

15.2: The Power of Entrepreneurship

Learning Objectives

- Understand the entrepreneurial spirit and what it takes to be an entrepreneur.
- Discuss the role of entrepreneurial businesses in the economy.

Her owners couldn't imagine putting their beloved Zoe, a seventeen-year-old Jack Russell terrier, in the dark belly of the cargo hold of a jetliner when they moved from California's Bay Area to Delray Beach, Florida, in 2005. Although most commercial airlines have been working on policies and procedures to make pets more comfortable when traveling, and give their owners more peace of mind, husband-and-wife team Alysa Binder and Dan Wiesel just didn't feel that options like Delta's Pet First and Continental's PetSafe really filled the bill. So on July 14, 2009, they launched Pet Airways, the first airline dedicated exclusively to transporting animals in a safe and comfortable environment. The airline includes nineteen turboprop Beech 1900 planes that have been converted to comfortably carry up to fifty live animal crates and one certified pet attendant. Pet "passengers" can fly one way for \$149 and round trip for \$250 to or from any of five major airport locations. Dan Reed, "For Passengers of New Airline, When the Fur Flies, It's in Style," *USA Today*, June 19, 2009, B1. Who else but entrepreneurs would conceive a business idea like this?

It All Starts with an Idea

Entrepreneurs have started all different kinds of businesses from overnight shipping to electronics, music, skin-care products, to retail stores, because each saw an unmet need in the market. Fred Smith started FedEx in 1971 based on a paper he wrote for a Yale University economics class and used his \$4 million to start the company. Funding Universe, <http://www.fundinguniverse.com/company-histories/FedEx-Corporation-Company-History.html> (accessed September 21, 2009). Sam Walton founded Wal-Mart in 1962 because he was convinced that Americans wanted a new type of store, a discount store, so he and his wife put up 95 percent of the money to build the first Wal-Mart store in Rogers, Arizona. Wal-Mart Stores, Inc., About Us, <http://walmartstores.com/AboutUs/297.aspx> (accessed September 21, 2009). In 1930, Colonel Harland Sanders started cooking for weary travelers who stopped by his gas station; they ate at his own dining table because he didn't have a restaurant. "Colonel Harland Sanders: From Young Cook to KFC's Famous Colonel," KFC.com, <https://www.snagajob.com/blog/post/the-inspiring-life-story-of-kfcs-colonel-sanders> (accessed September 14, 2021). William Hewlett and David Packard decided to start a business and "make a run for it themselves" in 1939; their first product was an audio oscillator, an electronic instrument used to test sound equipment. They decided the name of their company on the toss of a coin. HP, "HP Timeline—1930s," <https://www.computerhistory.org/brochures/g-i/hewlett-packard-company-hp/> (accessed September 14, 2021). Jay-Z saw hip-hop music as a way to get out of the projects in Brooklyn and parlayed his passion and business prowess into a net worth of over \$350 million. He is CEO of Def Jam Recordings and Roc-a-Fella Records, part-owner of the New Jersey Nets, and co-owner of the 40/40 Club, among other things. Black Entrepreneur Profile, "Shawn 'Jay Z' Carter," <http://www.blackentrepreneurprofile.com/profile-full/article/shawn-jay-z-carter/> (accessed September 14, 2021). Estée Lauder started selling creams that were created by her uncle and founded Estée Lauder in 1946 "with four products and the belief that every woman can be beautiful." "Famous Women Entrepreneurs," About.com, <http://entrepreneurs.about.com/> (accessed September 21, 2009). Estée Lauder, "About Estée Lauder," www.esteelauder.com/about/index.tmpl (accessed September 14, 2021). Walt Disney, a cartoonist, saw the opportunity to entertain as his driving force when he founded Walt Disney Company in 1923. The Walt Disney Company, "Corporate Information," <http://corporate.disney.go.com/corporate/overview.html> (accessed September 14, 2021). His passion for his craft led to the creation of the company when he said, "I am interested in entertaining people, in bringing pleasure, particularly laughter, to others, rather than being concerned with 'expressing' myself with obscure creative impressions."

