

# principles of Entrepreneurship

## >>>> 1. What Is Entrepreneurship?

**W**hat is meant by entrepreneurship? The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since. Many simply equate it with starting one's own business. Most economists believe it is more than that.

To some economists, the entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit. Others emphasize the entrepreneur's role as an innovator who markets his innovation. Still other economists say that entrepreneurs develop new goods or processes that the market demands and are not currently being supplied.

In the 20th century, economist Joseph Schumpeter (1883-1950) focused on how the entrepreneur's drive for innovation and improvement creates upheaval and change. Schumpeter viewed entrepreneurship as a force of "creative destruction." The entrepreneur carries out "new combinations," thereby helping render old industries obsolete. Established ways of doing business are destroyed by the creation of new and better ways to do them.

Business expert Peter Drucker (1909-2005) took this idea further, describing the entrepreneur as someone who actually searches for change, responds to it, and exploits change as an opportunity. A quick look at changes in communications—from typewriters to personal computers to the Internet—illustrates these ideas.

Most economists today agree that entrepreneurship is a necessary ingredient for stimulating economic growth and employment opportunities in all societies. In the developing world, successful small businesses are the primary engines of job creation, income growth, and poverty reduction. Therefore, govern-

ment support for entrepreneurship is a crucial strategy for economic development.

As the Business and Industry Advisory Committee to the Organization for Economic Cooperation and Development (OECD) said in 2003, "Policies to foster entrepreneurship are essential to job creation and economic growth." Government officials can provide incentives that encourage entrepreneurs to risk attempting new ventures. Among these are laws to enforce property rights and to encourage a competitive market system.

The culture of a community also may influence how much entrepreneurship there is within it. Different levels of entrepreneurship may stem from cultural differences that make entrepreneurship more or less rewarding personally. A community that accords the highest status to those at the top of hierarchical organizations or those with professional expertise may discourage entrepreneurship. A culture or policy that accords high status to the "self-made" individual is more likely to encourage entrepreneurship.

This overview is the first in a series of one-page essays about the fundamental elements of entrepreneurship. Each paper combines the thinking of mainstream economic theorists with examples of practices that are common to entrepreneurship in many countries. The series attempts to answer:

- Why and how do people become entrepreneurs?
- Why is entrepreneurship beneficial to an economy?
- How can governments encourage entrepreneurship, and, with it, economic growth?

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## >>>> 2. What Makes Someone an Entrepreneur?

**W**ho can become an entrepreneur? There is no one definitive profile. Successful entrepreneurs come in various ages, income levels, gender, and race. They differ in education and experience. But research indicates that most successful entrepreneurs share certain personal attributes, including: creativity, dedication, determination, flexibility, leadership, passion, self-confidence, and “smarts.”

- Creativity is the spark that drives the development of new products or services or ways to do business. It is the push for innovation and improvement. It is continuous learning, questioning, and thinking outside of prescribed formulas.
- Dedication is what motivates the entrepreneur to work hard, 12 hours a day or more, even seven days a week, especially in the beginning, to get the endeavor off the ground. Planning and ideas must be joined by hard work to succeed. Dedication makes it happen.
- Determination is the extremely strong desire to achieve success. It includes persistence and the ability to bounce back after rough times. It persuades the entrepreneur to make the 10th phone call, after nine have yielded nothing. For the true entrepreneur, money is not the motivation. Success is the motivator; money is the reward.
- Flexibility is the ability to move quickly in response to changing market needs. It is being true to a dream while also being mindful of market realities. A story is told about an entrepreneur who started a fancy shop selling only French pastries. But customers wanted to buy muffins as well. Rather than risking

the loss of these customers, the entrepreneur modified her vision to accommodate these needs.

- Leadership is the ability to create rules and to set goals. It is the capacity to follow through to see that rules are followed and goals are accomplished.
- Passion is what gets entrepreneurs started and keeps them there. It gives entrepreneurs the ability to convince others to believe in their vision. It can't substitute for planning, but it will help them to stay focused and to get others to look at their plans.
- Self-confidence comes from thorough planning, which reduces uncertainty and the level of risk. It also comes from expertise. Self-confidence gives the entrepreneur the ability to listen without being easily swayed or intimidated.
- “Smarts” consists of common sense joined with knowledge or experience in a related business or endeavor. The former gives a person good instincts, the latter, expertise. Many people have smarts they don't recognize. A person who successfully keeps a household on a budget has organizational and financial skills. Employment, education, and life experiences all contribute to smarts.

Every entrepreneur has these qualities in different degrees. But what if a person lacks one or more? Many skills can be learned. Or, someone can be hired who has strengths that the entrepreneur lacks. The most important strategy is to be aware of strengths and to build on them.

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## >>>> 3. Why Become an Entrepreneur?

**W**hat leads a person to strike out on his own and start a business? Perhaps a person has been laid off once or more. Sometimes a person is frustrated with his or her current job and doesn't see any better career prospects on the horizon. Sometimes a person realizes that his or her job is in jeopardy. A firm may be contemplating cutbacks that could end a job or limit career or salary prospects. Perhaps a person already has been passed over for promotion. Perhaps a person sees no opportunities in existing businesses for someone with his or her interests and skills.

Some people are actually repulsed by the idea of working for someone else. They object to a system where reward is often based on seniority rather than accomplishment, or where they have to conform to a corporate culture.

Other people decide to become entrepreneurs because they are disillusioned by the bureaucracy or politics involved in getting ahead in an established business or profession. Some are tired of trying to promote a product, service, or way of doing business that is outside the mainstream operations of a large company.

In contrast, some people are attracted to entrepreneurship by the advantages of starting a business. These include:

- Entrepreneurs are their own bosses. They make the decisions. They choose whom to do business with and what work they will do. They decide what hours to work, as well as what to pay and whether to take vacations.

- Entrepreneurship offers a greater possibility of achieving significant financial rewards than working for someone else.
- It provides the ability to be involved in the total operation of the business, from concept to design and creation, from sales to business operations and customer response.
- It offers the prestige of being the person in charge.
- It gives an individual the opportunity to build equity, which can be kept, sold, or passed on to the next generation.
- Entrepreneurship creates an opportunity for a person to make a contribution. Most new entrepreneurs help the local economy. A few—through their innovations—contribute to society as a whole. One example is entrepreneur Steve Jobs, who co-founded Apple in 1976, and the subsequent revolution in desktop computers.

Some people evaluate the possibilities for jobs and careers where they live and make a conscious decision to pursue entrepreneurship.

No one reason is more valid than another; none guarantee success. However, a strong desire to start a business, combined with a good idea, careful planning, and hard work, can lead to a very engaging and profitable endeavor.

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## >>>> 4. Decisions and Downfalls

**E**ntrepreneurship is an attractive career choice. But many decisions have to be made before launching and managing a new business, no matter its size. Among the questions that need to be answered are:

- Does the individual truly want to be responsible for a business?
- What product or service should be the basis of the business?
- What is the market, and where should it be located?
- Is the potential of the business enough to provide a living wage for its employees and the owner?
- How can a person raise the capital to get started?
- Should an individual work full or part time to start a new business? Should the person start alone or with partners?

Answers to these questions are not empirically right or wrong. Rather, the answers will be based on each entrepreneur's judgment. An entrepreneur gathers as much information and advice as possible before making these and other crucial decisions.

