

CONTENTS

Preface 17

PART 1 Decision to Become an Entrepreneur 27

CHAPTER 1 Introduction to *Entrepreneurship* 29

Opening Profile—SUPERJAM: The Classic Entrepreneurial Story 29

INTRODUCTION TO ENTREPRENEURSHIP 30

What Is Entrepreneurship? 32

Why Become an Entrepreneur? 33

Characteristics of Successful Entrepreneurs 35

WHAT WENT WRONG? How a Lack of Passion and Too Few Customers Can Kill a Business 38

SAVVY ENTREPRENEURIAL FIRM: Angry Birds and Zeo 40

Common Myths About Entrepreneurs 41

Types of Start-Up Firms 43

CHANGING DEMOGRAPHICS OF ENTREPRENEURS 44

ENTREPRENEURSHIP'S IMPORTANCE 47

Economic Impact of Entrepreneurial Firms 47

Entrepreneurial Firms' Impact on Society 48

Entrepreneurial Firms' Impact on Larger Firms 48

PARTNERING FOR SUCCESS: Working Together: How Biotech Firms and Large Drug Companies Bring Pharmaceutical Products to Market 49

THE ENTREPRENEURIAL PROCESS 49

Decision to Become an Entrepreneur (Chapter 1) 50

Developing Successful Business Ideas (Chapters 2–6) 50

Moving from an Idea to an Entrepreneurial Firm (Chapters 7–10) 51

Managing and Growing an Entrepreneurial Firm (Chapters 11–15) 52

Chapter Summary 52 | Key Terms 53 | Review Questions 53

Application Questions 54 | You Be the VC 1.1 55 | You Be the VC 1.2 56 | CASE 1.1 57 | CASE 1.2 59

ENDNOTES 62

PART 2 Developing Successful Business Ideas 65

CHAPTER 2 Recognizing Opportunities and Generating Ideas 67

Opening Profile—BENCHPREP: Solving a Problem by Merging a Customer Pain with an Emerging Technology 67

IDENTIFYING AND RECOGNIZING OPPORTUNITIES 69

Observing Trends 70

Solving a Problem 76

SAVVY ENTREPRENEURIAL FIRM: Xhale and Vestagen: Solving the Same Problem in Different Ways 78

FINDING GAPS IN THE MARKETPLACE 79

Personal Characteristics of the Entrepreneur 81

WHAT WENT WRONG? My Favourite Booking: What Happens When You Don't Deliver on Your Promises 82

TECHNIQUES FOR GENERATING IDEAS 85

Brainstorming 85

Focus Groups 86

Library and Internet Research 87

Other Techniques 87

PARTNERING FOR SUCCESS: Want Help Fine-Tuning a Business Idea?

Find a Mentor 88

ENCOURAGING AND PROTECTING NEW IDEAS 88

Establishing a Focal Point for Ideas 89

Encouraging Creativity at the Firm Level 89

Protecting Ideas from Being Lost or Stolen 90

Chapter Summary 91 | *Key Terms* 91 | *Review Questions* 91

Application Questions 92 | *You Be the VC* 2.1 93 | *You Be*

the VC 2.2 94 | *CASE* 2.1 95 | *CASE* 2.2 97

ENDNOTES 99

CHAPTER 3 Feasibility Analysis 103

Opening Profile—MORPHOLOGY: The Value of Validating a

Business Idea 103

FEASIBILITY ANALYSIS 105

WHAT WENT WRONG? Visa Cash in Hong Kong: How Feasible Was It? 106

Product/Service Feasibility Analysis 107

SAVVY ENTREPRENEURIAL FIRM: How Learning from Customers

Caused a Successful Firm to Make a 180-Degree Turn on the Positioning of a Product 113

Industry/Target Market Feasibility Analysis 114

Organizational Feasibility Analysis 117

PARTNERING FOR SUCCESS: Finding the Right Business Partner 118

Financial Feasibility Analysis 119

First Screen 121

Chapter Summary 122 | *Key Terms* 123 | *Review Questions* 123

Application Questions 123 | *You Be the VC* 3.1 125 | *You Be the VC* 3.2 125 | *CASE* 3.1 126 | *CASE* 3.2 128

