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II. Why Start a Business?

- *Learning Objective 01-01: Explain the rationale behind starting an entrepreneurial business.*

There is great potential for entrepreneurial businesses to provide positive outcomes in the communities they serve

- The **United States Small Business Administration (SBA)** provides assistance for current and potential small business owners
    - New business start-up assistance
    - Continued business support
    - Business development
- The development of an entrepreneurial business stimulates the United States economy
    - Small businesses created 9.6 million net new jobs from 2000 to 2018
    - For the same period, large businesses were responsible for just 5.2 million net new jobs
- Many entrepreneurial businesses have the potential to become larger profitable businesses
    - Every **Fortune 500** company started as a new venture
    - Discuss historical companies that experienced unexpected growth (Apple is one example for students to discuss)
    - Small businesses are the foundation for all businesses
- Historically, small businesses have proven success rates
    - Individuals and groups that initiate their own business have the potential to become successful entrepreneurs

- Individuals become independent when they achieve entrepreneurial status

- Compare and contrast the characteristics of small and large businesses
    - New businesses are free to put all their energy into satisfying customer's needs
    - Large firms experience **economies of scale** because they have lower long-range average cost as their production continues to increase
    - Small businesses are more efficient because they respond more quickly to market changes compared to larger organizations

- Business Plan Development
    - The implementation of business plans are a combination of art and science
    - Many new businesses fail
    - Elements that an entrepreneur must solve for success:
        - Effective sales generation model
        - Sustainable operating profit margins.
        - Being properly financed.

III. A brief history of entrepreneurial businesses in the United States

➢ *Learning Objective 01-02: Discuss the history of entrepreneurship in the United States.*

Small businesses have existed in our society for many years

- Prior to the 1880s the majority of businesses were small ventures
- The development of industry occurred after 1880 in the U.S.
    - Robber barons developed
    - They took advantage of economies of scale possible in the industrial age – Carnegie dominated the steel industry
    - New small businesses continued to thrive to serve the needs of new industrial sectors

- The Great Depression of the 1930s led to industrial concentration
    - The outcome was that entrepreneurial business as a percentage of U.S. economic output began to decline

- It was believed that what was good for big business would be good for all of the people in the country

- Decline in large industries in the 1970s and 1980s
  - Economic turmoil due to global competition
  - There was a decline in entire industries, such as steel and auto manufacturing
  - Japan gained a competitive advantage an dominated an economic position in the markets
  - There was a decline in large multinational firms
  - New opportunities were advantageous for entrepreneurial businesses.

Today, startups are responsible for much of the innovation pushing established companies to new levels

- Figure 1.1 shows a business time line in the U.S., highlighting the central role of new business development

IV. Who are entrepreneurial business owners today?

- *Learning Objective 01-03: Identify the type of people who are entrepreneurs*

Entrepreneurs have common motivations to initiate entrepreneurial businesses

- Entrepreneurs want to be their own boss
- Individuals experience increased personal rewards and self fulfillment from entrepreneurship
- It is common for entrepreneurs to gain greater financial rewards as a result of small business ownership

Stakeholders are known as individuals and groups that have a stake in the performance outcome of an organization

- Individuals or other organizations that impact the success of a business
- They maintain business relationships with key suppliers and clients to enhance the success of the business
- Examples of stakeholders include: competitors, customers, suppliers, distributors, special interest groups, and employees

Entrepreneurs reap the rewards of small business ownership

- Enhanced sense of joy and self fulfillment
- Flexible work schedules

- Increased potential to earn greater financial rewards

V. How does society benefit?

➢ *Learning Objective 01-04: Describe the impact of entrepreneurial businesses on society.*

The formation of entrepreneurial businesses enhances the opportunity for entrepreneurs to implement positive outcomes in the communities they serve

Entrepreneurs impact society
- The development of entrepreneurial businesses acts as a catalyst for societal change.
- Entrepreneurs who initiate new businesses contribute to employment opportunities in the community
- Entrepreneurs and the growth of their new small businesses increase tax revenue
- Small businesses contribute to economic vitality

The implementation of entrepreneurial businesses assures effective change in society
- Entrepreneurs garner profits in depressed areas within a community
- Entrepreneurial business formation contributes to a healthy and flexible lifestyle
- Entrepreneurs promote local community advantages
- Entrepreneurs provide potential employment opportunities for minorities and women
- Women entrepreneurs overcome the glass ceiling
- Entrepreneurs have greater control on balancing their family's needs

VI. Entrepreneurship around the world

➢ *Learning Objective 01-05: Discuss the worldwide impact of entrepreneurial business.*

SME's (small and medium sized enterprises) are one of the strongest factors in the growth of any nation's GNP

Nearly all nations encourage the development of small and medium enterprises

- Microloan programs to encourage self-development
    - Often for only a few dollars and often to women entrepreneurs
    - High repayment rates
        - Typically 99 to 100 percent
        - Proven success in program implementation

- Some nations offer new venture start-up programs
    - Government interest provides services and facilities
    - Results encourage development of founding firms
    - Recent programs encourage high-technology ventures to educated individuals
    - Pace of small business startups is increasing around the world.