The entrepreneur's challenge is to balance decisiveness with caution—to be a person of action who does not procrastinate before seizing an opportunity—and at the same time, to be ready for an opportunity by having done all the preparatory work possible to reduce the risks of the new endeavor.

Preparatory work includes evaluating the market opportunity, developing the product or service, preparing a good business plan, figuring out how

much capital is needed, and making arrangements to obtain that capital.

Through careful analysis of entrepreneurs' successes and failures, economists have identified key factors for up-and-coming business owners to consider closely. Taking them into account can reduce risk. In contrast, paying them no attention can precipitate the downfall of a new enterprise.

- **Motivation:** What is the incentive for starting a business? Is it money alone? True, many entrepreneurs achieve great wealth. However, money is almost always tight in the startup and early phases of a new business. Many entrepreneurs do not even take a salary until they can do so and still leave the firm with a positive cash flow.
- **Strategy:** What is the strategy for distinguishing the product or service? Is the plan to compete solely on the basis of selling price? Price is important, but most economists agree that it is extremely risky to compete on price alone. Large firms that produce huge quantities have the advantage in lowering costs.
- **Realistic Vision:** Is there a realistic vision of the enterprise's potential? Insufficient operating funds are the cause of many failed businesses. Entrepreneurs often underestimate start-up costs and overestimate sales revenues in their business plans. Some analysts advise adding 50 percent to final cost estimates and reducing sales projections. Only then can the entrepreneur examine cash flow projections and decide if he or she is ready to launch a new business.

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## >>>> 5. Go It Alone or Team Up?

One important choice that new entrepreneurs have to make is whether to start a business alone or with other entrepreneurs. They need to consider many factors, including each entrepreneur's personal qualities and skills and the nature of the planned business.

In the United States, for instance, studies show that almost half of all new businesses are created by teams of two or more people. Often the people know each other well; in fact, it is common for teams to be spouses.

There are many advantages to starting a firm with other entrepreneurs. Team members share decision-making and management responsibilities. They can also give each other emotional support, which can help reduce individual stress.

Companies formed by teams have somewhat lower risks. If one of the founders is unavailable to handle his or her duties, another can step in.

Team interactions often generate creativity. Members of a team can bounce ideas off each other and "brainstorm" solutions to problems.

Studies show that investors and banks seem to prefer financing new businesses started by more than one entrepreneur. This alone may justify forming a team.

Other important benefits of teaming come from combining monetary resources and expertise. In the best situations, team members have complementary skills. One may be experienced in engineering, for example, and the other may be an expert in promotion.

In general, strong teams have a better chance at success. In *Entrepreneurs in High Technology*, Professor Edward Roberts of the Massachusetts Institute

of Technology (MIT) reported that technology companies formed by entrepreneurial teams have a lower rate of failure than those started by individuals. This is particularly true when the team includes a marketing expert.

Entrepreneurs of different ages can create complementary teams also. Optimism and a "can-do" spirit characterize youth, while age brings experience and realism. In 1994, for example, Marc Andreessen was a talented, young computer scientist with an innovative idea. James Clark, the founder and chairman of Silicon Graphics, saw his vision. Together they created Netscape Navigator, the Internet-browsing computer software that transformed personal computing.

But entrepreneurial teams have potential disadvantages as well. First, teams share ownership. In general, entrepreneurs should not offer to share ownership unless the potential partner can make a significant contribution to the venture.

Teams share control in making decisions. This may create a problem if a team member has poor judgment or work habits.

Most teams eventually experience serious conflict. This may involve management plans, operational procedures, or future goals. It may stem from an unequal commitment of time or a personality clash. Sometimes such conflicts can be resolved; in others, a conflict can even lead to selling the company or, worse, to its failure.

It is important for a new entrepreneur to be aware of potential problems while considering the advantages of working with other entrepreneurs. In general, the benefits of teaming outweigh the risks.

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## >>>> 6. Choosing a Product and a Market

A prospective entrepreneur needs to come up with a good idea. This will serve as the foundation of the new venture.

Sometimes an entrepreneur sees a market need and—Eureka!—has an idea for a product or service to fill it. Other times an entrepreneur gets an idea for a product or service and tries to find a market for it. A Scottish engineer working at General Electric created putty that bounces but had no use for it. In the hands of a creative entrepreneur, it became a toy, “Silly Putty,” with an enthusiastic market: children.

The idea doesn't have to be revolutionary. Research, timing, and a little luck transform commonplace ideas into successful businesses. In 1971, Chuck Burkett launched a firm to make an ordinary product, novelty key chains. But when he got a contract with a new venture in Florida—Disney World—he started making Mickey Mouse key chains, and achieved tremendous success.

There are many ways to look for ideas. Read a lot, talk to people, and consider such questions as: What limitations exist in current products and services? What would you like that is not available? Are there other uses for new technology?

What are innovative ways to use or to provide existing products? In Australia in 1996, two entrepreneurs founded Aussie Pet Mobile Inc. to bring pet bathing and grooming to busy people's homes. It is now a top U.S. franchise business.

Is society changing? What groups have unfulfilled needs? What about people's perceptions? Growing demand for healthy snacks created many business opportunities in the United States, for example.

Business ideas usually fit into one of four categories that were described by H. Igor Ansoff in the *Harvard Business Review* in 1957:

- An existing good or service for an existing market. This is a difficult approach for a start-up operation. It means winning over consumers through merchandising appeal, advertising, etc. Entry costs are high, and profit is uncertain.
- A new good or service for a new market. This is the riskiest strategy for a new firm because both the product and the market are unknown. It requires the most research and planning. If successful, however, it has the most potential for new business and can be extremely profitable.
- A new good or service for an existing market. (Often this is expanded to include modified goods/services.) For example, entrepreneurial greeting-card makers use edgy humor and types of messages not produced by Hallmark or American Greetings—the major greeting-card makers—to compete in an existing market.
- An existing good or service for a new market. The new market could be a different country, region, or market niche. Entrepreneurs who provide goods/services at customers' homes or offices, or who sell them on the Internet, are also targeting a new market—people who don't like shopping or are too busy to do so.

The last two categories have moderate risk, but product and market research can reduce it. They also offer opportunities for utilizing effective start-up strategies—innovation, differentiation, and market specification.

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## >>>> 7. Entry Strategies for New Ventures

It is easy to be captivated by the promise of entrepreneurship and the lure of becoming one's own boss. It can be difficult, however, for a prospective entrepreneur to determine what product or service to provide. Many factors need to be considered, including: an idea's market potential, the competition, financial resources, and one's skills and interests. Then it is important to ask: Why would a consumer choose to buy goods or services from this new firm?

One important factor is the uniqueness of the idea. By making a venture stand out from its competitors, uniqueness can help facilitate the entry of a new product or service into the market.

It is best to avoid an entry strategy based on low cost alone. New ventures tend to be small. Large firms usually have the advantage of lowering costs by producing large quantities.

Successful entrepreneurs often distinguish their ventures through differentiation, niche specification, and innovation.

- Differentiation is an attempt to separate the new company's product or service from that of its competitors. When differentiation is successful, the new product or service is relatively less sensitive to price fluctuations because customers value the quality that makes the product unique.

A product can be functionally similar to its competitors' product but have features that improve its operation, for example. It may be smaller, lighter, easier to use or install, etc. In 1982, Compaq Computer began competing with Apple and IBM. Its first product was a single-unit personal computer with a handle. The concept of a portable computer was new and extremely successful.