ENDNOTES 131

Appendix 3.1 132

Appendix 3.2 134

CHAPTER 4 Writing a Business Plan 137

Opening Profile—The Little Engineer: Expanding on the Strength of a

Winning Business Plan 137

THE BUSINESS PLAN 139

Reasons for Writing a Business Plan 139

Who Reads the Business Plan—And What Are They Looking For? 141

Guidelines for Writing a Business Plan 142

OUTLINE OF THE BUSINESS PLAN 145

Exploring Each Section of the Plan 145

SAVVY ENTREPRENEURIAL FIRM: Know When to Hold Them, Know When to Fold Them 146

PARTNERING FOR SUCCESS: Types of Partnerships That Are Common in Business Plans 151

WHAT WENT WRONG? What StyleHop Learned About the Value of Planning the Hard Way 158

PRESENTING THE BUSINESS PLAN TO INVESTORS 159

The Oral Presentation of a Business Plan 159

Questions and Feedback to Expect from Investors 161

Chapter Summary 161 | Key Terms 162 | Review Questions 162
 Application Questions 163 | You Be the VC 4.1 164 | You Be
 the VC 4.2 165 | CASE 4.1 166 | CASE 4.2 168

ENDNOTES 171

CHAPTER 5 Industry and Competitor Analysis 173

Opening Profile—ELEMENT BARS: Occupying a Unique Position
 in a Difficult Industry—and Thriving 173

INDUSTRY ANALYSIS 175

Studying Industry Trends 176

PARTNERING FOR SUCCESS: Three Ts That Are Important for Becoming
 Active in an Industry: Trade Associations, Trade Shows, and Trade
 Journals 177

The Five Forces Model 178

The Value of the Five Forces Model 184

Industry Types and the Opportunities They Offer 186

WHAT WENT WRONG? Eclipse Aviation: Sometimes an Industry Can't
 Be Revitalized 188

COMPETITOR ANALYSIS 189

Identifying Competitors 190

SAVVY ENTREPRENEURIAL FIRM: Thriving in a Crowded
 Industry by Creating Meaningful Value and Differentiation
 from Competitors 191

Sources of Competitive Intelligence 192

Completing a Competitive Analysis Grid 193

Chapter Summary 194 | Key Terms 195 | Review Questions 195
 Application Questions 196 | You Be the VC 5.1 198 | You Be
 the VC 5.2 198 | CASE 5.1 199 | CASE 5.2 201

ENDNOTES 203

CHAPTER 6 Developing an Effective Business Model 205

Opening Profile—STROOME: Working to Find a Viable Business
 Model for an Exciting New Web-Based Service for Editing
 and Remixing Video 205

BUSINESS MODELS 207

The Importance and Diversity of Business Models 208

SAVVY ENTREPRENEURIAL FIRM: Three Industries, Three Business
 Model Innovators 209

How Business Models Emerge 212

Potential Fatal Flaws of Business Models 213

COMPONENTS OF AN EFFECTIVE BUSINESS MODEL 215

Core Strategy 215

WHAT WENT WRONG? Joost: Why It's Important to Be Sensitive to All
 Aspects of Your Business Model 216

Strategic Resources 218

Partnership Network 220

PARTNERING FOR SUCCESS: Getwine, South Africa, and WaveSecure,
 Singapore: Forging Valuable Relationships by Elevating the
 Performance of Their Partners 222

Customer Interface 223

Chapter Summary 225 | Key Terms 226 | Review Questions 226
 Application Questions 226 | You Be the VC 6.1 228 | You Be
 the VC 6.2 228 | CASE 6.1 229 | CASE 6.2 232

ENDNOTES 234

PART 3 Moving from an Idea to an Entrepreneurial Firm 237

CHAPTER 7 Preparing the Proper Ethical and Legal Foundation 239

Opening Profile—XPLOSAFE: Proceeding on a Firm
Legal Foundation 239

INITIAL ETHICAL AND LEGAL ISSUES FACING A NEW FIRM 241

Establishing a Strong Ethical Culture for a Firm 242

Choosing an Attorney for a Firm 246

Drafting a Founders' Agreement 247

SAVVY ENTREPRENEURIAL FIRM: Vesting Ownership in Company Stock:
A Sound Strategy for Start-Ups 248

