



chapter **10**

Ready Notes

*Managing New
Venture Formation
and
Entrepreneurship*

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The Nature of Entrepreneurship

Entrepreneurship is the process of:

- Planning
- Organizing.
- Operating.
- Assuming the risk of a business venture.

Entrepreneur:

- Someone who engages in entrepreneurship.



Small Business

- What is a small business?
 - A business that is privately owned by one individual or a small group of individuals.
- Do sales influence?
 - Small businesses sales and assets are not large enough to influence the environment.



The Role of Entrepreneurship in Society

- The majority of U.S. businesses employ:
 - Fewer than 100 people, and most U.S. workers are employed by small firms.
- What percentage of workers are employed by firms with 1,000 or more employees?
 - Only 12.70%

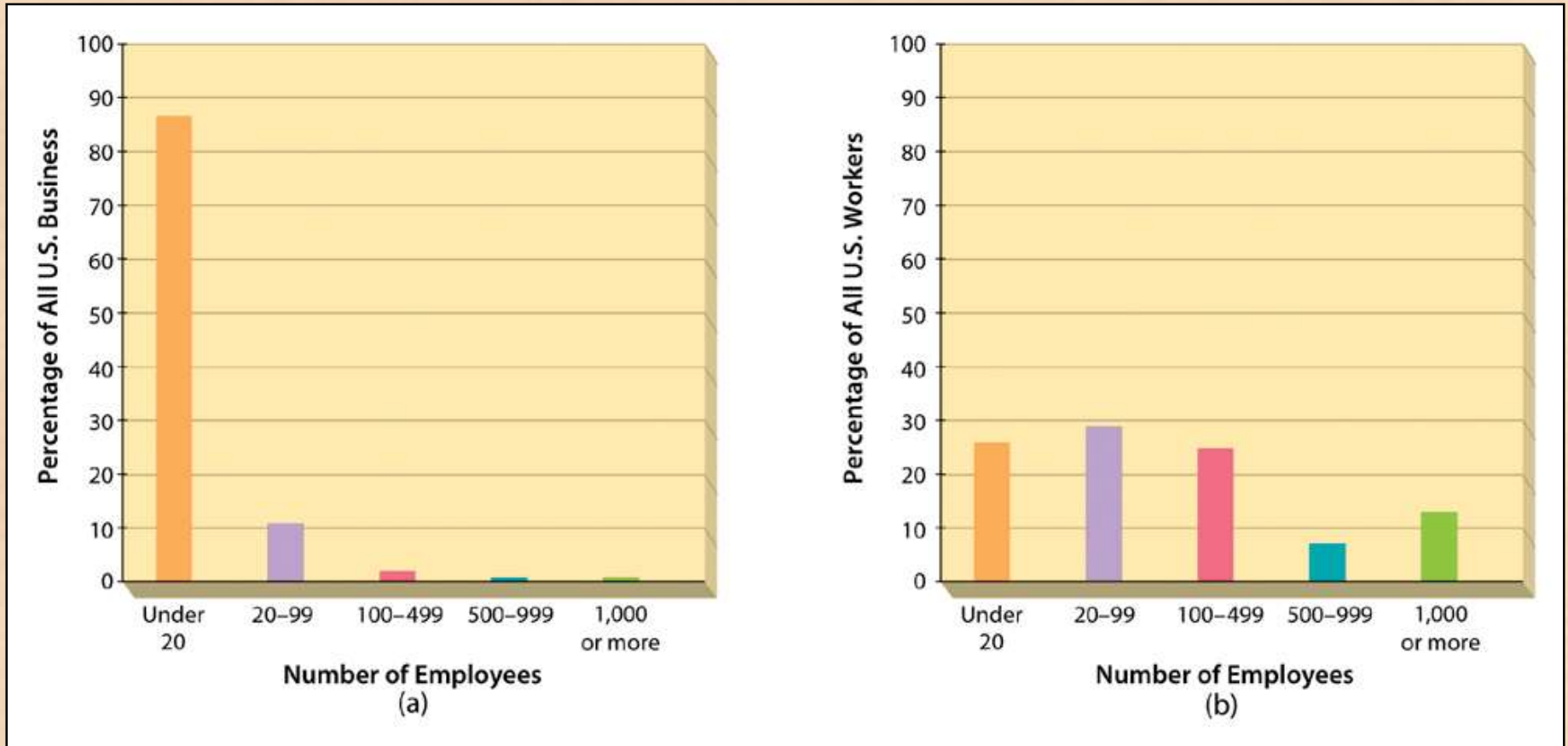


The Importance of Small Business in the United States

- What makes small business important in the U.S.?
 - Job creation.
 - Innovation.
 - Important to big business. (see Figure 10.1)