Entrepreneurship is about helping people see the benefit of a new way of doing things; it's about having an idea and having the passion and perseverance to make it come alive. What sets an entrepreneur apart from any other businessperson is that fact that she is willing to assume risk to make a profit. "What Is an Entrepreneur?" ZeroMillion.com, <http://www.zeromillion.com/business/starting/entrepreneur.html> (accessed September 14, 2021). An entrepreneur is not only open to new ways of thinking and of doing things, but he also has the vision, drive, energy, and optimism to bring an idea from concept to reality. Generally, an entrepreneur is someone who says, "There's a better way, and I will find it." Entrepreneurs are willing to take risks to make things better.

Video: Advice for Young Entrepreneurs: How to Be Taken Seriously



Video: David Fox - How Brave Spirits Was Born



David Fox, founder and CEO of Brave Spirits, talks about why someone should consider being an entrepreneur. I

The idea of starting, restarting, or growing something—whether a business or a nonprofit organization—is grounded in “making meaning,” which is the cornerstone of Guy Kawasaki’s concept of entrepreneurship as shown in this video. Guy Kawasaki, “The Art of the Start,” video.

Video: Guy Kawasaki - The Art of the Start



Entrepreneurialism and the Economy

Imagine that in 1899, the director of the United States Patent Office made the proclamation that everything that could be invented had already been invented. He certainly underestimated the power of the American entrepreneur. Everything from airplanes to telephones, computers to the Internet, not to mention the iPod and even skateboards, have all been products developed and marketed by entrepreneurs over the past 110 years.

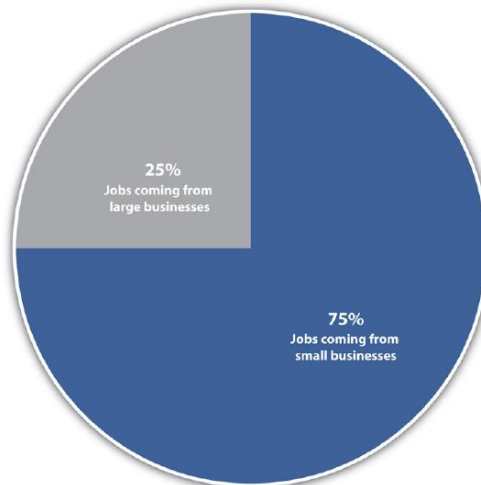


Figure [Math Processing Error]: Approximately 75 percent of new jobs added in America are from small businesses according to the U.S. Department of State. U.S. Department of State's Bureau of International Information Programs, "Entrepreneurship Aids the Economy: Most Economists Agree that Entrepreneurship Is Essential to Any Economy," <https://www.investopedia.com/articles/personal-finance/101414/why-entrepreneurs-are-important-economy.asp> (accessed September 14, 2021).

Today, entrepreneurs literally power the country. There are twenty-seven million businesses in the United States; 99.7 percent of them are considered small businesses, according to David C. Dickson, district director for the Small Business Administration. That means that only 80,000 businesses are considered large businesses; the other 26.9 million are small businesses. District Director David C. Dickson, Philadelphia, Small Business Association, SCORE Open House, September 22, 2009, Valley Forge, PA. Small businesses provide approximately 75 percent of the new jobs added to the American economy every year.

Besides providing jobs, entrepreneurial businesses are more likely to provide specialty and custom goods and services to consumers and businesses. In fact, small businesses produce nearly thirteen times more **patents** (rights of exclusivity to make and market the product or service granted by the United States government) per employee than large firms. United States Patent and Trademark Office, "What Is a Patent?" <https://www.uspto.gov/patents/basics> (accessed September 14, 2021). Small businesses represent one-third of all companies that have fifteen or more patents.

