It all started in a sustainable supply chain management class at Michigan State University. Sam Hogg, an MBA student, started thinking about the waste plastic gift cards create. The class challenged Hogg and his classmates to think about the path that a product travels from inception to disposal. Gift cards are made, sold, redeemed, and are then immediately discarded—a wasteful supply chain. In fact, according to Plenty, a leading sustainable periodical, about 75 million pounds of them go into landfills every year.\(^1\)

Largely as result of his experience in this class, in November 2008, roughly eight months after he earned his MBA, Hogg launched GiftZip.com, an online gift card aggregation site. The site allows people to buy electronic gift cards from popular retailers like Amazon.com, Target, Bass Pro Shops, and Pottery Barn. All are delivered in ways that address Hogg’s sustainability concerns. For example, if you log onto GiftZip.com and click on the Pottery Barn icon, you’re sent to Pottery Barn’s gift card site. There, you can buy a gift card for between $25 and $250, and it’s delivered via e-mail or Facebook. You can also select from Pottery Barn’s choices for the design of the card, or upload your own design. The card will be electronically delivered to the recipient within hours, with a message saying it came from you. The recipient can then take the e-mail or Facebook voucher and redeem it on Pottery Barn’s Web site or in a Pottery Barn store.

Hogg gives his MBA program at Michigan State credit for helping him formulate his business model. In particular, a marketing professor influenced his thinking about how to display the cards on his site. The professor suggested that consumers are more likely to buy a product when given multiple choices, even if those choices sit next to competing brands. GiftZip.com is strictly a pass-through site, meaning that it doesn’t process transactions. Instead, when you click on a retailer’s emblem, you’re “passed through” to the retailer’s Web site where you place your order. GiftZip.com receives an affiliate fee for purchases that originate from its site. GiftZip.com’s value

**LEARNING OBJECTIVES**

After studying this chapter you should be ready to:

1. Explain entrepreneurship and discuss its importance.
2. Describe corporate entrepreneurship and its use in established firms.
3. Discuss three main reasons people decide to become entrepreneurs.
4. Identify four main characteristics of successful entrepreneurs.
5. Explain the five common myths regarding entrepreneurship.
6. Explain how entrepreneurial firms differ from salary-substitute and lifestyle firms.
7. Discuss the changing demographics of entrepreneurs in the United States.
8. Discuss the impact of entrepreneurial firms on economies and societies.
9. Identify ways in which large firms benefit from the presence of smaller entrepreneurial firms.
10. Explain the entrepreneurial process.
added is that it provides a single place for people to search for gift cards. It also divides gift cards into categories such as Apparel, Gourmet, Family, and Sporting Goods. This approach allows searchers to see gift card choices that they might not have known about otherwise.

Signing up retailers was the biggest challenge Hogg confronted in making GiftZip.com a success. He made cold calls and got hung up on repeatedly. A breakthrough in his thinking was that he didn’t have to convince an entire company, like Amazon.com, to participate on his site, just the person in the company that had the say so regarding gift cards. He found that once he got one company signed up in an industry, it was much easier to get others. He almost gave up several times when the going was tough. He found that perseverance is a necessary quality for successful entrepreneurs.

Hogg feels he got a little lucky in that GiftZip.com had perfect timing. At the time he launched, which was fall 2008, three things were happening in his favor: (1) the gift card market was growing, (2) people were becoming increasingly comfortable buying online, and (3) it was becoming increasingly more affordable to launch an online business. All of these factors continue to evolve in GiftZip.com’s favor.

Another thing Hogg feels has benefited his business is positive PR, which has been generated in part by the fact that he originated his business idea while in college. GiftZip.com has been recognized twice by Entrepreneur magazine, for example. It was recognized in March 2009 in an article titled “The Gift Card Economy.” The article highlighted several companies in the gift card industry, and drew attention to the fact that Hogg came up with the idea for GiftZip.com while a student at Michigan State University. The other mention was in June 2009, when GiftZip.com was designated one of America’s “10 Hot Startups” to watch.

GiftZip.com appears to have substantial potential. The gift card industry is expected to top $100 billion in 2012, and is continuing to gain momentum.2

In this first chapter of your book about the successful launching of an entrepreneurial firm, we define entrepreneurship and discuss why some people decide to become entrepreneurs. We then look at successful entrepreneurs’ characteristics, the common myths surrounding entrepreneurship, the different types of start-up firms, and the changing demographics of entrepreneurs in the United States and in nations throughout the world. We then examine entrepreneurship’s importance, including the economic and social impact of new firms as well as the importance of entrepreneurial firms to larger businesses. To close this chapter, we introduce you to the entrepreneurial process. This process, which we believe is the foundation for successfully launching a start-up firm, is the framework we use to present the book’s materials to you.

INTRODUCTION TO ENTREPRENEURSHIP

There is tremendous interest in entrepreneurship around the world. Although this statement may seem bold, there is evidence supporting it, some of which is provided by the Global Entrepreneurship Monitor (GEM). GEM, which is a joint research effort by Babson College, London Business School, and Universidad del Desarrollo, Santiago, Chile, tracks entrepreneurship in 59 countries, including the United States. Of particular interest to GEM is early stage entrepreneurial activity, which consists of businesses that are just being started and businesses that have been in existence for less than three and one-half years. The 2010 survey shows, in the countries analyzed, some 110 million
people between 18 and 64 years old just starting businesses, and another 140 million running businesses they started less than three and one-half years ago. Taken together, some 250 million people were involved in early entrepreneurial activity in the 59 countries included in the study. A sample of the rate of early-stage entrepreneurial activity in countries included in the GEM study is shown in Table 1.1. While the highest rates of entrepreneurial start-up activities occur in low-income countries, where good jobs are not plentiful, the rates are also impressive in high-income countries like France (5.8 percent), United Kingdom (6.4 percent), and the United States (7.6 percent). What the 7.6 percent means for the United States is that almost 1 out of every 13 American adults is actively engaged in starting a business or is the owner/manager of a business that is less than three and one-half years old.3

The GEM study also identifies whether its respondents are starting a new business to take advantage of an attractive opportunity or because of necessity to earn an income. The majority of people in high-income countries are drawn to entrepreneurship to take advantage of attractive opportunities. The reverse is true of people in low-income countries, who tend to be drawn to entrepreneurship primarily because of necessity (resulting from a lack of career prospects).4

One criticism of entrepreneurship, which is often repeated in the press, is that the majority of new businesses fail. It simply isn’t true. The often used statistic that 9 out of 10 businesses fail in their first few years is an exaggeration. According to Brian Headd, an economist for the U.S. Small Business Administration, after four years 50 percent of new businesses are still open, 33 percent have failed, and 17 percent are closed but were considered to be successful by their owners.5 While overall these figures are heartening, the 33 percent of start-ups that fail show that a motivation to start and run a business isn’t enough; it must be coupled with a solid business idea, good financial management, and effective execution to maximize chances for success. In this book, we’ll discuss many examples of entrepreneurial firms and the factors separating successful new ventures from unsuccessful ones.

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent of Population Starting a New Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>14.2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>17.5%</td>
</tr>
<tr>
<td>China</td>
<td>14.4%</td>
</tr>
<tr>
<td>France</td>
<td>5.8%</td>
</tr>
<tr>
<td>Germany</td>
<td>4.2%</td>
</tr>
<tr>
<td>Peru</td>
<td>27.2%</td>
</tr>
<tr>
<td>Russia</td>
<td>3.9%</td>
</tr>
<tr>
<td>Turkey</td>
<td>8.6%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6.4%</td>
</tr>
<tr>
<td>United States</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

Many people see entrepreneurship as an attractive career path. Think about your friends and others you know. In all probability, you are acquainted with at least one or two people who want to become an entrepreneur—either now or at some point in the future. The number of books dealing with starting one’s own business is another indication entrepreneurship is growing in popularity. Amazon.com, for example, currently lists over 35,600 books and other items dealing with entrepreneurship and over 62,700 books concerned with small businesses.

**What Is Entrepreneurship?**

The word *entrepreneur* derives from the French words *entre*, meaning “between,” and *prendre*, meaning “to take.” The word was originally used to describe people who “take on the risk” between buyers and sellers or who “undertake” a task such as starting a new venture. Inventors and entrepreneurs differ from each other. An inventor creates something new. An entrepreneur assembles and then integrates all the resources needed—the money, the people, the business model, the strategy, and the risk-bearing ability—to transform the invention into a viable business. Entrepreneurship is defined as the process by which individuals pursue opportunities without regard to resources they currently control. Others such as venture capitalist Fred Wilson define it more simply, seeing entrepreneurship as the art of turning an idea into a business. In essence, an entrepreneur’s behavior finds him or her trying to identify opportunities and putting useful ideas into practice. The tasks called for by this behavior can be accomplished by either an individual or a group and typically require creativity, drive, and a willingness to take risks. Sam Hogg, the cofounder of GiftZip.com, exemplifies all these qualities. Hogg saw an opportunity to create a single place for people to shop for electronic gift cards, he risked his career by passing up alternatives to work on GiftZip.com full-time, and he’s now working hard to put GiftZip.com in a position to deliver a creative and useful service to its customers.

In this book, we focus on entrepreneurship in the context of an entrepreneur or team of entrepreneurs launching a new business. However, ongoing firms can also behave entrepreneurially. Typically, established firms with an entrepreneurial emphasis are proactive, innovative, and risk-taking. For example, Apple Inc. is widely recognized as a firm in which entrepreneurial behaviors are clearly evident. Steve Jobs is at the heart of Apple’s entrepreneurial culture. With his ability to persuade and motivate others’ imaginations, Jobs continues to inspire Apple’s employees as they develop innovative product after innovative product. To consider the penetration Apple has with some of its innovations, think of how many of your friends own an iPhone, iPad, or Macintosh computer. Similarly, studying Facebook or Zynga’s ability to grow and succeed reveals a history of entrepreneurial behavior at multiple levels within the firms. In addition, many of the firms traded on the NASDAQ, such as Intuit, Amazon.com, Google, and Research In Motion are commonly thought of as entrepreneurial firms. The NASDAQ is the largest U.S. electronic stock market, with over 2,850 companies listed on the exchange.

We want to note here that established firms with an orientation to acting entrepreneurially practice corporate entrepreneurship. All firms fall along a conceptual continuum that ranges from highly conservative to highly entrepreneurial. The position of a firm on this continuum is referred to as its entrepreneurial intensity. As we mentioned previously, entrepreneurial firms are typically proactive innovators and are not averse to taking calculated risks. In contrast, conservative firms take a more “wait and see” posture, are less innovative, and are risk averse.

