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EIGHTH EDITION

LAUNCHING NEW VENTURES

An Entrepreneurial Approach

KATHLEEN R. ALLEN

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Kathleen R. Allen
University of Southern California

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***Launching New Ventures: An Entrepreneurial Approach*, Eighth Edition**
Kathleen R. Allen

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BRIEF CONTENTS

CONTENTS

CASE STUDIES 317

APPENDIX 343

PREFACE

The world we live in today is vastly different from the one that existed when I wrote the first edition of *Launching New Ventures* in 1995. The most notable difference is the prevalence of smartphones and social media. Nevertheless, I would argue that the future of the United States, and certainly the world, still lies with entrepreneurs who start the innovative businesses that create jobs and produce products and services to fuel the economy. For the foreseeable future, we will live in a world characterized by a high degree of uncertainty, an accelerated pace of change, and the impact of social media on everything from politics to business to culture. While there are benefits to these changes, there are also enormous risks. Entrepreneurs are comfortable with risk because they can calculate probabilities and outcomes for the risks they face. Uncertainty, on the other hand, has no probabilities associated with it; it can't be calculated or predicted. To survive in a world of uncertainty, entrepreneurs must develop businesses that are fast, lean, adaptable, and flexible. Whether a new venture operates in the online world, the life sciences, manufacturing, or services, entrepreneurs need to compress the product development timeline, get to an early prototype quickly and cheaply with the minimum number of features needed to meet the customer's requirements, continually refine their business models, and find ways to get traction as fast as possible. An uncertain business environment means more than ever that the winners will be those who launch businesses as entrepreneurs in the true Schumpeterian sense of the word: disrupting what has gone before, looking for the unexpected, and creating new value.

The evidence for the benefits of entrepreneurship is clear when we study its impact on society and on the economy. However, the evidence is not so clear when we look at entrepreneurship in the academy. As educators and practitioners, we assume more benefits than we can actually quantify. In the preface of the sixth edition, I referred to an important article written by one of the early leaders in the field. It bears repeating here because the problem persists. Researcher and Professor Dale Meyer wrote about the field of entrepreneurship as a discipline in a provocative article for the *Journal of Small Business Management* called "The Reinvention of Academic Entrepreneurship." He lamented the lack of rigorous metrics for measuring the impact of entrepreneurship education on students and society, the heavy reliance on neoclassical economic paradigms, and the blurring of the boundaries between entrepreneurship and small business management. He called for more emphasis on creative, self-organizing processes that entrepreneurs employ to craft complex, adaptive business systems. I wholeheartedly agree with Meyer's assessment. Today, the term *entrepreneurship* has been diluted by overuse in contexts that have nothing to do with new venture creation. *Entrepreneur* is being co-opted by everyone, including the media, to describe what is more traditionally referred to as a small business owner, a successful musician, or an effective product manager. The rationale for this dilution is that if you think like an entrepreneur, you're an entrepreneur. I believe that this rationale confuses entrepreneurship with creativity and innovation. In every edition of *Launching New Ventures,* I have attempted to remain true to the Schumpeterian view of the entrepreneurial process as "creative destruction." Now, more than ever before, the world needs entrepreneurs, in the strictest sense of the word—those who challenge the way we think about business, who create innovative business models that solve new problems, and who excel at sense-and-respond processes in the face of great uncertainty.

With all the knowledge we now have about how to operate effectively in a global market, how to build successful companies with extraordinary valuations, and how to innovate, we still have so much more to learn. And that is perhaps why so many of us enjoy the field of entrepreneurship because it is messy, chaotic, and in a constant state of change. We are continually challenged to revise our ideas—what we knew to be true—in the face of almost daily changes in the countless variables that affect the complex launch and growth of a new business.

Launching New Ventures, Eighth Edition, represents the most current thought, ideas, and practices in the field of entrepreneurship. In fact, ever since its first edition, *Launching New Ventures* has endeavored to extend the boundaries of what we know about entrepreneurship and to celebrate the uniqueness and creativity of entrepreneurs.

