New Venture Creation Entrepreneurship for the 21st Century 10th edition Spinelli Solutions Manual

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Chapter Two 2

The Entrepreneurial Mind: Crafting a Personal Entrepreneurial Strategy

Learning Outcomes

After reading this chapter you will be able to understand:

2-1 Entrepreneurial characteristics

2-2 Desired and acquirable attitudes, habits, and behaviors of entrepreneurs.

2-3 Tolerance of risk, ambiguity, and uncertainty

2-4 Creativity, self-reliance, and adaptability

2-5 The entrepreneurial mind in action

2-6 Who is the entrepreneur?

2-7 The concept of apprenticeship

2-8 Role models

2-9 Myths and realities

2-10 What can be learned?

Teaching Pedagogies

There are four pedagogical options in the chapter to consider when conducting class sessions. The IM is organized to enable you to create the unique format and blend of teaching formats you prefer. The four pedagogies are:

1. Lecture or mini-lecture
2. Traditional case study
3. Use of exercises or role plays
4. Combination of the above.

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Lecture Outline

I. Entrepreneurs Are Good Business People

PP 2-2 "Entrepreneurs are Good Business People" summarizes the view of entrepreneurship as business strategy.

A. Today entrepreneurship is indicative of a form of strategy rather than the size of a company.

B. Effective entrepreneurs identify and pursue opportunities by marshalling the diverse resources required to develop new markets and engage the inevitable competition.

II. Three Characteristics of Entrepreneurship

PP 2-3 "Three Characteristics of Entrepreneurship" summarizes the three needs that motivate people and entrepreneurial behavior.

A. The theory of psychological motivation is a generally accepted part of entrepreneurial behavior. The theory states that people are motivated by three principal needs:

1. The *need for achievement* is the need to excel and for measurable personal accomplishment.
2. The *need for power* is the need to influence others.
3. The *need for affiliation* is the need to attain an "affiliation goal."

B. Academics continue to characterize the special qualities of entrepreneurs.

Text Exhibit 2.1 "Characteristics of Entrepreneurs" shows the unique characteristics of entrepreneurs.
Also: PP 2-4

1. Entrepreneurs concentrate on certain fundamentals – responsiveness, resiliency, and adaptability in seizing new opportunities.
2. They had an ability to "make things happen," invest in new techniques, maintain a professional attitude, and have patience.
3. They also talked about the importance of "enjoying and being interested in business."
4. Many recognized entrepreneurship as a way of life.
5. A study by McKinsey & Co. of medium-size growth companies found that the chief executive officers of winning companies had three common traits – perseverance, a builder's mentality, and a strong propensity for taking calculated risks.

III. Converging on the Entrepreneurial Mind.

PP 2-5 "Converging on the Entrepreneurial Mind" profiles the seven dominant themes of the entrepreneurial mind

A. **Desirable and Acquirable Attitudes, Habits, and Behaviors.**

1. Business people share characteristics of raw energy and intelligence.
   a. There are certain innate characteristics that entrepreneurs have.

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b. Certain successful attitudes and behaviors can be developed through experience and study.

2. Most successful entrepreneurs listed three attributes as the principal reasons for their success:
   a. The positive response to challenges and mistakes.
   b. Personal initiative.
   c. Perseverance.

B. **New Research.**

1. The Praeger Perspectives series (2007) explores the entrepreneur from three angles
   a. People
   b. Processes
   c. Places
2. Work by Kwiatkowski and Sharif provides insight into the entrepreneurial mind-set involved in creating new intellectual property and knowledge creation ventures.

C. **Seven Dominant Themes.**

1. **Commitment and determination** are seen as more important that any other factor.
   a. Total commitment is required in nearly all entrepreneurial ventures.
   b. A new venture demands top priority for the entrepreneur's time, emotions, and loyalty, and usually requires personal sacrifice.
2. **Courage.**
   a. Courage is not simply bravery resulting from deficient information about a given situation nor pluck anchored in feelings of invulnerability
   b. Three important aspects of courage:
      1. Moral strength and principles.
      2. Being a fearless experimenter.
      3. A lack of fear of failing at the experiment – and most undertakings – and a lack of fear of conflict that may arise.
3. **Leadership.**
   a. Successful entrepreneurs are experienced, possessing:
      i. Considerable knowledge of the technology and marketplace in which they compete.
      ii. Sound general management skills.

Text Exhibit 2.2 "Seven Themes of Desirable and Acquirable Attitudes and Behaviors" summarizes key desirable attitudes based on seven themes**.**
Also: PP 2-6

Text Exhibit 2.3 "Core and Desirable Entrepreneurial Attributes" presents the seven core desirable attributes in graphic form.
Also: PP 2-7

PP 2-8 "Three Important Aspects of Courage" highlights the construct of courage.