One of the most persuasive indications of entrepreneurship’s importance to an individual or to a firm is the degree of effort undertaken to behave in an
entrepreneurial manner. Firms with higher entrepreneurial intensity regularly look for ways to cut bureaucracy. For example, Virgin Group, the large British conglomerate, works hard to keep its units small and instill in them an entrepreneurial spirit. Virgin is one of the most recognized brands in Britain and is involved in businesses as diverse as airlines and music. In the following quote, Sir Richard Branson, the founder and CEO of Virgin, describes how his company operates in an entrepreneurial manner:

Convention . . . dictates that “big is beautiful,” but every time one of our ventures gets too big we divide it up into smaller units. I go to the deputy managing director, the deputy sales director, and the deputy marketing director and say, “Congratulations. You’re now MD [managing director], sales director and marketing director—of a new company.” Each time we’ve done this, the people involved haven’t had much more work to do, but necessarily they have a greater incentive to perform and a greater zeal for their work. The results for us have been terrific. By the time we sold Virgin Music, we had as many as 50 subsidiary record companies, and not one of them had more than 60 employees.13

Why Become an Entrepreneur?

The three primary reasons that people become entrepreneurs and start their own firms are to be their own boss, pursue their own ideas, and realize financial rewards.

**Be Their Own Boss** The first of these reasons—being one’s own boss—is given most commonly. This doesn’t mean, however, that entrepreneurs are difficult to work with or that they have trouble accepting authority. Instead, many entrepreneurs want to be their own boss because either they have had a long-time ambition to own their own firm or because they have become frustrated working in traditional jobs. The type of frustration that some entrepreneurs feel working in conventional jobs is exemplified by Wendy DeFeudis, the founder of VeryWendy, a company that makes customized social invitations. Commenting on how her experiences working for herself have been more satisfying than working for a large firm, DeFeudis remarked:

I always wanted to be my own boss. I felt confined by the corporate structure. I found it frustrating and a complete waste of time—a waste to have to sell my ideas to multiple people and attend all kinds of internal meetings before moving forward with a concept.14

Sometimes the desire to be their own boss results from a realization that the only way they’ll achieve an important personal or professional goal is to start their own business. Christopher Jones, David LaBat, and Mary McGrath started a business for this reason. The three, who are educational psychologists, had secure jobs at a public school in the Santa Clarita Valley, north of Los Angeles. Over time, they felt inhibited by the limited range of services they were able to provide students in a school setting, so they left their jobs to start Dynamic Interventions, a more full-service educational psychology and counseling center. Recalling why it was necessary for him and his colleagues to leave their jobs to become their own bosses Jones said:

The idea came from some general frustrations with not being able to practice the breadth of service that [we wanted to]. And instead of going to work and being angry about it for the next 30 years, we decided to do something about it. With Dynamic Interventions, our service doesn’t stop at the end of the school day. We can go more in-depth and be more beneficial to the whole family.”15
Pursue Their Own Ideas  The second reason people start their own firms is to pursue their own ideas. Some people are naturally alert, and when they recognize ideas for new products or services, they have a desire to see those ideas realized. Corporate entrepreneurs who innovate within the context of an existing firm typically have a mechanism for their ideas to become known. Established firms, however, often resist innovation. When this happens, employees are left with good ideas that go unfulfilled. Because of their passion and commitment, some employees choose to leave the firm employing them in order to start their own business as the means to develop their own ideas.

This chain of events can take place in noncorporate settings, too. For example, some people, through a hobby, leisure activity, or just everyday life, recognize the need for a product or service that is not available in the marketplace. If the idea is viable enough to support a business, they commit tremendous time and energy to convert the idea into a part-time or full-time firm. In Chapters 2 and 3, we focus on how entrepreneurs spot ideas and determine if their ideas represent viable business opportunities.

An example of a person who left a job to pursue an idea is Kevin Mann, the founder of Graphic.ly, a social digital distribution platform for comic book publishers and fans. Mann became discouraged when he couldn’t find a comic book in which he was interested. He even took a 100 mile train ride to search for it in a neighboring city. His frustration boiled over on the train ride home:

I kept thinking that there had to be a better way of buying comics; and then it dawned on me. That morning I had purchased a movie from iTunes, which I was watching right there on the train. Why shouldn’t buying comics be just as easy? Why did I have to travel over a 100 miles and waste the better part of day, all for nothing? I realized I had two options. I could quit buying comics or I could quit my job and build the iTunes of comics.

This revelation led to the launch of Graphic.ly in the fall of 2009. Today, Graphic.ly is both a robust platform for the sale of digital comics and a social
network for people who enjoy discussing the comics they're reading. Following up on the story about the train ride, Mann went on to say:

That’s how Graphic.ly started and my enthusiasm for comics has now transferred to a business I love being part of. Every single day I am excited to go to work. I get to create and innovate in a sector I love. Ultimately, I’ll solve a problem that was ruining something very special to me.¹⁹

Pursue Financial Rewards  Finally, people start their own firms to pursue financial rewards. This motivation, however, is typically secondary to the first two and often fails to live up to its hype. The average entrepreneur does not make more money than someone with a similar amount of responsibility in a traditional job. The financial lure of entrepreneurship is its upside potential. People such as Jeff Bezos of Amazon.com, Mark Zuckerberg of Facebook, and Larry Page and Sergey Brin of Google made hundreds of millions of dollars building their firms. Money is also a unifier. Making a profit and increasing the value of a company is a solidifying goal that people can rally around. But money is rarely the primary motivation behind the launch of an entrepreneurial firm. Some entrepreneurs even report that the financial rewards associated with entrepreneurship can be bittersweet if they are accompanied by losing control of their firm. For example, Sir Richard Branson, after selling Virgin Records, wrote, “I remember walking down the street [after the sale was completed]. I was crying. Tears . . . [were] streaming down my face. And there I was holding a check for a billion dollars. . . . If you’d have seen me, you would have thought I was loony. A billion dollars.”²⁰ For Branson, it wasn’t just the money—it was the thrill of building the business and of seeing the success of his initial idea.

Characteristics of Successful Entrepreneurs

Although many behaviors have been ascribed to entrepreneurs, several are common to those who are successful. Those in new ventures and those who are already part of an entrepreneurial firm share these qualities, which are shown in Figure 1.1 and described in the following section.

Passion for the Business   The number one characteristic shared by successful entrepreneurs is a passion for their business, whether it is in the context of a new firm or an existing business. This passion typically stems from the entrepreneur’s belief that the business will positively influence people’s lives. This is the case with PatientsLikeMe, the subject of Case 1.2, which is a company that allows people with life-changing diseases to converse with one another, share their experiences, and learn techniques from one another that help them better cope with their diseases. Making a difference in people’s lives is also the primary motivator behind many social enterprises, which are often started by people who set aside promising careers to pursue a social goal. This was the case with John Wood, who founded Room to Read, and is the author of the book Leaving Microsoft to Change the World. Wood’s deep passion to help children in the developing world caused him to start cashing in small amounts of Microsoft stock to buy books and build schools, even before he left the company. In excerpts from a 2007 interview published by Forbes magazine, Wood said:

During my travels, I met so many children in the poorest parts of the world, lacking access to school, books, and libraries, that I began cashing in small amounts of stocks to help them. Two hundred shares of Microsoft stock was enough to build an entire school in rural Nepal.²¹
Wood eventually left Microsoft to work on Room to Read full-time. As of May 2011, Room to Read had built over 1,440 schools and distributed over 9.4 million books in developing parts of the world.

Passion is particularly important for both for-profit and not-for-profit entrepreneurial organizations because, although rewarding, the process of starting a firm or building a social enterprise is demanding. There are five primary reasons passion is important, as reflected in Table 1.2. Each of these reasons reflects a personal attribute that passion engenders. Removing just one of these qualities would make it much more difficult to launch and sustain a successful entrepreneurial organization.

### Table 1.2 Five Primary Reasons Passion Is Important for the Launch of a Successful Entrepreneurial Organization

<table>
<thead>
<tr>
<th>Reason Passion Is Important</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The ability to learn and iterate</td>
<td>Founders don’t have all the answers. It takes passion and drive to solicit feedback, make necessary changes, and move forward. The changes won’t always be obvious. Passion makes the search for the right answers invigorating and fun.</td>
</tr>
<tr>
<td>2. A willingness to work hard for an extended period of time</td>
<td>Commonly, entrepreneurs work longer hours than people with traditional jobs. You can only do that, on a sustained basis, if you’re passionate about what you’re doing.</td>
</tr>
<tr>
<td>3. Ability to overcome setbacks and “no’s”</td>
<td>It’s rare that an entrepreneur doesn’t experience setbacks and hear many “no’s” from potential customers, investors, and others while building an entrepreneurial business or social enterprise. The energy to continue comes from passion for an idea.</td>
</tr>
<tr>
<td>4. The ability to listen to feedback on the limitations of your organization and yourself</td>
<td>You’ll meet plenty of people along the way—some with good intentions and some without—who will tell you how to improve your organization and how to improve yourself. You have to be willing to listen to the people with good intentions and make changes if it helps. You have to be able to brush aside feedback from people with bad intentions without letting them get you down.</td>
</tr>
<tr>
<td>5. Perseverance and persistence when the going gets tough</td>
<td>Perseverance and persistence come from passion. As an entrepreneur, you’ll have down days. Building an entrepreneurial organization is fraught with challenges. Passion is what provides an entrepreneur the motivation to get through tough times.</td>
</tr>
</tbody>
</table>

A note of caution is in order here: While entrepreneurs should have passion, they should not wear rose-colored glasses. It would be a mistake to believe that all one needs is passion and anything is possible. It is important to be enthusiastic about a business idea, but it is also important to understand its potential flaws and risks. In addition, entrepreneurs should understand that the most effective business ideas take hold when their passion is consistent with their skills and is in an area that represents a legitimate business opportunity.

To illustrate the importance of passion, as well as other factors that are critical in determining a firm’s success or failure, we include a boxed feature titled “What Went Wrong?” in each chapter. The feature for this chapter shows how YouCastr, an online platform that people used to provide live commentary for sporting events, ultimately failed in part because its founders were not able to remain passionate about their business idea.

**Product/Customer Focus** A second defining characteristic of successful entrepreneurs is a **product/customer focus**. This quality is exemplified by Steven Jobs, the cofounder of Apple Inc., who wrote, “The computer is the most remarkable tool we’ve ever built . . . but the most important thing is to get them in the hands of as many people as possible.” This sentiment underscores an understanding of the two most important elements in any business—products and customers. While it’s important to think about management, marketing, finance, and the like, none of those functions makes any difference if a firm does not have good products with the capability to satisfy customers.

It’s also important to focus on the right things. For example, JibJab is a digital entertainment company, which was founded in 1999 by Evan and Gregg Spiridellis. It gained attention during the 2004 presidential election when its animated video of George W. Bush and John Kerry singing “This Land Is Your Land” became a hit. (It’s been viewed on YouTube over 2.1 million times.) The goal of the company, from the start, was to build a scalable platform for creating and distributing digital entertainment products. A problem the founders had was they were really good animated content creators, so would get offers to do side jobs while working on their core business. They learned they needed to be disciplined and quit doing this because it took time away from their real passion:

> You need to be disciplined. You need to turn down jobs. You need to say, ‘I could really use that $50,000 gig, but if we do that, we’re going to be locked down for three months and we’re not going to be able to do these other projects.’ So it does require discipline and passing on opportunities. Knowing what to pass on is a really important skill we developed.