CONTENT, ORGANIZATION, AND UNIQUE COVERAGE

Launching New Ventures is organized around the process of creating a startup, from the creation of an opportunity to the validation of that opportunity to the launch of the business. It is designed to help readers organize and plan for venture creation by mentally (and sometimes physically) engaging in the various activities that entrepreneurs typically undertake. This book has never sought to be all things to all people. It has a very specific emphasis on pre-launch activities—those things that entrepreneurs do to prepare to start a business and secure their first customer. The reason for this emphasis is that the decisions made to prepare a business for launch will have a significant impact on how successful that launch is. So this book explores activities such as opportunity creation and feasibility analysis in more depth than the average book on entrepreneurship. The book also takes a distinctly entrepreneurial view of new businesses as opposed to a small business perspective. In a complex, global world, new business owners, whether their business might be the next Google or simply a small restaurant, need to think like an entrepreneur. They need to be opportunity-focused, innovative, growth-oriented, and constantly looking for new ways to create and capture value for customers.

Part One introduces the foundations of entrepreneurship and entrepreneurial opportunity, which are important to understanding the decisions that entrepreneurs make, the environment in which they make those decisions, and the tasks they must undertake before starting a new company. In Chapter 1, readers will learn the nature of entrepreneurial ventures and how they are distinct from other types of businesses as well as the role of entrepreneurship in the economy. Chapter 2 dispels many myths about entrepreneurs and helps readers understand the characteristics and behaviors that work for and against entrepreneurs. Readers also learn about the entrepreneurial mindset, which is so critical for a successful startup. Chapter 3 introduces the subject of opportunity and how entrepreneurs create and shape opportunities for themselves.

Part Two addresses the heart of entrepreneurial activity, the testing of a business model through feasibility analysis. It opens with Chapter 4, "Analyzing the Industry and Market" where readers will learn how to study an industry, the environment in which the new business will operate, and follows that with a discussion of how to effectively conduct market research to understand customer needs and levels of demand. Chapter 5 focuses on the design, development, and testing of a business model as well as how innovation happens in all the components of the business model. Chapter 6 explores the way entrepreneurs develop products and services; it considers product development using lean methodologies, prototyping, and the minimum viable product. Chapter 7 considers ways to protect a startup's assets through intellectual property rights. Chapter 8 looks at how to build an effective founding team and also discusses how to determine what gaps in experience and expertise may exist in the management team and how to compensate for them with such solutions as strategic alliances and independent contractors. Chapter 9 closes this part by addressing the startup resources entrepreneurs must gather and how to calculate the required capital and other resources needed to launch the venture and operate it until it achieves a positive cash flow from the revenues it generates.

Part Three deals with business design, those activities that take place once you know you have a feasible venture. It begins with Chapter 10, which describes how to move from a feasibility analysis to preparing a business or execution plan. Chapter 11 deals with the design of an entrepreneurial company, considering how entrepreneurial businesses are organized, how entrepreneurs determine the best business location, and how they develop their initial human resource capability. Chapter 12 focuses on how products and services are produced and addresses issues related to planning the startup operations of a new business, such as production, quality control, customer service, outsourcing, and managing the supply chain. Chapter 13 looks at the legal form of the business and discusses the advantages and disadvantages of sole proprietorships, partnerships, and corporate forms. Chapter 14 deals with the role and implementation of the startup marketing plan and how to promote new products and services effectively with limited resources. It pays particular attention to the role of social networks and search engine marketing. The chapter also addresses personal selling and customer relationship management. Chapter 15 explores the increasingly important topics of vision, ethics, and social responsibility. The value system of a new business shapes the culture of the business and the image it will have to live up to as it builds its reputation. Readers will be challenged to define a vision for a new venture based on the values they believe to be important. They will also gain a greater understanding of the need for ethics and social responsibility in any business. Part Four explores planning for growth and change in the new organization. It begins with Chapter 16, which looks at how to fund a startup as well as a rapidly growing venture, including the cost and process of raising capital, venture capital, and the IPO market. Chapter 17 deals with exploration and exploitation growth strategies for entrepreneurial ventures. It also pays particular attention to growing by going global and concludes with a discussion of harvest and exit strategies.

SPECIAL FEATURES IN THE EIGHTH EDITION

The eighth edition contains a variety of features of value to instructors and readers.

1. *Chapter Objectives* highlight the key topics for each of the chapters.
2. The digital version contains inline activities that enable students to check their understanding of important concepts as they move through the chapters.
3. Arguably, the biggest change is the MindTap platform, which offers students a new way to engage with their course material and offers instructors easier ways to assess students' understanding of the materials.

