PARTI

The Opportunity

The Entrepreneurial Revolution  3
The Entrepreneurial Revolution 3
  The Entrepreneurial Generation and the Death of Brontosaurus  
Capitalism  4
Entrepreneurship: America’s Secret Weapon  4
Entrepreneurship: A New Centerpiece in American Public Policy  
Debate  4
The Entrepreneurial Revolution: A Decade of Acceleration and Boom  14
The Global Economic Weapon  15
America’s Self-Made Millionaires  16
Dawn of the New Age of Equity Creation  16
  Building an Entrepreneurial Society  17
Chapter Summary  19
Study Questions  19
Mind Stretchers  20
Exercise
  Visit with an Entrepreneur and Create a Lifelong Learning Log  21
Case: PC-Build, Inc.  23

2 The Entrepreneurial Process  47
Demystifying Entrepreneurship  47
Classic Entrepreneurship: The Startup  48
Entrepreneurship in Post-Brontosaurus Capitalism: Beyond Startups  48
  “People Don’t Want to Be Managed. They Want to Be Led”  48
Signs of Hope in a Corporate Ice Age  49
Metaphors  49
Entrepreneurship = Paradoxes  50
  The Higher Potential Venture: Think Big Enough  51
Smaller Means Higher Failure Odds  52
  Getting the Odds in Your Favor  53
Promise of Growth  54
Venture Capital Backing  54
Private Investors Join Venture Capitalists  55
Find Financial Backers and Associates Who Add Value  55
Option: The Lifestyle Venture  55
The Timmons Model: Where Theory and Practice Collide in the Real World  56
  Intellectual and Practical Collisions with the Real World  56
Value Creation: The Driving Forces  56
Change the Odds: Fix It, Shape It, Mold It, Make It  56
Recent Research Supports the Model  63
Entrepreneurial Reasoning: The Entrepreneurial Mind in Action 63
  Apprenticeship: Acquiring the 50,000 Chunks 65
  Role Models 66
  Myths and Realities 66
  What Can Be Learned? 66
  A Word of Caution: What SATs, IQ Tests, GMATs, and Others Don’t Measure 69
  Chapter Summary 70
  Study Questions 70
  Mind Stretchers 71
  Case: James Kenefic: The Making of an Entrepreneur 72

3 The Opportunity: Creating, Shaping, Recognizing, Seizing 79
  Think Big Enough 79
  Opportunity through a Zoom Lens 80
    Transforming Caterpillars into Butterflies 80
    New Venture Realities 80
    The Circle of Ecstasy and the Food Chain for Ventures 81
    When Is an Idea an Opportunity? 82
    The Real World 82
    Spawners and Drivers of Opportunities 82
    Search for Sea Changes 84
    Desirable Business/Revenue Model Metrics 84
    The Role of Ideas 84
      Ideas as Tools 84
      The Great Mousetrap Fallacy 85
      Contributors to the Fallacy 86
    Pattern Recognition 86
      The Experience Factor 86
      Enhancing Creative Thinking 87
      Approaches to Unleashing Creativity 87
      Team Creativity 87
      Big Opportunities with Little Capital 88
      Real Time 89
      Relation to the Framework of Analysis 90
  Screening Opportunities 91
    Opportunity Focus 91

Screening Opportunities: The Characteristics of High Potential Ventures 91
  Gathering Information 100
    Finding Ideas 100
    Published Sources 103
    Other Intelligence 104
  Chapter Summary 104
  Study Questions 105
  Mind Stretchers 105
  Case: Roxanne Quimby 106
  Exercises 113

4 Screening Venture Opportunities 119
  Screening Venture Opportunities 119
    Four Anchors 119
    QuickScreen 120
      Venture Opportunity Screening Exercises (VOSE) 120
    Exercise QuickScreen 121
  Venture Opportunity Screening Exercises 122
    Exercise 1 Opportunity Concept and Strategy Statement 123
    Exercise 2 The Venture Opportunity Profile 124
    Exercise 3 Opportunity Shaping Research and Exercise 128
    Exercise 4 Customer Contact Research and Exercise 134
    Exercise 5 Mining the Value Chain—Defining the “White Space” 137
    Exercise 6 Economics of the Business—How Do You Make Money in the White Space 141
    Exercise 7 Capital and Harvest—How Will You Realize Dollars from the Venture 148
    Exercise 8 Competitive Landscape—Your Strategic Analysis 150
    Exercise 9 Founder’s Commitment 159
    Exercise 10 Flaws, Assumptions, and Downside Consequences—Risk Reconsidered 161
    Exercise 11 Action Steps—Setting a Wee/c-by-Week Schedule 163
    Exercise 12 Four Anchors Revisited 165
  Case: Gary and George Mueller 166
5 Entrepreneurs and the Continuing Internet Revolution: The Expanding Frontier 183
   The Continuing Internet Revolution: The Expanding Frontier 183
   Internet Overview 184
   Origins of the Internet 186
   A Quick Overview of Internet Basics 187
   WebSites 187
   Usenet 187
   Mailing Lists 188
   Search Engines 188
   The Dot.com Experience 188
   The Internet Business Environment and Business Models 189
   Internet Business Environment 189
   Internet Business Models 190
   How an Existing Business Can Benefit from the Internet 191
   Customer Service/Support 192
   Technical Support 194
   Data Retrieval 194
   Public Relations and Investor Relations 195
   Selling Products and Services 195
   An Example: The Internet Fashion Mall 195
   Factors to Consider in Designing Your Commercial Web Site 195
   Security and Payment Issues 196
   Cutting Costs 196
   Obtaining Advice/Information 197
   Internet-Related Opportunities for the Creation of New Businesses 198