- Niche specification is an attempt to provide a product or service that fulfills the needs of a specific subset of consumers. By focusing on a fairly narrow market sector, a new venture

may satisfy customer needs better than larger competitors can.

Changes in population characteristics may create opportunities to serve niche markets. One growing market segment in developed countries comprises people over 65 years old. Other niches include groups defined by interests or lifestyle, such as fitness enthusiasts, adventure-travel buffs, and working parents. In fact, some entrepreneurs specialize in making "homemade" dinners for working parents to heat and serve.

- Innovation is perhaps the defining characteristic of entrepreneurship. Visionary business expert Peter F. Drucker explained innovation as "change that creates a new dimension of performance." There are two main types of product innovation. Pioneering or radical innovation embodies a technological breakthrough or new-to-the-world product. Incremental innovations are modifications of existing products.

But innovation occurs in all aspects of businesses, from manufacturing processes to pricing policy. Tom Monaghan's decision in the late 1960s to create Domino's Pizza based on home delivery and Jeff Bezos' decision in 1995 to launch Amazon.com as a totally online bookstore are examples of innovative distribution strategies that revolutionized the marketplace.

Entrepreneurs in less-developed countries often innovate by imitating and adapting products created in developed countries. Drucker called this process "creative imitation." Creative imitation takes place whenever the imitators understand how an innovation can be applied, used, or sold in their particular market better than the original creators do.

Innovation, differentiation, and/or market specification are effective strategies to help a new venture to attract customers and start making sales.

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## >>>> 8. Marketing Is Selling

**M**arketing is often defined as all the activities involved in the transfer of goods from the producer to the consumer, including advertising, shipping, storing, and selling. For a new business, however, marketing means selling. Without paying customers to buy the goods or services, all the entrepreneur's plans and strategies will undoubtedly fail.

How does a new business get orders? Before launching the business, the entrepreneur should research the target market and analyze competitive products. "Most business sectors have specific marketing strategies that work best for them and have already been put into practice," entrepreneur Phil Holland said. In 1970, Holland founded Yum Yum Donut Shops, Inc., which grew into the largest chain of privately owned doughnut shops in the United States. He suggests analyzing competitors' successful selling methods, pricing, and advertising.

An entrepreneur can also develop a file of potential customers, for example, by collecting names or mailing lists from local churches, schools, and community groups or other organizations. This file can be used later for direct mailings—even for invitations to the opening of the new business.

After the new firm is launched, its owners need to get information about their product or service to as many potential customers as possible—efficiently, effectively, and within the constraints of a budget.

The most effective salesperson in a new venture is often the head of the business. People will almost always take a call from the "president" of a firm. This is the person with the vision, the one who knows the advantages of the new venture and who can make quick decisions. Many famous entrepreneurs, such as Bill Gates at Microsoft, have been gifted at selling their products.

Company-employed sales people can be effective for a new venture, particularly one aimed at a fairly narrow market. Direct sales conducted by mail order or on the Internet are less expensive options that can be equally successful.

External channels also can be used. Intermediaries, such as agents or distributors, can be hired to market a product or service. Such individuals must be treated fairly and paid promptly. Some analysts advise treating external representatives like insiders and offering them generous bonuses so that the product or service stands out among the many they represent.

Advertising and promotion are essential marketing tools. Newspaper, magazine, television, and radio advertisements are effective for reaching large numbers of consumers. A less expensive option is printing fliers, which can be mailed to potential customers, handed out door to door, or displayed in businesses that permit it. New companies can also compose new product releases, which trade magazines usually publish without charge.

It is important to be listed in local telephone directories that group similar businesses under a single heading, such as the Yellow Pages in the United States. It is also useful to be listed on Internet search engines such as Google or Yahoo, which are used by consumers for locating local businesses. These often link to a company's Web site, thereby communicating more information.

Publicity is also an extremely valuable way to promote a new product or service. New firms should send press releases to media outlets. A local newspaper might publish a feature about the startup. A TV or radio station might interview its owners. This can be very effective in generating sales, and it's free!



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## >>>> 9. The Entrepreneur and the Internet

**T**he Internet — a vast computer network linking smaller computer networks — has revolutionized commerce by bringing together people from all over the globe. Many of its features can be used to shape a new business.

**Communications:** An entrepreneur must communicate with many people—suppliers, distributors, and customers, for example. A quick and relatively inexpensive way to send letters, reports, photographs, etc. to other Internet users is with electronic mail or “e-mail.” E-mail can be used even for marketing. Various forms of computer software are available to protect documents from unauthorized access or alteration so that they can be securely shared and easily authenticated.

**Research:** Starting a business takes lots of research. An entrepreneur can find information on almost any subject very rapidly by using the Internet’s World Wide Web. (The Web is a collection of text and multimedia documents linked to create a huge electronic library.) Many government agencies, universities, organizations, and businesses provide information on the Internet, usually at no cost.

The easiest way to find information on the Web is by using a search engine—a data retrieval system. The user types key words for a subject on the computer, clicks the enter button, and receives a list of materials—often within seconds. The items are linked electronically to the actual documents so that Internet users can read them on their computer screens. Among the most popular search engines are Yahoo! (<http://yahoo.com>) and Google (<http://google.com>).

**Promotion:** Web sites, pages of print and visual information that are linked together electronically, offer an opportunity for entrepreneurs to introduce a new business and its products and/or services to a huge audience. In general, Web sites can be created and updated more quickly and inexpensively than printed promotional materials. Moreover, they run continuously!

To create a Web site for her business, the entrepreneur can hire a firm to create one or purchase computer software to create it on her own. Many universities offer courses that teach how to build a Web site, also.

A Web site needs a name and an address. On the Internet, the two are usually the same. Web site names and addresses must be registered. [Http://rs.internic.net](http://rs.internic.net) is a Web site that lists registrars by country and language used. The address of the online business is expressed as a Uniform Resource Locator (URL). It usually ends in dot com (.com),

which indicates a “commercial” site. Dot net (.net), an alternate ending, is often used when a specific Web site name ending in .com has already been registered. Good business Web site names are easy to remember and evoke the firm and its products or services.

The entrepreneur also needs a piece of property in cyberspace, where her Web site will reside. Many commercial “hosting services,” called Internet service providers (ISPs), rent space on their large computers (called servers) for a small monthly or annual fee.

Web site promotion is critical. A Web site address can be put on business cards, stationery, brochures— anything having to do with the new firm. Or, an entrepreneur can pay to place a colorful advertisement on non-competitive Web sites, such as ones for complementary products. Advertising banners usually link back to the advertised firm’s Web site.

Entrepreneurs also can provide information about their Web sites to well-known Internet search engines. For a fee, most search engines will promote a Web site when a selected set of search terms is used. Online shoppers, for instance, often use search engines to find businesses that provide specific products and services.

**Safe Use:** Just as shopkeepers lock their storefronts, entrepreneurs who use the Internet need to take steps to keep their computer systems safe from the potential hazards of security breaches and viruses. One of the most effective steps is installing security software. Another is setting up an Internet firewall to screen and block undesired traffic between a computer network and the Internet. A technology consultant on contract can install these and other computer defenses. There is a lot of information about computer safety available, and often for free. For example, the National Cyber Security Alliance (<http://www.staysafeonline.info/>), an organization devoted to raising Internet security awareness, offers educational materials and other resources.

