CONTENTS

Preface vii

1 The Power of Entrepreneurship 1

Entrepreneurship and Small Business in the United States 2

Entrepreneurial Revolution 4

Web: Three Revolutions Converge 8

Entrepreneurship Revolution Strikes Gold 9

Creative Destruction 11

Causes of the Entrepreneurial Revolution 12

Changes in the Entrepreneurial Framework

Conditions 13

Churning and Economic Growth 18

Global Entrepreneurship Monitor 19

Principal Findings from GEM 20

Age 22

Gender 23

Education 23

Financing 25

Job Creation 25

21st-Century Economies: Anglo-Saxon or Social

Models? 27

■ Conclusion 29

■ Your Opportunity Journal 30

■ Web Exercise 30

■ Notes 30

CASE: MALINCHO 36

2 The Entrepreneurial Process 49

Critical Factors for Starting a New Enterprise 50

Personal Attributes 52

Environmental Factors 52

Other Sociological Factors 54

Evaluating Opportunities for New Businesses 56

The Opportunity 57

The Customer 58

The Timing 58

The Entrepreneur and the Management

Team 59

Resources 60

Determining Resource Needs and Acquiring Resources 60

Startup Capital 62

Profit Potential 64

Ingredients for a Successful New Business 66

■ Conclusion 68

■ Your Opportunity Journal 68

■ Notes 68

CASE: ALISON BARNARD 70

3 Opportunity Recognition, Shaping, and Reshaping 83

From Glimmer to Action: How Do I Come Up with a Good Idea? 84

Finding Your Passion 84

Idea Multiplication 85

Is Your Idea an Opportunity? 89

The Customer 89

The Competition 100

Suppliers and Vendors 103

The Government 103

The Global Environment 104

The Opportunity Checklist 104

"I Don't Have an Opportunity" 104

■ Conclusion 106

■ Your Opportunity Journal 107

■ Web Exercise 107

■ Notes 107

CASE: JIM POSS 110

4 Understanding Your Business Model and Developing Your Strategy 125

The Business Model 125

The Revenue Model 126

The Cost Model 128

The First-Mover Myth 130

Formulating a Winning Strategy 132

The People Are What Matters 133

Entry Strategy 134

Growth Strategy 138

■ Conclusion 145

■ Your Opportunity Journal 146

■ Web Exercise 146

■ Notes 146

CASE: ADAM AIRCRAFT 149

5 Entrepreneurial Marketing 167

Why Marketing Is Critical for Entrepreneurs 168

Entrepreneurs Face Unique Marketing Challenges 168

Acquiring Market Information 169

Marketing Strategy for Entrepreneurs 170

Segmentation, Targeting, and Positioning 170

The Marketing Mix 171

Guerrilla Marketing 182

Marketing Skills for Managing Growth 184

Understanding and Listening to the Customer 184

■ Conclusion 185

■ Your Opportunity Journal 186

Building the Brand 185

■ Web Exercise 186

Appendix: Customer Interview 186

General Outline: It Needs to Be Tailored to Meet Your Research Needs 187

■ Notes 188

CASE: COLLEGE COACH 189

6 Building the Founding Team 199

Power of the Team 200

Where Do You Fit? 201

How to Build a Powerful Team 205

Bootstrapping: Building the Team Based on

Stage-of-Venture Life 206

Compensation 208

Equity 208

Salary 213

Other Compensation Considerations 213

External Team Members 214

Outside Investors 214

Lawyers 215

Accountants 215

Board of Advisors 216

Board of Directors 216

Keeping the Team Together 217

Burnout 218

Family Pressure 219

Interpersonal Conflicts 219

Conclusion 220

■ Your Opportunity Journal 220

■ Web Exercise 220

■ Notes 221

CASE: AJAY BAM 222

7 The Business Planning Process 235

The Planning Process 237

The Story Model 239

The Business Plan 240

The Cover 240

Executive Summary 240

Table of Contents 241

Industry, Customer, and Competitor Analysis 242

Company and Product Description 246

Marketing Plan 246

Operations Plan 250

Development Plan 251

Team 252

Critical Risks 255

Offering 256

Financial Plan 256

Appendices 256

Types of Plans 257

Style Pointers for the Written Plan and Oral

Presentation 258

■ Conclusion 259

■ Your Opportunity Journal 259

■ Web Exercise 259

■ Notes 260

CASE: P'KOLINO 261

8 Building Your Pro-Forma Financial Statements 305

Common Mistakes 306

Financial Statement Overview 307

Building Your Pro-Forma Financial Statements 308

Build-Up Method 308