VII. What is an entrepreneurial business?

➢ *Learning Objective 01-06: Define an entrepreneurial business.*

Less than 500 employees

- In Europe, less than 50 employees

Multiple terms can be used to refer to the same types of businesses

- Entrepreneurial businesses
- Small businesses, sometimes as small-to-medium-sized business or enterprises (SMB) or (SME)
- Family businesses
- All terms are equivalent but the book recognizes two main categories of start-up businesses

High-growth, high-tech ventures

- Well funded by venture capital (angel investment)
    - Specialized investors
    - Capital required equates to $2,000,000 investment
    - Expect extraordinary returns

- Harvest plan to exist the business
    - Can sell the business to another firm
    - Can sell the business to investors

    - Participate in IPO’s
    - The size of the business dictates the sales parameter

- Rapid growth but heavily laden with debt
- Developed organizational structure
- Experienced leadership is required
- Operations are initiated in multiple locations simultaneously
- High-risk operations whose growth is dependent on unknowns
- Employs many employees

Entrepreneurial business start-up

- The start-up is self-funded or closely funded
- Oriented around a positive cash flow
- The management structure takes advantage of founder(s) skills
- Operation design in the image of the founder
- Business is oriented toward the personal goals of the founder(s)
- One or less employees is typical and are not expected to grow to more than 50 and 100

Compare and contrast the difference between entrepreneurial businesses and venture capital-backed firms

- An entrepreneurial business has constrained resources and a venture capital-backed firm’s resources are not constrained
- In a small business a business plan is used as a guide in running the business; and in a venture capital-backed firm, the business plan is a promotional tool sent to investors

A. Business Plans-Another difference in types of firms

- Size of plan
    - Entrepreneurial business plan is usually 15-25 pages
    - Venture capital-backed plan is usually 25-45 pages

- Three goals of an entrepreneurial business plan
    - Used as a guide in early development of the business
    - Provides self-evaluation and analysis of the business
    - Provides critical information to investors

- Successful business plans have the following characteristics
    - They do not use cookie-cutter business plan programs
    - The plan is developed following the chapters of this text
    - It is a process, so avoid intimidation and take it by steps

        - Prepare a one-page pitch for the business. – Figure 1.2

B. Lean startup

- The term indicates a start-up will need to rapidly change
- Seek a scalable business model
- Shorten the product/service cycles
- Measure your outcomes
- Remain flexible and adaptable

VIII. Summary

This chapter began by discussing the impact that new businesses have on the economy

- A brief history of new ventures was discussed
    - Every business began with one person or a small group
- There are two very distinct types of businesses
    - Those funded by venture capital, intended to grow swiftly
    - Those in business for the benefit of the founders
        - This group is more prevalent
- Three main principles to remember:
    - No cookie-cutter business plan programs should be used
    - Build your own business plan using this book
    - This is a process, so take bite-sized pieces
- Finally, the concepts of a lean startup were discussed and will be incorporated throughout this book

Key Terms

Economies of scale: A condition that allows the long-run average cost to continue downward as production increases. It leads (in its most extreme case) to a condition where a single firm making 100 percent of the product is the most efficient. In reality this condition is moderated by the ability of management to control size.

Fortune 500: The Fortune 500, published annually by Fortune Magazine, documents the 500 largest corporations (by sales) in the United States.

Harvest plan: A plan to exit a business. Typically, the owners have the intention to sell the business to another firm or take it to an IPO.

Stakeholders: Individuals or other organizations that impact the success of a business.

United States Small Business Administration (SBA): The SBA is the agency officially organized in 1953 as part of the Small Business Act of July 30, 1953 to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." The agency provides a wealth of information and assistance at all levels of organizational development and management for new entrepreneurial businesses. See https://www.sba.gov/

Suggested Text Responses

Opening Vignette – Ancestry.com

The opening case discusses the rise of DNA testing and the company Ancestry.com in particular. DNA testing has an accuracy rating of 99.9999% and the largest company in the industry by far is Ancestry.com. The company was formed as a combination of two companies – one founded as a genealogy publishing company in 1983 and the other as a floppy-disk family history software company in 1990. Technology that simply did not exist has allowed the firm to evolve and change over time. This transformation includes moving into the testing of DNA.