As Julian E. Lange, associate professor of entrepreneurship at Babson College, has said, “For creative entrepreneurs with limited resources, the Internet offers significant opportunities to build new businesses and enhance existing enterprises.” New businesses will develop solutions to enhance the Internet user’s experience. Existing businesses will take advantage of myriad Internet applications — from customer service to order processing to investor relations. Lange suggests that, for many entrepreneurs, the challenges posed by the Internet are “opportunities to delight customers and create exciting entrepreneurial ventures.”

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## >>>> 10. Selling Online

**M**any entrepreneurs sell goods or services on the Internet. Why? The Internet provides access to a large and growing market. Approximately 627 million people were shopping online worldwide in 2005, according to ACNielsen, a global information-marketing company.

By selling on the Internet, a neighborhood shop or home-based firm can reach a national or even international group of potential customers. When entrepreneurs sell online, they are on a more level playing field with larger competitors.

There are costs to Internet selling, certainly. But the price of creating and managing a Web site has dropped, and the number of Web site design and management companies has grown. In fact, some entrepreneurs find it less costly to run an Internet store than to hire a large sales force and maintain one or more bricks and mortar — or actual — stores.

Some businesses — books, airline travel, and the stock market, for example — have been transformed by their success in online sales. Others, such as amusement parks, bowling alleys, or utility companies, may not at first seem well suited to the Internet. But a Web site also can be used for selling tickets, offering discounts, or letting customers make payments over the Internet.

To start an online business, an entrepreneur must:

- Register a domain name — an Internet name and address.
- Purchase a server or contract with an Internet service provider to host the Web site. Buy Internet software to create a Web site or hire an expert to do so. Design an attractive and easy-to-navigate online store.
- Create an online catalog. Provide clearly written information, without technical language or jargon. Use lots of photos to encourage potential customers to buy. Include clear instructions to order by phone or online.

- Establish a payment method. Some companies bill a customer before or after shipping merchandise. This may cause payment delays, however. Another option is to have customers use credit or debit cards online. A business can get a bank-authorized transaction-processing account (merchant account) for handling the revenue (and fees) from credit card transactions from a bank or other institution that processes credit cards online. Alternately, it is possible to hire an on-line payment service, such as WorldPay ([www.worldpay.com](http://www.worldpay.com)), to handle these transactions.
- Make the Web site secure, especially to protect customers' financial information. Hiring a technology expert is time and money well spent as compared to the potential risk of security violations.
- Establish a policy for shipping. Options include letting the business absorb the cost (no charge), including costs in the listed prices, or explicitly listing shipping charges. Customers should never be surprised at the end of a transaction with shipping costs. Customers may cancel the sale.
- Offer customers an e-mail address or phone number for complaints, suggestions, or compliments, and respond to them. This can boost customer loyalty.

After creating an online store, there is still much to do. An entrepreneur needs to attract potential customers. There are many ways to advertise a Web site. One is to print a Web address on business receipts, letterhead, newsletters, and other materials. Another is to contact search engines like Google and Yahoo, and to use key subject words in the Web site design so that search-engine users are directed to the entrepreneur's Web site. For example, a restaurant specializing in food from Afghanistan might include the key words and phrases "Afghan cuisine," "traditional recipes," "contemporary cooking," "bulani," "hummus," "korma," "kabobs," "kofta," "lamb," "ashwak," "steamed dumplings," and others like these.

Web site promotion is crucial. Getting noticed is the first step to making online sales.

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## >>>> 11. Choosing a Form of Business

In many countries, entrepreneurs must select a form of organization when they start a small business. The basic forms of organization are sole proprietorships, partnerships, and corporations. Each has advantages and disadvantages. Moreover, the laws and regulations that apply to business owners vary from country to country and by local jurisdiction. Entrepreneurs should consult an attorney or other expert to make sure that they have all the necessary licenses and permits, and are aware of all their legal obligations. In many countries, the local Chamber of Commerce or local business council is also a good source of information.

**Sole Proprietorship:** In a sole proprietorship, the individual entrepreneur owns the business and is fully responsible for all its debts and legal liabilities. More than 75 percent of all U.S. businesses are sole proprietorships. Examples include writers and consultants, local restaurants and shops, and home-based businesses.

This is the easiest and least expensive form of business to start. In general, an entrepreneur files all required documents and opens a shop. The disadvantage is that there is unlimited personal liability — all personal and business assets owned by the entrepreneur may be at risk if the business goes into debt.

**Partnership:** A partnership consists of two or more people who share the assets, liabilities, and profits of a business. The greatest advantage comes from shared responsibilities. Partnerships also benefit by having more investors and a greater range of knowledge and skills.

There are two main kinds of partnerships, general partnerships and limited partnerships. In a general partnership, all partners are liable for the acts of all other partners. All also have unlimited personal liability for business debts. In contrast, a limited partnership has at least one general partner who is fully liable plus one or more limited partners who are liable only for the amount of money they invest in the partnership.

The largest disadvantage of any partnership is the potential for disagreements, regardless of how well or how long the partners have known each other.

Experts agree that a partnership agreement drawn up by an experienced lawyer is essential to a successful partnership. It is often used to:

- create a mechanism for resolving disagreements;
- specify each partner's contribution to the partnership;
- divide up management responsibilities; and
- specify what happens if a partner leaves or dies.

**Corporations:** Corporations are recommended for entrepreneurs who plan to conduct a large-scale enterprise. As a legal entity that has a life separate from its owners, a corporation can sue or be sued, acquire and sell property, and lend money.

Corporations are divided into shares or stocks, which are owned by one, a few, or many people. Ownership is based on the percentage of stock owned. Shareholders are not responsible for the debts of the corporation, unless they have personally guaranteed them. A shareholder's investment is the limit of her liability. Corporations can more easily obtain investment, raise capital by selling stock, and survive a change of ownership. They provide more protection from liability than other forms of business. Their potential for growth is unlimited.

However, corporations are more complex and expensive to set up than other forms of business and are usually subject to a higher level of government regulation.

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## >>>> 12. Creating a Business Plan

A comprehensive business plan is crucial for a start-up business. It defines the entrepreneur's vision and serves as the firm's resume.

There are many reasons for writing a business plan:

- To convince oneself that the new venture is worthwhile before making a significant financial and personal commitment.
- To assist management in goal-setting and long-range planning.
- To attract investors and get financing.
- To explain the business to other companies with which it would be useful to create an alliance or contract.
- To attract employees.

A business plan can help an entrepreneur to allocate resources appropriately, handle unexpected problems, and make good business decisions.

A well-organized plan is an essential part of any loan application. It should specify how the business would repay any borrowed money. The entrepreneur also should take into account all startup expenses and potential risks so as not to appear naive.

However, according to Andrew Zacharakis, a common misperception is that a business plan is primarily used for raising capital. Zacharakis, a professor of entrepreneurship at Babson College, suggests that the primary purpose of a business plan is to help entrepreneurs gain a deeper understanding of the opportunity they envision. He explains: "The business plan process helps the entrepreneur shape her original vision into a better opportunity by raising critical questions, researching answers for those questions, and then answering them."

Some entrepreneurs create two plans: a planning document for internal use and a marketing document for attracting outside investment. In this situation, the information in each plan is essentially the same, but the emphasis is somewhat different. For example, an internal document intended to guide the business does not need detailed biographies of the management. However, in a plan intended for marketing, the background and experience of management may be the most important feature.

A standard business plan is usually about 40 pages in length. It should use good visual formatting, such as bulleted lists and short paragraphs. The language should be free of jargon and easy to understand.