A product/customer focus also involves the diligence to spot product opportunities and to see them through to completion. The idea for the Apple Macintosh, for example, originated in the early 1980s when Steven Jobs and several other Apple employees took a tour of a Xerox research facility. They were astounded to see computers that displayed graphical icons and pull-down menus. The computers also allowed users to navigate desktops using a small, wheeled device called a mouse. Jobs decided to use these innovations to create the Macintosh, the first user-friendly computer. Throughout the two and one-half years the Macintosh team developed this new product, it maintained an intense product/customer focus, creating a high-quality computer that is easy to learn, is fun to use, and meets the needs of a wide audience of potential users.

**Tenacity Despite Failure** Because entrepreneurs are typically trying something new, the failure rate associated with their efforts is naturally high. In addition, the process of developing a new business is somewhat similar to what
How a Lack of Passion and Too Few Customers Can Kill a Business

The idea for YouCastr was hatched in mid-2006, during a road trip involving Ariel Diaz, Jay Peak, and Jeff Dwyer. Throughout the ride, the friends bounced business ideas off each other. One idea stuck. How about creating a platform that people could use to provide live commentary for sporting events? It would be fun, the friends thought, for people to watch a sporting event, like a high school football game, and stream their own live commentary across the Web.

Diaz shared the idea with Jeff Hebert, a friend, and within a couple of months he, Hebert, Peak, and Dwyer started building an alpha version of the site. Initially, each member of the group kept his day job, working on the idea, which they dubbed YouCastr, on nights and weekends. Eventually, each quit his job, and the four spent the next three years raising money, opening an office, hiring people, getting YouCastr up and running and pivoting the business. (A pivot is when a business changes course.) Often, start-ups iterate or pivot based on user feedback. YouCastr started as a virtual sports bar where people could chime in audio commentary on televised sporting events. That approach didn’t stick. It then pivoted to focusing on enabling people to provide commentary on sporting events that weren’t televised, like high school football games. Its final pivot was to expand beyond sports, mainly by de-emphasizing the sports branding on its Web site, by adding a few features geared more toward video producers than ordinary sports enthusiasts.

All this time, YouCastr’s revenue model called for the firm to take a commission on the sales its site generated. Each person who used the site to provide live commentary of a sporting event would sign up listeners who would pay a small fee to listen to the event.

Ultimately, YouCastr didn’t work. In a blog post about YouCastr’s failure, Diaz provided five reasons that YouCastr failed, three of which involved either a lack of passion or an absence of customers.

First, the company ran out of money. Despite operating in a very lean manner, toward the end there simply wasn’t enough money to continue operating. Second, the market was not there. The underlying assumption of YouCastr’s business model is that people would pay for audio and video commentary of sporting events that weren’t covered on radio or TV. As it turned out, not enough people wanted it. YouCastr did find some narrow markets where people would pay, such as high school sports, some boxing matches, and some mixed martial arts events. But these markets weren’t large enough to build a sustainable company. Third, the team was ready to move on. The four cofounders started YouCastr because they wanted to do something entrepreneurial—not because they loved broadcasting or loved sports. They weren’t the core users of their own product. This made it hard to sustain effort when things got tough. Fourth, they saw no light at the end of the tunnel. They’d guessed wrong about people’s willingness to pay to listen to live broadcasts of sporting events, and didn’t see any prospects that would change. Finally, three and a half years after that car ride, it was time to call it quits. Although the founders considered themselves to be survivors, they made the tough decision to shut things down and move on.

Questions for Critical Thinking

1. Why do you think Ariel Diaz and his cofounders didn’t realize that they were starting a business that they weren’t really passionate about? Should that have been a warning sign to them? Describe what you believe are the keys to ensuring that a person is truly passionate about a business idea before moving forward with the idea.

2. Why is passion such a critical component of entrepreneurial success? If people are willing to work hard and dedicate themselves, do you think they can build a successful business without being passionate about their business idea?

3. How could YouCastr’s cofounders have better anticipated that people would be reluctant to pay to listen to or watch sporting events that weren’t being covered on radio or TV?

4. Do you think YouCastr could have been saved? If so, how?

An example of the degree of tenacity it sometimes takes to launch a successful firm is provided by Kyle Smitley, the founder of barley & birch, a business that sells organic children’s clothing. Smitley launched barley & birch in January 2009, at age 22, with the goal of giving parents and children the most environmentally friendly clothing possible. Despite having flawless credit, she was turned down at every bank she approached. She finally received a $10,000 loan from ACCION, a microfinance organization. She next embarked on a major marketing campaign, sending 500 hand-signed letters with literature about her products to environmentally friendly stores. That effort fell flat. She finally reached out to mom bloggers, who spread the word about her company, and motivated their readers to start asking about barley & birch products at children’s clothing stores. By the end of 2009, Smitley’s products were in 30 stores. Only sheer tenacity and will prevented Smitley from giving up before she reached this critical milestone.

Two additional examples of tenacity are provided in the boxed feature titled “Savvy Entrepreneurial Firm.” In each chapter, this feature will provide an illustration of the exemplary behavior of one or more entrepreneurial firms or will provide an example of a tool or technique that well-managed entrepreneurial firms use to improve their performance.

**Execution Intelligence** The ability to fashion a solid idea into a viable business is a key characteristic of successful entrepreneurs. Commonly, this ability is thought of as **execution intelligence**. In many cases, execution intelligence is the factor that determines whether a start-up is successful or fails. An ancient Chinese saying warns, “To open a business is very easy; to keep it open is very difficult.”

The ability to effectively execute a business idea means developing a business model, putting together a new venture team, raising money, establishing partnerships, managing finances, leading and motivating employees, and so on. It also demands the ability to translate thought, creativity, and imagination into action and measurable results. As Jeff Bezos, the founder of Amazon.com once said, “Ideas are easy. It’s execution that’s hard.” For many entrepreneurs, the hardest time is shortly after they launch their firm. This reality was expressed by Jodi Gallaer, the founder of a lingerie company, who said, “The most challenging part of my job is doing everything for the first time.”

To illustrate solid execution, let’s look at Starbucks. Although Starbucks is not growing as fast and profitably as it once did, it is still a remarkable success story. The business idea of Howard Schultz, the entrepreneur who purchased Starbucks in 1987, was his recognition of the fact that most Americans didn’t have a place to enjoy coffee in a comfortable, quiet setting. Seeing a great opportunity to satisfy customers’ needs, Schultz attacked the marketplace aggressively to make Starbucks the industry leader and to establish a national brand. First, he hired a seasoned management team, constructed a world-class roasting facility to supply his outlets with premium coffee beans, and focused on building an effective organizational infrastructure. Then Schultz recruited a management information systems expert from McDonald’s to design a point-of-sale system capable of tracking consumer purchases across 300 outlets. This decision was crucial to the firm’s ability to sustain rapid growth over the next several years. Starbucks succeeded because Howard Schultz knew how to execute a business idea.

He built a seasoned management team, implemented an effective strategy, and used information technology wisely to make his business thrive. These fundamental aspects of execution excellence should serve Schultz and Starbucks when it comes to dealing with the competitive challenges facing the firm in 2011 and beyond. In contrast to what Schultz has accomplished at Starbucks, the cost of ignoring execution is high, as explained by Bob Young, the founder of several entrepreneurial firms. When asked “What was your hardest lesson
Most everyone is familiar with Angry Birds, the video game in which players use a slingshot to launch birds at pigs stationed on or within various structures. The goal is to destroy all the pigs on the playfield. Inspired by a sketch of stylized wingless birds, the game was first released for the Apple iPhone in December 2009. Since then it has been widely popular and its creator, Finland-based Rovio Mobile, has created versions of Angry Birds for the Android operating system and other platforms. While it’s hard to know for sure why Angry Birds has been such a success, it’s been praised for its successful combination of addictive game play, comical style, and low price (99 cents per download). Across all platforms, Angry Birds has been downloaded more than 100 million times, making it one of the most successful electronic games in history. In fact, the birds in the game, outfitted with different colors and destructive capability, have become cultural icons. They have been made into plush toys, which sell for $12 to $15 each, and Rovio Mobile is thinking about creating a children’s cartoon series focused on the birds. Impressive, isn’t it? The company behind Angry Birds, Rovio Mobile, was started in 2003 by three students, Niklas Hed, Jarno Vakevainen, and Kim Dikert, from Helsinki University of Technology (now called Aalto University School of Science and Technology) in Finland. While still in school, the three entered a mobile game development contest sponsored by Nokia and HP. Their entry, a multiplayer game named “King of the Cabbage World,” won the contest, which prompted the three to start a company to make mobile games. Incredibly, from 2003 until 2009, Rovio Mobile produced 51 electronic games, none of which were a hit. Angry Birds was its 52nd release. To say that the three entrepreneurs were persistent is a true understatement!

The same year Rovio Mobile started, Jason Donahue and Ben Rubin, two students at Brown University, launched Zeo, formerly known as Axon Labs. Looking for ways to fight grogginess and help people feel more alert, Donahue and Rubin found that the stage of sleep from which a person awakens has a major effect on how that person feels during the day. So Zeo was launched to help people track the quality of their sleep and awaken at the ideal time. To do this, Zeo created an alarm clock and related accessories that monitor sleep states. The state of sleep is detected by a headband that the user wears while sleeping. A bedside base unit monitors the state of sleep and awakens the sleeper during the last light sleep before the desired waking time. A complementary personal sleep coaching service, in the form of a Web-based platform, helps users measure and analyze their sleep patterns, and makes recommendations for how to improve the quality of their sleep.

The Zeo system is dependent on both software and hardware, both of which were built from scratch by Donahue and Rubin. An initial prototype was built, and the two then started cold-calling entrepreneurs in their area who had built a physical product to get their advice on how to proceed. One person they targeted was Colin Angle, the CEO of iRobot, the maker of the popular Roomba robotic vacuum cleaner. Getting Angle on the phone wasn’t easy. Donahue and Rubin called a number of times and got to know Angle’s secretary. They were repeatedly told he wasn’t available, but were polite, and always asked if it was okay to call again. One day, while driving home from a meeting, they tried again and boom—their call was put through. They got five minutes of Angle’s attention and convinced him to meet with them. Angle eventually became a Zeo adviser and then a board member, and was instrumental in introducing Donahue and Rubin to Chinese manufacturers who now produce the hardware portion of Zeo’s products. Donahue and Rubin have publicly commented that Zeo wouldn’t have been possible without Angle’s involvement and advice.