Avoiding Legal Disputes 249

WHAT WENT WRONG? How Legal Snafus Can Stop a Business in Its
Tracks 250

PARTNERING FOR SUCCESS: Patagonia and Build-A-Bear Workshop:
Picking Trustworthy Partners 253

OBTAINING BUSINESS LICENSES AND PERMITS 254

Business Licenses 254

Business Permits 254

Choosing a Form of Business Organization 255

Sole Proprietorship 256

Partnerships 258

Corporations 259

Limited Liability Company 262

Chapter Summary 263 | Key Terms 264 | Review Questions 264

Application Questions 265 | You Be the VC 7.1 267 | You Be
the VC 7.2 268 | CASE 7.1 268 | CASE 7.2 270

ENDNOTES 273

Appendix 7.1 275

CHAPTER 8 Assessing a New Venture's Financial Strength and Viability 279

Opening Profile—KLYMIT: The Critical Importance
of Cash Flow 279

INTRODUCTION TO FINANCIAL MANAGEMENT 281

Financial Objectives of a Firm 282

The Process of Financial Management 283

PARTNERING FOR SUCCESS: Organizing Buying Groups to Cut Costs
and Maintain Competitiveness 284

FINANCIAL STATEMENTS AND FORECASTS 285

Historical Financial Statements 286

SAVVY ENTREPRENEURIAL FIRM: Know the Facts Behind
the Numbers 288

Forecasts 293

PRO FORMA FINANCIAL STATEMENTS 297

WHAT WENT WRONG? Be Careful What You Wish For: How Growing
Too Quickly Overwhelmed One Company's Cash Flow 298

Pro Forma Income Statement 299

Pro Forma Balance Sheet 299

Pro Forma Statement of Cash Flows 301

Ratio Analysis 303

Chapter Summary 304 | Key Terms 304 | Review Questions 305
 Application Questions 305 | You Be the VC 8.1 307 | You Be
 the VC 8.2 307 | CASE 8.1 308 | CASE 8.2 310

ENDNOTES 312

CHAPTER 9 Building a New-Venture Team 315

Opening Profile—SCRIPPED: Hitting the Ground Running 315

CREATING A NEW-VENTURE TEAM 317

The Founder or Founders 318

WHAT WENT WRONG? Devver: How Miscues in Regard
 to the Composition and Management of a New-Venture Team
 Can Kill a Start-up 319

Recruiting and Selecting Key Employees 322

SAVVY ENTREPRENEURIAL FIRM: Overcoming a Lack of Business
 Experience 323

The Roles of the Board of Directors 326

ROUNDING OUT THE TEAM: THE ROLE OF PROFESSIONAL ADVISERS 328

Board of Advisers 328

Lenders and Investors 329

PARTNERING FOR SUCCESS: Need Help with Product
 Development? Consider Establishing a Customer
 Advisory Board 330

Other Professionals 332

Chapter Summary 333 | Key Terms 334 | Review Questions 334
 Application Questions 334 | You Be the VC 9.1 336 | You Be
 the VC 9.2 337 | CASE 9.1 337 | CASE 9.2 339

ENDNOTES 342

CHAPTER 10 Getting Financing or Funding 345

Opening Profile—INDINERO: Raising Money Carefully
 and Deliberately 345

THE IMPORTANCE OF GETTING FINANCING OR FUNDING 347

Why Most New Ventures Need Funding 347

Sources of Personal Financing 348

Preparing to Raise Debt or Equity Financing 350

PARTNERING FOR SUCCESS: TechStars and Y Combinator: A New
 Breed of Start-Up Incubators 354

SOURCES OF EQUITY FUNDING 355

Business Angels 355

Venture Capital 356

SAVVY ENTREPRENEURIAL FIRM: Open Angel Forum and AngelList:
 New Options for Getting in Front of Angel Investors 358

