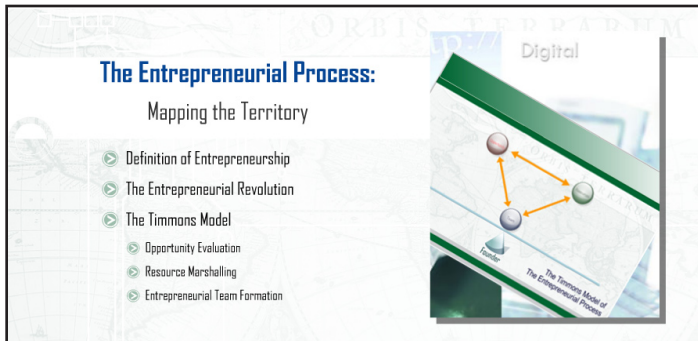


Welcome to The Entrepreneurial Process

Mapping the Territory



To begin the program, we will look at the evolution of the definition of entrepreneurship that encompasses not only new venture creation or “start-ups”, but also emphasizes entrepreneurial thinking and value creation applicable to organizations of all types and sizes.

Next, we’ll discuss the Entrepreneurial Revolution, with specific attention given to technology and innovation.

Then we will introduce the Timmons Model, which highlights the essential components in the entrepreneurial process: opportunity evaluation, resource marshalling, and entrepreneurial team formation.

Note that there are opportunities throughout this program for you to view video clips that elaborate on key content and provide a unique classroom perspective from Babson professor, Steve Spinelli.

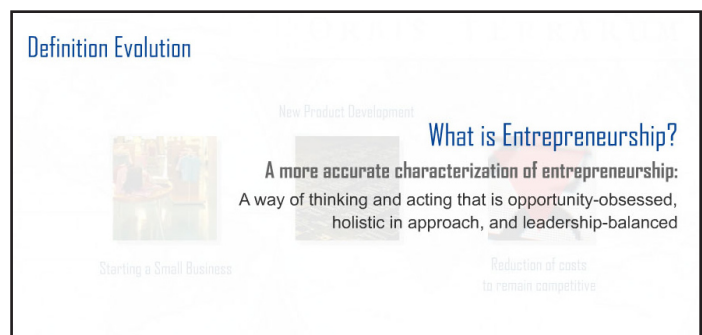
To view these clips, just click the video recorder icon whenever it appears on your screen.

How would you define entrepreneurship?

Traditionally, management-school definitions of entrepreneurship have been limited to ideas such as starting a small business, new product development, and the reduction of costs to remain competitive.

A broader definition of entrepreneurship is: the process of identifying an opportunity regardless of the resources currently available.

But even this definition isn’t broad enough, because it causes people to think solely in terms of start-ups, whereas entrepreneurial behavior is far more extensive than that.



So, an even broader, more accurate characterization of entrepreneurship has evolved:

Entrepreneurship is “A way of thinking and acting that is opportunity-obsessed, holistic in approach, and leadership-balanced.”

This definition of entrepreneurship encompasses start-ups, but it also goes beyond that. Entrepreneurship is more than just starting a business; it is looking at opportunities, putting everything together, being a leader, and keeping a balance, no matter what the status of the company.

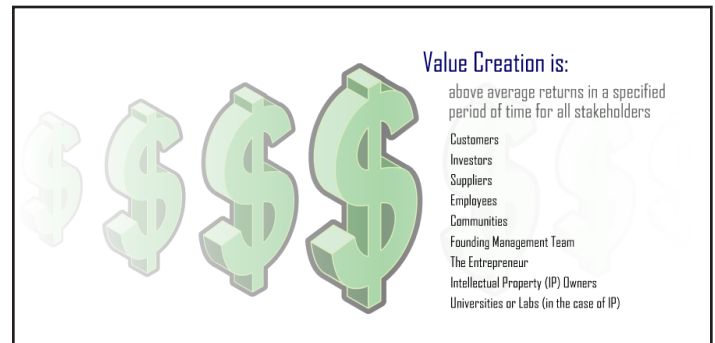
At this stage in the definition's evolution, it is clear that entrepreneurship applies to larger companies as well as new ventures and even non-profit organizations.