Entrepreneurialism is critical not only for the growth of the economy in the United States but also globally. The Kauffman Foundation, in conjunction with researchers from Babson College and the London School of Business, found that the disparity in

entrepreneurial activity in some countries is contributing to a gap in economic growth. “The Global Entrepreneurship Monitor (GEM) report provides conclusive evidence that promoting entrepreneurship and enhancing the entrepreneurial dynamic of a country should be an integral element of any government’s commitment to boosting economic well-being,” according to Paul Reynolds, GEM project coordinator at both Babson College and the London Business School. According to the study, Canada, Israel, and the United States are those countries that are experiencing the highest level of activity, while Denmark, Finland, France, Germany, and Japan have the lowest levels of activity. The GEM constructed a framework for countries to work within to encourage entrepreneurial activity that includes raising the participation level to those outside the core age group of twenty-five to forty-four and increasing the participation of women in the entrepreneurial process.

Entrepreneurship is rewarded in the United States because the economy is based on a **free market system**—one in which an individual’s success is dictated by demand on the part of the consumer, not by the government. Because entrepreneurial businesses are so important to the economy, free market governments not only support them, but they often encourage entrepreneurial business ventures. According to Harvard Business School professor Josh Lerner, the United States government played a key role in the early development of Silicon Valley. The government has also provided support for the growth of innovation in places such as Tel Aviv and Singapore. Sean Silverthorne, “Government’s Positive Role in Kick-Starting Entrepreneurship,” HBS Working Knowledge, December 7, 2009, <http://hbswk.hbs.edu/item/6318.html> (accessed September 14, 2021).

While statistics are no guarantee of success for the future, especially in today’s tough economy, you might find it interesting to know that small businesses employ a little more than half of all private sector workers, pay 44 percent of all private sector payroll, and have generated 64 percent of new jobs over the past fifteen years. In 2008, approximately 530,000 new businesses were created every month, which was a slight increase over 2007. Laura Petrecca, “Tough Times Drive Start-Ups,” *USA Today*, September 14, 2009, B2.

These facts reflect the importance of creativity, ideas, passion, drive, independence, and risk taking in the economy. Entrepreneurialism isn’t limited to a specific type of organization or business; it’s a state of mind, a way of thinking and behaving, a way of pushing for something better than the status quo. Entrepreneurs can be found in large multinational corporations as well as nonprofit organizations, and new business start-ups. Every large business or organization had to start small but think differently.

Getting Started

Being an entrepreneur can be exciting and invigorating. Having the vision to create products and services that can meet and exceed customers’ needs and imaginations and the passion to bring them to market can be exhilarating. Imagine having a hobby in college that turns into a multibillion-dollar business. That’s how Mark Zuckerberg created Facebook and Michael Dell created Dell. Both had a unique idea and vision and were willing to take the risk to make it a reality.

✓ Power Player: Lessons in Selling from Successful Salespeople

Meet the Chef

It started when formally trained chef Kimberly Davis Cuthbert’s infant son refused to eat the sweet potato puree she made for him. Although her bakery, Sweet Jazmines, used the puree for some recipes, she was determined never to waste sweet potato puree again. Her famous Sweet Potato Muffins were born and have been a signature treat at her successful bakery ever since. Read more about Chef Kim’s passion for baking, commitment to baking from scratch, and her sweet taste of success at <https://vista.today/tag/kimberly-davis-cuthbert/>.

