

LEARNING MADE EASY



2nd Edition

Entrepreneurship

for
dummies[®]
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Learn to create
an opportunity

Quick-test your business
before launch

Effectively manage
growth and change

Kathleen Allen, Ph.D.



Entrepreneurship

2nd Edition

by Dr. Kathleen Allen

for
dummies[®]
A Wiley Brand

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Introduction

Entrepreneurs like to do things that excite the world, bend the rules a bit, and make us look at something in an entirely new way. They are opportunistic, finding opportunities where others don't see them.

Although stereotyped as risk takers, the truth is that most entrepreneurs take *calculated* risks — most are not the gamblers people make them out to be. In their businesses, they assess their options and choose their course based on a calculated probability of success. They're not afraid to fail because they tend to measure their real success by how many times they learned from their mistakes and went on to try again. Entrepreneurship involves challenge, persistence, planning, and more persistence.

Entrepreneurship Has Changed

For the past two decades or longer, entrepreneurship has been viewed simply as a process for starting new businesses. Only recently have those of us who study this phenomenon concluded that entrepreneurship is more importantly about an opportunistic mindset and spirit. That's a significant distinction, because it means that everyone has the potential to benefit from understanding how the mind of the entrepreneur works. Whether you work in a large corporation, own a small business, run a nonprofit organization, or are at home raising children, you can find opportunities to improve your situation by applying this way of thinking to your life and work.

My approach to entrepreneurship starts with a mindset and then guides you in discovering the strategies, skills, and tools you can use to turn ideas into opportunities and opportunities into successful business concepts. You learn that customers define what a business is, what products and services it produces, and how successful it becomes.

About This Book

Entrepreneurship For Dummies contains practical information that can be used by anyone who aspires to start a business, work as an entrepreneur inside a large corporation, or just become more opportunistic by acquiring an entrepreneurial mindset. It doesn't matter whether you have ever owned a business or even have any business experience. You can use this book to think about the world of the entrepreneur and decide if it's right for you.

This book is grounded in the real world. It is based on research I and others have conducted in the field of entrepreneurship, the work I have done with hundreds of entrepreneurs starting new ventures, and my own experiences as an entrepreneur, so there are no hypothetical situations here. I pulled together the best information, the best tips, and the best examples of how to make entrepreneurship work for you.

Foolish Assumptions

Before I began this book, I made some assumptions about you — the reader. (I know that's not always wise, but I'm not afraid to take a risk!). I assumed that you want to understand what entrepreneurs do to create those exciting businesses you read about and see on TV. And I also assumed that you are ready to make an investment of time and effort in your future. Finally, I assumed that you want to know how to use entrepreneurial skills and attitudes in whatever endeavor you ultimately decide to undertake.

Icons Used in This Book

Throughout this book, icons in the margins highlight certain types of valuable information that call out for your attention. Here are the icons you'll encounter and a brief description of each.



TIP

A good idea, trick, or shortcut that can save you time and money.



REMEMBER

A piece of information you shouldn't forget.



WARNING

A tip that can help you avoid disasters.



CASE STUDY

An example from the real world to illustrate the current point.

How This Book Is Organized

To make the content more accessible, I divided it into five parts:

- » Part 1, “Getting Started in Entrepreneurship,” gives you an introduction to the entrepreneur’s world and the new environment in which businesses are being started.
- » Part 2, “Testing the Feasibility of Your Business Concept,” gets you started in the nuts and bolts of feasibility analysis, which is a way to test your business opportunity in the real world, before you spend time and money starting a business to make it happen.
- » Part 3, “Designing a Company,” tells you everything you need to know about business plans and how to develop them. You’ll discover the right legal form for your business and the right business model to make money in your particular business.
- » Part 4, “Growing a Company,” covers how to take your business beyond startup and successfully grow it to a new level. You discover how to plan for growth.
- » Part 5, “The Part of Tens,” includes some of my best tips for reasoning why you maybe shouldn’t start a business, and motivating yourself to get started with a business idea if you should start a business.

Where to Go from Here

If you want the most from this book and the full picture, I suggest you start at the beginning and work your way to the end. This book contains a wealth of information for you to explore, and I don’t want you to miss any of it.

But, if you already have some business experience and not much time (like so many of us), you can skip from topic to topic depending on what interests you. The table of contents is organized to help you find what you need easily and quickly. For tips and tricks, you can also check out this book's online cheat sheet by searching for **Entrepreneurship for Dummies Cheat Sheet** at dummies.com.

No matter how you approach this book, if you have any questions or comments, I'd like to hear from you. Please contact me at kallen@marshall.usc.edu.

1 Getting Started in Entrepreneurship

IN THIS PART . . .

Understand the world of the entrepreneur.

Explore current trends and understand how entrepreneurship has changed in our digital, global, post-COVID environment.

Learn to develop new product ideas and deal with obstacles.