The tone should be business-like and enthusiastic. It should be strong on facts in order to convince people to invest money or time in the new venture.

The basic elements of a standard business plan include:

Title Page  
Table of Contents  
Executive Summary  
Company Description  
Product/Service  
Market and Competition  
Marketing and Selling Strategy  
Operating Plan  
Management/Organization  
Financing  
Supporting Documents

The executive summary is the cornerstone of a good plan. This is the section that people read in order to decide whether to read the rest. It should concisely summarize the technical, marketing, financial, and managerial details. More importantly, it needs to convince the reader that the new venture is a worthy investment.

The company description highlights the entrepreneur's dream, strategy, and goals.

The product/service section should stress the characteristics and benefits of the new venture. What differentiates it from its competition? Is it innovative?

The financial components of a new venture's business plan typically include three projections: a balance sheet, an income statement, and a cash-flow analysis. These require detailed estimates of expenses and sales. Expenses are relatively easy to estimate. Sales projections are usually based on market research, and often utilize sales data for similar products and services produced by competitors.

Writing a business plan may seem overwhelming. However, there are ways to make the process more manageable. First, there are many computer software packages for producing a standard business plan. Numerous books on entrepreneurship have detailed instructions, and many universities sponsor programs for new businesses.

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## >>>> 13. The Entrepreneur's Need for Capital

New businesses rarely show a profit in the early months of operation. Generating sales takes time, and receipts are not usually sufficient to offset start-up costs and monthly expenses. Therefore, entrepreneurs need to estimate how much money they need and then raise that amount to transform their dream into a reality.

It doesn't necessarily take a lot of cash to create a successful business. In the mid-1970s, Steve Jobs and Steve Wozniak started Apple Computer by selling a Volkswagen microbus and a Hewlett-Packard scientific calculator to raise \$1,300 — enough for a makeshift production line. In 1997, Bill Martin and Greg Wright used the free Internet connections in their college dorm rooms and \$175: \$75 for a New Jersey partnership fee, \$70 to register their Web domain name, and \$30 for a month's hosting fee — to start [www.ragingbull.com](http://www.ragingbull.com), which is now a successful financial Web site.

Many entrepreneurs start businesses with \$5,000 or less, just enough to establish the business, invest in some inventory, and create some advertising materials. There are many ways to reduce expenses: for instance, by initially working out of one's home rather than leasing an office or leasing office equipment rather than buying it.

However, all entrepreneurs need to estimate how much cash they need to cover expenses until the business begins to make a profit. For this task, the best financial tools are the income statement and cash flow statement. Cash flow refers to the amount of money actually available to make purchases and pay current bills and obligations. It is the difference between cash receipts (money taken in) and cash disbursements (money spent) over a specific time period.

It is important to attach notes to these forecasts to explain any unusual expenses or assumptions used in the calculations.

- An income statement sets out all of the entrepreneur's projected revenues and expenses (including depreciation and mortgages) to determine a venture's profits per month and year. Depreciation is a method to account for assets whose value is considered to decrease over time.

- A cash flow statement estimates anticipated cash sales as well as anticipated cash payments of bills. This estimate can be done on a weekly, monthly, or quarterly basis, but experts recommend that it be done at least once every month for the first year or two of a new business. This forecast is used to project the money required to finance the operation annually. By calculating this forecast on a cumulative basis, the entrepreneur can forecast his company's overall capital needs at start up.

The monthly net cash flow shows how much an entrepreneur's cash receipts exceed or fall short of monthly cash expenditures. For most of the first year, the monthly expenditures are likely to exceed the receipts. In many cases, goods are shipped out before payment is received. Meanwhile, the entrepreneur still has to pay his bills. Therefore, the cumulative cash flow, which adds each month's total to that of previous months, will result in a growing negative amount.

A critical point for a new business occurs when monthly sales receipts are enough to cover monthly expenses. At this point, the negative cumulative cash flow will begin to decrease and move toward a positive one. The cumulative cash flow amount reached just before it reverses direction indicates approximately how much capital the new business will need.

Financial projections are inevitably somewhat inaccurate simply because every contingency cannot be predicted. For this reason, experts recommend that entrepreneurs add at least 20 percent to the financial needs calculated in the cash flow statement to create a safety net for unforeseen events.

With these estimates, the entrepreneur can seek funding and concentrate more clearly on launching the new business.

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## >>>> 14. Sources of Financing

**M**any entrepreneurs struggle to find the capital to start a new business. There are many sources to consider, so it is important for an entrepreneur to fully explore all financing options. He also should apply for funds from a wide variety of sources.

**Personal savings:** Experts agree that the best source of capital for any new business is the entrepreneur's own money. It is easy to use, quick to access, has no payback terms, and requires no transfer of equity (ownership). Also, it demonstrates to potential investors that the entrepreneur is willing to risk his own funds and will persevere during hard times.

**Friends and family:** These people believe in the entrepreneur, and they are the second easiest source of funds to access. They do not usually require the paperwork that other lenders require. However, these funds should be documented and treated like loans. Neither part ownership nor a decision-making position should be given to these lenders, unless they have expertise to provide. The main disadvantage of these funds is that, if the business fails and money goes lost, a valuable relationship may be jeopardized.

**Credit cards:** The entrepreneur's personal credit cards are an easy source of funds to access, especially for acquiring business equipment such as photocopiers, personal computers, and printers. These items can usually be obtained with little or no money paid up front and with small monthly payments. The main disadvantage is the high rate of interest charged on credit card balances that are not paid off in full each month.

**Banks:** Banks are very conservative lenders. As successful entrepreneur Phil Holland explains, "Many prospective business owners are disappointed to learn that banks do not make loans to start-up businesses unless there are outside assets to pledge against borrowing." Many entrepreneurs simply do not have enough assets to get a secured loan from a lending institution.

However, if an entrepreneur has money in a bank savings account, she can usually borrow against that money. If an entrepreneur has good credit, it is also relatively easy to get a personal loan from a bank. These loans tend to be short-term and not as large as business loans.

**Venture investors:** This is a major source of funding for start-ups that have a strong potential for growth. However, venture investors insist on retaining part ownership in new businesses that they fund.

- Formal institutional venture funds are usually limited partnerships in which passive limited partners, such as retirement funds, supply most of the money. These funds have large amounts of money to invest. However, the process of obtaining venture capital is very slow. Several books, such as Galante's *Venture Capital & Private Equity Directory*, give detailed information on these funds.
- Corporate venture funds are large corporations with funds for investing in new ventures. These often provide technical and management expertise in addition to large monetary investments. However, these funds are slow to access compared to other sources of funds. Also, they often seek to gain control of new businesses.
- Angel investors tend to be successful entrepreneurs who have capital that they are willing to risk. They often insist on being active advisers to businesses they support. Angel funds are quicker to access than corporate venture funds, and they are more likely to be invested in a start-up operation. But they may make smaller individual investments and have fewer contacts in the banking community.

**Government programs:** Many national and regional governments offer programs to encourage small- and medium-sized businesses. In the United States, the Small Business Administration (SBA) assists small firms by acting as a guarantor of loans made by private institutions for borrowers who may not otherwise qualify for a commercial loan.

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## >>15. Intellectual Property: A Valuable Business Asset

Intellectual property is a valuable asset for an entrepreneur. It consists of certain intellectual creations by entrepreneurs or their staffs that have commercial value and are given legal property rights. Examples of such creations are a new product and its name, a new method, a new process, a new promotional scheme, and a new design.