The action orientation of entrepreneurship requires consideration of all stakeholders. That leads to the final element in the definition of entrepreneurship, which is: "for the purpose of value creation."

The notion of value creation begs at least two questions: What is value and for whom?

First, the classic win-win of a deal is articulated in the new venture planning process.

Second, it's important to identify who your stakeholders are and to articulate how they will be rewarded by the success of the new venture; doing this will decrease the risk profile of the deal.



What exactly is "value creation"?

Value creation refers to above-average returns in a specified period of time for all stakeholders.

Stakeholders may include:

Customers

Investors

Suppliers

Employees

Communities

Founding Management Team

The Entrepreneur

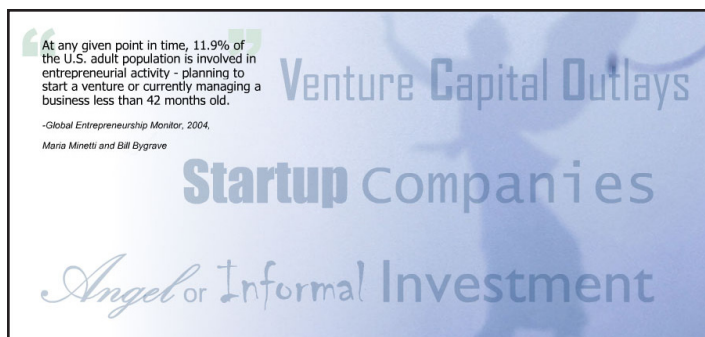
Intellectual Property (IP) Owners

Universities or Labs (in the case of IP)

Entrepreneurship

- Starting a business
- Looking for opportunities
- Putting everything together
- Being a leader
- Keeping balance in the company
- For the purpose of "Value Creation"

**What is value?
For Whom?**



“At any given point in time,

11.9% of the U.S. adult population is involved in entrepreneurial activity, which is defined as planning to start a venture or currently managing a business less than 42 months old.”

-Global Entrepreneurship Monitor

We’re in the midst of an entrepreneurial revolution, as evidenced by the increase in venture capital outlays, angel or informal investment, startup companies, and the introduction of new products by large corporations.

Investment in emerging companies tops \$100 billion annually. Over 5,000 new companies benefit from this explosion of capital investment.



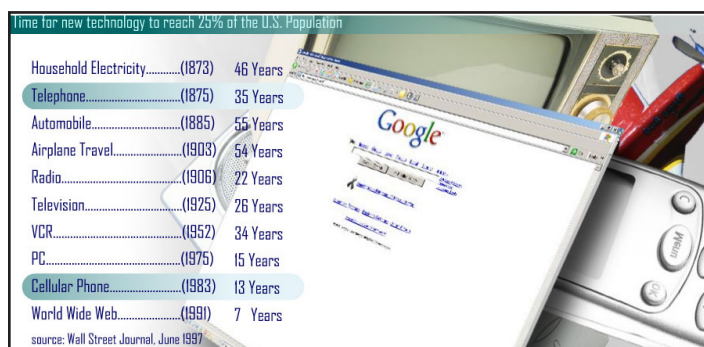
The Entrepreneurial Revolution is just one of three revolutions that are occurring simultaneously and synergistically.

The rise in entrepreneurship was triggered by the Internet Revolution, as evidenced by the surge in new companies and technologies that occurred in the 1990s.

Now the Digital Revolution is propelling the Entrepreneurial Revolution into the foreseeable future.

The amount of data being digitized and used for business start-ups and enhanced business processes goes far beyond the Internet into television, telecommunications, biotechnology, pharmaceuticals, and other industries.

Those who think the Entrepreneurial Revolution is going to wane could miss huge opportunities.