Implement feasibility analyses and turn your idea into a business concept.

IN THIS CHAPTER

- » Understanding what entrepreneurship really means
- » Discovering the many types of entrepreneurs
- » Deciding to become an entrepreneur

Chapter **1**

Understanding Entrepreneurship

The term *entrepreneur* has become so much a part of everyday usage that some of the key attributes that define an entrepreneur have been worn away. The faces of entrepreneurs have become familiar to us, as they host podcasts and show us how it's done on YouTube and TikTok.

It's not surprising then that entrepreneurs come in an amazing variety of types and styles. And they *are* a unique breed. The ventures they create disrupt the market. That's because entrepreneurs change the way you and I do things — usually for the better.

For example, Heather Ward, founder of Hyperion Global Energy in Ottawa, Canada, led the development of a modular system that captures CO₂ from the smokestack emissions of heavy industry and uses the carbon to make materials. She and other *cleantech* entrepreneurs are one example of those who are taking on big, difficult problems that most believe can't easily be solved.

Any problem, even the most complex, can be broken into chunks, each one a smaller problem that may be easier to tackle. What you choose to tackle will depend on your reason for wanting to become an entrepreneur. We talk about that a bit later in this chapter.

Anyone Can Become an Entrepreneur

Now that's a bold statement. Anyone can become an entrepreneur? Yes, it's true, if they have the right mindset and certain traits that are common to entrepreneurs. Who exactly are these people at the center of *entrepreneurship*? In simple terms, an entrepreneur is someone who creates a new opportunity in the world of business and assembles the resources necessary — money, people, technology, and materials — to successfully exploit that opportunity. This admittedly is a broad definition that encompasses the different kinds of entrepreneurial ventures and many perspectives on entrepreneurship.

The growth in the number of entrepreneurs is a sign of changing times. In 2016, 25 million Americans were starting or running their own businesses. By 2019, 28 percent of American workers were engaged in some form of self-employment. Moreover, 83 percent of business owners started their companies from scratch. The United States is home to 8 million minority-owned businesses and 11.9 million small businesses owned by women.

Interestingly enough, the United States is not growing the fastest in number of small businesses. The country with the fastest growth rate, the Dominican Republic, has ten adults start a new business for every adult who owns an existing business. This is a common pattern in smaller countries, where jobs are few and entrepreneurship is the most promising road out of poverty. We do know that about 70 percent of entrepreneurs went to college, but that means that about 30 percent did not — which is still a sizeable number. Those who did not go to college likely found a way to take some business courses, maybe online, to help them understand the critical thinking, finance, management, and marketing sides of the business so they would be better prepared to run their companies.

Recognizing an Entrepreneurial Venture

People sometimes think of entrepreneurs only as big risk takers and shake-up-the-market types. For example, they look at what Uber did for the personal transportation industry. Uber's initial offering was ride hailing, but based on their success with that service they went on to offer food delivery, package delivery, couriers, and freight transportation. Uber found its opportunity at the intersection of smartphones, app stores, and customers' desire for on-demand work as part of the growing gig economy, something we talk about later.

It is also true that entrepreneurs invest in making improvements on products and services we're familiar with, from quick-service food to in-the-home health services. Entrepreneurs recognize customers' pain, and they know these pain points are associated with a compelling problem that is solvable. They know that if they can solve that big problem and take away that pain, the customer will be willing to pay a premium to get the solution. By identifying the solution for a problem where a real need exists, entrepreneurs can differentiate their solution from competitors' solutions and prioritize the resources they need to launch their business. Then, if they can move fast and run the business right (running it right is key), they can gain a foothold in the market niche, well before they have to go head-to-head with much bigger competitors.



REMEMBER

The bottom line is entrepreneurs are ordinary people who do extraordinary things. They take everyday ideas and give them some magic. You don't need a lot of experience or resources to be an entrepreneur. You do need passion, persistence, and a creative mind. You have to believe you can solve a problem like no one else.



CASE STUDY

That was certainly the attitude of the founding CEO of Uber, Travis Kalanick. However, an effective leader of a new company must also display a bit of humility and realize that no matter who they are, they didn't get to where they are without the help and guidance of others. Every entrepreneurial venture has stakeholders — investors, partners, employees, board members, and customers — and those stakeholders need to be heard. It often happens that once a startup becomes a big company very fast, the founding CEO no longer has the skills required to effectively run that larger company and is asked to step aside in favor of professional management with more experience. In the case of Uber, we have a wildly successful startup whose founder almost destroyed the company to feed his ego. His lack of professional management skills nearly took the company down. Check out the excellent documentary film on Uber, *Super Pumped: The Battle for Uber*, which is on Netflix and is based on a book by the same name.

