2.0 The Entrepreneurial Process

- Entrepreneur is someone who perceives an opportunity and creates an organization to pursue it.
- The entrepreneurial process involves all the functions, activities, and actions associated with perceiving opportunities and creating organizations to pursue them.

2.1 CRITICAL FACTORS FOR STARTING A NEW ENTERPRISE

- Triggering Event: an event in someone's personal or professional life that pushes someone past the tipping point and starts them down the road to entrepreneurship.
- A majority of entrepreneurs developed their ideas within the field or industry in which they were working prior to starting the new business.
- Serial Entrepreneur – someone who starts multiple businesses over the course of his or her career, often moving from one entrepreneurial endeavor to the next.

2.1.1 Personal Attributes

- Entrepreneurs cannot be distinguished from the population at large when it comes to specific behavioral attributes.
- Entrepreneurs have a higher internal locus of control – they have a stronger desire to control their own fate than non-entrepreneurs.
- The most common reasons cited for starting one's own business are to gain independence, financial success, self-realization, recognition, innovation, and roles (within a family, peer group, etc.).
- The 10 Ds – Characteristics of Successful Entrepreneurs: Dreamers, Decisive, Do-ers, Determined, Dedicated, Devoted, Detail-Oriented, Destiny, Dollars, Distribute.

2.1.2 Environmental Factors

- Some regions, states, and even nations provide a better environment for fostering entrepreneurship than others (e.g., Silicon Valley).
- Role models who are entrepreneurs themselves are also a critical factor in determining someone's likeliness to start his or her own business.

2.1.3 Other Sociological Factors

- Responsibilities to family and community often play a role in the decision to start a business.
- There is a balance between the experience and skepticism of age and the energy and optimism that comes with youth. Some elements of both are required.
- Would-be entrepreneurs must develop estimates of how much sales revenue their company will generate and what level of salary those revenues will be able to sustain.
- An extensive network is incredibly important to a successful new venture, as are the countless free resources available through the government, universities, etc.

2.2 EVALUATING OPPORTUNITIES FOR NEW BUSINESSES

- The eight year survival rate for incorporated start ups is ~50%, but this doesn't mean that 50% of businesses are successful. Many become significant burdens to their owners.
- Venture capitalists have a knack for picking successful companies, but fewer than 1 in every 1000 companies will be attractive to VCs.
- Three crucial components for a successful venture: the opportunity, the entrepreneur/team, and the resources needed to start the company.
- An A team with a B opportunity is better than a B team with an A opportunity.
- Successful entrepreneurship isn't a matter of luck. As the axiom goes, "Luck is where preparation and opportunity meet."

2.2.1 The Opportunity

- One of the greatest misconceptions is that a new business must be unique to be successful.

- Many aspiring entrepreneurs are overly secretive and as a result fail to get important feedback on their ideas.
- The development of the idea and its implementation are what set successful companies apart.

2.2.2 The Customer

- There is no market for a product unless customers have a real need for the product.
- Rather than being truly novel, most new businesses are built on a product that has improved performance, price, distribution, quality or service.

2.2.3 The Timing

- Timing can sometimes be critical, as when a new technology emerges and entrepreneurs fight to be the first established player.
- In contrast, in some markets there will always be a demand for high quality goods and services, as in the restaurant or salon industry.
- If the window will be very brief the opportunity is likely a fad, and as such should be avoided by all but the most experienced of entrepreneurs.

2.2.4 The Entrepreneur and the Management Team

- First and foremost, entrepreneurs should have experience in the industry or a similar one.
- Attracting an equally experienced team is also critical.
- Since a growing company will require management skill, the ideal entrepreneur will have a track record of successfully managing and growing sales and profits at another firm.

2.2.5 Resources

- Successful entrepreneurs are frugal with their scarce resources. They keep overhead low, productivity high, and ownership of capital assets to a minimum.

2.3 DETERMINING RESOURCE NEEDS AND ACQUIRING RESOURCES

- Entrepreneurship almost always involves working with limited resources, and this means entrepreneurs must carefully choose where to allocate their scarce resources.
- Items that are not critical should be obtained as thriftily as possible.
- Subcontracting or outsourcing can be an effective means of stretching available resources.
- In the start up phase, entrepreneurs may find vendors are willing to provide favorable terms to help the company get started and to earn its future business.
- Controlling resources without owning them should be the goal of smart entrepreneurs.

2.3.1 Startup Capital

- Two types of capital: debt and equity.
- Debt allows entrepreneurs to retain full ownership of the company, while equity entails giving ownership to outside investors.
- The vast majority of entrepreneurs start their businesses by investing personal savings.
- Sweat Equity: ownership earned by the entrepreneur in lieu of taking a salary.
- Financing cycle: personal savings and sweat equity, debt or angel capital, venture capital, initial public offering.
- Double Jeopardy: when an entrepreneur has all of his or her personal net worth and salary linked to the start up.

2.4 PROFIT POTENTIAL

- Investors will seek anywhere from a 40% to 60% annual rate of return.

- Many companies will be cash flow negative for an extended period of time before they are finally able to begin generating revenue. This means they must make careful cash flow analyses and financing decisions.
- Free Cash: the cash generated beyond what is needed to purchase assets and keep the company growing.

2.5 INGREDIENTS FOR A SUCCESSFUL NEW BUSINESS

- A successful business should focus on niche markets.
- Nine Fs for Entrepreneurial Success: Founders, Focused, Fast, Flexible, Forever Innovating, Flat, Frugal, Friendly, Fun.
- Entrepreneurs can succeed because the rate of change in business is constantly increasing and big corporations can't keep up.
- Entrepreneurial firms are great innovators, and big corporations increasingly turn to small companies for new ideas.
- Entrepreneurial companies are also often more productive than the corporate giants.
- More than anything else you need happy customers, happy employees, and happy suppliers.

2.6 CONCLUSION

2.7 YOUR OPPORTUNITY JOURNAL

2.8 WEB EXERCISE