Innovation is the cornerstone of entrepreneurial activity that spurs economic growth and prosperity. So, economic growth depends on the rate at which technology advances.

As the entrepreneurial revolution has advanced, the number of years it has taken for new technologies to be adopted has dramatically decreased.

For example, it took 35 years for 25% of the U.S. population to adopt telephone technology in the late 1800s, but only 13 years for cellular phone technology to be adopted by the same percentage one hundred years later.

Through entrepreneurship and innovation, the world is transformed.

“ The destination of the entrepreneurial spirit is innovation fueled by creativity and speed.

Innovation must be continuous.

The essence of maintaining greatness is nonstop reinvention because if you're in constant motion, nobody can catch you.

Arthur M. Blank, Founder of The Home Depot and Babson Alumnus
January 2003



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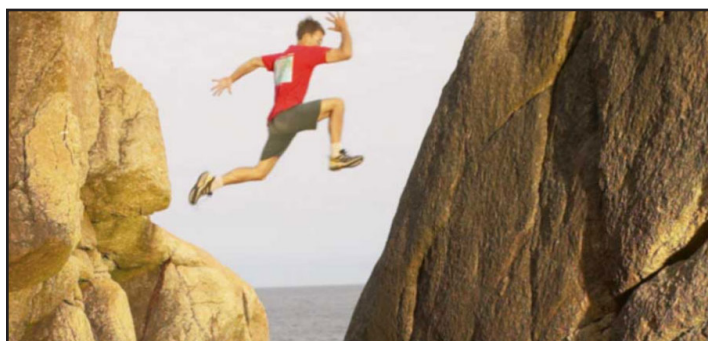


Although both methods have their pros and cons, the best entrepreneurs use a balance of both.

Think of entrepreneurship as a full contact sport. The value comes in the collision between spontaneity and opportunism, and discipline and processes.

A winning entrepreneurial mindset balances the two forces, maximizing the chances of an idea's success by subjecting it to rigorous and objective scrutiny, while at the same time understanding the need to move quickly and adventurously while the window of opportunity is still available.

Entrepreneurs as extreme risk takers is a myth; they are typically highly calculating risk-takers.

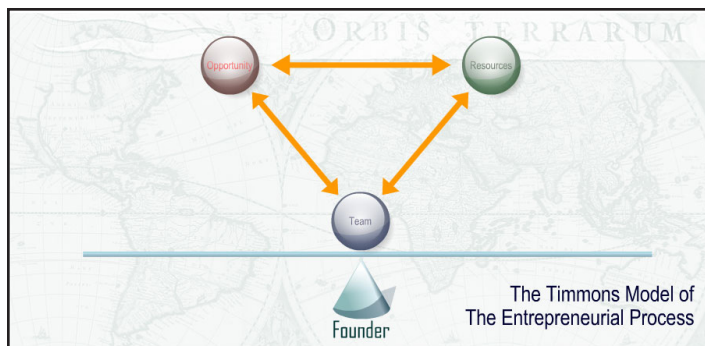


So who are today's entrepreneurs?

Some entrepreneurs go with a gut feeling and proceed recklessly with an idea that may seem too compelling to fail.

Others take a relatively saner, methodical approach, immersing themselves in a more sensible process of building their venture slowly and steadily.





Entrepreneurship is not always a high-risk bet. The likelihood of venture success can be gauged.

We're now going to look at the Timmons Model, which is the basis for identifying and evaluating venture potential.

The model identifies three controllable components of the entrepreneurial process that can be assessed, influenced, shaped and altered.

The three components are the opportunity, the resources, and the team.

The key ingredient is the founder or entrepreneur.

The entrepreneur searches for an opportunity and shapes it to be a high-potential venture.

The entrepreneur then gathers the resources that are necessary to start a business to capitalize on the opportunity.

An entrepreneurial team is a key component for success ensuring that the necessary skills are in place to increase the likelihood of venture success.