NEW TO THIS EDITION

The following are the major changes to the eighth edition.

Overall Changes

Examples and data have been updated.

Chapter by Chapter Changes

- Chapter 1: All statistics have been updated, as well as the inclusion of the most recent market trends: artificial intelligence, augmented reality, synthetic biology, and genomics.
- Chapter 2: All data have been updated.
- Chapter 3: The chapter title, Creating Opportunity, underscores the proactive nature of opportunity for entrepreneurs. They don't wait for opportunity; they create it. The chapter has been updated with new data and reorganized to make it more concise.
- Chapter 4: The chapter opens Part II on feasibility analysis and has been structured with more bullet points to highlight key learning and facilitate reading.
- Chapter 5: A new quote was added as the lead-in to the chapter. It provides a new way to explain the difference between a user and a beneficiary. The chapter is more concise.
- Chapter 6: In addition to updating examples, the chapter features a new chapter section and associated figure on product development trade-offs as well as an in-depth discussion of the minimum viable product.
- Chapter 7: This chapter is devoted to intellectual property and ways to protect the startup's assets. All statistics and laws have been updated with current examples.
- Chapter 8: This chapter is about the founding team. The chapter incorporates important research on founding teams conducted by Noam Wasserman and addresses the issue of entrepreneur scalability.

- Chapter 9: This chapter goes in depth on the process of determining startup capital. It offers readers inline activities to sharpen their understanding of business metrics, customer value, and sales forecasts.
- Chapter 10: This chapter opens Part III on business design by discussing the preparation of a business plan. The chapter also includes a new approach to the elevator pitch. New inline activities help readers understand adoption patterns, customer value, and social media strategies.
- Chapter 11: The chapter treats the critical areas of location decisions, hiring, and stock with a number of new inline exercises.
- Chapter 12: This chapter focuses on startup operations and includes new inline activities that test the reader's understanding of supply chains and manufacturing.
- Chapter 13: This chapter focuses on legal forms of organization. All laws have been updated and new inline activities test the reader's understanding of legal concepts.
- Chapter 14: This chapter deals product adoption/diffusion and marketing strategies and tactics. The social media metrics section has been enhanced to reflect the latest tactics. The chapter has been completely refreshed with new examples.
- Chapter 15: This chapter closes the part on business design and is now the chapter on ethics and social responsibility. The entire chapter has been refreshed with new examples.
- Chapter 16: This chapter focuses on how to fund startup and growth Using new inline activities, readers can sharpen their skills in money basics, investment capital, and the valuation of startups.
- Chapter 17: This chapter combines the topics of growth and change because they normally occur together. The chapter data have been updated and the chapter includes new inline activities that check the reader's understanding of the material.

SUPPLEMENTAL MATERIALS

On the Instructor Companion Site, you'll find everything you need for your course in one place! This collection of book-specific lecture and class tools is available online via www.cengage.com/login. Access and download PowerPoint presentations, test bank, and more.

The Instructor's Manual is a comprehensive and valuable teaching aid, featuring chapter summaries and author notes, chapter objectives, brief chapter outlines, answers to end-of-chapter questions, suggestions to end-of-chapter activities, supplementary lecture materials, and Case Study teaching notes.

The Test Bank, revised and updated, includes a variety of true/false, multiple choice, and short answer questions in varying levels of difficulty, which emphasize the important concepts presented in each chapter.

The PowerPoint® Presentation provides instructors with comprehensive visual aids for each chapter in the book. These slides include outlines of each chapter, highlighting important figures, concepts, and discussion points.

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K.R.A.

ABOUT THE AUTHOR

Kathleen Allen, PhD is Professor Emerita of Entrepreneurship at the University of Southern California's (USC) Marshall School of Business where she founded and led the USC Marshall Center for Technology Commercialization. In 2018, she received a Lifetime Achievement Award from the university for her contributions to education and research. Selected as Entrepreneurship Educator of the Year for 2014 by the U.S. Association for Small Business and Entrepreneurship, Dr. Allen is considered a leading authority in the fields of technology commercialization and entrepreneurship. She is the author of more than 15 books in the field and her personal entrepreneurial endeavors include two successful companies in commercial real estate brokerage, development, and investment, and two technology-based businesses that commercialized patented technologies. She also co-founded a non-profit venture that incubated technology and health care-related startups in underserved areas of the Midwest. Dr. Allen served for three years as entrepreneur-in-residence at a major aerospace firm and from 2014–2017 was a visiting scholar at the Department of Homeland Security, Science and Technology Directorate. She currently serves as advisor to several private companies and is director of a NYSE, S&P 500 company.