Chapter Summary 199
Study Questions 199
Mind Stretcher 199
Case: Securities Online, Inc. 200
Appendix A Excerpts from the Securities Online Business Plan 203

6 Franchising 221
   Introduction 221
   Job Creation versus Wealth Creation 222
   Franchising: A History of Entrepreneurship 222
   Franchising: Assembling the Opportunity 223
   Primary Target Audience 223
   Evaluating a Franchise: Initial Due Diligence 225
   Franchisor as the High Potential Venture 226
   Key Components of a Franchise Offering 227
   Service Delivery System 227
   Training 228
   Field Support 228
   Marketing, Advertising, and Promotion 229
   Product Purchase Provision 230
   Franchise Relationship Model 230
   Chapter Summary 232
   Study Questions 232
   Mind Stretcher 232
   Case: Mike Bellobuono 233

PART II

The Founders

7 Entrepreneurial Mind in Thought and Action 245
   The Search for Understanding 245
   Three Principles for Achieving Entrepreneurial Greatness 245
   Leadership and Human Behavior 246
   Research 247
   Converging on the Entrepreneurial Mind 249
   Desirable and Acquirable Attitudes and Behaviors 249

Six Dominant Themes 249
Other Desirable (But Not So Acquirable) Attitudes and Behaviors 255
Demographic Shifts in the Entrepreneurial Landscape 256
   The Impact of Gender 256
   Race, Ethnicity, and Culture 257
   A New Generation of Business Owners 258
   Toward Inclusion of Diverse Groups in Entrepreneurship 258
## Table of Contents

### A Look at the Nonentrepreneurial Mind 258
- The Concept of Apprenticeship 259
  - Shaping and Managing an Apprenticeship 259
  - Windows of Apprenticeship 260
  - A Personal Strategy 261
- Entrepreneur's Creed 262
- Chapter Summary 262
- Study Questions 262
- Mind Stretchers 263
- Exercise QuickLook: The Personal Entrepreneurial Strategy 26 A
  - Case: Michael Healey (A) 265

### The Entrepreneurial Manager 273
- The Entrepreneurial Domain 273
  - Converging on the Entrepreneurial Manager 273
  - Principle Forces and Venture Models 274
- Stages of Growth 276
  - A Theoretical View 276
  - Managing for Rapid Growth 277
  - What Entrepreneurial Managers Need to Know 280
- Management Competencies 281
  - Skills in Building Entrepreneurial Culture 281
  - Other Management Competencies 283
- Chapter Summary 285
- Study Questions 285
- Mind Stretchers 286
- Exercise Managerial Skills and Knowledge Assessment 287
  - Case: Burt's Bees 297

### The New Venture Team 303
- The Importance of the Team 303
  - The Connection to Success 303
  - Forming and Building Teams 304

## PART III: Resource Requirements

### Resource Requirements 347
- The Entrepreneurial Approach to Resources 347
  - Bootstrapping Strategies: Marshaling and Minimizing Resources 348
  - Build Your Brain Trust 349
<table>
<thead>
<tr>
<th>Using Other People’s Resources (OPR) 349</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside People Resources 350</td>
</tr>
<tr>
<td>Board of Directors 350</td>
</tr>
<tr>
<td>Alternatives to a Formal Board 352</td>
</tr>
<tr>
<td>Attorneys 353</td>
</tr>
<tr>
<td>Bankers and Other Lenders 355</td>
</tr>
<tr>
<td>Accountants 356</td>
</tr>
<tr>
<td>Consultants 357</td>
</tr>
<tr>
<td>Financial Resources 358</td>
</tr>
<tr>
<td>Analyzing Financial Requirements 358</td>
</tr>
<tr>
<td>General Resource Information 364</td>
</tr>
<tr>
<td>Chapter Summary 364</td>
</tr>
<tr>
<td>Study Questions 364</td>
</tr>
<tr>
<td>Mind Stretchers 365</td>
</tr>
<tr>
<td>Exercise Build Your Brain Trust 366</td>
</tr>
<tr>
<td>Exercise How Entrepreneurs Turn Less into More 367</td>
</tr>
<tr>
<td>Case: FAX International, Inc. 368</td>
</tr>
</tbody>
</table>