Text Exhibit 2.4 "Online Search for Desirable Attributes of Entrepreneurship" details the number of internet "hit" on key themes of entrepreneurship
Also: PP 2-9

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iii. A proven track record.

b. Research found three clear areas at the foundation of a successful new venture:

i. The lead entrepreneur.

ii. The venture team.

iii. The external environment influences.

c. Learn to get along with many different constituencies.

d. In a corporate setting, this critical attribute is "hero making" for successful entrepreneurial managers.

Text Exhibit 2.5 "The Entrepreneurial Leadership Paradigm" summarizes the three areas of leadership developed by Dr. Alan Grant.
Also: PP 2-10

4. **Opportunity Obsession.**

a. Successful entrepreneurs are oriented to the goal of pursuing an opportunity.

b. The entrepreneurs' credo is to think opportunity first and cash last. (The industry example of Jet Blue is given to support the opportunity obsession).

Text Exhibit 2.6 "Opportunity Knocks-Or Does it Hide? An Examination of the Role of Opportunity Recognition in Entrepreneurship" shows the number and proportion of opportunities at various sources and types for entrepreneurs and non entrepreneurs.
Also: PP 2-11

5. **Tolerance of Risk, Ambiguity, and Uncertainty.**

a. Successful entrepreneurs are not gamblers.

b. They are willing to take calculated risks.

c. High levels of both satisfaction and stress characterize founders.

6. **Creativity, Self-Reliance, and Adaptability.**

a. High levels of uncertainty and rapid change characterize new ventures.

b. The most successful entrepreneurial teams have the ability to focus on a goal with outstanding execution, while being flexible to shift as circumstances require.

7. **Motivation to Excel.**

a. Entrepreneurs appear driven internally by a strong desire to compete and to attain challenging goals.

b. The best entrepreneurs are aware of their own strengths and weaknesses and those of their partners and of the competitive environment surrounding and influencing them.

IV. The Entrepreneurial Mind in Action.

PP 2-12 "The Entrepreneurial Mind in Action" summarizes the current thinking on personality types vs. acquired skills for entrepreneurs.

A. Successful entrepreneurs have useful benchmarks for gauging what to do.

1. Successful entrepreneurs have a wide range of personality types.

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2. But, there is no evidence of an ideal entrepreneurial personality.

B. The skills of the manager and entrepreneur overlap in the area of solid management skills, but the entrepreneur is more opportunity-driven.

Text Exhibit 2.7 "Who is the Entrepreneur?" presents a 2 x 2 matrix of the entrepreneur passed on creativity and innovation and general management skills.
Also: PP 2-13

V. The Concept of Apprenticeship.

PP 2-14 "The Concept of Apprenticeship" outlines key points in this section.

A. **Shaping and Managing an Apprenticeship.**

1. Successful entrepreneurs share a pattern of experience:
   a. They have acquired 10 or more years of substantial experience and established a track record in the industry.
   b. They made money for their employer before doing it for themselves.
2. Examples include:
   a. Apple Computer founders Steve Jobs and Steve Wozniak.
   b. Paul Tobin of Cellular One.
   c. Jeff Parker of Technical Data Corporation.

B. **The Concept of Apprenticeship: Acquiring the 50,000 Chunks –** entrepreneurs view believing in the idea and experimenting with new ones that result in both failures and successes are the most important components of opportunity recognition.

C. **Role Models**

1. Studies show a strong connection between the presence of role models and the emergence of entrepreneurs.
2. More than half of those starting new businesses had parents who owned businesses.

D. **Myths and Realities**

1. Studies indicate 90 percent or more of founders start their companies in the same marketplace, technology or industry they have been working.
2. Entrepreneurs are likely to have role models, 8 to 10 years of experience, and be well educated.

Text Exhibit 2.8 "Myths and Realities About Entrepreneurs" reviews 17 popular myths often attributed to entrepreneurs along with the reality to refute these erroneous myths.
Also: PP 2-15; 2-16; and 2-17

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VI. What Can Be Learned?

A. The cases and the text, combined with online resources, will enable you to grapple with all the conceptual, practical, financial, and personal issues entrepreneurs encounter.

1. This book will help you move the odds of success in your favor.
2. It will focus your attention on developing answers for the most important questions about entrepreneurship.
3. In many cases, those choices that lead to self-employment or meaningful careers in new and growing firms and, increasingly, in large corporations are those that realize entrepreneurial strategy is critical to 21st century success.