PART

I

ENTREPRENEURSHIP AND OPPORTUNITY

THE ROAD TO STARTUP

Simplified

CHAPTER

1

UNDERSTANDING ENTREPRENEURSHIP

"I think a good entrepreneur has a very clear grasp of what the goal is, an unwavering sense of the goal, an utterly agile approach of getting there."

—JOHN KATZMAN, CEO NOODLE EDUCATION

CHAPTER OBJECTIVES

- Define entrepreneurship.
- Explain the role of entrepreneurship in economic growth.
- Distinguish entrepreneurial ventures from small businesses in terms of their purpose and goals.
- Describe the evolutionary history of entrepreneurship.
- Identify today's broad trends in entrepreneurship and technology.

At the age of 16, Jan Koum and his mother fled their Ukrainian homeland to the United States. A self-taught programmer, he eventually spent nine years at Yahoo! where he met Brian Acton who would become his co-founder of WhatsApp, an app that provides open and free access to people to communicate via text messages. In 2014, Facebook acquired WhatsApp for $22 billion and that transaction remains the highest price paid for a **venture-backed** startup in history. The WhatsApp story goes a long way toward explaining why so many people want to become entrepreneurs. While the lure of success and wealth is enticing, the reality is that most entrepreneurial businesses do not end up like WhatsApp. In fact, WhatsApp is only one example of what success looks like in the world of entrepreneurship.

What is **entrepreneurship**? From one of the earliest definitions of entrepreneurship, proposed by Austrian economist Joseph Schumpeter, we learn that entrepreneurship is a form of "creative destruction." Breaking down old ways of doing things to create new value.[1] Another definition by Harvard professor Howard Stevenson embodies the essence of what entrepreneurship is: The process by which individuals—either on their own or inside organizations—pursue opportunities without regard to the resources they currently control.[2]

This definition suggests that entrepreneurship is more than simply starting a business; it also encompasses a mindset or way of thinking and a set of behaviors. That way of thinking is usually opportunity-focused, risk taking, innovative, and growth-oriented. Although entrepreneurship is still most commonly thought of in the context of starting a business, the entrepreneurial mindset can be found within large corporations, in socially responsible nonprofit organizations, and anywhere that individuals and teams desire to differentiate themselves and apply their passion and drive to executing a business opportunity. Entrepreneurship is not unique to any country, gender, race, age, or socioeconomic sector. Entrepreneurs can be found in some form in every country, in every age group, and (increasingly) in women as often as in men. The entrepreneurial fever does not distinguish between the rich and the poor; in fact, it touches anyone who has the passion to be self-employed or anyone who is determined to be independent and to take charge of his or her life. The entrepreneurial way of thinking can be understood and practiced, and the skills and behaviors of the entrepreneur can be learned and applied. The only characteristic of entrepreneurs that is arguably intrinsic is passion, the drive to achieve something. Passion cannot be taught or practiced; it simply exists when the right elements come together—for example, when an entrepreneur creates a business opportunity and devotes his or her full attention and resources to bringing it to life. Passion is found in successful people in all disciplines—great musicians, artists, writers, scientists, and teachers. It is what drives a person to go beyond expectations and to be the best that person can be.

This chapter explores entrepreneurship as a phenomenon and lays the groundwork for the skills and behaviors that are fundamental to the remainder of the text.

1.1 THE ROLE OF ENTREPRENEURSHIP IN THE ECONOMY

To understand the role that entrepreneurship plays in the economy, it is important to describe the process that entrepreneurs undertake as they create and exploit opportunity. Figure 1.1 depicts a view of this entrepreneurial process. As displayed, you can see that it is not a linear process but rather something more like a dynamic system with complex moving parts.