Students are asked how comfortable they are with change in general and if they see any dangers in the widespread use of DNA testing. They are also asked if they see any opportunities in any industry right now that has been triggered by changes in technology.

Exercise 1

This exercise asks students to name some successful entrepreneurs they personally know and asks them what types of businesses these entrepreneurs run. The exercise also asks students to consider why the entrepreneurs are successful and consider what they themselves define as "success." Finally, the students are instructed to find out how the entrepreneurs started their business.

Ethical Challenge

The Ethical Challenge asks students to identify their key motivations for starting a business. Students are also asked to allocate by percentages the motivators of lifestyle, money, freedom, and family.

Exercise 2

This exercise tasks students with exploring what motivates their interest in entrepreneurship and what opportunities they see in their community. The students must think whether or not these opportunities have attracted other businesses.

Exercise 3

This exercise asks students if they have any initial ideas for a new business and if so to write them down. They are to use this idea as they work through the course even though it may change significantly. Students are asked how many employees their business would initially require.

Review Questions

1. **How do entrepreneurial businesses impact the economy?**

   99.9 percent of all businesses in the US are small. 48 percent of all employees are from the private sector. 33.3 percent of know export value is from small businesses

2. **Beyond some classic examples (Steve Jobs, Elon Musk, Michael Dell, Larry Page, and Sergey Brin), name several entrepreneurs who have grown their businesses into major organizations**.

   Henry Ford (Ford Motor), Ron Brilland and Pat Farrah (Home Depot), Thomas Edison and Charles Coffin (General Electric), Barney Kroger (Kroger), Ralph Lauren (fashion), Sam Walton (Walmart), Estee Lauder (cosmetics), Oprah Winfrey (media) and Richard Branson (Virgin).

3. **Explain what is meant by the science and the art of starting and managing a business.**

   The "science" is the forming and managing a new entrepreneurial business in a clear, sequential manner that is rich in its practical application as well as well-grounded in research. The "art" is a matter of practice, example and the skill of the founder or founders of the new business.

4. **How have entrepreneurial businesses impacted the growth of the United States?**

   Historically, entrepreneurial businesses were the backbone of the economic success of the nation. Today, entrepreneurial businesses continue to play a dominant role in the ability of the nation to adapt quickly and to make economic progress.

5. **Why does "profit as a goal" present an ethical challenge to new business owners?**

   Financial reward is a strong motivator, but there are other rewards in entrepreneurship. If "profit is the goal," then the entrepreneur must structure the business accordingly. The entrepreneur must be honest with themselves and their potential partners and investors at the very formation of a new business.

6. **What differentiates an entrepreneurial business from one that is a venture-backed business?**

   Venture-backed businesses
   - are well-funded
   - usually formed with a harvest plan in place
   - organized to grow quickly
   - have a developed organizational structure
   - hire an experienced president
   - develop operations in multiple locations
   - are inherently risky
   - employ a relatively large number of employees

   Entrepreneurial businesses are
   - self-funded
   - oriented around positive cash flow
   - take advantage of the skills of the founder(s)
   - designed in the image of the founder(s)
   - oriented toward the personal goals of the founder(s)
   - have few employees

Individual Exercises

1. What types of new businesses interest you most and why?
2. What aspects of those businesses are particularly appealing to you?
3. Do you see yourself as an entrepreneur in the next five years?

Group Exercises

Early in the course, every person in the class should interview an entrepreneur. You have wide flexibility as to the types of entrepreneurs you select. However, each entrepreneur must be the original founder of the business or the current owner and should not be your close relative. Prepare a report on each entrepreneur interviewed. The report should be no more than three typed, double-spaced pages long, and cover three primary areas. First, discuss the background and characteristics of the entrepreneur, as well as the history and nature of the business.

Second, discuss lessons learned by the entrepreneur as related to you by the entrepreneur. Third, include your evaluation of the entrepreneur, and state what you can personally take away from the experience. You should plan to make a short (5- to 7-minute) presentation on this individual to the rest of the class.

Class Activities and Sample Assignments

1. Ask students to discuss why individuals want to be entrepreneurs. What motivations are mentioned in the text? Discuss other reasons why individuals pursue entrepreneurship. Next, ask students if they want to become entrepreneurs. Discuss why or why not. Write their responses for all to see.

2. Ask students to interview an entrepreneurial business owner in their community. The interview questions should detail what motivated that individual to start the business, how many employees work at the business, and a description of the stakeholders. Include questions on the best and worst thing about owning the business and if they would do it again. Next, ask students to prepare a report on the outcome of the interview and/or present their findings to the class.