Figure 10.1: The Importance of Small Business in the United States

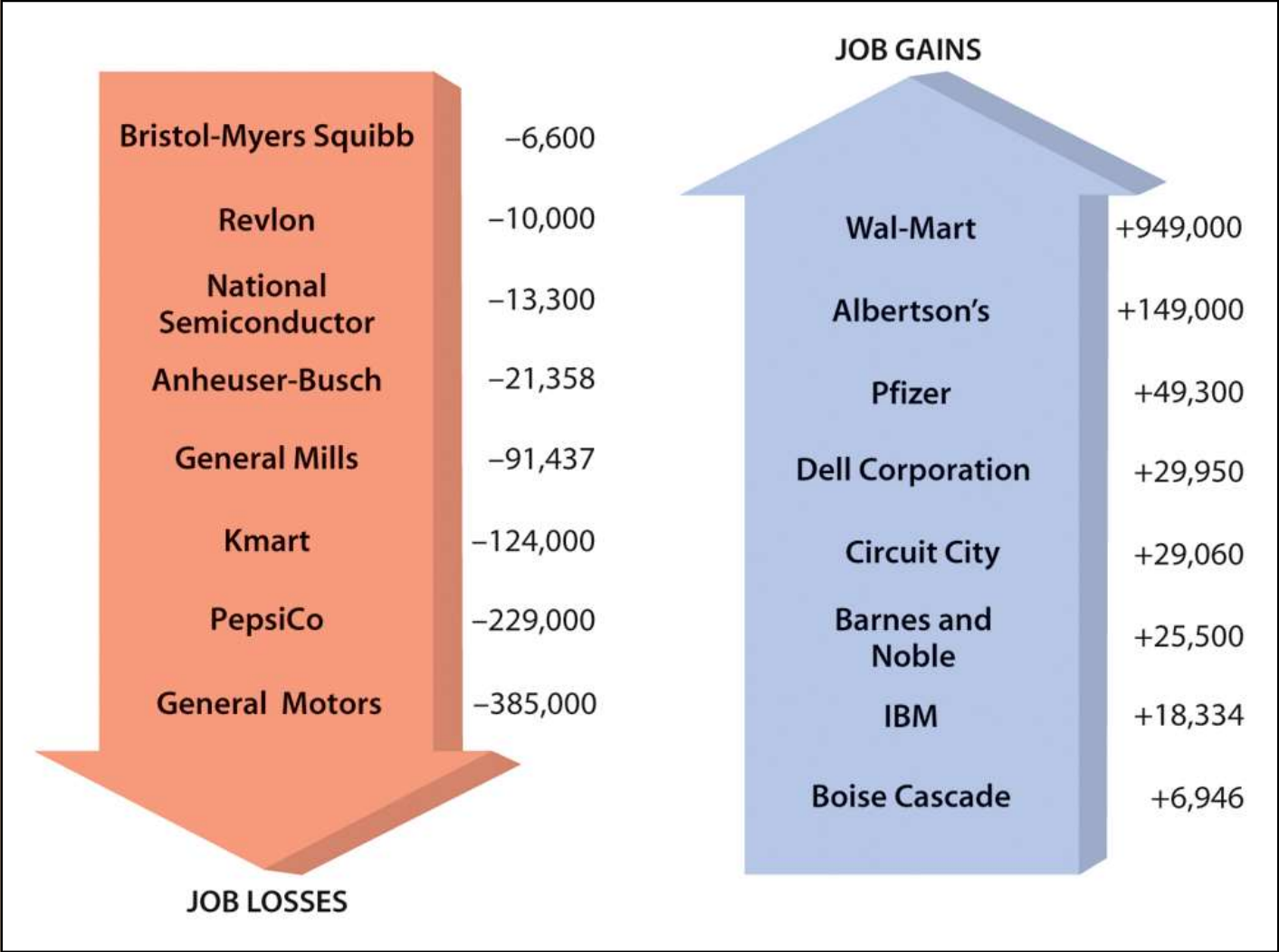


Job Creation

- How many jobs did small business create in the 80's?
 - 8 of every 10 new jobs were created by small business.
- In what industries are jobs created?
 - 38% in technology.
 - New jobs are being created in small firms specializing in international business.
 - Small business accounts for 96% of all U.S. exports.