- **Phase 1:** Entrepreneurs initially work to find a significant problem or need in a market or an industry. Then they do preliminary research to understand the industry, the potential market, and any issues they might face in the areas of **intellectual property**, regulation, or in product development in the case of a technology solution. They then develop **hypotheses** from what they've learned.
- **Phase 2:** Here entrepreneurs focus on validating the hypotheses they have made about the customer, the solution, and the proposed **business model**. The results will ultimately provide important information about potential sources of revenue and major drivers of cost.
- **Phase 3:** When the activities in Phases 1 and 2 give entrepreneurs sufficient confidence that their business is feasible, it's time to consider the design of the business and to create a plan for its execution. This means having the right team and partners in place as well as choosing the best time to launch the business.

Figure 1.1 illustrates the phases of The Entrepreneurial Process.

The successful execution of the entrepreneurial process results in a new venture; however, the process of testing and validation continues as the new business responds to a dynamic environment that includes all the variables external to the business that can impact its growth. Some of those external variables include the economic environment, competition, new laws and regulations, labor supply, and sources of capital. As the leader, an entrepreneur essentially plays two roles—that of the catalyst, initiating and driving the process, and that of a ringmaster in a three-ring (or more) circus, managing the process through all its changes as the business grows.

This complex entrepreneurial process provides many benefits to society. Chief among these benefits are economic growth, new industry formation, and job creation. The following sections offer some insight into these contributions.

1.1a Entrepreneurs Spur Economic Growth

Early economists recognized that technology is the primary force behind rising standards of living[3] and that technological innovation would determine the success of nations in the future. Technological change happens when an entrepreneur identifies:

1. New customer segments that appear to be emerging
2. New customer needs

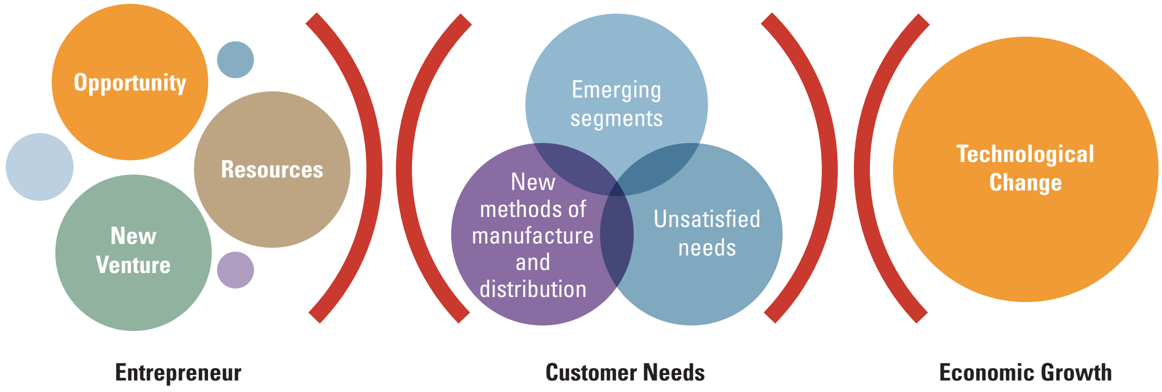
FIGURE 1.1 The Entrepreneurial Process

<table>
<tr><th>Phases</th><th>PHASE 1: Environment, Discovery and Opportunity</th><th>PHASE 2: Business Model Development and Testing</th><th>PHASE 3: Business Design, Planning, and Execution</th></tr>
<tr><td rowspan="3">RESEARCH</td><td>Critical Industry Forces
Suppliers, Rivalry,
Barriers to Entry
Threat of Substitutes
Trends: Technological,
Political, and Social</td><td>Value Proposition: The Solution
Applications
Product/Service Offerings
Benefits to Customer</td><td>Business Process Flow
Customer Acquisition
to Delivery
Business Activities</td></tr>
<tr><td>Market: Pains/Problems
Market Size and Growth
Competition
Trends</td><td>Customer Segment Identification and Validation
Addressable Market Segments
Benefits to Each Customer
First Customer
Customer Channels</td><td>Key Resources Required and Timing
Physical—Plant and Equipment
Capital—Working and Investment
Human—Headcount</td></tr>
<tr><td>Intellectual Property, Regulatory, and Technology Validation
Patent Decisions, Regulatory Impact
Technology Platform Development
Field Tests and Pre-Clinical tests
Technology Validation</td><td>Technology Application Validation
Field Tests with Customers
Animal Trials
Clinical Trials</td><td>Operations
Manufacturing-Operations Plan
Marketing Plan
Management Plan
Contingency Plan
Execution Plan</td></tr>
<tr><td rowspan="3">OUTCOMES</td><td colspan="2">Revenue Sources and Drivers
Number of Sources
Type
Size
Speed to achieve</td><td>Strategic Partners
Independent Contractors
Strategic Alliances
Investors</td></tr>
<tr><td colspan="2">Cost and Profitability Drivers
Type
Size
Importance</td><td rowspan="2">Launch Strategy
License
Start a Business
Sell
Joint Venture</td></tr>
<tr><td colspan="2">Startup Capital Requirements</td></tr>
<tr><td>EXECUTION</td><td colspan="2">Management Team
Board of Directors/Advisors
Expertise, Experience, Network</td><td>Market Timing
When to launch</td></tr>
</table>