Questions for Critical Thinking

1. Contrast Rovio Mobile with YouCastr, the company featured in this chapter’s “What Went Wrong” feature. Why do you think Rovio Mobile survived and is now thriving while YouCastr failed?
2. Why do you think Angry Birds has been so successful?
3. Do you think you’d be able to “hang in there” as long as the founders of Rovio Mobile did? Would you have been able to keep picking up the phone and calling Colin Angle’s office, even after being repeatedly told he wasn’t available? What are the keys to remaining “tenacious” when things take longer than planned?
4. Although the case doesn’t provide specific information to help you answer these questions, give them a stab anyway. Why do you think the founders of Rovio Mobile stuck with their company as long as they did? Wouldn’t it have made perfect sense for them to throw in the towel before they got to release number 52, which turned out to be Angry Birds? Similarly, why do you think Donahue and Rubin kept calling Colin Angle?

CHAPTER 1 ■ INTRODUCTION TO ENTREPRENEURSHIP

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or biggest mistake?” Young replied, “In my first two businesses, my interest was always in ‘the new thing,’ so I wasn’t paying attention to details. As a result of my lack of interest in getting the repetitive stuff right, we never achieved the profitability we should have.”

Common Myths About Entrepreneurs

There are many misconceptions about who entrepreneurs are and what motivates them to launch firms to develop their ideas. Some misconceptions are because of the media covering atypical entrepreneurs, such as a couple of college students who obtain venture capital to fund a small business that they grow into a multimillion-dollar company. Such articles rarely state that these entrepreneurs are the exception rather than the norm and that their success is a result of carefully executing an appropriate plan to commercialize what inherently is a solid business idea. Indeed, the success of many of the entrepreneurs we study in each chapter’s Opening Profile is a result of carefully executing the different aspects of the entrepreneurial process. Let’s look at the most common myths and the realities about entrepreneurs.

Myth 1: Entrepreneurs are born, not made. This myth is based on the mistaken belief that some people are genetically predisposed to be entrepreneurs. The consensus of many hundreds of studies on the psychological and sociological makeup of entrepreneurs is that entrepreneurs are not genetically different from other people. This evidence can be interpreted as meaning that no one is “born” to be an entrepreneur and that everyone has the potential to become one. Whether someone does or doesn’t is a function of environment, life experiences, and personal choices. However, there are personality traits and characteristics commonly associated with entrepreneurs; these are listed in Table 1.3. These traits are developed over time and evolve from an individual’s social context. For example, studies show that people with parents who were

You might describe an entrepreneur as an independent thinker, an innovator, or perhaps a risk taker. These young entrepreneurs are passionate enough to work at a hectic pace if that’s what it takes to get their company up and running. Consider Mark Zuckerberg, who was so enthused about the future of Facebook that he dropped out of Harvard University to pursue his vision.
After witnessing a father’s or mother’s independence in the workplace, an individual is more likely to find independence appealing. Similarly, people who personally know an entrepreneur are more than twice as likely to be involved in starting a new firm as those with no entrepreneur acquaintances or role models. The positive impact of knowing an entrepreneur is explained by the fact that direct observation of other entrepreneurs reduces the ambiguity and uncertainty associated with the entrepreneurial process.

**Myth 2: Entrepreneurs are gamblers.** A second myth about entrepreneurs is that they are gamblers and take big risks. The truth is, entrepreneurs are usually moderate risk takers, as are most people. The idea that entrepreneurs are gamblers originates from two sources. First, entrepreneurs typically have jobs that are less structured, and so they face a more uncertain set of possibilities than managers or rank-and-file employees. For example, an entrepreneur who starts a social network consulting service has a less stable job than one working for a state governmental agency. Second, many entrepreneurs have a strong need to achieve and often set challenging goals, a behavior that is sometimes equated with risk taking.

**Myth 3: Entrepreneurs are motivated primarily by money.** It is naïve to think that entrepreneurs don’t seek financial rewards. As discussed previously, however, money is rarely the primary reason entrepreneurs start new firms and persevere. The importance and role of money in a start-up is put in perspective by Colin Angle, the founder and CEO of iRobot, the maker of the popular Roomba robotic vacuum cleaner. Commenting on his company’s mission statement Angle said:

> Our, “Build Cool Stuff, Deliver Great Products, Have Fun, Make Money, Change the World” (mission statement) kept us (in the early days of the Company) unified with a common purpose while gut-wrenching change surrounded us. It reminded us that our goal was to have fun and make money. Most importantly, it reminded us that our mission was not only to make money, but to change the world in the process.

Some entrepreneurs warn that the pursuit of money can be distracting. Media mogul Ted Turner said, “If you think money is a real big deal . . .

### TABLE 1.3 Common Traits and Characteristics of Entrepreneurs

<table>
<thead>
<tr>
<th>A moderate risk taker</th>
<th>Optimistic disposition</th>
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<tbody>
<tr>
<td>A networker</td>
<td>Persuasive</td>
</tr>
<tr>
<td>Achievement motivated</td>
<td>Promoter</td>
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<td>Alert to opportunities</td>
<td>Resource assembler/leverager</td>
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<tr>
<td>Creative</td>
<td>Self-confident</td>
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<td>Decisive</td>
<td>Self-starter</td>
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<tr>
<td>Energetic</td>
<td>Tenacious</td>
</tr>
<tr>
<td>A strong work ethic</td>
<td>Tolerant of ambiguity</td>
</tr>
<tr>
<td>Lengthy attention span</td>
<td>Visionary</td>
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you'll be too scared of losing it to get it.”^39 Similarly, Sam Walton, commenting on all the media attention that surrounded him after he was named the richest man in America by Forbes magazine in 1985, said:

Here’s the thing: money never has meant that much to me, not even in the sense of keeping score. . . . We’re not ashamed of having money, but I just don’t believe a big showy lifestyle is appropriate for anywhere, least of all here in Bentonville where folks work hard for their money. We all know that everyone puts on their trousers one leg at a time. . . . I still can’t believe it was news that I get my hair cut at the barbershop. Where else would I get it cut? Why do I drive a pickup truck? What am I supposed to haul my dogs around in, a Rolls-Royce?^40

**Myth 4: Entrepreneurs should be young and energetic.** Entrepreneurial activity is fairly evenly spread out over age ranges. According to an Index of Entrepreneurial Activity maintained by the Kauffman Foundation, 26 percent of entrepreneurs are ages 20 to 34, 25 percent are ages 35 to 44, 25 percent are ages 45 to 54, and 23 percent are ages 55 to 64. The biggest jump, by far, from 1996 to 2010, which is the period the Kauffman date covers, is the 55 to 64 age bracket. A total of 14 percent of entrepreneurs were 55 to 64 years old in 1996, compared to 23 percent in 2010. The increasing number of older-aged entrepreneurs is a big change in the entrepreneurial landscape in the United States.^41

Although it is important to be energetic, investors often cite the strength of the entrepreneur (or team of entrepreneurs) as their most important criterion in the decision to fund new ventures. In fact, a sentiment that venture capitalists often express is that they would rather fund a strong entrepreneur with a mediocre business idea than fund a strong business idea and a mediocre entrepreneur. What makes an entrepreneur “strong” in the eyes of an investor is experience in the area of the proposed business, skills and abilities that will help the business, a solid reputation, a track record of success, and passion about the business idea. The first four of these five qualities favor older rather than younger entrepreneurs.

**Myth 5: Entrepreneurs love the spotlight.** Indeed, some entrepreneurs are flamboyant; however, the vast majority of them do not attract public attention. In fact, many entrepreneurs, because they are working on proprietary products or services, avoid public notice. Consider that entrepreneurs are the source of the launch of many of the 2,850 companies listed on the NASDAQ, and many of these entrepreneurs are still actively involved with their firms. But how many of these entrepreneurs can you name? Perhaps a half dozen? Most of us could come up with Bill Gates of Microsoft, Jeff Bezos of Amazon.com, Steve Jobs of Apple Inc., Mark Zuckerberg of Facebook and maybe Larry Page and Sergey Brin of Google. Whether or not they sought attention, these are the entrepreneurs who are often in the news. But few of us could name the founders of Netflix, Twitter, or GAP even though we frequently use these firms’ products and services. These entrepreneurs, like most, have either avoided attention or been passed over by the popular press. They defy the myth that entrepreneurs, more so than other groups in our society, love the spotlight.

**Types of Start-Up Firms**

As shown in Figure 1.2, there are three types of start-up firms: salary-substitute firms, lifestyle firms, and entrepreneurial firms.
**Salary-substitute firms** are small firms that yield a level of income for their owner or owners that is similar to what they would earn when working for an employer. Dry cleaners, convenience stores, restaurants, accounting firms, retail stores, and hairstyling salons are examples of salary-substitute firms. The vast majority of small businesses fit into this category. Salary-substitute firms offer common, easily available products or services to customers that are not particularly innovative.

**Lifestyle firms** provide their owner or owners the opportunity to pursue a particular lifestyle and earn a living while doing so. Lifestyle firms include ski instructors, golf and tennis pros, wine bars, and tour guides. These firms are not innovative, nor do they grow quickly. Commonly, lifestyle companies promote a particular sport, hobby, or pastime and may employ only the owner or just a handful of people. Tahoe Trips & Trails, owned by Hanna Sullivan, is an example of a lifestyle firm. The company leads multiday outdoor adventure trips for private groups and corporate clients to Lake Tahoe, Yosemite, Death Valley, Jackson Hole, and similar locations. Sullivan left a prestigious job with Freemont Ventures, a private investment company, to start Tahoe Trips & Trails because it better accommodates her preferred lifestyle.

**Entrepreneurial firms** bring new products and services to market. As we noted earlier in this chapter, the essence of entrepreneurship is creating value and then disseminating that value to customers. In this context, value refers to worth, importance, or utility. Entrepreneurial firms bring new products and services to market by creating and then seizing opportunities. Google, Facebook, and Zynga are well-known, highly successful examples of entrepreneurial firms. Having recognized an opportunity, the entrepreneurs leading companies of this type create products and services that have worth, that are important to their customers, and that provide a measure of usefulness to their customers that they wouldn’t have otherwise.

Next, we describe the newly emerging characteristics of today’s entrepreneurs. You may be surprised to learn about the types of individuals who are choosing to become entrepreneurs! While reading these characteristics, think about people you know who are accurately described by these characteristics. Do you think any of these people will choose to become entrepreneurs?