Where does it all start? The entrepreneurial drive starts early for most who have it. Think about when you were young. If you were the one in the neighborhood who set up a lemonade stand, went door-to-door selling products, or set up a lawn-mowing service in the neighborhood (and hired your friends), you may have the makings of an entrepreneur. While you and many of your friends (and perhaps your siblings) participated in activities like this when you were young, not everyone will grow up to be an entrepreneur. A recent study, which focused on the behaviors of identical twins, has found evidence that entrepreneurialism may be based on genetics, not environment. Nicos Nicolaou, Scott Shane, Lyn Cherkas, Janice Hunkin, and Tim D. Spector, “Is the Tendency to Engage in Entrepreneurship Genetic?” *Management Science* 54, no. 1 (January 2008): 167–79, (accessed September 21, 2009). In fact, the study found that a connection between different genes causing someone to be extroverted is important to salesmanship, which is also a strong trait in many entrepreneurs. Jim Hopkins, “Starting a Business: What It Takes,” *USA Today*, October 25, 2006, http://www.usatoday.com/money/smAllBusiness/2006-07-30-starting-your-business_x.htm (accessed September 19, 2009).

✓ Video Clip

A Virtual Idea

Listen to Philip Rosedale, the CEO of the virtual world Second Life, talk about how he conceived the concept when he was young and how he created and has grown the business.

http://wiki.secondlife.com/wiki/History_of_Second_Life

Genetics or not, the current state of the economy has forced many who are out of work to consider owning their own business. “These are people that two years ago did not aspire to own a business, but circumstances have dictated that they look at freelance opportunities,” says Ken Yancey, CEO of nonprofit entrepreneur-mentoring group Service Corps of Retired Executives (SCORE). In fact, Internal Revenue Service (IRS) data confirm that the number of nonemployer firms (those that have paid employees) is up 8.1 percent from 2007 to 2008. Laura Petrecca, “Tough Times Drive Start-Ups,” *USA Today*, September 14, 2009, B1. These “accidental entrepreneurs” have come of age due to a variety of circumstances. Some, like Maureen Rothman, president of Rothman Associates, started her business when her employer went out of business. Although she had over fifteen years of selling and sales management experience, when people encouraged her to start her own business her first thought was, “I’m not an entrepreneur.” After developing a business plan and getting input and direction from resources such as SCORE, she said that everyone told her to “just do it.” “On 09.06.05 [September 6, 2005],” as she likes to say, “I did it!” and launched Rothman Associates, a manufacturers’ representative for hospitality seating products. Maureen Rothman, SCORE Open House, September 22, 2009, Valley Forge, PA.

✓ Entrepreneurial at Any Age

Whether it’s the challenging economy or the idea of controlling your destiny, entrepreneurs begin their journey at different ages.

Tech-savvy teenagers are starting online businesses since the Internet has lowered the barriers to entry and provided anonymity from their age. Challenges in finding part-time work also drive teens to start traditional businesses such as yard work, party planning, and tutoring. Eilene Zimmerman, “Teenagers Are Building Their Own Job Engine,” *New York Times*, June 28, 2009, B10.

At the other end of the spectrum, many baby boomers who are reaching retirement age are now asking themselves if retirement is “when you stop working completely or retire from one job and begin another.” Independence, passion, flexibility, and additional income are significant motivators to “mid-life entrepreneurs.” In fact, boomers compose nearly half of the nation’s self-employed workers. Susan L. Reid, “Take Control of Your Retirement: Become a Midlife Entrepreneur,” *American Express*, August 25, 2009, <https://www.americanexpress.com/en-us/business/trends-and-insights/articles/take-control-of-your-retirement-become-a-midlife-entrepreneur-1/> (accessed September 14, 2021).

