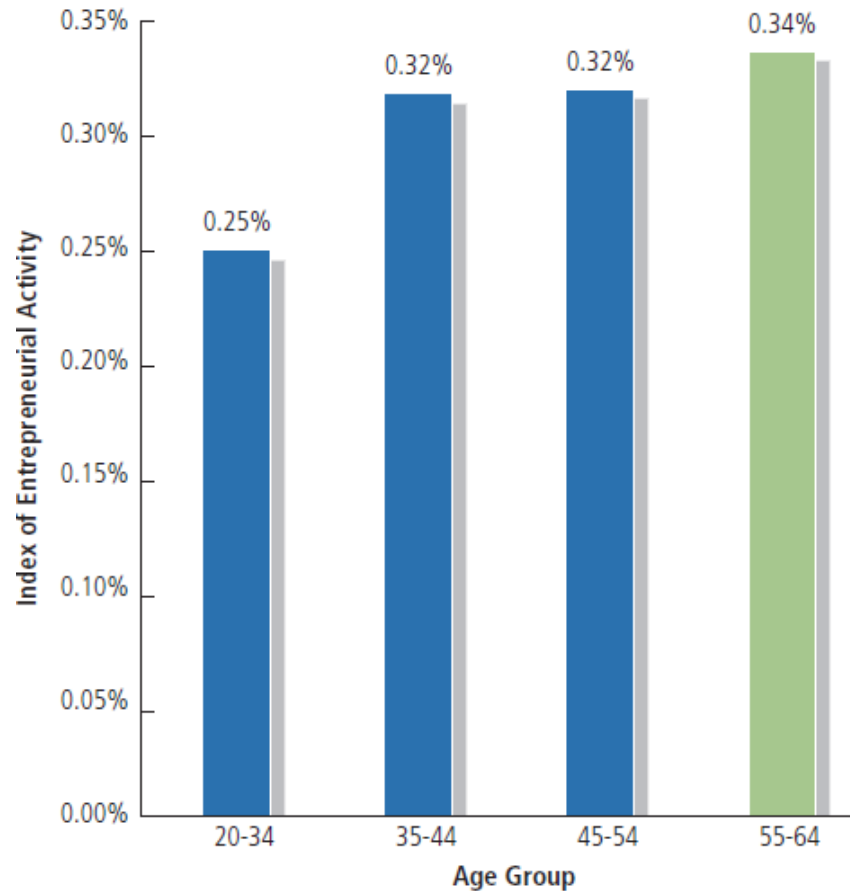
The Cultural Diversity of Entrepreneurship

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- ❖ Home-based businesses
- ❖ Family businesses
- ❖ Copreneurs
- ❖ Corporate castoffs
- ❖ Corporate dropouts
- ❖ Retiring baby boomers