**CHANGING DEMOGRAPHICS OF ENTREPRENEURS**

Over the past 10 years, the demographic makeup of entrepreneurial firms has changed in the United States and around the world. Of the 27.5 million businesses in the United States, women, minorities, seniors, and young people own an increasingly larger number of them. This is an exciting development for the entrepreneurial sector of the U.S. economy.
Women Entrepreneurs  While men are still more likely to start businesses than women, the number of women-owned businesses is increasing. According to the U.S. Census Bureau, there were 6.5 million privately held women-owned firms in the United States in 2002, the most recent year the U.S. Census Bureau collected ownership data. These firms generated an estimated $940 billion in sales and employed 7.1 million people. The number of women-owned firms increased by 19.8 percent from 1997 to 2002, compared with a growth rate of 10.3 percent for United States firms overall.44

According to a survey of both women-owned and men-owned businesses in the United States, the average age of the individuals who lead women-owned firms is 44.7 years old. A total of 52.7 percent of women-owned firms are home-based, 31.9 percent are multi-owner firms, and 19.5 percent were started for less than $2,000. The top industry for women-owned business is retail (19 percent) followed by professional, management, and educational services (16.3 percent).45 Women-owned firms still trail male-owned businesses in terms of sales and profits. The average women-owned firm has annual sales of $60,264 and annual profits of $14,549, compared to annual sales of $118,987 and profits of $30,373 for male-owned businesses.46

There are a growing number of groups that support and advocate for women-owned businesses. An example is Count Me In (www.makemineamillion.org), which is the leading national not-for-profit provider of resources, business education, and community support for women entrepreneurs.47

Minority Entrepreneurs  There has been a substantial increase in minority entrepreneurs in the United States from 1996 to 2010. The biggest jump has come in Latino entrepreneurs, which increased from 11 percent to 23 percent from 1996 to 2010, followed by Asian entrepreneurs, which jumped from 4 percent to 6 percent during the same period. While these numbers are encouraging, in general the firms created by minority entrepreneurs lag behind averages for all firms in terms of economic indicators. The Kauffman Foundation is one group that is actively engaged in research to not only track the growth in minority entrepreneurs, but to better understand how to
strengthen the infrastructures and networks to enable minority entrepreneurs to reach higher levels of financial success.48

Similar to women entrepreneurs, an important factor facilitating the growth of minority entrepreneurs is the number of organizations that promote and provide assistance. Examples include the Latin Business Association, Black Business Association, National Indian Business Association, The National Council of Asian American Business Associations, and the Minority Business Development Agency, which is part of the United States Department of Commerce.

**Senior Entrepreneurs** The increase in entrepreneurial activity among senior entrepreneurs, consisting of people 55 years and older, between 1996 and 2010 is substantial (from 14 percent to 23 percent). This increase is attributed to a number of factors, including corporate downsizing, an increasing desire among older workers for more personal fulfillment in their lives, and growing worries among seniors that they need to earn additional income to pay for future health care services and other expenses. Many people in the 55 and older age range have substantial business experience, financial resources that they can draw upon, and excellent vigor and health.

There are a number of interesting statistics associated with the increasing incidence of senior entrepreneurs. For example, 39 is now the average age of the founders of technology companies in the United States, with twice as many over age 50 as under age 25. Similarly, the steady increase in life expectancy means that Americans are not only living longer, but are living healthier longer, and are likely to remain engaged in either a job or an entrepreneurial venture longer in their lives than earlier generations.49

**Young Entrepreneurs** Interestingly, a drop in new entrepreneurial activity for people in the 20 to 34 age range occurred between 1996 and 2010 (from 35 percent in 1996 to 26 percent in 2010); nonetheless, the number of young people interested in entrepreneurship remains strong. At the high school and younger level, according to a Harris Interactive survey of 2,438 individual ages 8 to 21, 40 percent said they’d like to start their own business someday. A total of 59 percent of the 8- to 21-year-olds said they know someone who has started his or her own business.50 The teaching of entrepreneurship courses is becoming increasingly common in both public and private high schools. Not-for-profit agencies are involved in these efforts too. The Network for Teaching Entrepreneurship (NFTE), for example, provides entrepreneurship education programs to young people from low-income communities. The organization’s largest annual event is called “Lemonade Day” and is held each May. In 2011, over 120,000 kids attended one-day entrepreneurial training sessions in 31 cities. The program teaches children and teens how to borrow money and repay investors who help start their stands, and what to do with the profit, including donating some to nonprofit causes.51 Since its founding, the NFTE has reached more than 300,000 young people, and currently has programs in 21 states and 10 foreign countries.52

In addition to the NFTE, a growing number of colleges and universities are offering entrepreneurship-focused programs for high school students. Babson College, for example, offers three Summer Study Programs for high school students. The first two programs, Babson Entrepreneur Development Experience and Babson Idea Generation Program, are resident programs for high school students entering their junior or senior year. Members of the Babson faculty teach in these programs; each program last seven weeks. The third program, Service Learning Experience, is a nonresident program for high school sophomores who are passionate about social outreach.53

On college campuses, interest in entrepreneurship education is at an all-time high, as will be described throughout this book. More than 2,000
colleges and universities in the United States, which is about two-thirds of the total, offer at least one course in entrepreneurship. Although the bulk of entrepreneurship education takes place within business schools, many other colleges and departments are offering entrepreneurship courses as well—including engineering, agriculture, theater, dance, education, law, and nursing.

**ENTREPRENEURSHIP’S IMPORTANCE**

Entrepreneurship’s importance to an economy and the society in which it resides was first articulated in 1934 by Joseph Schumpeter, an Austrian economist who did the majority of his work at Harvard University. In his book *The Theory of Economic Development*, Schumpeter argued that entrepreneurs develop new products and technologies that over time make current products and technologies obsolete. Schumpeter called this process **creative destruction**. Because new products and technologies are typically better than those they replace and the availability of improved products and technologies increases consumer demand, creative destruction stimulates economic activity. The new products and technologies may also increase the productivity of all elements of a society.54

The creative destruction process is initiated most effectively by start-up ventures that improve on what is currently available. Small firms that practice this art are often called “innovators” or “agents of change.” The process of creative destruction is not limited to new products and technologies; it can include new pricing strategies (e.g., Netflix in DVDs), new distribution channels (such as e-books for books), or new retail formats (such as IKEA in furniture and Whole Foods Market in groceries).

Now let’s look more closely at entrepreneurship’s importance.

**Economic Impact of Entrepreneurial Firms**

For two reasons, entrepreneurial behavior has a strong impact on an economy’s strength and stability.

**Innovation** is the process of creating something new, which is central to the entrepreneurial process.55 According to a 2010 Small Business Administration report, small firms (fewer than 500 employees) are providers of a significant share of the innovations that take place in the United States. In addition, several studies funded by the Office of Advocacy for the Small Business Administration have found that small businesses outperform their larger counterparts in terms of patent activity (issuance).56

**Job Creation** Small businesses are the creators of most new jobs in the United States, and employ more than half of all private sector employees.57 Small business is held in high regard in this area. According to a Kauffman Foundation survey, 92 percent of Americans say entrepreneurs are critically important to job creation. A total of 75 percent believe that the United States cannot have a sustained economic recovery without another burst of entrepreneurial activity.58

The statistics are persuasive regarding the importance of small business to job growth. From 1980 to 2005, firms less than five years old accounted for all net job growth in the United States.59 Collectively, new firms add an average of 3 million jobs to the U.S. economy during their first year, while older companies lose 1 million jobs annually.60
Entrepreneurial Firms’ Impact on Society

The innovations of entrepreneurial firms have a dramatic impact on society. Think of all the new products and services that make our lives easier, enhance our productivity at work, improve our health, and entertain us. For example, Amgen, an entrepreneurial firm that helped pioneer the biotechnology industry, has produced a number of drugs that have dramatically improved people’s lives. An example is NEUPOGEN, a drug that decreases the incidence of infection in cancer patients who are undergoing chemotherapy treatment. In addition to improved health care, consider smartphones, social networks, Internet shopping, overnight package delivery, and digital photography. All these products are new to this generation, yet it’s hard to imagine our world without them.

However, innovations do create moral and ethical issues with which societies are forced to grapple. For example, bar-code scanner technology and the Internet have made it easier for companies to track the purchasing behavior of their customers, but this raises privacy concerns. Similarly, bioengineering has made it easier to extend the shelf life of many food products, but some researchers and consumers question the long-term health implications of bioengineered foods.

Entrepreneurial Firms’ Impact on Larger Firms

In addition to the impact that entrepreneurial firms have on the economy and society, they also have a positive impact on the effectiveness of larger firms. For example, some entrepreneurial firms are original equipment manufacturers, producing parts that go into products that larger firms manufacture and sell. Thus, many exciting new products, such as smartphones, digital cameras, and improved prescription drugs, are not solely the result of the efforts of larger companies with strong brand names, such as Samsung, Canon, and Johnson & Johnson. They were produced with the cutting-edge component parts or research and development efforts provided by entrepreneurial firms.

The evidence shows that many entrepreneurial firms have built their entire business models around producing products and services that help larger firms be more efficient or effective. For example, an increasing number of U.S. firms are competing in foreign markets. These initiatives often require firms to employ translators to help them communicate with their foreign counterparts. SpeakLike, a 2008 start-up, has created an online service that provides real-time translation services for two or more people who speak different languages, at a cost considerably below what it costs to employ human translators. Similarly, Equipois, a 2007 start-up and the focus of the “You Be the VC 3.2” feature, sells mechanical arms that hold objects such as heavy tools as if they were weightless while allowing them to be maneuvered by tradesmen doing precise work such as riveting fuselages and grinding metal. Equipois’s products, which are used primarily by large firms in factory settings, increase productivity and help reduce manufacturing-related injuries.

In many instances, entrepreneurial firms partner with larger companies to reach mutually beneficial goals. Participation in business partnerships accelerates a firm’s growth by giving it access to some of its partner’s resources, managerial talent, and intellectual capacities. We examine the idea of partnering throughout this book. In each chapter, look for the boxed feature titled “Partnering for Success,” which illustrates how entrepreneurial firms use business partnerships to boost their chances for success. The feature in this chapter discusses how small biotechnology firms and large drug companies partner with one another to bring pharmaceutical products to market.
THE ENTREPRENEURIAL PROCESS

The entrepreneurial process we discuss in this book consists of four steps:

**Step 1** Deciding to become an entrepreneur

**Step 2** Developing successful business ideas

**Step 3** Moving from an idea to an entrepreneurial firm

**Step 4** Managing and growing the entrepreneurial firm

Figure 1.3 models the entrepreneurial process you will study while reading this text. This process is the guide or framework around which we develop this book's contents. The double-headed arrow between the decision to become an entrepreneur and the development of successful business ideas indicates that sometimes the opportunity to develop an idea prompts a person to become an entrepreneur. Each section of Figure 1.3 is explained in the following sections.
Decision to Become an Entrepreneur (Chapter 1)

As discussed earlier, people become entrepreneurs to be their own bosses, to pursue their own ideas, and to realize financial rewards. Usually, a triggering event prompts an individual to become an entrepreneur. For example, an individual may lose her job and decide that the time is right to start her own business. Or a person might receive an inheritance and for the first time in his life have the money to start his own company. Lifestyle issues may also trigger entrepreneurial careers. For example, a woman may wait until her youngest child is in school before she decides to launch her own entrepreneurial venture.