Leaving corporate life behind for a chance to build a business and chase a dream is a trend that is occurring across the country in industries of all kinds from technology to personal services. Ali Galgano recently traded in her high-powered job as corporate recruiter doing work for firms such as Goldman Sachs for her own jewelry company, Charm & Chain. Brent Bouchez, David Page, and Nancy McNally gave up their glitzy, perk-filled jobs at an advertising agency on Madison Avenue in New York to start their own marketing firm named Five-0, which is focused on marketing to baby boomers. Kelly Elvin gave up a lucrative career as a lawyer to become a dog trainer. All have learned that life as an entrepreneur is very different from life in the corporate world. The thrill of running your own show and making your dream come alive is a learning process. There are no bosses, no corporate initiatives, no departmental deadlines, and no performance reviews. Everything is all you, all the time. Skills such as time management, understanding financial statements, building a good support system, and overcoming the isolation of working alone are all challenges in the entrepreneurial world. “Entrepreneurs have to be willing to listen and learn and make judgments and be adaptive,” according to Monica Doss, director of the Kauffman Foundation’s FastTrac entrepreneur training programs. Laura Petrecca, “From Corporation to Start-up: Who Is Going to Fix the Printer?” *USA Today*, September 21, 2009, <http://www.usatoday.com/money/smallbusiness/startup/week2-corporation-to-startup.htm> (accessed September 14, 2021). As for the issue of timing, some ideas might not work in the current economic environment. Entrepreneurs have to understand when it’s no longer feasible to keep a business running. Laura Petrecca, “Leaving Corporate Life Behind,” *USA Today*, September 21, 2009, B1, 2.

✓ Who's the Boss?

Great video by Prince Ea on. Employee Teaches BOSS a Lesson



What Does It Take?

Entrepreneurialism is based on dreams and risk. Not every idea is commercially viable or economically feasible, and not every dream comes true. But there are some common ingredients that are part of being an entrepreneur.

✓ Video Clip

Do You Have What It Takes?



What's the Big Idea?

Every business starts with an idea—that unique product or service that will serve customers better than any other. “Entrepreneurs are often so passionate about their ideas, they can lose objectivity,” according to Nancy A. Shenker, president of theONswitch LLC. “Rather than taking the time to thoroughly plan and research, they sometimes plow ahead with execution, only to spend valuable dollars on unfocused or untargeted activities,” she adds. Karen E. Spaeder, “How to Research Your Business Idea,” *Entrepreneur*. That’s why it’s important to research the viability of a business idea starting with the size of the market and if the idea will be compelling enough to meet an unmet need in the marketplace. Checking out the competition can be extremely educational. You might be surprised about what you learn by visiting your competitors and asking questions to their customers. The bottom line is that there has to be some recognition by the customer that there is a need for the product or service you want to bring to market. Without demand, it will be virtually impossible to have a successful business.

You might be wondering if there’s more to being an entrepreneur than simply selling a product or service for a profit. **Social entrepreneurialism** uses the concepts of entrepreneurship to bring about social change. While some social entrepreneurial efforts are nonprofit organizations, others are for-profit companies that focus on adding value to society. For example, City Year is a nonprofit organization that provides full-time year of service for young people from the United States and South Africa with the

objective that they will go on to use their skills to better the world. Social entrepreneurialism is recognized and supported by several mainstream organizations.

✓ The Difference Is in the Questions

No one plans to bring a mediocre product or service to market, but the best way to avoid that fate (and ultimately failure) is to ask yourself the right questions before you start your business. For example, can you really answer the question “What sets your product or service apart from what the competitors offer?” A claim like “the best burger in Seattle” doesn’t offer any real point of difference to the customer. Asking the right questions helps identify important opportunities or explain the lack of them. A good start is to ask yourself these three questions:

1. What are you selling?
2. To whom are you selling it?
3. Why would they buy it from you?

If answered honestly and specifically, these questions help identify the validity of a new business idea.