3. In groups, ask students to discuss why more than half of new entrepreneurial businesses fail within the first four years of operation. Then, ask them what they would change to assure that more entrepreneurial businesses survive longer than four years. Discuss a restaurant business, an automotive manufacturing business, online business and a retail business.

4. In groups, brainstorm and develop a list of all possible new entrepreneurial opportunities that might be popular in the next year. Discuss each potential business opportunity and why it is important in the future business environment.

5. Ask students to compare and contrast the difference in business plans for entrepreneurial businesses and venture capital-backed firms. Discuss why business plan development is important for these new ventures in the planning process.

6. When were the first entrepreneurial businesses established? Discuss the differences in new entrepreneurial businesses compared to today’s entrepreneurial businesses. Include differences in technology, values, and the purposes of the businesses.

7. In groups, ask students to define economies of scale. Discuss the advantages and disadvantage of economies of scale in small and large businesses. Which firms are likely to operate more efficiently and why?

Discussion Questions for Online/Hybrid classes

1. Define economies of scale and discuss why they are important in both large and small industries?

2. If you choose to become an entrepreneur, which business opportunity would you pursue and why?

3. Discuss the advantages and disadvantages associated with entrepreneurial business ownership.

4. Define a stakeholder and discuss the individuals and groups that qualify as stakeholders.

5. In reference to the timeline of business in the United States, why was the period of the Great Depression harder on smaller business than on larger businesses?

6. What does the government do to enhance the success of SMEs? Why?

7. Discuss the characteristics of an entrepreneurial business start-up. Why are entrepreneurial businesses important in the United States and abroad?

8. Describe the differences between entrepreneurial businesses and venture capital-backed firms.

9. What do new entrepreneurs plan prior to the establishment of their new small business?

10. What is a harvest plan? Why is it important to consider a harvest plan?

Discussion Questions for Online/Hybrid classes- Responses

1. **Define economies of scale and discuss why they are important in both large and small industries?**

Economies of scale allow for the long-run average cost to continue downward as production increases. For example, large firms can purchase advertising cheaper per unit than smaller firms.

2. **If you choose to become an entrepreneur, which business opportunity would you pursue and why?**

   Responses will vary.

3. **Discuss the advantages and disadvantages associated with entrepreneurial business ownership.**

   Advantages - being your own boss, controlling the business, providing large percentage of new jobs. Disadvantages - on duty 24/7, losing investment, failing.

4. **Define a stakeholder and discuss the individuals and groups that qualify as stakeholders.**

   Stakeholders are individuals or other organizations that impact the success of a business. These include key suppliers, customers and employees.

5. **In reference to the timeline of business in the United States, why was the period of the Great Depression harder on smaller business than on larger businesses?**

   Small businesses did not have the resources of larger business to be sustainable during that period.

6. **What does the government do to enhance the success of SMEs? Why?**

   The government-formed SBA's purpose is to aid, counsel, assist and protect small business. Nearly every business formed in the U.S. is a small business and they employ 48 percent of private sector employees and are responsible for 33.3 percent of U.S. export value. Since small businesses are so important to the U.S. economy, the government feels that supporting them as they grow is important.

7. **Discuss the characteristics of an entrepreneurial business start-up.**

   These characteristics include being self-funded or closely funded, having a development plan oriented around a positive cash flow, and having its design in the image of its founder(s). The business reflects the goals of the founder(s). It would start with no employees or few employees and would probably grow to no more than 50 employees.

Why are entrepreneurial businesses important in the United States and abroad?

Small businesses are more focused, respond more quickly and can operate more efficiently. Small businesses promote economic strength and act as a catalyst for societal changes.

8. **Describe the differences between entrepreneurial businesses and venture capital-backed firms.**

   Venture-backed firms are well funded, are formed with a harvest plan in place, are organized to grow quickly, have a developed organizational structure, hire an experienced president, develop operations in multiple locations and grow quickly. Entrepreneurial businesses are usually self-funded, oriented around positive cash flow, take advantage of the skills of the founder, and have fewer employees.

9. **What do new entrepreneurs plan prior to the establishment of their new small business?**

   New entrepreneurs should develop a business plan as a guide to establishing and running the business.

10. **What is a harvest plan? Why is it important to consider a harvest plan?**

    The harvest plan is a plan to exit the business whether by selling the business to another firm or taking it to an IPO.

Lecture Links

Lecture Link 1.1: Entrepreneurs and New Small Business Planning Goals.

The text emphasize that the three initial goals for new entrepreneurial business owners are to guide the new business in its early stages of development, have those goals in writing, and reflect how the business will be financed and managed and how it will maintain its competitive advantage.