The entrepreneurial process begins with more than an idea; it requires an opportunity.

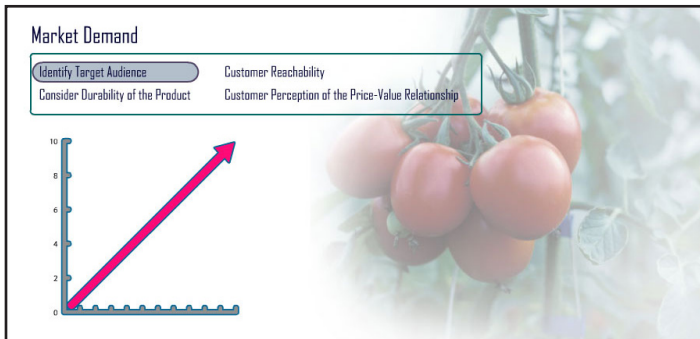
How do you distinguish mere ideas from opportunities?

One system for identifying bona fide opportunities is The Three Ms:

market demand,
market size and structure,
and margin analysis.

Assessing opportunities with the Three Ms framework will expand your entrepreneurial world view and help you become a nimble opportunity analyst.





The first of the 3 Ms is Market Demand, which is a key factor in assessing opportunity.

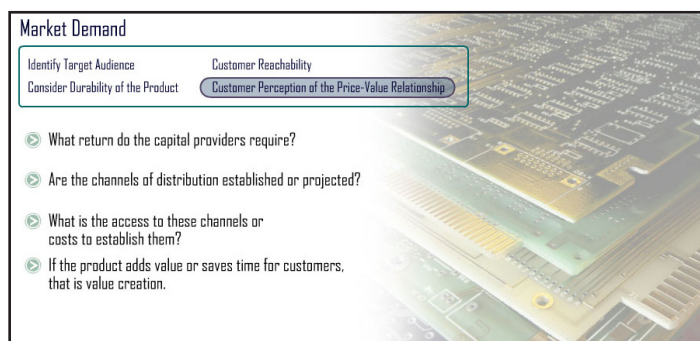
There are many ways to gauge market demand; start with market share and growth potential.

Companies that grow, succeed.

McDonald's founder Ray Kroc was fond of describing organizations as "green and growing or ripe and rotting."

Understanding the nature of market demand requires identifying the target audience.

Leveraging existing demand into a steeply inclined demand curve creates an attractive entrepreneurial environment. Growth separates an entrepreneurial business from a small business.



Another aspect of market demand to consider is the durability of the product to enable a sound return. The amount and nature of return is a market function.

What return do the capital providers require?

Another factor of market demand is customer reachability: Are the channels of distribution established or projected?

What is the access to these channels or the costs to establish them?

Finally, how will the customer perceive the price-value relationship?

For example, spreadsheet programs and other applications help customers complete tasks in a drastically reduced amount of time.

This timesaving value may, in turn, win them new clients and revenues.

That's value creation.



The second of the Three Ms is market size and structure.

There are three important questions to consider when gauging market size and structure:

First, is the market emerging and/or fragmented?

In other words, envision the big picture of an industry lifecycle.

A fragmented market that can be consolidated around a superior product or service is rich entrepreneurial territory.

For example, prior to Jiffy Lube, the concept of an oil change was the domain of small, full-service gas stations.

The founders of Jiffy Lube identified the unmet need of fast, on demand oil changes, which quickly evolved into a new market for automotive preventive maintenance for busy consumers.

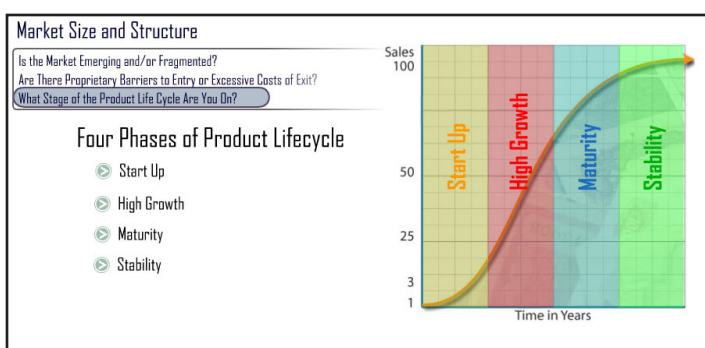


The second question to consider in terms of market size and structure is:

Are there proprietary barriers to entry or excessive costs of exit?