Revenue Projections 310

Cost of Goods Sold 311

Operating Expenses 311

Preliminary Income Statement 314

Comparable Method 315

Building Integrated Financial Statements 317

Income Statement 318

Balance Sheet 320

Cash-Flow Statement 321

Putting It All Together 322

■ Conclusion 323

■ Your Opportunity Journal 323

■ Web Exercise 324

Notes 324

CASE: P'KOLINO FINANCIALS 325

9 Financing Entrepreneurial Ventures Worldwide 337

Entrepreneurial Financing for the World's Poorest 338

Microfinancing 338

Microcredit for the Poorest of the Poor 339

Entrepreneurs and Informal Investors 340

Amount of Capital Needed to Start a Business

Characteristics of Informal Investors 343

Financial Returns on Informal Investment 345

Supply and Demand for Startup Financing 346

Venture Capital 347

Classic Venture Capital 347

Importance of Venture Capital in the U.S. Economy 350

Mechanism of Venture Capital Investing 352

Financial Returns on Venture Capital 354

Venture Capital in Europe 356

Factors Affecting Availability of Financing 357

Total Entrepreneurial Activity and Informal

Investing 357

Factors Affecting Informal Investing 357

Factors Affecting Classic Venture Capital 357

Conclusion 358

■ Your Opportunity Journal 358

■ Web Exercise 359 was the self-multipopo O printsulsv

Notes 359

CASE: DAYONE 361

10 Raising Money for Starting and Growing **Businesses** 379

Jim Poss, BigBelly Solar 379

Bootstrapping New Ventures 380

Valuation 381

Earnings Capitalization Valuation 381

Present Value of Future Cash Flows 382

Market-Comparable Valuation (Multiple of

Earnings) 382

Asset-Based Valuation 383

Example of Market-Comparable Valuation 383

Asset-Based Valuation Example 385 Financing a New Venture 386 Informal Investors 387 Business Angels 388 Searching for Business Angels 390 Types of Business Angels 391 Putting Together a Round of Angel Investment 392 Venture Capital 393 Candidates for Venture Capital 393 Ideal Candidates for Venture Capital 394 Actual Venture-Capital-Backed Companies 395 Dealing with Venture Capitalists 396 Negotiating the Deal 398 Follow-On Rounds of Venture Capital 398 Harvesting Investments 399 Initial Public Offering 399 Pros and Cons of an IPO 400 The Process of Going Public 402 BFWS Goes Public 404 Selling the Company 404 A Strategic Acquisition: LowerMyBills.com 404 Why Be Acquired? 406 Conclusion 407 ■ Your Opportunity Journal 408 ■ Web Exercise 408 ■ Notes 409 CASE: BLADELOGIC 412

11 Debt and Other Forms of Financing 421

Getting Access to Funds—Start with Internal Sources 421 Start with Credit Cards and Home Equity Lines 422 Cash Conversion Cycle 423 Working Capital: Getting Cash from Receivables and Inventories 424 Using Accounts Receivable as Working Capital 425 The Sales Pattern 426 Cash Versus Credit Sales 426 Credit Policies 426 Setting Credit Terms 427 Collection Policies 428 Setting Credit Limits for Individual Accounts 429 Inventory 430 Sources of Short-Term Cash: More Payables, Less Receivables 431 Cash from Short-Term Bank Loans 431 Cash from Trade Credit 431 Cash Obtained by Negotiating with Suppliers 432 Cash Available Because of Seasonal Business Credit Terms 432 Advantages of Trade Credit 433 Cash Obtained by Tightening Up Accounts Receivable Collections 433 Obtaining Bank Loans Through Accounts Receivable Financing 434 Pledging 434 Pledging with Notification 434 Factoring 434 Recourse 435 Obtaining Loans against Inventory 435

Obtaining "Financing" from Customer Prepayments 435 Choosing the Right Mix of Short-Term Financing 436 Traditional Bank Lending: Short-Term Bank Loans 436 Maturity of Loans 437 Interest Rates 437 Collateral 438 Applying for a Bank Loan 439 Restrictive Covenants 439 General Provisions 439 Routine Provisions 440 Specific Provisions 441 Equipment Financing 441 Obtaining Early Financing from External Sources 442 SBA-Guaranteed Loans 442 Applying for an SBA Loan 442 Planning Cash Flow and Planning Profits 444 Conclusion 444 ■ Your Opportunity Journal 445 ■ Web Exercise 445 Notes 446 CASE: FEED RESOURCE RECOVERY 447