The Counselors to America's Small Business[i] web site provides information to assist individuals with their small business needs. Visit their website at http://www.score.org and click on the "Browse the Library" tab to view free business information, related business links, entrepreneurial newsletters, and other learning resources and articles.

You can narrow the search by business stage, topic, format, entrepreneur type, and/or industry. Consider these resources when you implement the initial plans for your new small business development.

Now it is time to start planning for your new entrepreneurial business.

1. What type of new entrepreneurial business do you want to pursue? Why?

2. Describe the products and/or services you will offer in your new entrepreneurial business.

3. List your goals for this new business.

4. How will you finance your initial operations?

5. Who will be involved in your new business?

6. Compare your intended products and/or services to those of your competitors. How will you assure your new business maintains a competitive advantage?

7. How will your new business will implement positive change in your community?

Lecture Link 1.2: The Advantages of the Small Business Administration (SBA)

The Small Business Administration (SBA)[ii] provides a new small business owner with many tools and resources to enhance the owner's business planning and development, as well as other tools to enhance the organizational effectiveness of the new small business. Visit their website at https://www.sba.gov/ and click on the "local assistance tab". Here you can find a Small Business Administration (SBA) office near where you reside. Review the tools that you might find important for you to consider when you initiate your new small business.

Discussion Questions:

1. Discuss the various services that the Small Business Administration (SBA) can provide to business owners. Summarize how those services can assist in starting a new entrepreneurial business venture.

2. Ask students to find their local Small Business Administration (SBA) office. What beneficial services could the SBA provide? Why?

3. What are the steps required to open an entrepreneurial business? What other important details should be considered?

4. What type of assistance is needed to enhance the start-up initiatives of a new business?

Lecture Link 1.2: The Advantages of the Small Business Administration (SBA)
- Notes

Discussion Questions:

1. **Discuss the various services that the Small Business Administration (SBA) provides to business owners. Summarize how those services can assist you in your new entrepreneurial business venture**.

   The SBA provides information about starting and managing a business, information on loans and grants, contracting information when dealing with government entities, lists of local assistance offices and current press releases. All of these services can help the new entrepreneur.

2. **Ask students to find their local Small Business Administration (SBA) office. What services would be beneficial to a new business? Why?**

   Responses will vary.

3. **What are the steps required to open an entrepreneurial business? What other important details should you consider?**

   According to the SBA website, the steps include thinking about starting, creating your business plan, choosing your business structure, registering your business, obtaining business licenses, learning about business laws, finance, loans and grants, filing and paying taxes, choosing your location and equipment, and hiring and retaining employees.

4. **What type of assistance is needed to enhance start-up initiatives of a new business?**

   Responses will vary but may include professional help, family help and funding.

Lecture Link 1.3: Entrepreneurial Business around the World

One important outcome of new entrepreneurial business development in the United States and abroad is to encourage the country's economic growth and development. The authors in the text discussed the relevance of microloans and other government support mechanisms available to promote small business development in underdeveloped nations. For example, in reference to microloans, the text states "However, the success of such loans has been substantial, with great strides being made in many desperately poor nations." Go to the USAID[iii] website: http://www.usaid.gov/what-we-do/economic-growth-and-trade/microenterprise-development and answer the following questions.

Discussion Questions:

1. Explain how the Overseas Private Investment Corporation (OPIC) enhances the growth and development of new small businesses in the United States and abroad.

2. Summarize the advantages and disadvantages associated with implementing such programs.

3. Discuss the challenges that entrepreneurs experience in other countries versus the United States.

4. Discuss the common goals associated for entrepreneurs worldwide.

Lecture Link 1.3: Entrepreneurial Business around the World - Notes

Discussion Questions:

1. **Explain how the Overseas Private Investment Corporation (OPIC) enhances the growth and development of new small businesses in the United States and abroad.**

   US Aid programs help small businesses access new inputs, technology and services by linking them with buyers and sellers.

2. **Summarize the advantages and disadvantages associated with implementing such programs?**

   The purpose of these programs is to reduce poverty. Some leaders prefer that their citizens remain poor so that they have better control of the country.

3. **Discuss the challenges that entrepreneurs experience in other countries versus the United States**.

   These entrepreneurs often cannot obtain credit to start or grow their business, lack insurance to protect against natural disasters, have limited access to savings accounts, have populations such as women who are excluded and lack technology.

4. **Discuss the common goals associated for entrepreneurs worldwide.**

   The goals include improvements in health, education, and energy to meet the needs of the people worldwide.

Bonus Internet Exercises

Bonus Internet Exercise 1.1: Entrepreneurial Success Story of Dell Computer

Ask students to conduct research on Michael Dell (Dell Computers) and do specific research about the company from the time it was established until now.