PP 2-18 "Exercises" summarizes the two end of chapter exercises

Exhibit 2-19 "Crafting a Personal Entrepreneurial Strategy"

Text Exhibit 2.9 "Peeling the Onion" explores areas known and not known to investors and stakeholders and the entrepreneur and the team
Also: PP 2-20

Text Exhibit 2.10 "Fit of the Entrepreneur and the Venture Opportunity" is a 2 x 2 matrix examining the attractiveness of the opportunity compared to the entrepreneur's requisite skills
Also: PP 2-21

VII. Chapter Summary.

VII. Study Questions.

VIII.

IX. Exercises

A. **Exercise 1: Crafting a Personal Entrepreneurial Strategy.**

B. **Exercise 2: Personal Entrepreneurial Strategy.**

PP 2-22 to 2-33 "Steps in a Personal Entrepreneurial Strategy" summarizes the process of Crafting the personal entrepreneurial strategy and review reasons for planning, self-assessment, constructive feedback, and effective goal setting.

X. Case: Lakota Hills

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Answers to Study Questions

1. *Define entrepreneurial leadership?*

Entrepreneurial leadership is the ability of an entrepreneur to activate vision and a willingness to invest in new technology while maintaining a professional attitude and at the same time, while having patience. Entrepreneurs have different traits from managers and establish direction, align people, motivate and inspire and produce change. Entrepreneurial leaders share three common traits: perseverance, a builder's mentality, and a strong propensity for taking calculated risks.

2. *How does a manager differ from a leader?*

The differences between management and leadership are summarized in **Text Exhibit 2.1** Managers create an agenda by planning and budgeting; leaders by establishing direction. Managers develop a human network for achieving the agenda through organizing and staffing; leaders do so by aligning people. Managers execute by controlling and problem solving; leaders by motivating and inspiring. Managers produce a degree of predictability and order; leaders produce change.

3. *Define the seven major themes that characterize the mind-sets, attitudes, and actions of a successful entrepreneur. Which are most important? Why? How can they be encouraged and developed?*

Seven themes have emerged from what successful entrepreneurs do and how they perform: commitment and determination; courage; leadership; opportunity obsession; tolerance for risk, ambiguity, and uncertainty; creativity, self-reliance, and adaptability; and motivation to excel. Several entrepreneurial experts believe that commitment and determination are more important than any other factor. With commitment and determination, an entrepreneur can overcome incredible obstacles and also compensate enormously for other weaknesses.

4. *Do you agree with the saying "Entrepreneurs are made, not born." Why or why not?*

Some characteristics are innate rather than acquired, including energy, health, and emotional stability; creativity and innovativeness; and intelligence. Recent research suggests that leadership is a complex subject, depending on the interactions among the leader, the task, the situation, and those being led; entrepreneurship may be closely related. There are also certain attitudes and behaviors that can be acquired, developed, practiced, and refined through a combination of experience and study, such as the ability to learn from mistakes and great perseverance and determination. These attributes do not guarantee success, however. Entrepreneurs are able to improve these skills through nurturing and practicing them.

5. *Explain the meaning of the apprenticeship concept. Why is it so important to young entrepreneurs?*

Successful entrepreneurs share a pattern of experience:

(1) They have acquired 10 or more years of substantial experience and established a track record in the industry.

(2) They have acquired intimate knowledge of the customer, distribution channels, and market through direct experience.

(3) They made money for their employer before doing it for themselves.

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Successful entrepreneurs are likely to be older and to have at least 8 to 10 years of experience. They have a track record impressive enough to give investors confidence. They usually have nurtured relevant business contacts and networks. The first 10 or so years after leaving school it is crucial to select work or a career to prepare for an entrepreneurial career. Having relevant experience and skills can dramatically improve the odds for success. The concept of an apprentice is useful—entrepreneurs learn by doing. An apprenticeship can be an integral part of shaping an entrepreneurial career. Through this, an entrepreneur can shape a strategy and action plan.

6. What is your personal entrepreneurial strategy? How should it change?

Most successful entrepreneurs have had a personal strategy to help them achieve their dreams and goals, both implicitly and explicitly. The text stresses the importance of obtaining experience and contacts prior to starting an enterprise. The student's personal entrepreneurial strategy will be a unique combination of their attitudes and goals. The exercise at the end of the chapter guides the student through the process of developing a personal entrepreneurial strategy.

7. "One person's ham is another person's poison." What does this mean?