12 Legal and Tax Issues 461

Leaving Your Present Position 462 Corporate Opportunity 462 Recruitment of Fellow Employees 463 Proprietary Information 463 Noncompetition 465 Choosing an Attorney and an Accountant 466 Choice of Legal Form 466 Control 467 Personal Liability 469 Taxation 470 Initial Investment of the Founders 472 Administrative Obligations 474 Choosing a Name 474 Stockholders' and Operating Agreements 475 Negotiating Employment Terms 475 Disposition of Equity Interests 475 Distributions of Company Profits 477 Redemption Provisions 478 Legal and Tax Issues in Hiring Employees 478 Employees as Agents of the Company Employment Discrimination 479 Other Employment Statutes 480 Employment Agreements 480 Equity Sharing 481 Insurance 482 Property Insurance 482 Liability Insurance 482 Key Person Life Insurance 483 Business Interruption Insurance 483 Group Life, Disability, and Health Insurance for Employees 483 Raising Money 483 Legal Issues in the Sale of Securities to Investors 483 ■ Conclusion 485

■ Your Opportunity Journal 485

■ Web Exercise 486

■ Notes 486

CASE: CADENCE DESIGN SYSTEMS AND AVANT! (A) 487

13 Intellectual Property 499

The Basics: What Is Protectable and How Should It Be

Protected? 500

Patents 501

Obtaining a Utility Patent 501

Criteria for Obtaining a Utility Patent 503

Drafting the Patent Claims 504

Provisional Patent Applications 506

Design Patents 506

Managing Patent Costs 506

Trade Secrets 507

Trademarks 510

Registering a Mark 511

Ownership of a Mark 512

Copyright 512

Summing Up 513

International Protection for Intellectual

Property 513

Patent Filing Deadlines 514

How to Extend Patent Filing Deadlines 514

Licensing and Technology Transfer 515

Common Concerns and Clauses 515

Defining the Property Being Licensed 516

Limitations on Licenses 516

Assigning Value to a License 516

Royalty Rates 517

Negotiating License Agreements 517

Foreign Licenses 518

Software Protection 518

Patents for Software 518

Software Copyrights 519

Software Trade Secret Protection 519

The Internet 520

IP Agreements 520

Preparing Employment Contracts 521

Transfer of Employee Rights to Company

Innovations 521

How Employee Moonlighting Might Compromise

Confidentiality 522

Noncompetition Clauses 522

Preventing Employee Raiding 523

Employee Ownership of Copyright 524

Rights of Prior Employees 524

Consultant Contracts 524

Confidential Disclosure Agreements 525

- Conclusion 526
- Your Opportunity Journal 527
- Web Exercise 527
- Notes 527
- CASE: CADENCE DESIGN SYSTEMS AND AVANT! (B) 528

14 Entrepreneurial Growth 531

Making the Transition from Startup to Growth 532

Looking Forward: The Choice to Grow, or Not,...

or Sell 532

A Model of Driving Forces of Growth 534

The Growth Process 535

Execution 535

Instituting Controls 535

Tracking Performance 537

Managing the Cash Cycle 538

Leveraging the Value Chain 540

Maintaining the Entrepreneurial Organization 540

Opportunity Domain 541

Organizational Resources and Capabilities 544

Obtaining Financial Resources for the Growing

Company 544

Intangible Resources and Capabilities 545

Leadership 546

Starting the Delegation Process 547

First-Level Management 548

From Delegation to Decentralization 549

Professional Management and Boards 549

Coordinating the Driving Forces 550

Leading People; Developing Entrepreneurs 550

- Conclusion 551
- Your Opportunity Journal 552
- Web Exercise 553
- Notes 553
- CASE: LAZYBONES 554

15 Social Entrepreneurship: An Overview 563

Definition 564

Imitative Nonprofit Organizations 566

Innovative Nonprofit Organizations 567

Hybrids 568

For-Profits 569

New Forms of Organizations 570

Getting Started 571

Identifying an Opportunity 571

Forming an Organization 573

Securing Resources 575

Evaluating Results 576

Going to Scale 578

- Conclusion 578
- Your Opportunity Journal 579
- Web Exercise 580
- Notes 580
- CASE: EARTHWATCH 583

Glossary 597

Company Index 607

Name Index 611

Subject Index 613