Developing Successful Business Ideas (Chapters 2–6)

Many new businesses fail not because the entrepreneur didn’t work hard but because there was no real opportunity to begin with. Developing a successful business idea includes opportunity recognition, feasibility analysis, writing a business plan, industry analysis, and the development of an effective business model. Chapter 2 takes a scientific look at how entrepreneurs recognize opportunities and describes how the opportunity recognition process typically unfolds. Chapter 3 focuses on feasibility analysis: the way to determine whether
an idea represents a viable business opportunity. Chapter 4 describes how to write a business plan. A business plan is a written document that describes all the aspects of a business venture in a concise manner. It is usually necessary to have a written business plan to raise money and attract high-quality business partners. Some entrepreneurs are impatient and don’t want to spend the time it takes to write a business plan. This approach is usually a mistake. Writing a business plan forces an entrepreneur to think carefully through all the aspects of a business venture. It also helps a new venture establish a set of milestones that can be used to guide the early phases of the business rollout. Industry and competitor analysis is our concern in Chapter 5. Knowing the industry in which a firm will choose to compete is crucial to an entrepreneur’s success. Chapter 6 focuses on the important topic of developing an effective business model. A firm’s business model is its plan for how it competes, uses its resources, structures its relationships, interfaces with customers, and creates value to sustain itself on the basis of the profits it generates.

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

The first step in turning an idea into reality is to prepare a proper ethical and legal foundation for a firm, including selecting an appropriate form of business ownership. These issues are discussed in Chapter 7. Chapter 8 deals with the important topic of assessing a new venture’s financial strength and viability. Important information is contained in this chapter about completing and analyzing both
historical and pro forma financial statements. Chapter 9 focuses on building a new-venture team. Chapter 10 highlights the important task of getting financing or funding and identifies the options that a firm has for raising money.

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

Given today’s competitive environment, all firms must be managed and grown properly to ensure their ongoing success. This is the final stage of the entrepreneurial process.

Chapter 11 focuses on the unique marketing issues facing entrepreneurial firms, including selecting an appropriate target market, building a brand, and the four Ps—product, price, promotion, and place (or distribution)—for new firms. Chapter 12 examines the important role of intellectual property in the growth of entrepreneurial firms. More and more, the value of “know-how” exceeds the value of a company’s physical assets. In addition, we will talk about protecting business ideas through intellectual property statutes, such as patents, trademarks, copyrights, and trade secrets.

Preparing for and evaluating the challenges of growth is the topic of Chapter 13. We’ll look at the characteristics and behaviors of successful growth firms. In Chapter 14, we’ll study strategies for growth, ranging from new product development to mergers and acquisitions. We conclude with Chapter 15, which focuses on franchising. Not all franchise organizations are entrepreneurial firms, but franchising is a growing component of the entrepreneurial landscape. When you finish studying these 15 chapters, you will have been exposed to all components of the entrepreneurial process—a process that is vital to entrepreneurial success.

CHAPTER SUMMARY

1. Entrepreneurship is the process by which individuals pursue opportunities without regard to resources they currently control.
2. Corporate entrepreneurship is the conceptualization of entrepreneurship at the organizational level. Entrepreneurial firms are proactive, innovative, and risk taking. In contrast, conservative firms take a more “wait and see” posture, are less innovative, and are risk averse.
3. The three primary reasons that people decide to become entrepreneurs and start their own firms are as follows: to be their own boss, to pursue their own ideas, and to realize financial rewards.
4. Passion for the business, product/customer focus, tenacity despite failure, and execution intelligence are the four primary characteristics of successful entrepreneurs.
5. The five most common myths regarding entrepreneurship are that entrepreneurs are born, not made; that entrepreneurs are gamblers; that entrepreneurs are motivated primarily by money; that entrepreneurs should be young and energetic; and that entrepreneurs love the spotlight.
6. Entrepreneurial firms are the firms that bring new products and services to market by recognizing and seizing opportunities regardless of the resources they currently control. Entrepreneurial firms stress innovation, which is not the case for salary-substitute and lifestyle firms.
7. The demographic makeup of those launching entrepreneurial firms is changing in the United States and around the world. There is growing evidence that an increasing number of women, minorities, seniors, and young people are becoming actively involved in the entrepreneurial process.
8. There is strong evidence that entrepreneurial behavior has a significant impact on economic
stability and strength. The areas in which entrepreneurial firms contribute the most are innovation and job creation. Entrepreneurial behavior also has a dramatic impact on society. It’s easy to think of new products and services that have helped make our lives easier, that have made us more productive at work, that have improved our health, and that have entertained us in new ways.  

9. In addition to the impact that entrepreneurial firms have on an economy and society, entrepreneurial firms have a positive impact on the effectiveness of larger firms. There are many entrepreneurial firms that have built their entire business models around producing products and services that help larger firms increase their efficiency and effectiveness.  

10. The four distinct elements of the entrepreneurial process, pictured in Figure 1.3, are deciding to become an entrepreneur, developing successful business ideas, moving from an idea to establishing an entrepreneurial firm, and managing and growing an entrepreneurial firm.

KEY TERMS

- business model, 25
- business plan, 25
- corporate entrepreneurship, 6
- creative destruction, 21
- entrepreneurial firms, 18
- entrepreneurial intensity, 6
- entrepreneurship, 6
- execution intelligence, 13
- innovation, 21
- lifestyle firms, 18
- moderate risk takers, 16
- passion for their business, 9
- product/customer focus, 11
- salary-substitute firms, 18
- triggering event, 24
- value, 18

REVIEW QUESTIONS

1. Increasingly, entrepreneurship is being practiced in countries throughout the world. Why do you think this is the case? Do you expect entrepreneurship to continue to spread throughout the world, or do you think its appeal will subside over time?  
2. What key insights does the GEMS study provide us about entrepreneurship?  
3. What evidence is available suggesting that the often reported statistic that 9 out of 10 new businesses fail is an exaggeration? What is a more realistic failure rate for new firms?  
4. What is entrepreneurship? How can one differentiate an entrepreneurial firm from any other type of firm? In what ways is an entrepreneur who just launched a restaurant different from someone who just took a job as the general manager of a restaurant owned by a major restaurant chain?  
5. What are the three main attributes of firms that pursue high levels of corporate entrepreneurship? Would these firms score high or low on an entrepreneurial intensity scale?  
6. What are the three primary reasons people become entrepreneurs? Which reason is given most commonly? Which reason best describes why you may choose to become an entrepreneur?  
7. Some people start their own firms to pursue financial rewards. However, these rewards are often far fewer than imagined and/or expected. Why is this so?  
8. What are the four primary traits and characteristics of successful entrepreneurs?  
9. Why is passion such an important characteristic of successful entrepreneurs? What is it about passion that makes it particularly compatible with the entrepreneurial process?  
10. Why is a product/customer focus an important characteristic of successful entrepreneurs?  
11. What is it about “tenacity” that makes it such an important characteristic for entrepreneurs?  
12. What are the five common myths of entrepreneurship?  
13. What evidence do we have that debunks the myth that entrepreneurs are born, not made?
14. What are the four distinctive parts of the entrepreneurial process and what is the relationship among the parts?  

15. How would you characterize the risk-taking propensity of most entrepreneurs?  

16. What factors favor older entrepreneurs as opposed to younger entrepreneurs?  

17. What did Joseph Schumpeter mean by the term *creative destruction*?  

18. In general, what effects does entrepreneurship have on economies around the world?  

19. How is the demographic makeup of entrepreneurs changing in the United States? What do you believe is accounting for these changes?  

20. Describe several examples of the impact that entrepreneurial firms have on a society.

**APPLICATION QUESTIONS**

1. Reread the opening case, and then list all the smart or effective moves Sam Hogg made in the early days of building GiftZip.com. Which three moves were most instrumental in GiftZip.com’s early success? Be prepared to justify your selections.  

2. Imagine that you’re the dean of your college and you’ve suggested that more entrepreneurship courses be taught throughout your college’s curriculum. You’re getting resistance from some professors who think that entrepreneurship is a fad. Make the argument that entrepreneurship isn’t a fad and is an extremely important topic.  

3. Select one of the following large firms: Cessna Aircraft Company, Tempur-Pedic, or Corning Incorporated. Familiarize yourself with the company. Assess how entrepreneurial the firm is, based on the definitions of corporate entrepreneurship and entrepreneurial intensity provided in the chapter.  

4. Karen Jenkins has a good job working for the city of Rapid City, South Dakota, but is weary of 2 percent (or less) per year pay raises. Because she has read magazine articles about young entrepreneurs becoming extremely wealthy, she decides to start her own firm. Do you think Karen is starting a firm for the right reason? Do you think the money she likely will earn will disappoint her? Do you think Karen’s reason for starting a firm will contribute in a positive manner or a negative manner to the tenacity that is required to successfully launch and run an entrepreneurial venture?  

5. Mark, a friend of yours, has always had a nagging desire to be his own boss. He has a good job with AT&T but has several ideas for new products that he can’t get AT&T interested in. Mark has done a good job saving money over the years and has over $100,000 in the bank. He asks you, “Am I crazy for wanting to leave AT&T to start my own businesses? How do I know that I have what it takes to be a successful entrepreneur?” What would you tell him?  

6. Make a list of 10 prominent entrepreneurs who are women, minorities, or seniors (55 years or older when their firms were started). Single out one of these entrepreneurs and provide a brief overview of her or his entrepreneurial story. What did you learn about entrepreneurship by familiarizing yourself with this person’s story?  

7. People are sometimes puzzled by the fact that entrepreneurs who have made millions of dollars still put in 60- to 80-hour weeks helping their companies innovate and grow. After reading the chapter, why do you think millionaire and multimillionaire entrepreneurs still get up and go to work every day? If you were one of these entrepreneurs, do you think you would feel the same way? Why or why not?  

8. Identify a successful entrepreneur that you admire and respect. (It can be someone that is nationally prominent or someone you know personally, such as a family member or a friend.) Briefly describe the person you identified, the company that he or she started, and the manner in which the individual exemplifies one or more of the four characteristics of a successful entrepreneur.  

9. You just made a trip home and are visiting with your dad. He is 59 years old and has spent the past 12 years working in various management positions for Target. Prior to that, he served 20 years in the U.S. Marine Corps. Your father has always
loved to fish and has several ideas for new fishing tackle and gear. He’s made several prototypes of his ideas and has received positive feedback from other fishermen. He wonders if he is too old to start a firm and if his management experience and his military background will help him or hurt him in a new-venture context. If your dad asked you for your advice, what would you tell him?

10. Make a list of 10 prominent entrepreneurs who post frequently on Twitter. Also, make a list of five prominent entrepreneurship-related blogs. Is it a good use of a student entrepreneur’s time to follow prominent entrepreneurs on Twitter and/or read entrepreneurship-related blogs?

11. Jacob Lacy is an undergraduate student at a Big 12 school. He has an idea to start an Internet-based firm that will help high school students prepare for college entrance exams. Jacob just talked to a trusted family friend, who told him that college is a poor time and place to launch a firm. The family friend told Jacob, “Try to distance yourself from the college atmosphere before you start your firm.” Do you think Jacob is getting good advice? Why or why not?

12. The “You Be the VC 1.2” feature focuses on Songkick, a company that has created a single place for music lovers to track or keep up with their favorite bands, so they’ll always know where and when the bands will be performing in their area. Do some research on Songkick and write a short summary of where the firm is today in regard to its early success (or failure) and how effectively it has executed its business plan.