A fence or a lock cannot protect these intangible assets. Instead, patents, copyrights, and trademarks are used to prevent competitors from benefiting from an individual's or firm's ideas.

Protecting intellectual property is a practical business decision. The time and money invested in perfecting an idea might be wasted if others could copy it. Competitors could charge a lower price because they did not incur the startup costs. The purpose of intellectual property law is to encourage innovation by giving creators time to profit from their new ideas and to recover development costs.

Intellectual property rights can be bought, sold, licensed, or given away freely. Some businesses have made millions of dollars by licensing or selling their patents or trademarks.

Every entrepreneur should be aware of intellectual property rights in order to protect these assets in a world of global markets. An intellectual property lawyer can provide information and advice.

The main forms of intellectual property rights are:

- **Patents:** A patent grants an inventor the right to exclude others from making, using, offering for sale, or selling an invention for a fixed period of time - in most countries, for up to 20 years. When the time period ends, the patent goes into the public domain and anyone may use it.
- **Copyright:** Copyrights protect original creative works of authors, composers, and others. In general, a copyright does not protect the idea itself, but only the form in which it appears - from sound recordings to books, computer programs, or architecture. The owner of copy-

righted material has the exclusive right to reproduce the work, prepare derivative works, distribute copies of the work, or perform or display the work publicly.

- **Trade Secrets:** Trade secrets consist of knowledge that is kept secret in order to gain an advantage in business. "Customer lists, sources of supply of scarce materials, or sources of supply with faster delivery or lower prices may be trade secrets," explains Joseph S. Iandiorio, the founding partner of Iandiorio and Teska, an intellectual property law firm. "Certainly, secret processes, formulas, techniques, manufacturing know-how, advertising schemes, marketing programs, and business plans are all protectable."

Trade secrets are usually protected by contracts and non-disclosure agreements. No other legal form of protection exists. The most famous trade secret is the formula for Coca-Cola, which is more than 100 years old.

Trade secrets are valid only if the information has not been revealed. There is no protection against discovery by fair means such as accidental disclosure, reverse engineering, or independent invention.

**Trademarks:** A trademark protects a symbol, word, or design, used individually or in combination, to indicate the source of goods and to distinguish them from goods produced by others. For example, Apple Computer uses a picture of an apple with a bite out of it and the symbol (®) which means registered trademark. A service mark similarly identifies the source of a service. Trademarks and service marks give a business the right to prevent others from using a confusingly similar mark.

In most countries, trademarks must be registered to be enforceable and renewed to remain in force. However, they can be renewed endlessly. Consumers use marks to find a specific firm's goods that they see as particularly desirable — for example, Barbie dolls or Toyota automobiles. Unlike copyrights or patents, which expire, many business's trademarks become more valuable over time.

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## >>>> 16. The Strengths of Small Business

Any entrepreneur who is contemplating a new venture should examine the strengths of small businesses as compared to large ones and make the most of those competitive advantages. With careful planning, an entrepreneur can lessen the advantages of the large business vis-à-vis his operation and thereby increase his chances for success.

The strengths of large businesses are well documented. They have greater financial resources than small firms and therefore can offer a full product line and invest in product development and marketing. They benefit from economies of scale because they manufacture large quantities of products, resulting in lower costs and potentially lower prices. Many large firms have the credibility that a well-known name provides and the support of a large organization.

How can a small firm possibly compete?

In general, small start-up firms have greater flexibility than larger firms and the capacity to respond promptly to industry or community developments. They are able to innovate and create new products and services more rapidly and creatively than larger companies that are mired in bureaucracy. Whether reacting to changes in fashion, demographics, or a competitor's advertising, a small firm usually can make decisions in days - not months or years.

A small firm has the ability to modify its products or services in response to unique customer needs. The average entrepreneur or manager of a small business knows his customer base far better than one in a large company. If a modification in the products or services offered — or even the business's hours of operation — would better serve the customers, it is possible for a small firm to make changes. Customers can even have a role in product development.

Another strength comes from the involvement of highly skilled personnel in all aspects of a start-up business. In particular, start-ups benefit from having senior partners or managers working on tasks below their highest skill level. For example, when entrepreneur William J. Stolze helped start RF Communications in 1961 in Rochester, New York, three of the founders came from the huge corporation General Dynamics, where they held senior marketing and engineering positions. In the new venture, the marketing expert had the title "president" but actually worked to get orders. The senior engineers were no longer supervisors; instead, they were designing products. As Stolze said in his book *Start Up*, "In most start-ups that I know of, the key managers have stepped back from much more responsible positions in larger companies, and this gives the new company an immense competitive advantage."

Another strength of a start-up is that the people involved — the entrepreneur, any partners, advisers, employees, or even family members — have a passionate, almost compulsive, desire to succeed. This makes them work harder and better.

Finally, many small businesses and start-up ventures have an intangible quality that comes from people who are fully engaged and doing what they want to do. This is "the entrepreneurial spirit," the atmosphere of fun and excitement that is generated when people work together to create an opportunity for greater success than is otherwise available. This can attract workers and inspire them to do their best.



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## >>>> 17. Entrepreneurship Aids the Economy

**M**ost economists agree that entrepreneurship is essential to the vitality of any economy, developed or developing.

Entrepreneurs create new businesses, generating jobs for themselves and those they employ. In many cases, entrepreneurial activity increases competition and, with technological or operational changes, it can increase productivity as well.

In the United States, for example, small businesses provide approximately 75 percent of the net new jobs added to the American economy each year and represent over 99 percent of all U.S. employers. The small businesses in the United States are often ones created by self-employed entrepreneurs.

“Entrepreneurs give security to other people; they are the generators of social welfare,” Carl J. Schramm, president and chief executive officer of Ewing Marion Kauffman Foundation, said in February 2007. The foundation is dedicated to fostering entrepreneurship, and Schramm is one of the world’s leading experts in this field.

Others agree that the benefits of small businesses go beyond income. Hector V. Baretto, administrator of the U.S. Small Business Administration (SBA), explains, “Small businesses broaden the base of participation in society, create jobs, decentralize economic power, and give people a stake in the future.”

Entrepreneurs innovate and innovation is a central ingredient in economic growth. As Peter Drucker said, “The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.” Entrepreneurs are responsible for the commercial introduction of many new products and services, and for opening new markets. A look at recent history shows that entrepreneurs were essential to many of the most significant innovations, ones that revolutionized how people live and work. From the automobile to the airplane to personal computers – individuals with dreams and determination developed these commercial advances.

Small firms also are more likely than large companies to produce specialty goods and services and custom-demand items. As Schramm has suggested, entrepreneurs provide consumers with goods and services for needs they didn’t even know they had.

Innovations improve the quality of life by multiplying consumers’ choices. They enrich people’s lives in numerous ways – making life easier, improving communications, providing new forms of entertainment, and improving health care, to name a few.

Small firms in the United States, for instance, innovate far more than large ones do. According to the Small Business Administration, small technology companies produce nearly 13 times more patents per employee than large firms. They represent one-third of all companies in possession of 15 or more patents.

According to the 2006 Summary Results of the Global Entrepreneurship Monitor (GEM) project, “Regardless of the level of development and firm size, entrepreneurial behavior remains a crucial engine of innovation and growth for the economy and for individual companies since, by definition, it implies attention and willingness to take advantage of unexploited opportunities.” The GEM project is a multi-country study of entrepreneurship and economic growth. Founded and sponsored by Babson College (USA) and the London Business School in 1999, the study included 42 countries by 2006.