Discussion Questions:

1. When did Michael Dell start his business?
2. How did he start the business? Did he require capital? Did he have a partner? Discuss the outcome of your research.
3. Why did he grow and expand his business model?
4. Discuss how his entrepreneurial skills and knowledge assisted him to achieve the success that his company enjoys today. Discuss why he was successful.

Bonus Internet Exercise 1.1: Entrepreneurial Success Story of Dell Computer
- Notes

Discussion Questions:

1. **When did Michael Dell start his business?**

   Dell started his business when he was in college.

2. **How did he start the business? Did he require capital? Did he have a partner? Discuss the outcome of your research.**

   He started building and selling computers for fellow college students. He had strong customer service and cheaper prices. He started with a $1,000 from his saving account. He dropped out of college and by 1984, his first year in business, he had $6M in sales.

3. **Why did he grow and expand his business model?**

   He wanted to continue to grow the business. He became one of the richest men in the US.

4. **Discuss how his entrepreneurial skills and knowledge assisted him to achieve the success that his company enjoys today. Discuss why he was successful**. Student responses will vary.

Bonus Internet Exercise 1.2: Ethical Considerations for the New Entrepreneur

It is standard practice for new entrepreneurial business owners to learn about ethics, why they are important, and to incorporate sound ethical business practices into their business decisions. Go to the following website http://www.entrepreneur.com/humanresources/employeemanagementcolumnistdavidjavitch/article56740.html and read the article "Respecting Your Business's Ethics Policy[iv]."

Discussion Questions:

1. Why should new entrepreneurial owners teach their employees about business ethics?

2. Discuss why organizational values and business ethics should be clearly defined.

3. Do you believe that it is a good idea for ethics to become part of the culture of a new business? Why?

Bonus Internet Exercise 1.2: Ethical Considerations for the New Entrepreneur
- Notes

Incorporating ethics is an important part of the new entrepreneurial business. Student responses will vary.

Critical Thinking Exercises

Critical Thinking Exercise 1.1: Venture Capital-backed Firms versus Entrepreneurial Startups

One major challenge for an entrepreneurial startup is to choose the type of firm that it will be. For example, you learned that venture capital-backed firms include high-growth or high-tech venture firms. In addition, the most common type of firm that entrepreneurs consider is the new small business start-up.

Discussion Questions:

1. List the characteristics of a venture capital-backed firm and a new entrepreneurial business start-up.

2. Summarize the key advantages and disadvantages for each business type.

3. Explain which business type you would choose for your new business. Explain why.

Critical Thinking Exercise 1-1: Venture Capital-backed Firms versus Entrepreneurial Startups - Notes

Discussion Questions:

1. **List the characteristics of a venture capital-backed firm and a new entrepreneurial business start-up.**

   Venture capital-backed firms are well-funded; they have a harvest plan; they are organized to grow quickly; they hire an experienced president; they have a developed organizational structure; they are risky; and they are expected to grow quickly.
   New entrepreneurial businesses are usually self-funded; are oriented around positive cash flow; are designed and organized in the image of the founder; and have zero to a few employees.

2 **Summarize the key advantages and disadvantages for each business type.**

   There are more entrepreneurial startups than venture capital-backed firms. Although both types are risky, the venture capital-backed firms are more risky and involve more investment. However, the return on these firms is higher. The entrepreneurial startup is creating a business to own probably for as long as the founder wants to work but the goal of the venture capital-backed firm is to grow and sell giving the original investors a large payout.

3 **Explain which business type you would choose for your new business. Explain why**. Student responses will vary.

Critical Thinking Exercise 1.2: Planning Goals for the New Entrepreneurial Business

Entrepreneurs plan to assure they achieve their business objectives. New entrepreneurs differentiate between the two different business types to assure that they establish the appropriate organization to enhance their organizational goals. To illustrate, consider the different planning objectives and strategies that exist between venture capital-backed firms and entrepreneurial business start-ups and discuss the following questions.

1. Compare and contrast the planning goals between a venture capital-backed firms and entrepreneurial business start-up.

2. List at least three planning goals that entrepreneurs consider for a new small business.

3. What are the advantages of a well-thought-out business plan?

4. Who should develop the business plan? Why?

5. Why is a well-designed business plan important for the new business? Who does it help?

Critical Thinking Exercise 1.2: Planning Goals for the New Entrepreneurial Business
- Notes

1. **Compare and contrast the planning goals between a venture capital-backed firms and entrepreneurial business start-up**.

   The venture capital-backed firm develops a longer, more detailed business plan that is used as a promotional tool to interest investors in the new business. The entrepreneurial business startup develops a plan to understand the field of that business industry and to guide the business during its beginning days.