3. Existing customer needs that have not been satisfied
4. New ways of manufacturing and distributing products and services. (See Figure 1.2.)

Identifying these needs offers the opportunity to invent new technology solutions that change the way we do things or to improve on existing products, services, and business models.

FIGURE 1.2 Entrepreneurship and Technological Change



1.1b Entrepreneurs Create New Industries

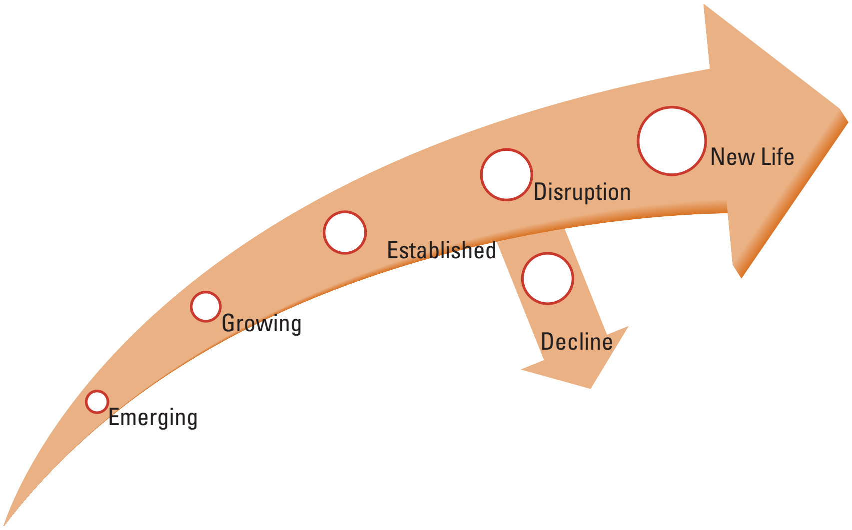
New industries are another important outcome of entrepreneurship and technological change. An industry is simply the people and companies that engage in a category of business activity such as semiconductors, medical devices, or food services. New industries are born when technological change produces a novel opportunity that enterprising entrepreneurs seize. For example, Apple's iPhone, introduced on January 9, 2007, spurred the development of the mobile app industry, which is now one of the fastest growing sectors in the broader software industry. It is expected to grow 270 percent by 2020 reaching $189 billion in sales.[4] The iPhone itself was an innovation built on the know-how of many earlier inventions. Nevertheless, Apple saw the opportunity to change the way we use phones by essentially putting a very powerful computer into everyone's hands and then encouraging developers to create unique programs exclusively for the device.

Industries don't last forever. Much like humans, they have life cycles—they're born, they grow, they decline, and they die. Figure 1.3 depicts the generic life cycle of an industry. The earliest stage of an industry is a time of rapid innovation and change as young firms struggle to become the industry standard-bearers with their technology. As these entrepreneurial firms achieve noticeable levels of success, more and more firms desiring to capitalize on the potential for success enter the industry. As the industry grows, it generally becomes more fragmented as a result of so many firms competing for position. Then, at some point consolidation begins to occur as the stronger firms begin to acquire the smaller firms and the weaker firms die out. Eventually, the number of firms in the industry stabilizes and the firms mature. If innovation in the industry ceases to occur, the industry output may actually begin to decline. However, if new, disruptive technology is introduced, the industry may now have a new platform on which to innovate and grow again.