International and regional institutions, such as the United Nations and the Organization for Economic Cooperation and Development, agree that entrepreneurs can play a crucial role in mobilizing resources and promoting economic growth and socio-economic development. This is particularly true in the developing world, where successful small businesses are primary engines of job creation and poverty reduction.

For all of these reasons, governments may wish to pursue policies that encourage entrepreneurship.

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## >>>> 18. The Importance of Government Policies

**E**ntrepreneurial activity leads to economic growth and helps to reduce poverty, create a middle class, and foster stability. It is in the interest of all governments to implement policies to foster entrepreneurship and reap the benefits of its activity.

Thomas A. Garrett, a senior economist with the Federal Reserve Bank of St. Louis, says that government policies can be categorized as “active” or “passive” depending on whether they involve the government in determining which types of businesses are promoted. Active policies, such as targeted tax breaks, help specific forms of businesses, while passive policies help create an environment that is friendly to entrepreneurs without regard to specific firms.

Both active and passive policies are effective in promoting small business, Garrett says, but passive policies promote entrepreneurship most broadly. “It is this entrepreneurial-friendly environment that will allow any individual or business—regardless of size, location or mission—to expand and to thrive,” he says.

Among the most successful strategies for encouraging entrepreneurship and small business are changes in tax policy, regulatory policy, access to capital, and the legal protection of property rights.

**Tax Policy:** Governments use taxes to raise money. But taxes increase the cost of the activity taxed, discouraging it somewhat. Therefore, policymakers need to balance the goals of raising revenue and promoting entrepreneurship. Corporate tax rate reductions, tax credits for investment or education, and tax deductions for businesses are all proven methods for encouraging business growth.

**Regulatory Policy:** “The simpler and more expedited the regulatory process, the greater the likelihood of small business expansion,” says Steve Strauss, a lawyer and author, who specializes in entrepreneurship. Reducing the cost of compliance with government regulations is also helpful. Governments can, for example, provide one-stop service centers where entrepreneurs can find assistance and allow electronic filing and storage of forms.

**Access to Capital:** Starting a business takes money. There are required procedures and fees as well as the initial costs of the new enterprise itself. Therefore, the most important activity a government can undertake is to assist potential entrepreneurs with finding money for start-ups.

In the United States, the Small Business Administration (SBA) helps entrepreneurs get funds. The SBA is a federal agency whose main function is guaranteeing loans. Banks and other lenders that participate in SBA programs often relax strict loan requirements because the government has promised repayment if the borrower defaults. This policy makes many loans available for risky new businesses.

**Legal Protection of Property Rights:** Small business can thrive where there is respect for individual property rights and a legal system to protect those rights. Without property rights, there is little incentive to create or invest.

For entrepreneurship to flourish, the law needs to protect intellectual property. If innovations are not legally protected through patents, copyrights, and trademarks, entrepreneurs are unlikely to engage in the risks necessary to invent new products or new methods. According to the World Bank report, “Doing Business 2007: How to Reform,” new technologies are adopted more quickly when courts are efficient. “The reason is that most innovations take place in new businesses—which unlike large firms do not have the clout to resolve disputes outside the courts.”

**Creating a Business Culture:** Governments can also show that they value private enterprise by making it easier for individuals to learn business skills and by honoring entrepreneurs and small business owners. Policy makers can:

- Offer financial incentives for the creation of business incubators. These usually provide new businesses with an inexpensive space in which to get started and services – such as a copier and a fax machine – which most new businesses couldn’t otherwise afford. Often business incubators are associated with colleges, and professors offer their expertise.
- Make information available. In the United States, for example, the SBA has many offices, making publications widely accessible. Its “Small Business Answer Desk” (telephone: 800-827-5722) and its Web site ([www.sba.gov](http://www.sba.gov)) answer general business questions. Its online business tutorials are available to anyone with Internet access (<http://sba.gov/training/coursestake.html>).
- Enhance the status of entrepreneurs and businessmen in the society. Governments might create local or national award programs that honor entrepreneurs and call on business leaders to serve on relevant commissions or panels.

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## 19. Resources for Aspiring and Existing Entrepreneurs

### U.S. Government

The **Small Business Administration (SBA)** is an independent agency of the federal government that aids, counsels, assists, and protects the interests of small business. SBA delivers its services through an extensive network of field offices and partnerships with public and private organizations. Its Web site provides wide-ranging information on starting and running a small business. <http://www.sba.gov/>

### International Agencies

The **Organization for Economic Cooperation and Development, Centre for Entrepreneurship, SMEs, and Local Development** “is in charge of disseminating best practices on the design, implementation, and evaluation of initiatives to promote entrepreneurship, SME growth, and local economic and employment development.” The Web site includes links to publications and programs. [http://www.oecd.org/department/0,2688,en\\_2649\\_33956792\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/department/0,2688,en_2649_33956792_1_1_1_1_1,00.html)

The **United Nations Development Program, Commission on the Private Sector and Development** was created to address the obstacles blocking the expansion of the indigenous private sector in developing nations. The Web site includes the Commission’s 2004 Report, “Unleashing Entrepreneurship: Making Business Work for the Poor.” <http://www.undp.org/cpsd/indexF.html>

The **World Bank’s The Doing Business Project** provides objective measures of business regulations and their enforcement across 178 countries and selected cities at the subnational and regional level. <http://www.doing-business.org/Downloads/>

### Academic, Research, and Private Resources

The **Arthur M. Blank Center for Entrepreneurship** at Babson College (Massachusetts, USA) describes its mission as leading the global advancement of entrepreneurship education and practice through teaching, research, and outreach initiatives. In partnership with the London School of Business, it carries out globally focused entrepreneurship research. It holds an annual entrepreneurship research conference and publishes *Frontiers of Entrepreneurship Research*. <http://www3.babson.edu/eship/research-publications/>

The **Center for Rural Entrepreneurship** supports efforts to stimulate entrepreneurship in communities throughout rural America, and publishes a newsletter. Its site shares information on tools, success stories, and research. <http://www.energizingentrepreneurs.org/>

**Collegiate Entrepreneurs’ Organization** is a global entrepreneurship network serving approximately 30,000 students, through 400 chapters and affiliated student organizations at colleges and universities. <http://www.c-e-o.org/page.php?mode=privateview&pageID=124&navID=124>

**Entrepreneur.com** is an online and print small business publication that provides information to help start, grow, or manage a small business. <http://www.entrepreneur.com/>

The **Entrepreneurs’ Organization (EO)** is a global membership organization of more than 6,000 business owners who share a common desire to grow their businesses, learn from others, and share their experiences. <http://www.eonetwork.org/Default.aspx>

The **Ewing Marion Kauffman Foundation** is a major supporter of research and grants to promote entrepreneurship, develop educational programs, train educators, and to facilitate the commercialization of new technologies. One of the largest foundations in the United States, the Kauffman Foundation Web site includes links to research, publications, and reports. <http://www.kauffman.org/>

**FastTrac** is a comprehensive entrepreneurship education program that includes practical, hands-on business development courses and workshops for entrepreneurs as well as entrepreneurship curriculum for college students. FastTrac programs are currently provided in 50 U.S. states and in Australia and Russia. <http://www.fasttrac.org/>