2. **List at least three planning goals that entrepreneurs consider for a new small business**.

   1. To serve as a guide in managing the business; 2. To provide a self-evaluation and 3. To provide critical information.

3. **What are the advantages of a well-thought-out business plan?**

   A good plan serves as a guide for establishing and managing the new business.

4. **Who should develop the business plan? Why?**

   The entrepreneur should develop the business plan themselves with the help of professionals. This process helps the entrepreneur consider all the aspects of starting and running the business.

5. **Why is a well-designed business plan important for the new business? Who does it help?**

   A well-designed business plan serves as a guide to the owner. It helps the owner, the investors and any funders including relatives understand the business.

Critical Thinking Exercise 1.3: Stakeholders and the Entrepreneur

New entrepreneurial business owners are innovative and they plan for effective and efficient business operations. One important consideration is to determine who will be involved with the performance of the new business. The text states that stakeholders are important because they may impact the current and future success of the business. Consider the impact that stakeholders have on the business.

Discussion Questions:

1. Define a stakeholder and summarize why stakeholders are important to a new business owner.

2. List at least five ways stakeholders impact an entrepreneurial business.

3. Why are their relationships critical to the success of the new business?

4. Who would you consider to be stakeholders for your new small business? Explain why.

Critical Thinking Exercise 1.3: Stakeholders and the Entrepreneur - Notes

1. **Define a stakeholder and summarize why they are important to a new business owner.**

   A stakeholder is an individual or an organization that impacts the success of a business. Stakeholders include key suppliers, customers, and employees.

2. **List at least five ways stakeholders impact the business.**

   Suppliers are interested in making sales to the new business and in being paid in a timely manner. Customers determine what the business will sell and what price will be acceptable. Employees are responsible for making the sales and keeping the customers happy and willing to return for additional sales.

3. **Why are the relationships of stakeholders critical to the success of the new business?**

   A business cannot survive without suppliers since there would not be any products to sell or supplies to support a service business. No business could succeed without customers. And, finally, without employees there would be no one to service the customers. All three are interrelated and must work together.

4. **Who would you consider to be stakeholders for your new small business? Explain why.**

   Student responses will vary.

Bonus Cases

Bonus Case 1.1: Bill Gates: The Microsoft Genius

Bill Gates is known as the Chairman of Microsoft Corporation. He started out as an entrepreneur and grew his business into a successful corporate enterprise. Many individuals establish their businesses because they have a hobby, pursue a specific business venture, or want to become self employed. As a result, each individual new entrepreneurial business has the potential to provide a business or service to satisfy clients. Finally, entrepreneurs strive to enhance their community and implement positive change. Some individuals might wonder if their success is based on luck or possibly fate.

Throughout Chapter One, the authors explored who entrepreneurs are and what they do to establish businesses as a foundation for success. In addition, they strive to provide a product or service that is needed in the marketplace. Bill Gates successfully implemented a product that contributed to the greater good of society. Find information about Bill Gates and Microsoft on the web and answer the following questions.

Discussion Questions:

1. In your own words, explain why you believe Bill Gates is a successful entrepreneur. Discuss whether or not your reasoning is based on his income or the creative products he offers to contribute to technology.

2. Summarize how Bill Gates initiated his company. Did he have a partner?

3. List the specific contributions that his products made on our society. Explain the reasoning behind your answers.

4. Describe the specific contributions that Bill Gates made in order to implement positive change in society. What do you think motivates him to contribute to society?

5. Do you believe that Bill Gates is a genius? Describe how the world might be today without Microsoft products. Provide specific answers.

Bonus Case 1-1: Bill Gates: The Microsoft Genius - Notes

Discussion Questions:

1. **In your own words, explain why you believe Bill Gates is a successful entrepreneur. Discuss whether or not your reasoning is based on his income or the creative products he offers to contribute to technology**.

   Student responses will vary.

2. **Summarize how Bill Gates initiated his company. Did he have a partner?**

   His partner was Paul Allen.

3. **List the specific contributions that their products made on our society. Explain your reasoning behind your answers.**

   Microsoft launched windows which looked similar to the Macintosh system. However, Microsoft developed more software than Apple and soon became the leader especially in the business community. Their products became the standard especially with the development of the Microsoft office products.

4. **Describe the specific financial contributions that Bill Gates makes to implement positive change in society. What do you think motivates him to contribute to society?**

   Gates and his wife established the William H Gates Foundation which is dedicated to supporting education. This foundation provides funds in four program areas – the Global Development Division works with the world's poorest to life them out of poverty; the Global Health Division funds sciences and health in developing countries; the United States Division supports education in highs schools and postsecondary institution; and the Global Policy & Advocacy Division builds strategic relationships to support the foundation's work.

