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ALL ABOUT ENTREPRENEURSHIP

GOALS

Define entrepreneurship
Recognize entrepreneurial opportunities and factors for success

KEY TERMS

entrepreneurs, p. 4
entrepreneurship, p. 4
employees, p. 5



JUMP START

John owns a house painting business. While he was shopping for painting supplies at the hardware store, he noticed a new device that would make painting around trim and other edges much easier. The design was so simple that John wondered why he hadn't thought of it. An entrepreneur is someone who takes an idea, acts on it, and develops it to offer a new product or service. Have you ever seen a new product or service and thought to yourself, "I had the same idea. I wish I had started this business!"



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What Is an Entrepreneur?

The U.S. economy includes thousands of small businesses. Many of these small businesses are owned and operated by men and women who created their own companies. What makes someone an entrepreneur? What impact have entrepreneurs had in history? What impact do they have today?

People who own, operate, and take the risk of a business venture are called **entrepreneurs**. They are engaged in **entrepreneurship**, the process of running a business of one's own. Entrepreneurs come from all types of backgrounds and create all kinds of businesses. People of all ages choose to become entrepreneurs. Some own tiny craft shops while others own huge construction companies. Entrepreneurs try to identify unmet needs in the marketplace. Then they provide a service or product to meet those needs. When they succeed, their businesses flourish and profits are earned. But if their business idea is unsuccessful, they may lose the money they invested.

Employees vs. Entrepreneurs

Entrepreneurs assume risk. This makes them different from **employees**, who are people who work for someone else. Both may make decisions, but only the entrepreneur is directly affected by the consequences of those decisions. Sam Jones manages a record store owned by Felipe Santiago. Sam decides to keep the store open until midnight during the week. If the additional hours bring in customers and increase profits, Sam may be praised by Felipe. He may even get a raise. However, Sam won't directly receive any of the profits because he is an employee. The additional earnings will flow to Felipe, the owner.

Why Do People Become Entrepreneurs?

People go into business for themselves for many reasons. Some want to leave the fast-paced corporate environment and set their own schedules. Others want to be at home but still earn an income. Still others want to pursue a personal dream. You might choose to become an entrepreneur for completely different reasons.

Types of Entrepreneurial Businesses

There are generally four types of businesses, and there are opportunities for entrepreneurs in each type. See the chart on the next page. *Manufacturing businesses* actually produce the products they sell. Using resources and supplies, they create everything from automobiles to paper. *Wholesaling businesses* sell products to other businesses rather than the final consumer. For example, a wholesaler supplies your local greeting card store with items such as cards and wrapping paper. *Retailing businesses*, such as a greeting card store, sell products directly to those who use or consume them. *Service businesses* sell services rather than products. They include hotels, hairdressers, and repair shops.

Other Business Areas Two other categories of businesses are (1) agricultural and (2) mining and extracting businesses. *Agricultural businesses* generate fresh produce and other farm products, such as wheat. *Mining and extracting businesses* take resources like coal out of the ground so they can be consumed.

Green Entrepreneurship In today's economy, there are many opportunities for entrepreneurs who have ideas for new products or services that are considered green or organic. Because of the growing movement toward environmentally friendly products, entrepreneurs who have a passion toward being green have an advantage when introducing their product or service on the market. It is important for green entrepreneurs to educate their customers about how their products or services benefit the earth or conserve resources. In addition to offering green products, entrepreneurs who use green business practices, such as recycling and working with other green-minded companies, are often favored by customers.

DID YOU KNOW ?

A study by the Organic Trade Association shows that nonfood organic product sales reached \$744 million in U.S. consumer sales in 2005.

TYPES OF ENTREPRENEURIAL BUSINESSES

Manufacturing	Wholesaling	Retailing	Service
Apparel and other textile products	Apparel	Auto and home supply stores	Appliance repair
Chemicals and related products	Electrical goods	Building materials and supply stores	Automotive repair
Electronics and other electrical equipment	Groceries and related products	Clothing stores	Babysitting
Fabricated metal products	Hardware, plumbing, heating equipment	Florists	Bookkeeping
Food products	Lumber, construction materials	Furniture stores	Consulting
Industrial machinery and equipment	Machinery, equipment, supplies	Gift, novelty, and souvenir stores	Dance instruction
Printing and publishing	Motor vehicles, automotive equipment	Grocery stores	Exterminators
Rubber and miscellaneous plastic products	Paper, paper products	Hardware stores	Electrical service
Stone, clay, and glass products	Petroleum, petroleum products	Jewelry stores	Flower decorating
		Retail bakeries	House cleaning
		Shoe stores	Lawn care
		Sporting goods and bicycle stores	Painting
			Plumbing
			Translating
			Travel agency
			Tutoring
			Web design and maintenance

Recognizing Opportunity

Many of America's most successful companies started with one person who recognized an opportunity and came up with an idea for a business in response to that opportunity. Entrepreneurs have played an important role in the history of America's economy and will continue to shape our economy in the future.

According to estimates from the U.S. Small Business Administration's Office of Advocacy, there were approximately 29.6 million businesses in the United States in 2008. Small firms with fewer than 500 employees represent 99.9 percent of these U.S. businesses. Only 18,000 U.S. businesses are considered large. According to the National Small Business Association, small businesses created 21.9 million jobs in the last 15 years compared with 1.8 million jobs for large businesses.

Entrepreneurs Who Changed America

Entrepreneurs change American business decade after decade. They establish new companies and fill unmet needs. They continuously change how things are done and contribute to the overall economic good of the nation.