Entrepreneurs are as human as anyone else. If your goal is as ambitious as to build “the next Uber,” make sure you ask yourself why. Your reasons will be a clue to whether you can actually go the distance and keep your eyes on building a sustainable company for the long term and for the employees you need to help you get there. Uber is a great example of disruptive entrepreneurship. It is also an example of how even the best new ventures can implode when the needs of the stakeholders are not addressed.

CHECK YOUR ENTREPRENEURIAL INSTINCTS

Take this little quiz to see if you have the right stuff to become an entrepreneur. But don't take the results too seriously. I assure you that your answers will not determine whether you can succeed as an entrepreneur, but they may help you decide if entrepreneurship is right for you. The choices provided are the most common answers given by entrepreneurs in general.

- 1.** Are you:
 - Married or in a committed relationship?
 - Single?
 - Widowed?
 - Divorced?
- 2.** Are you:
 - Male?
 - Female?
- 3.** Why do you want to start a business?
 - To make a lot of money
 - To be independent
 - To give yourself a job
 - To gain power
 - To become famous
- 4.** How comfortable are you with uncertainty?
 - Very comfortable
 - Somewhat comfortable
 - Not comfortable
- 5.** To become successful as an entrepreneur, what will you need?
 - Money
 - Luck
 - Hard work
 - A good idea
 - All of the above

6. Concerning your willingness to take risk, are you:

- A high risk taker
- A moderate risk taker
- One who avoids risk

Answers

- 1.** The most common response is married. This doesn't mean that all entrepreneurs are married when they start their businesses or stay married for the duration. Most entrepreneurs are married or in a committed relationship by the time they start a venture, possibly because having a working spouse gives them a steady income while they're risking time and capital starting a new venture. However, these days, you notice growing numbers of single entrepreneurs starting dot-com ventures while still in their teens.
- 2.** It still is true that more men start new ventures than women, but that dynamic is changing. Women are starting businesses at a much faster rate than men, typically while they're in their 20s before they get married and start families or after their children are grown.
- 3.** The common reason entrepreneurs give for wanting to start a business is to be independent. For most entrepreneurs, money is a by-product of operating a venture they are passionate about. However, money does motivate a certain class of entrepreneurs. When the media touts the riches of successful entrepreneurs, people may get the impression that entrepreneurship is a means to quickly create wealth. But if there ever was the allure of quick riches, it is vanishing. Even among venture capitalists, the focus is shifting to non-Internet technology companies that create new value and make a profit in about three years.
- 4.** Most entrepreneurs are comfortable with uncertainty, because they understand intuitively that uncertainty brings opportunity with it. In general, people who must have a high degree of predictability in their lives are uncomfortable in the world of the entrepreneur.
- 5.** To be successful as an entrepreneur, you probably need a little of all these things — money, luck, hard work (you need lots of that), and a good idea. Entrepreneurs will tell you, however, that they make their own luck by taking calculated risks and building a network of contacts.
- 6.** Entrepreneurs are neither high risk takers nor do they avoid risk. They are moderate or calculated risk takers. They manage risk and make decisions based on what they believe their chances of success to be. Entrepreneurship is inherently risky, but so is driving a car and most everything else we do in life that has any significance. Entrepreneurs are typically better at judging risk and finding ways to manage it.

Understanding the Entrepreneurial Ecosystem

Entrepreneurial ventures are complex creatures. They have numerous parts, and the parts interact in a variety of ways. Look at Figure 1-1 to see all the major components of the entrepreneurial environment. Take a closer look at each of the parts:

- » **The Entrepreneur:** Though just one component, the entrepreneur is the driving force and coordinator of all the activities, resources, and people that need to be brought together to start a new venture. The entrepreneur's passion and vision give life to the business. The entrepreneur brings to the business experience, education, skills, a value system, and a network of people to rely on for help in getting the business started.
- » **Legal, Government:** Entrepreneurs conduct their business in a regulatory environment as prescribed by federal, state, and municipal laws, including the legal form of the venture (see Chapter 15) to the intellectual property it develops (see Chapter 8), to the contracts it writes, and to the employees it hires. Government — federal, state, and local — adds regulations to the mix in the form of taxes, fees, tariffs, and penalties for non-compliance.
- » **Suppliers:** Suppliers provide, among many other things, inventory, raw materials, parts, and even labor. Suppliers also help finance the new business by supplying lines of credit and extending payment periods.
- » **Competitors:** Competitors help determine if the market is hostile or friendly to the new venture. They have a huge impact on pricing, marketing strategy, and distribution-channel strategy.
- » **Customers:** Customers are the lifeblood of the business — without them, no business can exist. Customers influence everything the business does, from creating demand for the development of new products and services, to influencing market strategies, to improving support services, and to optimizing the quality of customer service.
- » **Technology:** Only a few years ago, no one described technology as a facilitator and driving force of an entrepreneurial venture. But now, technology is a prime facilitator of business processes, creating efficiencies and capabilities that businesses never experienced before. Think about it: How many businesses 15 years ago expected to be conducting some or all of their business on the Internet today?