Entrepreneurial Activity by Age Group

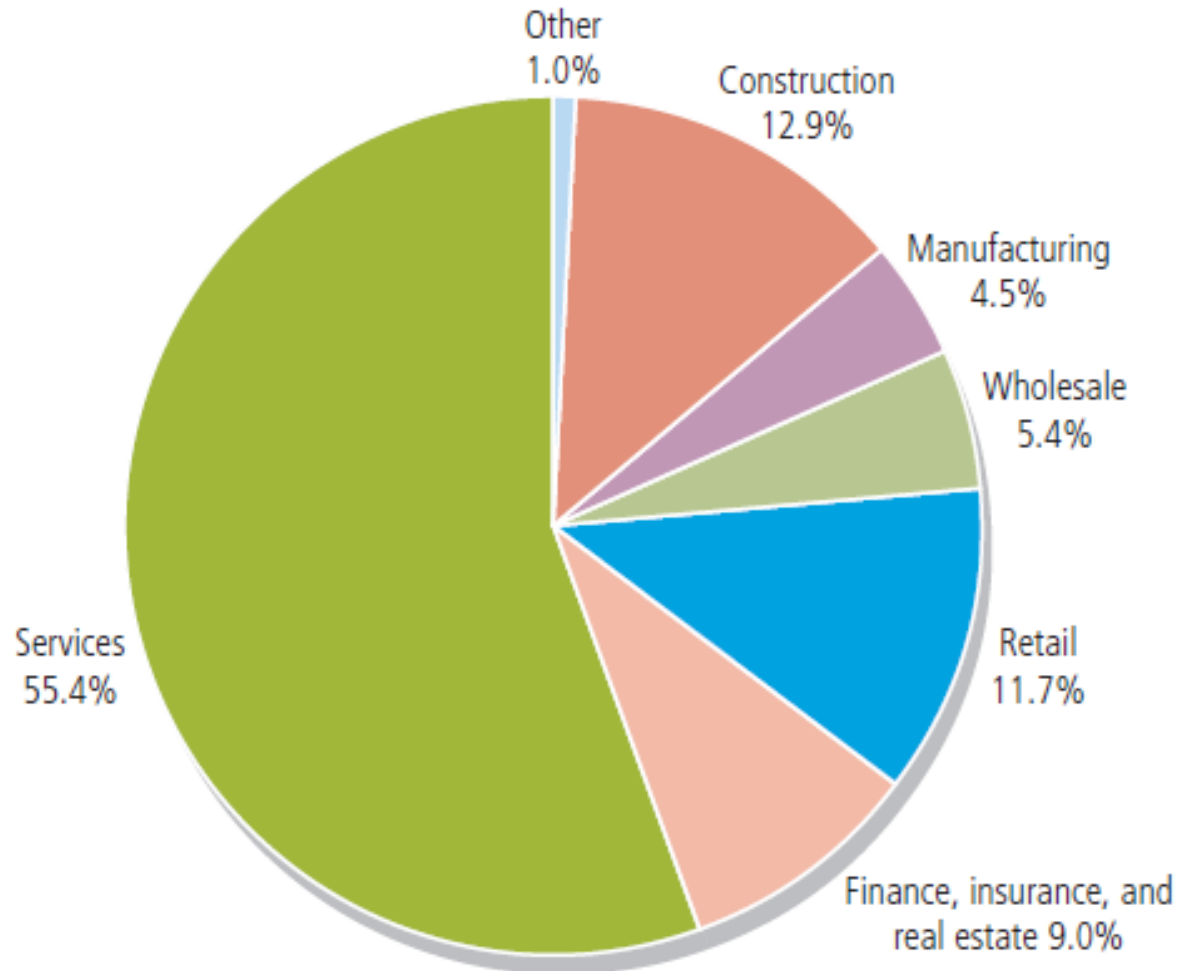
Average Index of Entrepreneurial Activity
by Age Group
1996-2012



The Power of Small Businesses

- ❖ Small businesses:
 - ❖ Make up 99.7% of the 27.8 million businesses in the United States
 - ❖ Employ 49.2% of the nation's private sector workforce
 - ❖ Create more jobs than big businesses
 - ❖ Created 64% of net new jobs over the last decade
 - ❖ 5% of small companies create 67% of net new jobs in the economy
 - ❖ Gazelles