Starbucks Coffee Company Starbucks Coffee Company was founded in 1971, opening its first location in Seattle's Pike Place Market. Starbucks is named after the first mate in Herman Melville's novel *Moby Dick*. It is the world's leading brand of specialty coffee. Its stores receive more than 40 million customer visits per week at coffeehouses in North America, Europe, the Middle East, Latin America, and the Pacific Rim. When Howard Schultz first joined the company in the early 1980s, Starbucks was already a highly respected local roaster and retailer of whole bean and ground coffees. A business trip to Italy, where he was impressed with the popularity of espresso bars, helped Schultz recognize an opportunity to develop a similar coffeehouse culture in Seattle. Espresso drinks became an essential element of Schultz's vision. He purchased Starbucks with the support of local investors in 1987. In addition to its well-situated coffeehouses, Starbucks markets its coffee and tea products through its website and through many national retail supermarkets.



Why has Starbucks been so successful?

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Cross-Cultural Relationships

U.S. ENTREPRENEURS RESPECT CULTURAL DIVERSITY

The United States represents a rich and diverse marketplace. This means entrepreneurs need to identify the needs and wants of different cultures. One of the fastest-growing segments of the American population speaks Spanish. Many Spanish-speaking consumers prefer to watch Spanish-speaking television and read Spanish-language newspapers. To reach this growing group of consumers, entrepreneurs will need to understand that they cannot use traditional English-speaking media to promote their product or service. Today there are many cable channels devoted to Spanish-speaking entertainment and advertising. Many newspapers also have a Spanish-language version.

Think Critically

List ways that entrepreneurs can reach Spanish-speaking consumers.

The Home Depot In 1979, Bernie Marcus and Arthur Blank opened the first The Home Depot stores in Atlanta, Georgia, forever changing the home improvement industry. They envisioned a home improvement store that offered one-stop shopping for the do-it-yourselfers. The original stores stocked around 25,000 products. An average store today offers 40,000 products in approximately 105,000 square feet. Marcus and Blank's vision was of warehouse stores filled from floor to ceiling with a wide assortment of home improvement products at the lowest possible prices and with the best possible service. Within five years, The Home Depot expanded from Georgia to Florida, Louisiana, Texas, and Alabama. Today, it has more than 2,200 stores throughout the world.

Harpo Productions, Inc. Oprah Winfrey's love of acting and her desire to produce quality entertainment projects prompted her to form her own production company, HARPO Productions, Inc., in 1986. Today, HARPO is a formidable force in film and television production. Based in Chicago, HARPO Entertainment Group includes HARPO Productions, Inc., HARPO Films, and HARPO Video, Inc. In October 1988, HARPO Productions, Inc., acquired ownership and all production responsibilities for *The Oprah Winfrey Show* from Capital Cities/ABC, making Oprah Winfrey the first woman in history to own and produce her own talk show. Oprah has also produced and appeared in several television miniseries and movies.

Entrepreneurial Opportunities in Economic Recovery

Even during downturns in the economy, entrepreneurial opportunities still exist. While big businesses tend to be more conservative in their approach to economic slowdowns by scaling back production, conserving cash, and laying off workers, small businesses that have less to lose are more willing and able to make changes quickly. They can be more creative and take more risks than large companies. Their experimentation and innovation lead to technological change and increased productivity. This makes small businesses a significant part of the economic recovery process.

The American Recovery and Reinvestment Act of 2009 was passed to stimulate the American economy after the 2008 economic slowdown. It has a number of provisions to help small businesses, including \$30 billion in tax relief for small businesses and \$13 billion in loans, lines of credit, and equity capital. Other provisions include

- Increasing the Small Business Administration (SBA) guarantee on loans up to 95% of loan value
- Improving the liquidity of small business lending markets
- Allowing the SBA to refinance existing loans, including those with both the SBA and other lenders
- Increasing equity capital for high-growth businesses
- Providing lending assistance for borrowers locked out of traditional financing markets
- Offering tax relief in several forms

The stimulus package also contains significant new support to increase green businesses, including incentives to drive the growth of renewable energy, stimulate energy efficiency efforts, and update the national electrical grid.

Business Success or Failure

Although there are many opportunities for entrepreneurial success, there is also a risk of failure. According to a recent study by the Small Business Administration's Office of Advocacy, two-thirds of new businesses survive at least two years, and 44 percent survive at least four years. This means that more than half of all new businesses do not survive beyond four years. These results are similar for different industries. Many people think that there is a higher failure rate for restaurants than other types of businesses. However, leisure and hospitality establishments, which include restaurants, survive at rates only slightly below the average. Major factors in a firm's success include having adequate capital, providing a product or service that meets customer needs, the owner's education level, and the owner's reason for starting the firm in the first place, such as freedom for family life or wanting to be one's own boss. The reason must sufficiently motivate the entrepreneur to have the perseverance to succeed.

The owner's business experience is a factor that contributes to the likelihood of success. Experienced businesspeople have an understanding of how to purchase products and services. They know how to plan, negotiate with suppliers, raise money, negotiate leases, sell and market their product or service, and manage finances. Many businesses fail because the owner lacks business knowledge. Someone may have an idea for a product or service but lack the necessary business skills he or she needs to run a successful business. There is a major difference between having expertise regarding a product or service and running a business with that product or service. So when opportunity presents itself, entrepreneurs must have what it takes to succeed.



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How does an owner's business experience play a role in the business's success?