Figure 10.2: Representative Jobs Created and Lost by Big Business



Can You Name Innovations That Came from Small Business or Individuals?

- Personal computer
- Stainless-steel razor blades
- Transistor radio
- Photocopying
- Jet engine
- Self-developing photography
- Helicopter
- Power steering
- Automatic trans
- Air conditioning
- Cellophane
- The 19-cent ballpoint pen
- Small businesses supply 55% of all innovations



Choosing an Industry

- Small businesses are more common in some industries than in others. For the most part, these organizations have fewer than 20 employees.
- Can you name the major industry groups that include successful new ventures? (See next slide Figure 10.3 for details)



Figure 10.3: Small Businesses (Businesses with Fewer than 20 Employees) by Industry

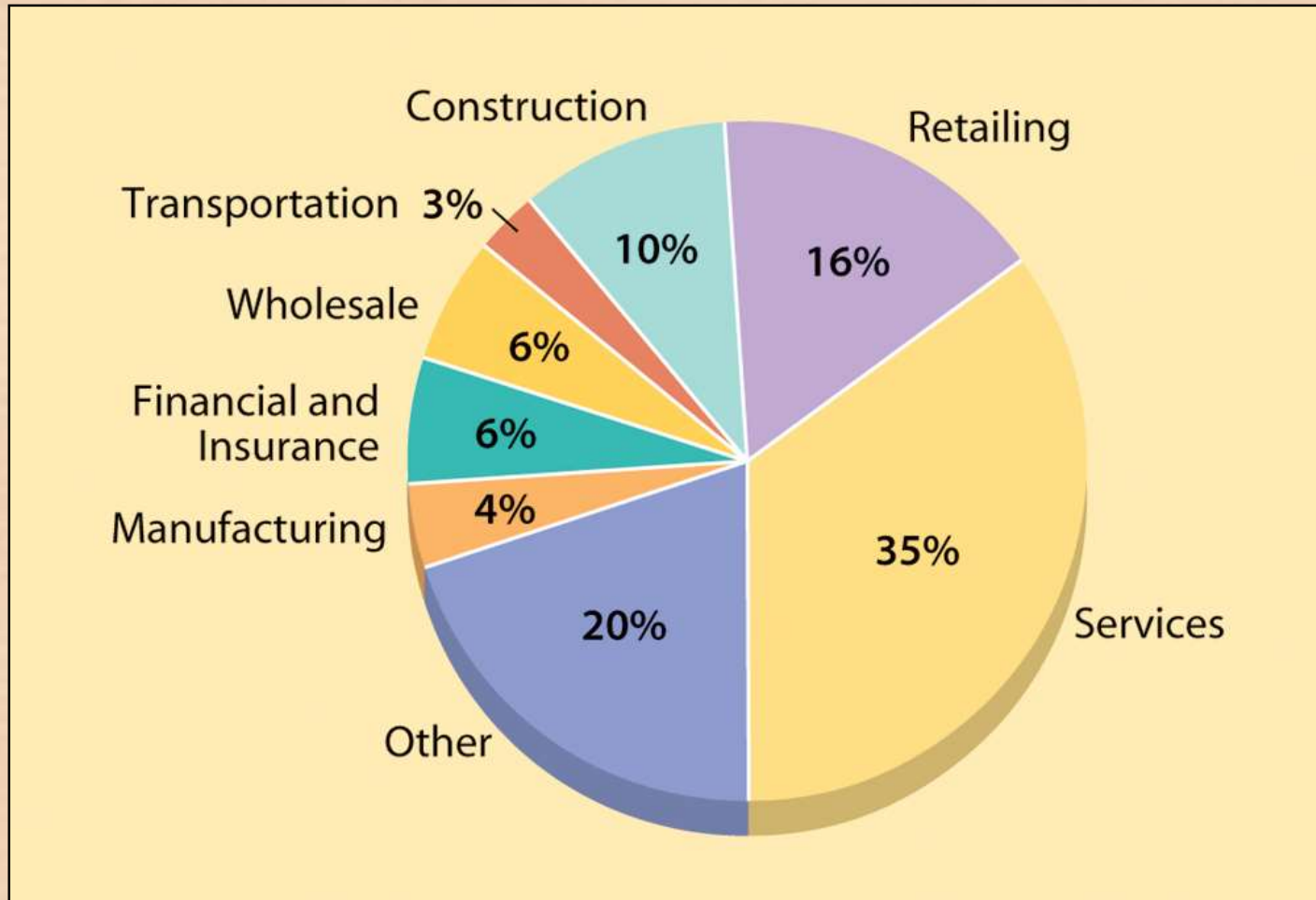
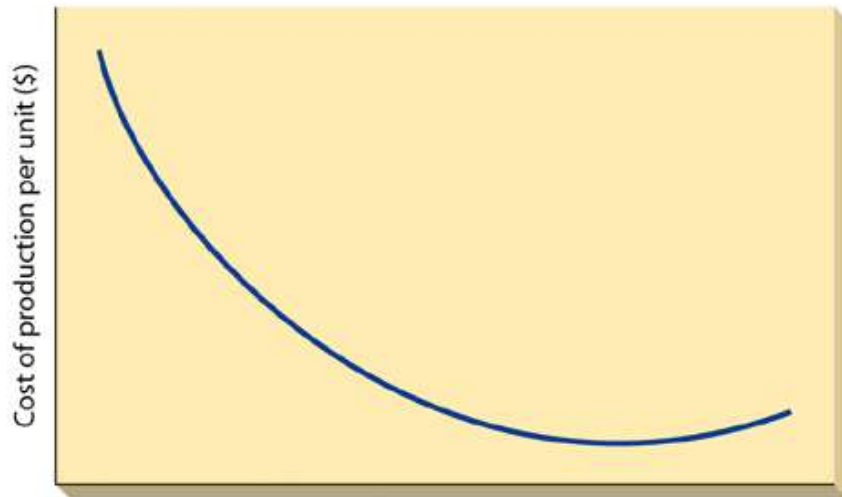
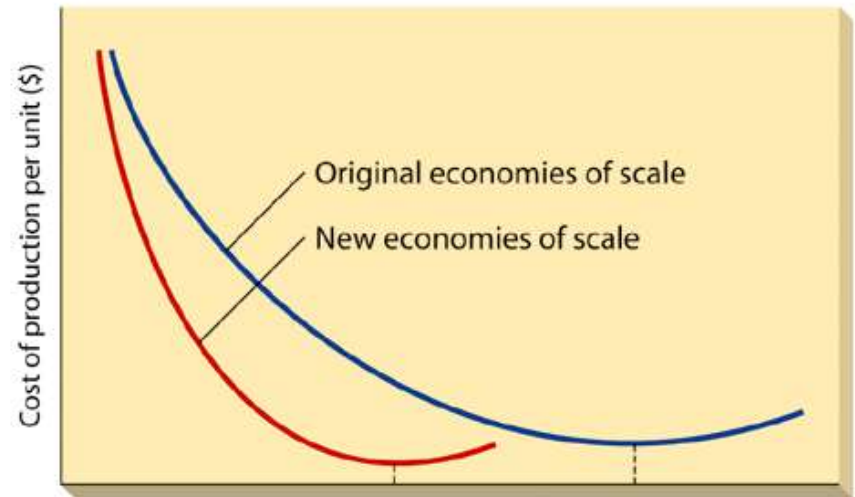