### 12 The Business Plan 397
Developing the Business Plan 397

The Plan Is Obsolete at the Printer 398

### PART IV
Financing Entrepreneurial Ventures

#### 13 Entrepreneurial Finance 443
Venture Financing: The Entrepreneur’s Achilles’ Heel 443

- Financing Management Myopia: It Can’t Happen to Me 444
- Critical Financing Issues 445
- Entrepreneurial Finance: The Owner’s Perspective 446

Determining Capital Requirements 449

- Financial Strategy Framework 449
- Free Cash Flow: Burn Rate, OOC, and TTC 450

Crafting Financial and Fund-Raising Strategies 451

- Critical Variables 451
- Financial Life Cycles 452
- Investor Preferences 452

Chapter Summary 452

Study Questions 453

Mind Stretchers 454

**Case:** Fax International Japan (A) 455

#### 14 Obtaining Venture and Growth Capital 469
The Capital Markets Food Chain 469

- Cover Your Equity 470
- Timing 471

- Angels and Informal Investors 471
  - Who They Are 471
  - Finding Informal Investors 472
  - Contacting Investors 473
  - Evaluation Process 473
  - The Decision 473

Venture Capital: Gold Mines and Tar Pits 473

- What Is Venture Capital? 474

- The Venture Capital Industry 475
  - The Booming 90s 476
  - Beyond the Crash of 2000: The Venture Capital Cycle Repeats Itself 477

- The Venture Capital Process 479
  - Identifying Venture Capital Investors 481
Table of Contents

15 The Deal: Valuation, Structure, and Negotiation 501
The Art and Craft of Valuation 501
What Is a Company's Worth? 501
Determinants of Value 501
Long-Term Value Creation versus Quarterly Earnings 502
Psychological Factors Determining Value 502
A Theoretical Perspective 502
Investor's Required Rate of Return (IRR) 502
Investor's Required Share of Ownership 502
The Theory of Company Pricing 503
The Reality 504
The Down Round or Cram Down circa 2002 504
Valuation Methods 505
The Venture Capital Method 505
The Fundamental Method 506
The First Chicago Method 507
Ownership Dilution 507
Discounted Cash Flow 508
Other Rule-of-Thumb Valuation Methods 508

16 Obtaining Debt Capital 531
A Cyclical Pattern: The Good Old Days Return but Fade Again 531
A Word of Caution 532
The Lender's Perspective 532
Sources of Debt Capital 532
Trade Credit 534
Commercial Bank Financing 534
Line of Credit Loans 534
Time-Sales Finance 535
Term Loans 535
Chattel Mortgages and Equipment Loans 536
Conditional Sales Contracts 536
Plant Improvement Loans 536
Commercial Finance Companies 536
Factoring 537
Leasing Companies 538
Before the Loan Decision 539
PART IV

Startup and After

17 Managing Rapid Growth: Entrepreneurship Beyond Startup 559
   Inventing New Organizational Paradigms 559
   Entrepreneurial Leaders Are Not Administrators or Managers 560
   Breakthrough Strategy: Babson’s F. W. Olin Graduate School 560
   Leading Practices of High Growth Companies 560
   Growing Up Big 561
      Stages of Growth Revisited 561
      Core Management Mode 562
      The Problem in Rate of Growth 562
      Industry Turbulence 565
   The Importance of Culture and Organizational Climate 566
      Six Dimensions 566
   Approaches to Management 567
   Entrepreneurial Management for the 21st Century: Three Breakthroughs 568
      Ewing Marion Kauffman and Marion Labs 568
      Jack Stack and Springfield Remanufacturing Corporation 569
      Ralph Stayer and Johnsonville Sausage Company 569
   The Chain of Greatness 570
   Chapter Summary 571
   Study Questions 571
   Mind Stretchers 572
   Case: Quick Lube Franchise Corporation (QLFC) 573

18 The Entrepreneur and the Troubled Company 579
   When the Bloom Is off the Rose 579
      Getting into Trouble—The Causes 580
      Getting Out of Trouble 581
      Predicting Trouble 581
      Net-Liquid-Balance-to-Total-Assets Ratio 582
      Nonquantitative Signals 582
      The Gestation Period of Crisis 582
      The Paradox of Optimism 583
      The Bloom is off the Rose—Now What? 583
      Decline in Organizational Morale 584
   The Threat of Bankruptcy 584
      Voluntary Bankruptcy 584
      Involuntary Bankruptcy 584
      Bargaining Power 584
   Intervention 585
      Diagnosis 585
      The Turnaround Plan 586
      Longer-Term Remedial Actions 589
   Chapter Summary 589
   Study Questions 589
   Mind Stretchers 589
   Case: EverNet Corporation 590

19 The Harvest and Beyond 605
   A Journey, Not a Destination 605
   The Journey Can Be Addictive 605
   First Build a Great Company 606