13. A friend of yours just bought a Samsung smartphone equipped with the Android operating system. While showing it to you, he said, “You think entrepreneurial firms are so smart, look at what Samsung has done. It has produced a smartphone that allows me to make calls, take pictures, run apps, surf the Internet, and perform dozens of other tasks. Samsung’s a big company, not a small entrepreneurial firm. What do you have to say to that?” If you were to defend the role of entrepreneurial firms in developing new technologies, how would you respond?

14. Read Case 1.1, which focuses on RunKeeper. What similarities, if any, do you see between RunKeeper’s start-up story and the start-up stories of Rovio Mobile (the company behind Angry Birds) and Zeo, the two firms featured in the “Savvy Entrepreneurial Firm” boxed feature in the chapter?

15. Spend some time familiarizing yourself with the following student-founded firms: GiftZip.com (www.giftzip.com), Morphology (www.morphologygames.com), and XploSafe (www.xplosafe.com). Classify each firm as a salary-substitute, lifestyle, or entrepreneurial firm. Justify your classifications.

YOU BE THE VC 1.1

Company: Windspire Energy

Web: www.windspire.com
Twitter: WindspireEnergy
Facebook: Windspire

Business Idea: Manufacture an efficient, quiet, and sleek wind power turbine that both businesses and home owners can use to harness the power of the wind to produce electricity.

Pitch: Although wind power is clean and increasingly cost-competitive, it is largely confined to large wind farms in rural areas. The primary obstacle to building windmills in more densely populated areas is the “not-in-my-backyard” sentiment. This sentiment arises from the large scale of most wind-powered devices, the noise and shadows that are created, and the height of traditional windmills, which normally exceed local zoning requirements.

Windspire’s mission is to make wind power available to businesses and home owners by avoiding these complications. The company has invented and is selling a
low-cost, attractive, plug-n-produce wind power appliance that can fit within the aesthetic schemes of many business and residential environments. The appliance, called the Windspire, doesn’t look like a traditional windmill or wind generator. It is 30 feet tall by 4 feet wide, ultra quiet, and is distinguished by its sleek propeller-free design. The sleek profile allows customers to easily scale up the number of turbines to meet higher energy needs. An individual unit is priced at $9,000 to $12,000 fully installed. After tax credits, the cost can be as low as $3,800, much lower than comparable wind turbines and other alternative energy options.

To make the Windspire more palatable for business and residential environments, it is manufactured with a corrosion-resistant soft silver paint that can be repainted in any color. At 30 feet (which is equivalent to a three-story building), it is below typical residential and urban zoning requirements and its uniquely slender vertical axis design allows it to operate with a low speed ratio, which makes it quiet and more visible to birds. In a business setting, several Windspires clustered together can be visually appealing and can display a company’s commitment to environmental stewardship. Like other sources of wind power, a Windspire generates clean, renewable energy that doesn’t require the burning of fossil fuels.

Windspire is sold in a “kit” form and includes everything that is needed except the concrete foundation. Maintenance is limited to oiling the bearings, which are 9 feet off the ground, once a year. The 1.2 kilowatt (or 1,200 watts) Windspire will produce approximately 2,000 kilowatt hours per year in 12 mile per hour average wind. This amount of electricity is sufficient to supply roughly 25 to 30 percent of the power needed for an average house. A household that spends $3,600 a year on electricity could recoup its investment in Windspire in just over five years.

Windspire turbine units are sold through local authorized dealers and siting experts.

Q&A: Based on the material covered in this chapter, what questions would you ask the firm’s founders before making your funding decision? What answers would satisfy you?

Decision: If you had to make your decision on just the information provided in the pitch and on the company’s Web site, would you fund this company? Why or why not?

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**YOU BE THE VC 1.2**

**Company: Songkick**

**Web:** www.songkick.com  
**Twitter:** Songkick  
**Facebook:** Songkick

**Business Idea:** Create a single place for music lovers to track or keep up with their favorite bands, so they’ll always know where and when the bands will be performing in their area. In addition, create an online platform for concert attendees to record memories of the concerts they’ve seen by sharing anecdotes, posting photos, and discussing the events with other people who were there.

**Pitch:** Songkick’s founders believe that an amazing concert can change a person’s life. Too often, however, people miss seeing their favorite bands because they didn’t realize the bands would be in their area. Concert goers try to avoid this problem by subscribing to venue mailing lists, checking band Web sites, and sifting through generic concert newsletters. This is a clumsy process and doesn’t assure music fans that they won’t miss a concert they’d like to see.

Songkick offers a solution to this problem. Songkick indexes 132 different ticket vendors, venue Web sites, and local newspapers to create the most comprehensive database of upcoming concerts available. Its mission is to know about every concert that’s happening in every location—from an indie band playing at a local bar to Coldplay playing Madison Square Garden. Songkick then pushes this information to its users. Users can track the performers they like, and Songkick will send them a personalized concert alert when those performers announce a tour date in their area. If a user has lots of bands he or she wants to track, artists can be tracked in bulk via Songkick’s iTunes application, Last.fm import, or by importing their Facebook likes.

It doesn’t stop here. Songkick’s Web site is a destination for music lovers, with lots of useful and fun information. Users can check out the popular artists that are on tour. Songkick develops a profile for each member, based on their musical tastes, and recommends local concerts that align with their preferences. A particularly novel thing that Songkick has done, which took a full year to accomplish, is to assemble a list of over 1 million concerts stretching back to the 1960s, and set up a discussion forum for each concert. Now
people who saw the Beatles on August 15, 1965, for example, at their famous concert at Shea Stadium in New York City can reminisce and share memories about that event.

Songkick is completely free to the user. The firm earns money via commissions on concert tickets that are purchased through its site.

CHAPTER 1
INTRODUCTION TO ENTREPRENEURSHIP

Q&A: Based on the material covered in this chapter, what questions would you ask the firm’s founders before making your funding decision? What answers would satisfy you?

Decision: If you had to make your decision on just the information provided in the pitch and on the company's Web site, would you fund this company? Why or why not?

CASE 1.1
RunKeeper: Combining a Passion for Running and Technology to Build an Incredibly Successful Business

Web: www.runkeeper.com
Twitter: runkeeper
Facebook: RunKeeper

Bruce R. Barringer, Oklahoma State University
R. Duane Ireland, Texas A&M University

Introduction
In early 2008, Jason Jacobs was actively looking for a business idea to pursue. He knew he wanted to start his own business—he just didn’t know what that business would be. Anticipating the need for start-up funds, he lived like a bootstrap entrepreneur, even though he had a good job. He was trying to save at least two years of living expenses to support himself when he settled on a business to start.

Trying to settle on a business idea was frustrating for Jacobs. He looked at clean tech, enterprise software, and several other alternatives, but nothing resonated. He got so frustrated that he started training for a marathon as a way to clear his head. While training for the marathon he tried several of the devices that were available at the time to time and track practice runs, including GPS-enabled watches and the Nike+iPod device. Although the devices worked, he found preparing for the marathon to be a fragmented experience. Different devices offered different features, but none tied the whole experience of training and running together. Jacobs had his business idea.

He would create a company that would combine his passions for running and technology, and build a Web-based platform that would allow runners to integrate the hardware devices they were running with a Web-based platform that would provide them analytics, coaching, running-related tips, and social support. In this sense, Jacobs’s business idea created a “turnkey” operation for runners interested in tracking their progress.

Getting Started
After a brief period of indecision, Jacobs quit his job to focus on his business idea full-time. He remembers thinking, “Now you’ve got your idea and you’re going to work on it nights and weekends in a coffee shop—are you kidding me?” He started asking around about people who might help him get started. He met three guys who were willing to moonlight to help him get his project off the ground at a much lower cost. He didn’t bite, thinking that if he was going to commit full-time he didn’t want to hitch his wagon to people who were only in it part-time. He then became acquainted with a two-man development shop that listened to his idea and asked him if he’d thought about building an iPhone app. That thought had never occurred to Jacobs, but sounded like a great idea. The iPhone app store was set to debut on July 12, 2008, in just a few months, and the two developers had just received a development license from Apple. They hadn’t built an app yet but were eager to try, and offered Jacobs a deal if he could pay for their first development effort. Jacobs knew he could go back to the three moonlighters to get the Web site side of the business built. So in Jacobs’s mind, the business that was taking shape was to build an iPhone app, with the help of the (continued)
two developers, that would time and track a runner's runs, along with a Web-based platform, built by the three moonlighters, that would take data from the app and provide runners analytics, coaching, social support, etc., regarding their most recent runs and their entire running programs.

Jacobs now had a six-person team—himself, the two-man development shop, and the three moonlighters working on his business idea. The six held weekly meetings during the development process, and as unorthodox of a structure as it was, it worked well. Both sides delivered on time, and the system was put together and was ready to go for the launch of the iPhone app store.

Doubters, Good Press, and Execution Intelligence

When Jacobs talked to others about what his team was building, there were plenty of doubters. The biggest source of skepticism focused on whether people would actually run with their iPhone. To Jacobs this was a no brainer. The iPod was a perfect analog. Just two versions earlier, the iPod was nearly as big as the iPhone, and people ran with their iPods. Still, the doubters remained unconvinced. Another source of skepticism was Jacobs’s team. He was literally his company’s only full-time employee, yet he was about to debut a high-profile app in the new iPhone app store. Generally, the problem with using contract employees rather than hiring people full-time is that a company runs the risk of the contract employees getting distracted or not delivering on time—whatever the excuse might be. Jacobs gambled in this regard and it worked. The two-man development shop and the moonlighters came through in an exemplary manner.

In the midst of the skepticism, one thing that worked in Jacobs's favor was perfect timing. The opening of the iPhone app store created lots of press, and news outlets were eager to profile apps that would soon be available for the iPhone. Jacobs worked this angle to his favor and RunKeeper, the name he gave the app, got lots of prelaunch press. The launch of RunKeeper also aligned nicely with the emergence of Twitter and with the growth of interest in Facebook. RunKeeper engaged its users from the beginning via both Twitter and Facebook, and created a “community” of users around the RunKeeper experience. A little guerilla marketing also helped. For example, Jacobs ran the 2008 Boston Marathon dressed as an iPhone, and periodically posted on Twitter as he ran. The idea was to draw attention to RunKeeper and the iPhone app store in general. The payoff was a front page story in the New York Times.

What Does the Future Hold for RunKeeper?

Currently, RunKeeper is primarily a smartphone app. The company has more than 2 million downloads on the Apple iPhone, and has launched an Android version that’s taking off. RunKeeper has been cash flow positive since day one. Jacobs now has about a dozen employees. The company has never raised a dime of investment capital. Instead, its users have basically provided the seed funding for the company through downloads of the premium version of the product. RunKeeper sells a Web-subscription service for people who don’t have a...
smartphone. The RunKeeper app is consistently one of the top selling apps in the iTunes store.