5. **Do you believe that Bill Gates is a genius? Describe how the world might be today without Microsoft products. Provide specific answers.**

   Gates is considered a genius by many. At the age of 11 he was bored at school and transferred to a more challenging school where he started to develop computer programs. It was there that he met his partner. Part two of the questions will have various answers.

Bonus Case 1.2: MYMIC, LLC: A Dynamic Approach to Entrepreneurship

Dr. Thomas W. Mastaglio is the President and CEO of MYMIC LLC. MYMIC is a high technology start up specializing in modeling, simulation and visualization solutions to support training, military analysis, experimentation and business strategy evaluations located in Portsmouth, Virginia. Dr. Mastaglio served as the Executive Director of the Virginia Modeling, Analysis and Simulation Center from November 1996 to June 2000. In that capacity he established a consortium of industry, academia and government recruiting over 120 members and a workforce of over 50 individuals and generated $7.5M in revenue. The Center is one of the most successful endeavors of its kind achieving, a strong reputation both locally and nationally.

Dr. Mastaglio is a 1969 graduate of the U.S. Military Academy. He retired from the Army in 1991 and has worked in the defense industry as a senior engineer, program manager, and scientist. He worked for IBM as Training Effectiveness Advocate for the Close Combat Tactical Trainer development and as the Deputy Program Manager for Lockheed Martin's and Warfighter Simulation 2000. Prior to his experience in the defense industry Dr. Mastaglio established and ran his own consulting firm from 1991 to 1993.

Dr. Mastaglio earned a Doctor of Philosophy degree from the University of Colorado in Computer and Cognitive Science in 1990. His research interests include the application of artificial intelligence to improving human-computer interaction and learning, usability engineering, cognitive modeling, the development of large-scale enterprise models and simulations, and the educational requirements for modeling and simulation. He is a Research Professor in Electrical and Computer Engineering and an Adjunct Professor of Psychology at Old Dominion University. He also holds an adjunct faculty appointment in Computer Science at Norfolk State University. Dr. Mastaglio has served as a member of the Army Science Board, a technology consultant to the Department of Defense and member of Commonwealth of Virginia Joint Commission On Technology and Science.

He and his company, MYMIC LLC, are active in community and regional organizations committed to technology and economic development. They are active members and sponsors of the activities of the Hampton Roads Technology Council and have been nominated for the Hampton Roads High Tech Emerging Company Award on three occasions. They belong to the Emergency Management Training, Analysis and Simulation Center, the Virginia Modeling, Analysis, and Simulation Center, and are assisting the Hampton Roads Partnership to develop a regional strategy for Modeling and Simulation.

Dr. Roger Smith recently asked Dr. Mastaglio if he could give business advice to a college student and fit that advice on the back of a business card. Dr. Mastaglio responded, “As in school, in business there are 3 “R’s” which are the key to success: relationships, results and reputation!” (Smith 2009)[v].

1. Discuss Dr. Mastalio’s response to Dr. Smith’s question related to the advice he could give someone on the back of a business card. What is your response to his statement about the key to success?
2. Discuss how Dr. Mastaglio’s motivation and creativity enhanced his success.
3. Summarize how his organization contributes to society.

Bonus Case 1.2: MYMIC, LLC: A Dynamic Approach to Entrepreneurship - Notes

1. **Discuss Dr. Mastalio’s response to Dr. Smith’s question related to the advice he could give someone on the back of a business card. What is your response to his statement about the key to success?**

   Student responses will vary.

2. **Discuss how Dr. Mastaglio’s motivation and creativity enhanced his success**.

   Without his creativity and motivation, Dr. Mastaglio would not have developed the simulations used in training, military analysis, experimentation and business strategy.

3. **Summarize how his organization contributes to society**.

   The organization’s simulations result in a better trained military able to prepare for various situations. Similar training can help business leaders discuss different scenarios to come to the best solution.

Endnotes

[i] Counselor's to America's Small Business. (2020). http://www.score.org/, retrieved on May 9, 2020.
[ii] Small Business Administration (SBA). (2020), www.sba.gov, retrieved on May 9, 2020.
[iii] USAID. (2020), https://www.usaid.gov/what-we-do/economic-growth-and-trade/microenterprise-development, retrieved on May 9, 2020.
[iv] Entrepreneur.com, "Respecting Your Business's Ethics Policy," https://www.entrepreneur.com/article/56740, retrieved on May 9, 2020.
[v] Dr. Tom Mastaglio, President MYMIC LLC, p 241 in ADVICE written on the back of a business card, Dr. Roger D. Smith, Modelbenders Press, 2009