Even in a potentially fruitful market, there may be little opportunity if the field is dominated by a few competitors who control intellectual property or other key ingredients needed for the product.

Clearly, the allure of technology companies is the competitive advantage provided by patents or technological secrets. No venture is a sure thing, but a close examination of the market size and structure will help minimize risk.



The third question to consider in terms of market size and structure is:

What is the stage of the product lifecycle?

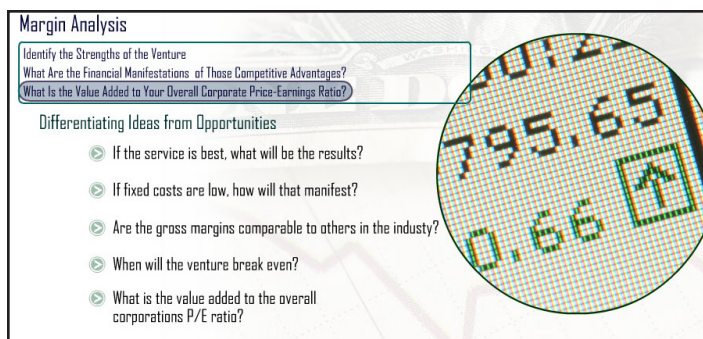
Look at the product or service on the lifecycle s-curve:

The four phases of a product's lifecycle are start-up, high-growth, maturity, and stability.

The high-growth stage represents the greatest potential for success, as well as the lowest risk.

Of course, that doesn't mean that money can't be made on other parts of this curve.

Many entrepreneurs have discovered opportunities by mining emerging or mature markets for hidden potential.



The last M in opportunity assessment is margin analysis, which is key to differentiating ideas from opportunities.

Analyze the idea to identify the strengths of the venture.

After pinpointing those strengths, ask, "What are the financial manifestations of those competitive advantages?"

In other words, if the service is best, what will be the result?

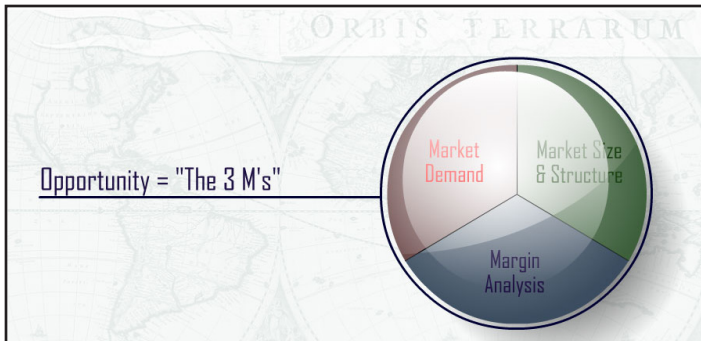
If fixed costs are low, how will that manifest?

Are the gross margins reasonable and comparable to others in the industry? When will the venture break even?

An ideal break-even point is one to two years.

Finally, if the opportunity is to be implemented within a corporate organization, what is the value added to the overall corporate price-earnings ratio?

That is, will the new venture's launch affect the capital markets' perception of the entire corporate price-earnings ratio?



To summarize the 3 Ms framework, market demand is a key factor in assessing an opportunity.

Market size and structure help define the opportunity, and margin analysis helps differentiate an opportunity from an idea.



Now let's look at some of the next steps in the entrepreneurial process, including resource marshalling and forming an entrepreneurial team.

After assessing an opportunity, resources are required to get started.