Jacobs’s long-term goals may surprise you. Technically, the name of his company is FitnessKeeper rather than RunKeeper, which gives the company room to expand. Although he envisions eventually building iPhone and Android apps for other sports, such as cycling, swimming, and skiing, he doesn’t see that happening anytime soon. He believes RunKeeper has only scratched the surface of running, which Jacobs sees as a strong and vibrant industry. The company also does very little in the area of paid advertising or marketing, instead relying on the quality of its product to generate buzz and stimulate additional downloads.

Even though Jacobs says that he doesn’t see RunKeeper expanding beyond running anytime soon, his ultimate goal is to build a billion-dollar company and change the way people interact with their health. How that will be achieved remains unclear. Jacobs readily admits that selling smartphone apps is not the route to building a billion-dollar company. The top smartphone app, Bejeweled 2, a puzzle game, has sold around 3 million downloads at $2.99 a piece. While impressive, that’s just $9 million in one-time download fees—which is a far cry from $1 billion. Jacobs sees apps as a way of engaging users and funneling them to his Web site. The Web site will presumably offer additional products and services for sale over time.

Discussion Questions

1. Which of the characteristics of successful entrepreneurs, discussed in this chapter, do you see in Jason Jacobs? To what degree do you think these characteristics have contributed to RunKeeper’s success?

2. To what extent do you think RunKeeper’s basic business idea “adds value” to the lives of its customers? Who is the ideal candidate to be a RunKeeper customer?

3. To what degree do you think it would be easy or difficult for another company to imitate what RunKeeper is doing?

4. Spend some time studying the RunKeeper app. What functionality do you think the app should have that it currently doesn’t have?

Application Questions

1. Make a list of three things that you are passionate about. Don’t worry if they don’t seem like logical choices for business ideas. Many people have built businesses around things that didn’t seem like logical choices for business ideas like art, music, fitness, and spending time with family. Now brainstorm business ideas that might align with each of your passions.

2. Do you think Jacobs will achieve his dream of building a billion-dollar company? If so, write a brief scenario that describes your view of how Jacobs will achieve this objective. If you don’t think Jacobs will achieve his dream, explain why.


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**CASE 1.2**

PatientsLikeMe: Allowing People with Serious Diseases to Connect with One Another and Exchange Support and Advice

*Web: [www.patientslikeme.com](http://www.patientslikeme.com)*

*Twitter: patientslikeme*

*Facebook: Patients like me*

Bruce R. Barringer, Oklahoma State University

R. Duane Ireland, Texas A&M University

**Introduction**

It’s a sad yet heartwarming story. In 1998, Stephen Heywood, a strong 28-year-old carpenter who was building his dream house in California, got the worst possible news. He was diagnosed with amyotrophic lateral sclerosis (ALS) or Lou Gehrig’s disease. His brothers, Jamie and Ben, stood by his side as he doggedly fought his disease and pursued a cure. Stephen eventually succumbed to ALS but his courageous journey will always be remembered through an autobiographical movie, So (continued)
Much So Fast, and a book, His Brother’s Keeper by Pulitzer Prize–winning author, Jonathan Weiner. Helping Stephen deal with the day-to-day challenges of his disease and experiencing firsthand the decisions that have to be made and the lack of information that’s often available profoundly changed the direction of Jamie and Ben Heywood’s lives. In 1999, Jamie Haywood launched an organization called the ALS Therapy Development Foundation, to help Stephen and others fight ALS. Today, it remains well funded and staffed and supports a number of research efforts. In 2005, Jamie and his brother Ben took an additional step and launched PatientsLikeMe, a Web-based company that allows people with life-changing diseases to converse with one another, share their experiences, and learn techniques from each other that help them better cope with their diseases.

Since its launch, PatientsLikeMe has achieved remarkable success. Over 70,000 members were sharing life-changing medical information with each other as of late 2010. In 2008, the organization was named one of the “15 Companies That Will Change the World” by Business 2.0 and CNN Money. In 2010, it was named one of the “10 Business Models That Rocked 2010” by Board of Innovation, an international management consulting firm.

At the heart of PatientsLikeMe’s success is a truly unique value proposition—a platform that encourages patients to interact in ways that are very meaningful for them. PatientsLikeMe is also a bold company in that one of its goals is to change the way that the medical industry thinks about patients and patient care. To facilitate that goal, PatientsLikeMe is working with rather than against the medical industry. In fact, its primary revenue driver is to sell aggregated data that it collects from its online patient communities to medical companies to enable them to factor the “voice of the patient” into all aspects of their product decisions.

Value Proposition
PatientsLikeMe’s value proposition is the opposite of what you might expect in that conventional thinking is that a person’s medical information is private and should be kept confined to a tight circle of family and health care providers. PatientsLikeMe advocates that people openly share their experiences to help others. It’s inspirational in that most of its members have illnesses that consume a great deal of their own time and energy, yet are willing to expend time and effort to share information to improve the lives of others.

Here’s how it works. Say someone you care about has been diagnosed with Parkinson’s disease, a neurological disorder that affects 2 percent of people over the age of 65. On PatientsLikeMe, that person will be able to interact with people who have been living with Parkinson’s disease for 3 years, 5 years, 10 years, or more. Your friend or loved one will be able to ask, “What’s it like after three years? What will I be able to do and not do? What’s the scariest part of the disease?” Your friend or loved one will also be able to ask the number one question that people with diseases have. That question is “Given my status, what’s the best outcome I can hope for and how can I get there?” This question will be answered by someone who has the disease and who truly understands all the emotions and fears that they have rather than by a medical professional.

PatientsLikeMe’s service is unique in that it not only facilitates these types of interactions, but also collects detailed information from its members about the symptoms they’re experiencing, and medications they’re on, and how their diseases are affecting their lives. It then displays this data in aggregate form for its members and others to see. It also drills deeper. It allows patients to share the experiences they’re having with a particular drug, for example. How long they’ve been on the drug, what the

Screen Shot of PatientsLikeMe’s Page on Parkinson’s Disease, July 2011. Courtesy of The PatientsLikeMe Corporation.
side effects have been, whether they feel the drug has been effective, and so forth. This is information that people who have just been prescribed a drug are anxious to see. Its members can also interact directly with each other regarding their experiences. For example, Carbidopa-Levodopa is a drug commonly prescribed to Parkinson’s disease patients. Someone named “Mary O.” may have reported on her profile that “When I first started taking Carbidopa-Levodopa it made me sleepy, but over time my body adjusted and I no longer have that side effect.” If you’ve just been prescribed Carbidopa-Levodopa, you can send a message to Mary O. and ask her, “How sleepy did you get? Was it so bad you couldn’t go to work? How long did it take before your body adjusted? Did you try caffeine? Did it help?” Mary O. would then respond and answer the questions. In addition, as a result of this exchange, you and Mary O. may start to regularly correspond, and Mary O. may become for you an important source of information and support.

What’s remarkable about PatientsLikeMe’s value proposition is that the information its members exchange and the manner in which it aggregates and displays data isn’t available anywhere else. The manner in which its members are willing to be transparent about very personal health-related issues is also compelling.

Revenue Drivers

Although its services are free to users, PatientsLikeMe is a for-profit entrepreneurial venture with two primary ways of making money. First, it sells aggregated medical data to members of the medical community, like drug companies, medical-device companies, and health care providers. For example, the aggregate data of how Parkinson’s disease patients are reacting to a particular medication would be of interest to the company that makes that medication. The sharing of this information then circles back and helps patients. For example, if the maker of the Parkinson’s drug finds that a large percentage of people who take the drug experience fatigue, the drug can potentially be tweaked to remedy that issue. For patients, not experiencing fatigue as a side effect of the drug may not only translate into feeling better, but may mean less days missed from work or even being able to maintain a job rather than having to quit. Because of these types of outcomes, most patients are eager to have their personal data included in larger databases and passed along to companies in the medical industry. Finally, their experiences and their voices become part of the data that medical companies study when making decisions about patients and their care.

The second way PatientsLikeMe makes money is by helping pharmaceutical companies enlist participants in drug trials and studies. For example, 5 percent of all the people in the United States that have ALS (Lou Gehrig’s disease) are PatientsLikeMe members. That’s a large set of people who can be asked whether they’re willing to participate in an experiment or trial. Most people with a disease like Lou Gehrig’s are keenly committed to doing everything possible to find a cure for their disease. As such, they tend to be quite eager to participate in experiments and trials.

Challenges Ahead

PatientsLikeMe is expanding its reach. While its site originally focused exclusively on life-threatening diseases, it now supports communities that focus on issues such as infertility (for both men and women), depression, and hearing loss. Rapid growth is a challenge for all firms, and PatientsLikeMe is in a rapid-growth phase. In fact, at the time this case was written, April 2011, PatientsLikeMe was not accepting new members, while it updated its Web site to add new features.

There are also several worries that surround a service like PatientsLikeMe that the company openly acknowledges, but believes the benefits outweigh the risks. One worry is that medical and life insurance companies have clauses that exclude preexisting conditions, and that members may disclose information on their PatientsLikeMe profiles that would jeopardize their insurance coverage. A similar worry is that some employers may not want to employ people with a high-cost or high-risk disease. Again, it’s possible that some people may reveal the existence of a disease on their PatientsLikeMe profiles that may jeopardize current or future employment opportunities. Another worry is the unknowns about changes to health care policies and the overall health care system in the United States that may result from major health care legislation that was passed in 2010. Might some of these changes affect how information about patients is distributed and to whom?

For now, PatientsLikeMe is aggressively moving forward. The company’s overarching goal, along with providing the value it currently provides, is to shift the thinking of companies in the medical industry by providing them access to data they never had before. By better knowing the journey that patients are on, the hope is that the medical community will increasingly go beyond treating their patients’ core diseases, and create products that will impact all aspects—physical, social, and mental—of their lives.

Discussion Questions

1. Describe the way in which PatientsLikeMe practices “execution intelligence.” How important a part of PatientsLikeMe’s success do you think these practices represent?
2. To what degree does PatientsLikeMe’s founding story debunk one or more of the common myths of entrepreneurship?
3. Compare and contrast PatientsLikeMe with Inspire (www.inspire.com), a company with a similar mission.
4. What do you think about the concerns regarding PatientsLikeMe’s rapid growth and the worries expressed about the potential downsides of participating in its forums? How important and potentially damaging are these concerns?
Application Questions

1. Why do you think people are willing to be so transparent in PatientsLikeMe communities?
2. What is it about PatientsLikeMe, and the people behind it, that make it special? Would it be easy or difficult for another firm to imitate what PatientsLikeMe is doing? To what degree do you believe PatientsLikeMe will be successful in persuading the medical community to go beyond creating products and services that treat a patient’s core disease, and create products and services that touch all aspects of how the disease is affecting their lives?


ENDNOTES

2. Personal Interview with Sam Hogg, March 15, 2011.
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45. Robb and Coleman, “Characteristics of New Firms: A Comparison by Gender.”
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57. The Small Business Economy.
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