1.1c Entrepreneurs Create Jobs

Entrepreneurial ventures are responsible for job creation that is disproportionate to the net total new jobs created in the United States over the past 25 years. The U.S. Small Business Administration (SBA) defines a small business as one with fewer than 500 employees, which by many standards is not very small and includes

FIGURE 1.3
The Industry Life Cycle



both high-growth technology ventures and small "mom and pops"—quite a range indeed. Over the past two decades, startups have accounted for about 40 percent of new jobs while the expansion of existing companies accounts for the remaining 60 percent of new jobs.[5] In all, 62 percent of net new jobs come from small businesses; small businesses comprise 99.9 percent of all businesses.[6] It is important to note, however, that the vast majority of net new jobs created by the small business sector are created by a few rapidly growing young firms called **gazelles** or high-impact businesses. These young businesses generally have sales that double over a four-year period with employment growth of two or more times over the same period.[7] It is also interesting to learn that there are 29.6 million small businesses in the United States, 80 percent of which have no employees.

Given that we do business in a global marketplace, it's important to know something about international entrepreneurship. The annual *Global Entrepreneurship Monitor* employs samples that represent about 75 percent of the world's population and 90 percent of the world's GDP. The study divides countries into three groups based on where the country stands in terms of growth and they look at early-stage entrepreneurial activity.[8] In the 2016/2017 report, they identified three categories of countries: factor-driven, efficiency-driven, and innovation-driven.

Factor-driven economies rely on unskilled labor and the extraction of natural resources for growth. Here businesses are normally created out of necessity so these countries tend to have very high entrepreneurial activity rates relative to other types of economies. Examples are India, Zambia, Iran, and the Russian Federation. Early-stage entrepreneurial activity rates are generally below 15 percent.

- **Efficiency-driven economies** are those growing and in need of improving their production processes and quality of goods produced. Examples are Argentina, Egypt, Croatia, and South Africa, although the highest entrepreneurial activity rates were found in Ecuador at 33 percent.
- **Innovation-driven economies,** which are the most advanced, are where businesses compete based on innovation and entrepreneurship. Examples are the United Kingdom, Singapore, Israel, and the United States. The highest levels of entrepreneurial activity are found in Australia, Estonia, the United States, and Canada at about 17 percent.

One consistent finding is that across all type of economies, there are more people in the 25- to 34-year-old age group with intentions to start a business and entrepreneurship is a highly regarded activity and career path.

1.2 THE NATURE OF ENTREPRENEURIAL STARTUPS

Entrepreneurial ventures and small businesses are related, but they are not the same in most respects. Both are important economically but each provides different benefits and outcomes. Schumpeter described entrepreneurs as equilibrium disrupters who introduce new products and processes that change the way we do things, while small-business owners typically operate a business to make a living.[9] Examples of small businesses are small shops, restaurants, and professional service businesses. They form what has been called the **economic core**.[10] In some cases, they're known as lifestyle businesses or "mom-and-pops," not only because they tend to stay small and geographically bound, but more because their owners make a conscious decision to remain small. As a result, they tend to be slow growing and often replicate similar businesses already in the market.

It should not be forgotten, however, that even high-impact ventures start small. The difference is that the high-impact entrepreneur's goal is not to stay small.

In general, high-impact entrepreneurial ventures have three primary characteristics. They are:

- Innovative—the venture brings something new to the marketplace.
- Value-creating—the venture creates new jobs that don't draw from existing businesses and serve customer needs that are currently unserved.
- Growth-oriented—the entrepreneur sees the business growing to a regional, national, or global level.

Choosing what kind of business to start is very important, because that choice influences all subsequent decisions and determines what kinds of goals you are able to achieve. For example, if you intend to grow a business to a national level, you will make different decisions along the way than if the intent is to own and operate a thriving restaurant that competes only in the local community.

1.2a Risk and the Entrepreneurial Venture

It's impossible to talk about entrepreneurial ventures without considering the effects of risk as risk is an inherent part of the entire entrepreneurial process. With more information and validation from the market, the impact of risk changes over time.

Much of new venture risk occurs early in the creation process. Borrowing a term from product development, we can call the period of time prior to launch and startup the ***fuzzy front end,*** which simply means that the activities undertaken at this point are often unclear and subject to change as more information is obtained. The fuzzy front end has been modeled in economic terms. Simply put, the amount of investment an individual is willing to make in a new product—or, in this case, in a new venture—is a function of the probability of its success, the value of that