Small Businesses by Industry



The Power of Small Businesses

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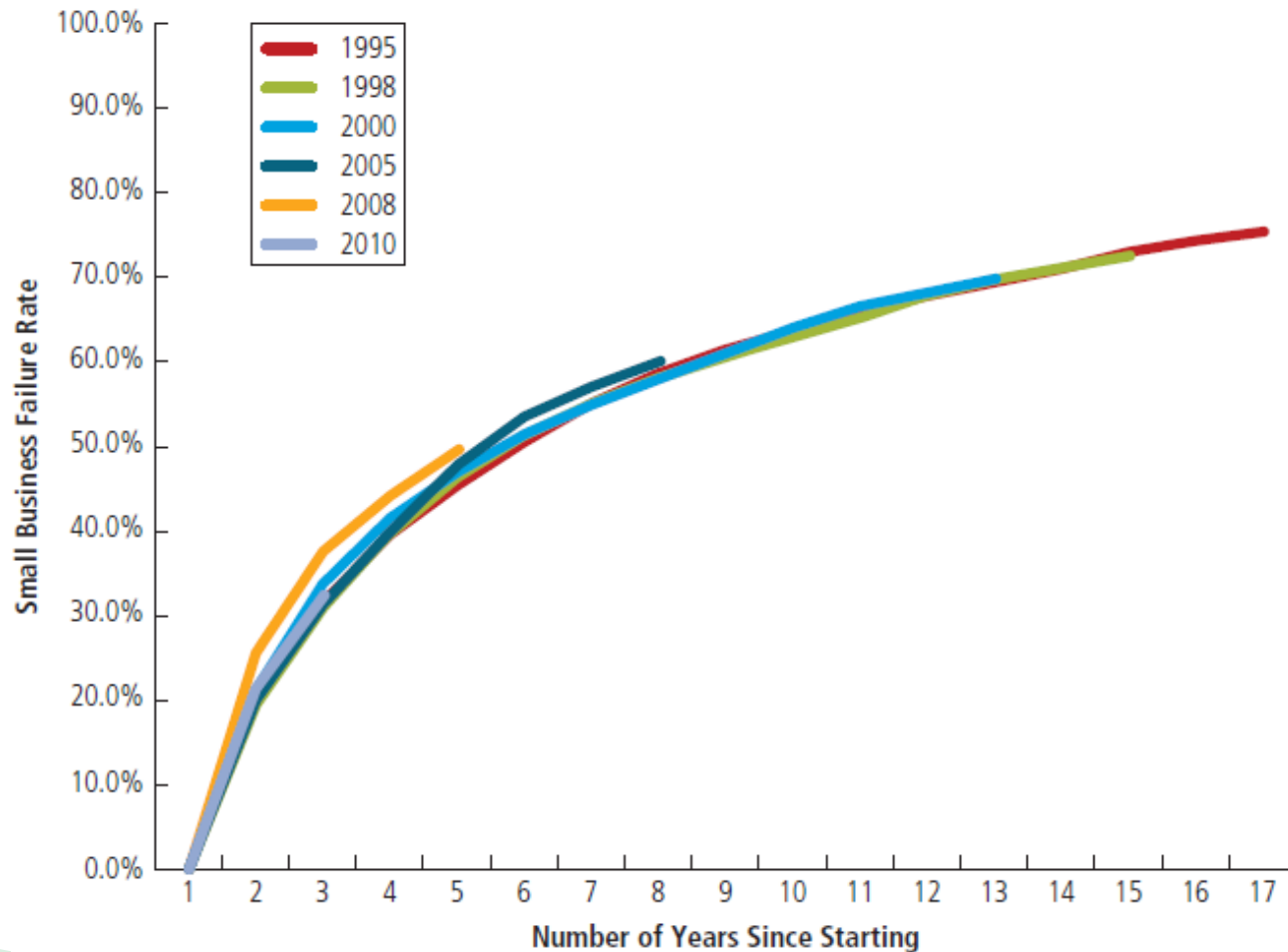
❖ Small businesses:

- ❖ Produce 46% of the nation's private GDP.
- ❖ Account for 47% of business sales.
- ❖ Create 16 times more patents per employees than large companies.
- ❖ Zipper, light bulb, FM radio, laser, air conditioning, escalator, personal computer, automatic transmission, and many more!

Putting Failure into Perspective

- ❖ Entrepreneurs are *not* paralyzed by the prospect of failure.
- ❖ Failure: a natural part of the creative process.
- ❖ Successful entrepreneurs learn to fail *intelligently*.

Small Business Failure Rate



Avoiding the Pitfalls of Small Business Failure

- ❖ Know your business in depth
- ❖ Build a viable business model – and test it
- ❖ Develop a solid business plan
- ❖ Understand financial statements
- ❖ Manage financial resources
- ❖ Learn to manage people effectively
- ❖ Set your business apart from the competition
- ❖ Maintain a positive attitude

Conclusion

❖ Entrepreneurs:

- ❖ Are an important part of the free enterprise system
- ❖ Are a diverse and talented group of people
- ❖ Represent a cross-section of society as a whole
- ❖ Are able to enhance the profitability of their businesses through acquiring additional knowledge and experience