WHAT WENT WRONG? How One Start-up Caught the Attention of VCs,
 Raised Money, and Still Failed 360

Initial Public Offering 361

SOURCES OF DEBT FINANCING 362

Commercial Banks 363

SBA Guaranteed Loans 364

Other Sources of Debt Financing 364

CREATIVE SOURCES OF FINANCING AND FUNDING 365

Leasing 365

SBIR and STTR Grant Programs 366

Other Grant Programs	367
Strategic Partners	368
Chapter Summary	368 Key Terms 369 Review Questions 369
Application Questions	370 You Be the VC 10.1 371 You Be the VC 10.2 372 CASE 10.1 373 CASE 10.2 375

ENDNOTES 378

PART 4 Managing and Growing an Entrepreneurial Firm 381

CHAPTER 11 Unique Marketing Issues 383

Opening Profile—TRUE YOU COSMETICS: Creating a New Brand in the Cosmetics Industry 383

SELECTING A MARKET AND ESTABLISHING A POSITION 385

Segmenting the Market	385
Selecting a Target Market	386
Establishing a Unique Position	387

BRANDING 388

WHAT WENT WRONG? How Failing to Establish a Clear Position in the Marketplace Forced an Adorable Robotic Dinosaur to Fall Silent 389

SAVVY ENTREPRENEURIAL FIRM: How Airbnb Used Blogs as a Stepping-Stone to Generate Substantial Buzz About Its Service 392

THE 4Ps OF MARKETING FOR NEW VENTURES 393

Product	393
Price	394
Promotion	396

PARTNERING FOR SUCCESS: How Landing a Partnership with an Influential Web Site and Soliciting Feedback from Customers Can Accelerate a Start-Up's Visibility and Growth 402

Place (or Distribution) 403

SALES PROCESS AND RELATED ISSUES 404

Chapter Summary	407 Key Terms 408 Review Questions 408
Application Questions	408 You Be the VC 11.1 410 You Be the VC 11.2 410 CASE 11.1 411 CASE 11.2 414

ENDNOTES 416

CHAPTER 12 The Importance of Intellectual Property 419

Opening Profile—METROLEAP MEDIA, INC.: The Key Role of Intellectual Property in Its Early and Ongoing Success 419

THE IMPORTANCE OF INTELLECTUAL PROPERTY 421

Determining What Intellectual Property to Legally Protect 422

WHAT WENT WRONG? Dippin' Dots: Why the USPTO Invalidated Its Patent and It Now Has Two New Competitors 424

The Four Key Forms of Intellectual Property 425

PATENTS 425

Types of Patents	427
Who Can Apply for a Patent?	428
The Process of Obtaining a Patent	429

SAVVY ENTREPRENEURIAL FIRM: Knowing the Ins and Outs of Filing a Provisional Patent Application 431

PARTNERING FOR SUCCESS: Individual Inventors and Large Firms: Partnering to Bring New Products to Market 433

Patent Infringement 433

TRADEMARKS 434

- The Four Types of Trademarks 434
- What Is Protected Under Trademark Law? 435
- Exclusions from Trademark Protection 436
- The Process of Obtaining a Trademark 437

COPYRIGHTS 438

- What Is Protected by a Copyright? 439
- Exclusions from Copyright Protection 440
- How to Obtain a Copyright 440
- Copyright Infringement 440
- Copyrights and the Internet 442

TRADE SECRETS 442

- What Qualifies for Trade Secret Protection? 443
- Trade Secret Disputes 443
- Trade Secret Protection Methods 444

CONDUCTING AN INTELLECTUAL PROPERTY AUDIT 445

- Why Conduct an Intellectual Property Audit? 445
- The Process of Conducting an Intellectual Property Audit 446
- Chapter Summary 447 | Key Terms 447 | Review Questions 448
- Application Questions 448 | You Be the VC 12.1 450 | You Be the VC 12.2 450 | CASE 12.1 451 | CASE 12.2 453

ENDNOTES 454**CHAPTER 13 Preparing for and Evaluating the Challenges of Growth 457**