It is important to minimize and control resources rather than maximizing and owning them.

Entrepreneurs are highly creative in how they leverage and maximize their resources;

this is often termed "bootstrapping".

Entrepreneurs must not be consumed by the need for cash because cash is often unavailable.

How do you start something with nothing?

Entrepreneurs find a way...

Conventional thinking about resource marshalling is very cash-oriented, and the scarcity of cash in a new venture will often inhibit the risk-averse investor.

To offset this potential for investor skepticism, as well as to decrease dependence on predictable cash flow, consider creative resource marshalling, such as leasing equipment and property instead of burning through cash by purchasing everything.

Recruit employees on a variable cost or incentive

Creative Resource Marshalling:
Methods of Conserving Cash

- ▶ Lease equipment and property instead of purchasing
- ▶ Recruit employees on variable cost or incentive basis (possibly using equity to attract employees)
- ▶ Negotiate the longest terms possible from suppliers and use cash from sales, not out of pocket, to pay them



basis.

Many entrepreneurial firms conserve cash by using equity to attract employees.

Negotiate the longest terms possible from suppliers to be able to use incoming cash from sales to pay them.

Understand and use your resources;

don't be driven by them.

Entrepreneurial Team

- Match opportunity with human resources
- A strong entrepreneurial mindset of tolerating risks and inspiring creativity is needed
- The quality of the team is the key to success



The next step in the entrepreneurial process is forming the entrepreneurial team.

Developing a strong entrepreneurial team requires understanding the nature and extent of the opportunity and matching those characteristics with human resources.

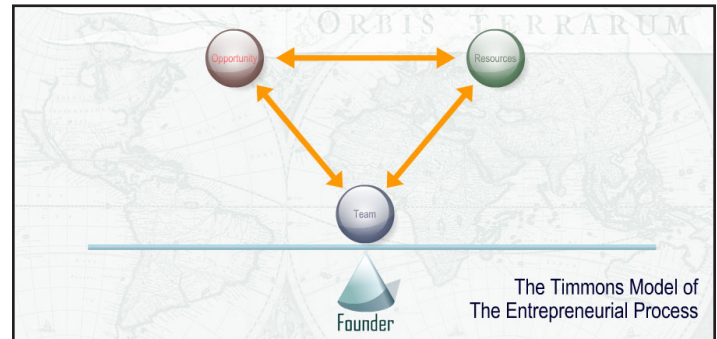
The attributes of a strong entrepreneurial mindset are similar for both leader and team and include the willingness to tolerate risk and inspire creativity.

The quality of the entrepreneurial team is a key to a venture's success.

It is very rare for an entrepreneur to build a high-growth venture solo.

The entrepreneurial team can successfully fill competency and experience gaps to assist the venture in raising capital and successfully navigating the challenges inherent in fast-growing ventures.

The lead entrepreneur is the key to attracting a management team capable of moving the venture to the next level.



To summarize, let's take another look at the Timmons Model.

Recall that the Timmons Model is the basis for identifying and evaluating venture potential.

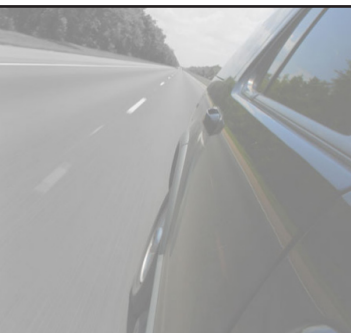
The Entrepreneurial Process is driven by the opportunity.

It is important to understand and marshal the required resources but not be driven by them.

An entrepreneurial team is a key component for success.

An Entrepreneur

- Experienced in the field
- Tolerant of risk, ambiguity, and uncertainty
- Motivated to excel
- Committed and determined
- Creative
- Adaptable
- Possessing leadership and communications skills



The most successful entrepreneurs are experienced in the field; tolerant of risk, ambiguity and uncertainty; motivated to excel; committed and determined; creative; adaptable; and possess leadership and communication skills.