The **Global Entrepreneurship Monitor (GEM)** is a not-for-profit academic research consortium that aims to make international research data on entrepreneurial activity readily available. A partnership of Babson College and the London School of Economics, the research program is based on an assessment of the level of national entrepreneurial activity in participating countries and an exploration of the role of entrepreneurship in national economic growth. Started in 1999 with 10 countries, GEM 2007 conducted research in 42 countries. The Web site features global reports and national summaries. <http://www.gemconsortium.org>

**International Council for Small Business** was the first international membership organization to promote the growth and development of small businesses worldwide. It hosts an annual conference aimed at advancing small business and entrepreneurship. <http://www.icsb.org/>

**My Own Business, Inc.** is a nonprofit organization dedicated to providing free training and resources to aspiring entrepreneurs. The Web site includes a free, complete and in-depth online course on how to start a business. <http://www.myownbusiness.org/>

The **Public Forum Institute, National Dialog on Entrepreneurship** provides a wide range of information on entrepreneurship, including news and research. It includes reports about steps being taken around the world to encourage innovation and new enterprise growth. It also includes links to entrepreneurship success stories. <http://www.publicforuminstitute.org/nde/global/index.htm>

**Students in Free Enterprise** is a global non-profit organization active in 47 countries that works in partnership with business. SIFE challenges teams of college students to develop community outreach projects that include entrepreneurship. <http://www.sife.org/>

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## >>>> 20. Entrepreneurship: Glossary of Terms

*Angel investors:* Individuals who have capital that they are willing to risk. Angels are often successful entrepreneurs who invest in emerging entrepreneurial ventures, often as a bridge from the self-funded stage to the point in which a business can attract venture capital.

*Assets:* Items of value owned by a company and shown on the balance sheet, including cash, equipment, inventory, etc.

*Balance sheet:* Summary statement of a company's financial position at a given point in time, listing assets as well as liabilities.

*Break-even point:* Dollar value of sales that will cover, but not exceed, all of the company's costs, both fixed and variable.

*Bridge finance:* Short-term finance that is expected to be repaid quickly.

*Browser:* A computer program that enables users to access and navigate the World Wide Web.

*Business incubator:* This is a form of mentoring in which workspace, coaching, and support services are provided to entrepreneurs and early-stage businesses at a free or reduced cost.

*Business plan:* A written document detailing a proposed venture, covering current status, expected needs, and projected results for the enterprise. It contains a thorough analysis of the product or service being offered, the market and competition, the marketing strategy, the operating plan, and the management as well as profit, balance sheet, and cash flow projections.

*Capital:* Cash or goods used to generate income. For entrepreneurs, capital often refers to the funds and other assets invested in the business venture.

*Cash flow:* The difference between the company's cash receipts and its cash payments in a given period. It refers to the amount of money actually available to make purchases and pay current bills and obligations.

*Cash flow statement:* A summary of a company's cash flow over a period of time.

*Collateral:* An asset pledged as security for a loan.

*Copyright:* Copyright is a form of legal protection for published and unpublished literary, scientific, and artistic works that have been fixed in a tangible or material form. It grants exclusive rights to the work's creator for a specified period of time.

*Corporation:* A business form that is an entity legally separate from its owners. Its important features include limited liability, easy transfer of ownership, and unlimited life.

*Depreciation:* The decrease in the value of assets over their expected life by an accepted accounting method, such as allocating the cost of an asset over the years in which it is used.

*E-commerce:* The sale of products and services over the Internet.

*Entrepreneur:* A person who organizes, operates, and assumes the risk for a business venture.

*Equity:* An ownership interest in a business.

*Home-based business:* A business, of any size or type, whose primary office is in the owner's home.

*Income statement:* Also known as a "profit and loss statement," it shows a firm's income and expenses, and the resulting profit or loss over a specified period of time.

*Intangible assets:* Items of value that have no tangible physical properties, such as ideas.

*Internet:* The vast network of networks connecting millions of individual and networked computers worldwide.

*Inventory:* Finished goods, work in process of manufacture, and raw materials owned by a company.

*Joint venture:* A legal entity created by two or more businesses joining together to conduct a specific business enterprise with both parties sharing profits and losses.

*Liabilities:* Debts a business owes, including accounts payable, taxes, bank loans, and other obligations. Short-term liabilities are due within a year, while long-term liabilities are due in a period of time greater than a year.

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*Limited partnership:* A business arrangement in which the day-to-day operations are controlled by one or more general partners and funded by limited or silent partners who are legally responsible for losses based on the amount of their investment.

*Line of credit:* (1) An arrangement between a bank and a customer specifying the maximum amount of unsecured debt the customer can owe the bank at a given point in time. (2) A limit set by a seller on the amount that a purchaser can buy on credit.

*Liquidity:* The ability of an asset to be converted to cash as quickly as possible and without any price discount.

*Marketing:* The process of researching, promoting, selling, and distributing a product or service. Marketing covers a broad range of practices, including advertising, publicity, promotion, pricing, and packaging.

*Marketing plan:* A document describing a firm's potential customers and a comprehensive strategy to sell them goods and services.

*Networking:* (1) Developing business contacts to form business relationships, increase knowledge, expand a business, or serve the community. (2) Linking computers systems together.

*Niche marketing:* Identifying and targeting markets not adequately served by competitors.

*Outsourcing:* The practice of using subcontractors or other businesses, rather than paid employees, for standard services such as accounting, payroll, information technology, advertising, etc.

*Partnership:* Legal form of business in which two or more persons are co-owners, sharing profits and losses.

*Patent:* A property right granted to an inventor to exclude others from making, using, offering for sale, or selling an invention for a limited time in exchange for public disclosure of the invention when the patent is granted.

*Small Business Administration (SBA):* Created in 1953, it is an independent agency of the U.S. federal government that aids, counsels, assists, and protects the interests of small business.

*Small Business Development Centers (SBDC):* SBA program using university faculty and others to provide management assistance to current and prospective small business owners.

*Service Core of Retired Executives (SCORE):* A non-profit organization dedicated to entrepreneurs' education and the success of small business. It is sponsored by the SBA to provide consulting to small businesses.

*Search engine:* A computer program that facilitates the location and the retrieval of information over the Internet.

*Seed financing:* A relatively small amount of money provided to prove a concept; it may involve product development and market research.

*Server:* A computer system to provide access to information or Web sites.

*Social entrepreneur:* Someone who recognizes a social problem and uses entrepreneurial principles to organize, create, and manage a venture to make social change. Social entrepreneurs often work through non-profit organization and citizen groups, but they may also work in the private or governmental sector. Many successful entrepreneurs, such as Bill Gates of Microsoft, have become social entrepreneurs.

*Sole proprietorship:* A business form with one owner who is responsible for all of the firm's liabilities.

*Start-up financing:* Funding provided to companies for use in product development and initial marketing. It is usually funding for firms that have not yet sold their product commercially.

*Trademark:* A form of legal protection given to a business or individual for words, names, symbols, sounds, or colors that distinguish goods and services. Trademarks, unlike patents, can be renewed forever as long as they are being used in business.

*Unsecured loan:* Short-term source of borrowed capital for which the borrower does not pledge any assets as collateral.

*Variable costs:* Costs that vary as the amount produced or sold varies.

*Venture investors:* An institution specializing in the provision of large amounts of long-term capital to enterprises with a limited track record but with the expectation of substantial growth. The venture capitalist also may provide varying degrees of managerial and technical expertise.

*World Wide Web:* The part of the Internet that enables the use of multimedia text, graphics, audio, and video.