Hard Work, Long Hours

You might consider the concept of being your own boss to be a good deal. After all, you can do what you want, when you want, and work as hard as you want on what you want to do because you’re the boss. Well, that’s not really completely true. The challenge of bringing an idea to life is hard work and there’s no guarantee of success. According to the U.S. Census Bureau, only 48.8 percent of the new businesses that were started in 1977 were still around in 2000. Scott A. Shane, “Failure Is a Constant in Entrepreneurship,” *New York Times*, July 17, 2009, (accessed January 3, 2010). Being an entrepreneur is hard work. Think about Melissa Carter, the owner of San Diego’s first CiCi’s Pizza. She works about seventy hours a week and put in even more hours before the grand opening in August 2009. Laura Petrecca, “Leaving Corporate Life Behind,” *USA Today*, September 21, 2009, B1, 2. Dan Sanker, president and founder of CaseStack, a logistics outsourcing company, admits that he really doesn’t take any time off, despite his good intentions. Sanker strongly encourages people to follow their dreams and do something entrepreneurial as he has done. But he also reminds the aspiring entrepreneur to keep in mind that business ownership does not provide complete freedom and flexibility because you will ultimately “be beholden to investors, clients, and employees.” “Interview with an Entrepreneur—Dan Sanker of CaseStack,” E-Shadow.com, www.e-shadow.com/interview-with-an-entrepreneur-dan-sanker-of-casestack (accessed September 19, 2009). Vinny Lingham, founder of do-it-yourself Web site building company Yola, who recently secured \$20 million in investor funding and was featured on the cover of the July 2009 issue of *Entrepreneur* magazine, says, “Success may look like it happened overnight but that’s rarely the case in reality. You have to be prepared to put in long hours, take risks, and make personal sacrifices.” But he goes on to say, “And ideally the best time to make them is when you’re young, which is why I encourage young entrepreneurs to go for it.” Juliette Pitman, “Persistence Pays: Vinny Lingham,” *Entrepreneur*, July 2009, (accessed May 16, 2010). Read the entire article about Vinny Lingham’s entrepreneurial journey and success at.

Video: David Fox - Best and Worst of Being an Entrepreneur



Get Rich Quick? Probably Not

Entrepreneurs are motivated by discovery, creativity, and innovation. While almost three-quarters of current business owners surveyed by the Kauffman Foundation said that “building wealth” is the reason they became an entrepreneur, it may take a long time to realize the financial benefit of entrepreneurship. Laura Petrecca, “Leaving Corporate Life Behind,” *USA Today*, September 21, 2009, B2. For example, a **franchise**, a form of business organization in which a person, or **franchisee**, pays a company to use its name and market its products, can cost hundreds of thousands of dollars in up-front fees. “Franchise,” InvestorWords.com, www.investorwords.com/2078/franchise.html (accessed September 28, 2009). A Subway franchise can cost as much as \$250,000, not including any royalty fees, rent, product, or labor costs. Meanwhile, businesses that require inventory, such as retail stores or restaurants, require an investment in inventory, real estate, or even technology before the doors even open. But if the franchise or business idea is right, and the business is well run, the payback can be significant financially and personally.

Interestingly, it’s more than money that motivates many entrepreneurs. It’s more than “riches” according to Scott Laughlin, director of the University of Maryland’s Tech Entrepreneurship Program. Entrepreneurs are more interested in “wealth”; he points to two of the most famous entrepreneurs, Bill Gates from Microsoft and Warren Buffet from Berkshire Hathaway, who have pooled their resources into the \$60 billion philanthropy called the Bill & Melinda Gates Foundation. “Wealth is broader, encompassing less tangible rewards such as respect and independence,” says Laughlin.

✓ Top Franchise Opportunities

Top 200 Franchises of 2021

Key Takeaways

- **Entrepreneurship** is the practice of selling ideas and having the passion and perseverance to make it become a reality. **Entrepreneurs** are willing to take risks to bring a product or service to market.
- Some of the world’s largest companies were started by **entrepreneurs**.
- **Entrepreneurs** have a significant impact on the economy of the United States and the world.
- **Entrepreneurs** protect their ideas by applying for a **patent** from the United States government.
- **Entrepreneurs** flourish in a **free market system**, one in which an individual’s success is dictated by demand on the part of the consumer, not the government.
- Being an **entrepreneur** requires a unique idea, passion, and hard work to bring it to fruition.
- **Social entrepreneurship** includes nonprofit organizations as well as for-profit companies that focus on impacting society in a positive way.
- An **entrepreneur** may start a business based on a new idea or expand an existing brand by buying a **franchise**.

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