Figure 10.4: Economies of Scale in Small Business Organizations



Number of units produced
(a) Standard economies-of-scale curve



Number of units produced
(b) Change in technology that shifts economies of scale and may make small business production possible



Importance of Big Business

- Who does big business sell its products to?
 - Most products made by big business are sold to consumers by small business.
- Small businesses provide big business with:
 - Supplies.
 - Raw materials.



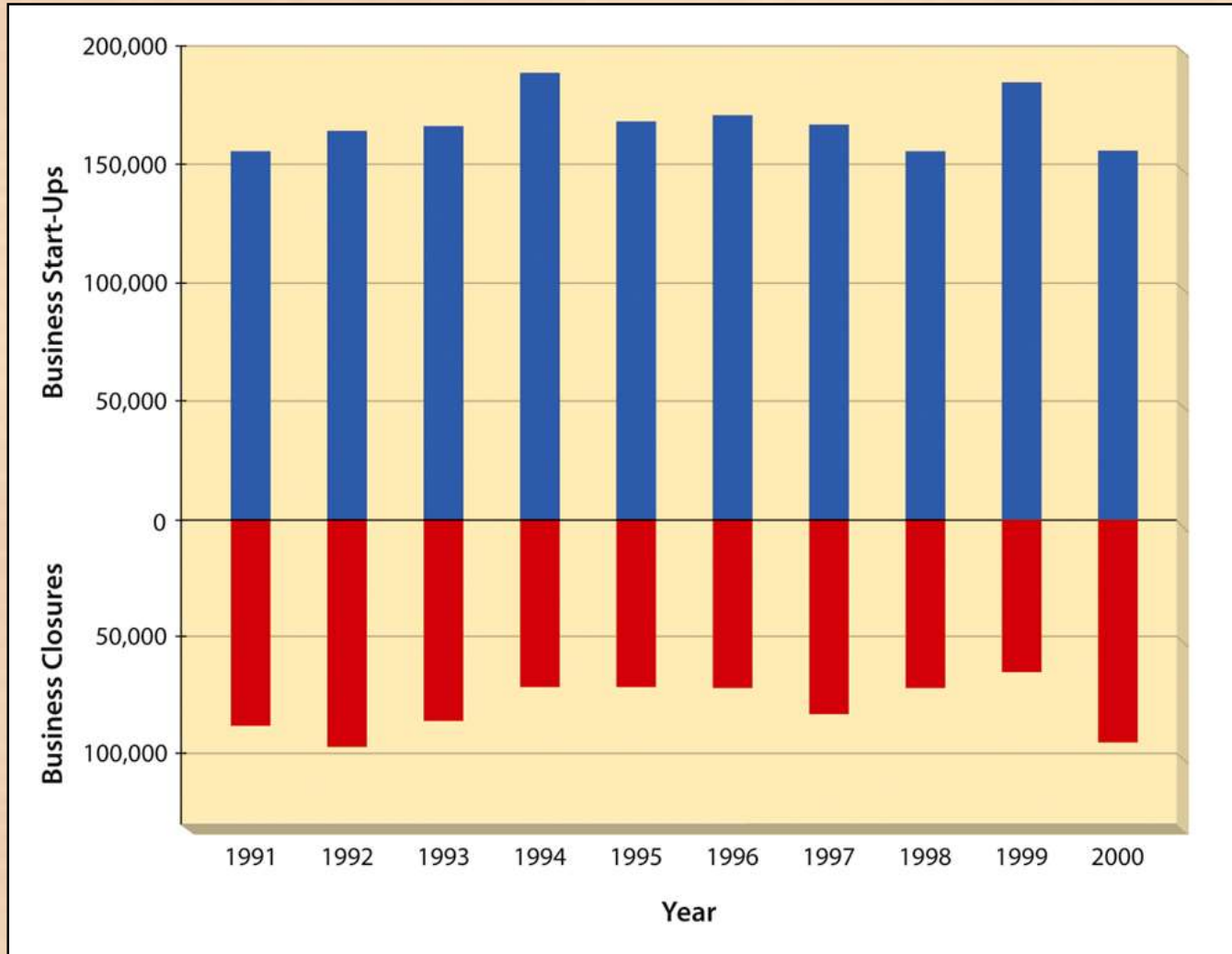
Strategy for Entrepreneurial Organizations

What are the successful new ventures and small businesses?

- Services.
- Retailing.
- Construction.
- Financial and insurance.
- Wholesaling.
- Transportation.
- Manufacturing.