- Opening Profile—PURBLU BEVERAGES, INC.: Growing in a Cautious, Yet Deliberate Manner 457

PREPARING FOR GROWTH 459

- Appreciating the Nature of Business Growth 459
- Staying Committed to a Core Strategy 461
- PARTNERING FOR SUCCESS:** How Threadless Averted Collapse by Bringing on a Partner with Back-End Operational Expertise 462
- Planning for Growth 463

REASONS FOR GROWTH 464

- SAVVY ENTREPRENEURIAL FIRM:** L'Aroma Gourmet: How a Simple Initiative Can Contribute to a Start-up's Early Growth 465

MANAGING GROWTH 467

- Knowing and Managing the Stages of Growth 468

CHALLENGES OF GROWTH 470

- Managerial Capacity 471
- Day-to-Day Challenges of Growing a Firm 472

- WHAT WENT WRONG?** How Trying to Build Out Its Own Capabilities in a Key Area Contributed to the Failure of a Promising Firm 473

- Chapter Summary 475 | Key Terms 476 | Review Questions 476
- Application Questions 476 | You Be the VC 13.1 478 | You Be the VC 13.2 479 | CASE 13.1 479 | CASE 13.2 482

ENDNOTES 485

CHAPTER 14 Strategies for Firm Growth 487

Opening Profile—PHONE HALO: Pivoting to Pursue New Strategies for Growth 487

INTERNAL GROWTH STRATEGIES 489

New Product Development 490

SAVVY ENTREPRENEURIAL FIRM: SwitchFlops: How to Create Built-In Avenues for Future Growth 491

Other Product-Related Strategies 493

International Expansion 496

EXTERNAL GROWTH STRATEGIES 498

Mergers and Acquisitions 500

WHAT WENT WRONG? Be Careful What You Wish For: How StumbleUpon's Founder Sold His Company to eBay and Two Years Later Bought It Back Again 502

Licensing 503

Strategic Alliances and Joint Ventures 505

PARTNERING FOR SUCCESS: Three Steps to Alliance Success 506

Chapter Summary 508 | Key Terms 509 | Review Questions 509

Application Questions 510 | You Be the VC 14.1 511 | You Be the VC 14.2 512 | CASE 14.1 513 | CASE 14.2 515

ENDNOTES 518

CHAPTER 15 Franchising 521

Opening Profile—COLLEGE NANNIES & TUTORS: Franchising as a Form of Business Ownership and Growth 521

WHAT IS FRANCHISING AND HOW DOES IT WORK? 523

What Is Franchising? 523

How Does Franchising Work? 524

ESTABLISHING A FRANCHISE SYSTEM 527

When to Franchise 527

SAVVY ENTREPRENEURIAL FIRM: Wahoo's Fish Taco: A Moderate-Growth Yet Highly Successful Franchise Organization 528

Steps to Franchising a Business 529

Selecting and Developing Effective Franchisees 530

Advantages and Disadvantages of Establishing a Franchise System 531

BUYING A FRANCHISE 533

WHAT WENT WRONG? Trouble at Curves International 534

Is Franchising Right for You? 535

The Cost of a Franchise 535

PARTNERING FOR SUCCESS: Using Co-Branding to Reduce Costs and Boost Sales 538

Finding a Franchise 539

Advantages and Disadvantages of Buying a Franchise 539

Steps in Purchasing a Franchise 540

Watch Out! Common Misconceptions

About Franchising 542

LEGAL ASPECTS OF THE FRANCHISE RELATIONSHIP 543

Federal Rules and Regulations 544

State Rules and Regulations 546

MORE ABOUT FRANCHISING 546

Franchise Ethics 546

International Franchising 547

The Future of Franchising 549

Chapter Summary 550 | Key Terms 551 | Review Questions 551

Application Questions 552 | You Be the VC 15.1 553 | You Be
the VC 15.2 554 | CASE 15.1 555 | CASE 15.2 557**ENDNOTES 559**

Glossary 561

Name Index 573

Company Index 577

Subject Index 583