Figure 10.5: Business Start-Up Successes and Failures

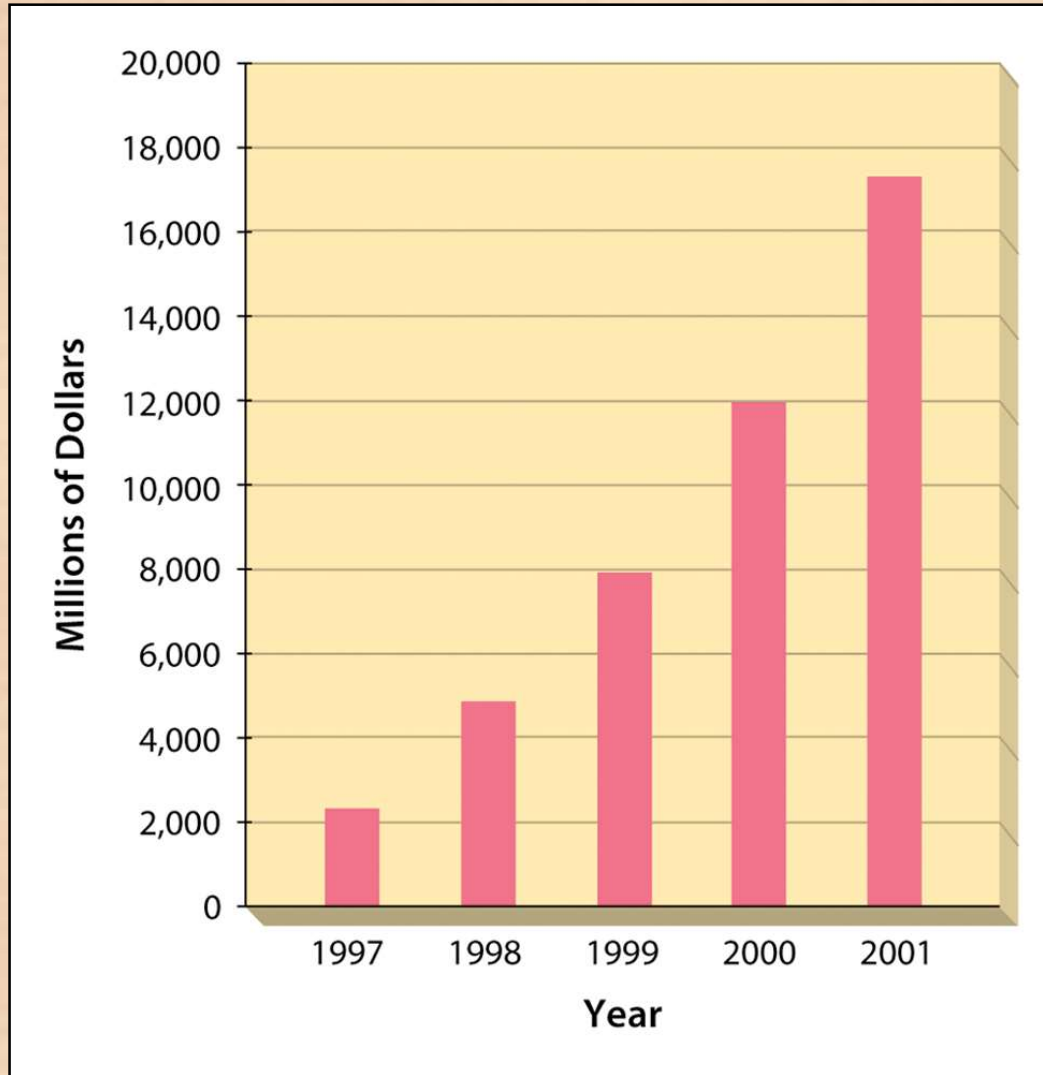


What is a Crossover?

- More and more businesses are being started by people who have opted to leave large corporations and put their experience and know-how to work for themselves.
- See next slide (Figure 10.6) which details growth of on-line commerce.



Figure 10.6: The Growth of On-Line Commerce

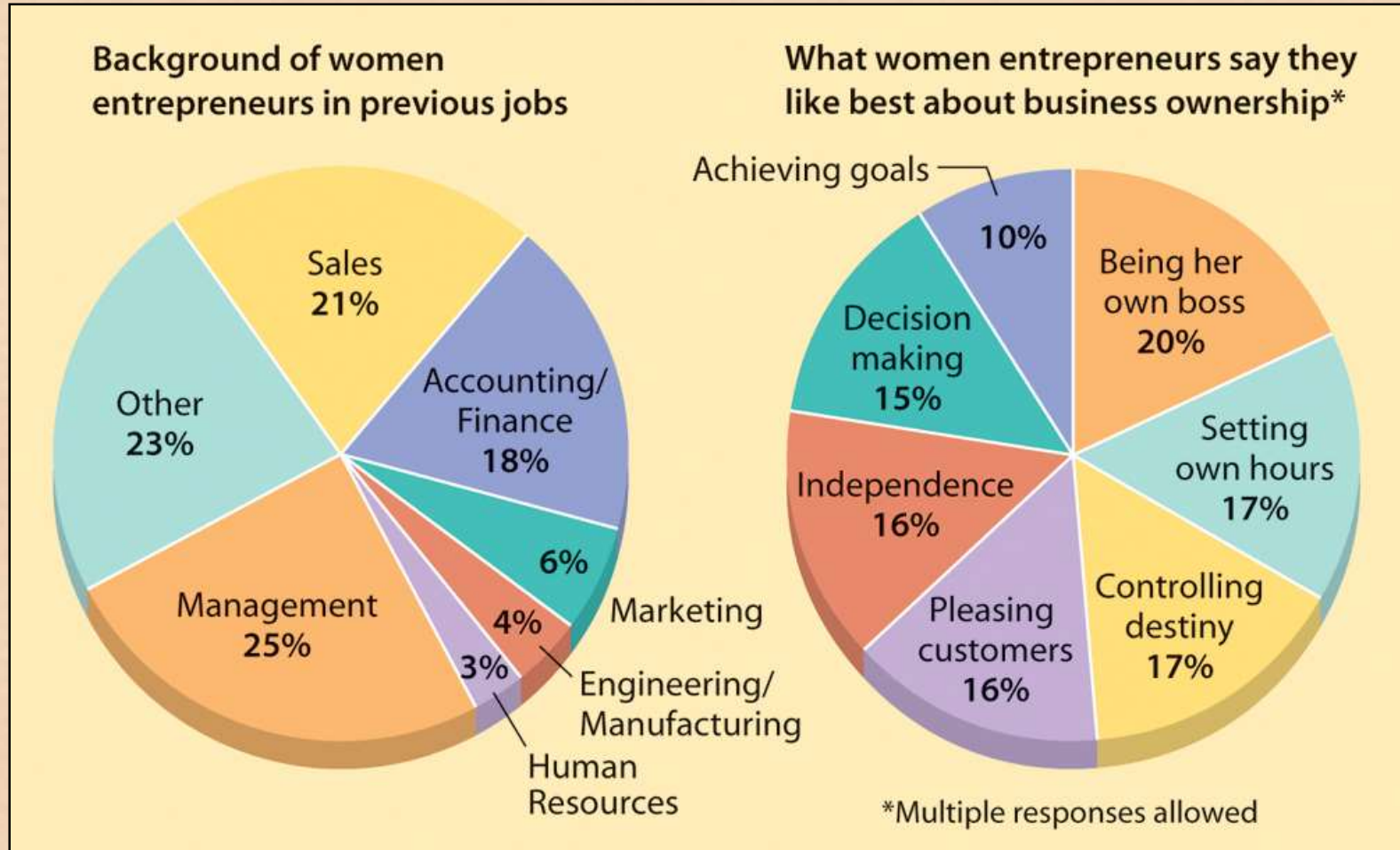


Better Survival Rates

- More people are testing their skills as entrepreneurs.
- In today's marketplace there is a better chance for surviving.
- See next slide (Figure 10.7) illustrating where women entrepreneurs gained skills and experiences.



Figure 10.7: Where Women Entrepreneurs Come From and What They Like About Their Work



Emphasizing Distinctive Competencies

- Established market: What is it?
 - A market in which several large firms compete according to relatively well-defined criteria.
- Identifying niches is?
 - A segment of a market that is not currently being exploited.



How Do You Identify New Markets?

- An entrepreneur can transfer a product or service in one geographic market to a second market.
- An entrepreneur can sometimes create entire industries—can you name any?
 - Dry paper copying process.
 - The semiconductor.



What Is a First Mover Advantage?

- Any advantage that comes to a firm because it exploits an opportunity before any other firm does.
- What is a business plan?
 - A document that summarizes the business strategy and how that strategy is to be implemented.



Structure of Entrepreneurial Organizations

- Starting the new business.
- Buying an existing business.
- Starting from scratch.
- Financing the new business:
 - Personal resources.
 - Strategic alliances.
 - Lenders.
 - Venture capital companies.
 - Small-business investment companies.
 - SBA financial programs.



Sources of Management Advice

- Advisory boards.
- Management consultants.
- The small business administration.
- Networking.
- Franchising: What is it?
 - Operation by an entrepreneur (the franchisee) under a license issued by a parent company.



Reasons for Failure

- How many will fail?
 - 63%.
- Factors causing failure:
 - Managerial incompetence.
 - Neglect.
 - Weak control systems.
 - Insufficient funds.



Reasons for Success:

- Owner committed to success.
- Careful analysis of market conditions.
- Managerial competence.
- Luck can contribute to success.