Entrepreneurs and would-be entrepreneurs have different strengths and weaknesses and different likes and dislikes. It is important to thoroughly explore your own personal strategy before you set entrepreneurial goals. While you may like running a lifestyle business and supporting your family comfortably, your friend may prefer bigger risks and prefer taking a high tech venture public, for example. Because we all have different interests and likes, it is important the entrepreneurial venture be a fit to a person's desires and interests for long-term success.

8. Evaluate thoroughly your attraction to entrepreneurship?

Through a thoughtful, introspective review of your own skills, abilities, and sources of energy, it is possible to evaluate one's attraction to entrepreneurship. The two exercises at the end of the chapter are designed to facilitate the review of a person's attraction as is talking with other entrepreneurs and talking with classmates and professors about potential entrepreneurial ideas and career options.

9. Who should be an entrepreneur and who should not?

This chapter has reviewed the various characteristics of successful entrepreneurs. As a review, most successful entrepreneurs listed three attributes as the principal reasons for their success: The ability to respond positively to challenges and learn from mistakes, Personal initiative, and Great perseverance and determination. Individuals with these attributes should consider entrepreneurship. After completing the two end-of-chapter exercises, one will gain further ideas about their proclivity for entrepreneurship. In addition, as discussed in the chapter, an apprenticeship in an industry or business of interest can help solidify entrepreneurial goals. It should also be noted that a person's interest in entrepreneurship may change over time with experience and work history as well as an improved ability to spot trends, patterns, and opportunities.

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Notes on Exercises

Exercise 1: "Crafting a Personal Entrepreneurial Strategy"

This exercise provides the opportunity to do a quick survey of an individual's entrepreneurial attributes. The exercise guides the student through the process of developing a personal entrepreneurial strategy. First it focuses on past experiences that produced satisfaction and enjoyment. Next, it looks at the present—ranking the core and desirable attributes from strongest to weakest. It then suggests seeking feedback on how others rank your attributes. Finally, the student is guided through developing goals that they wish to accomplish.

Exercise 2: "Personal Entrepreneurial Strategy"

To prepare for the self-assessment exercises, students should read the chapter first. Additional preparation might include a visit to the campus career counseling service to complete a battery of aptitude and preference tests. Also helpful is the book *What Color is Your Parachute 2012?: A Practical Manual for Job-Hunters and Career-Changers*, by Richard Bolles (Berkeley, Calif.: Ten Speed Press, 2011, an excellent and widely used practical guide for directing you toward the "right" type of job.

Suggested Way to Utilize These Assessments (60-90 minutes)

It has proven useful for other entrepreneurs to exchange their exercises with a person or two of their own choosing. Doing this will provide you with a sounding board to assist you in seeking and analyzing a realistic self-appraisal. If you have not already done so, review the earlier sections on giving and receiving feedback.

Step 1: Form into pairs or trios of your own selection.

Step 2: Tear out and exchange your "Step 1: Entrepreneurial Mind, Role Requirements" and "Step 2: Examine Your Management Competencies" exercise. It should take 10-15 minutes for each person to read the exercises of the others carefully.

Step 3: Each group member should respond with questions and ideas aimed at helping to sharpen the realism and accuracy of each member's self-assessment. The following kinds of questions may prove useful in facilitating these pair and trio discussions:

a. Has the person been complete in doing the exercise?

b. Has the person been honest and realistic in recording his or her thoughts and evaluations and in coming to various inferences and conclusions?

c. If you know the person, are you aware of omitted events or items that you feel might contribute to the analysis?

d. Are there alternative inferences or conclusions that might be drawn from these data?

e. What personal implications seem to exist for the various strengths and weaknesses as they relate to entrepreneurship?

f. Are there any common threads or patterns of consistency that have not been noted?

g. Are there other data that the person should gather or consider in connection with these exercises?

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Step 4: At the conclusion of the group discussion each person should have identified at least three items for a personal list of things to accomplish. These should be things one plans to (a) find out, (b) think about, and/or (c) do. These might include such items as: (a) talk to three more entrepreneurs about the demands and rewards of entrepreneurship and (b) think about and discuss the lifestyle implications of entrepreneurship for the person you are about to marry.

Step 5: General discussion should summarize the items identified in step 4 and any other issues related to the exercises.

Positioning and Objectives for this Exercise

The objectives and instructions for each of the pieces are contained in the chapter on the web site. It is a self-instructional unit that can be assigned and done outside class. The various pieces can be torn from the book, photocopies, and used to obtain feedback and input from others as well. A written assignment can be made (see sample below) just beyond the mid-point of the course. Students have found this to be a very valuable exercise. It also gives you a chance to get to know them much better and to be more effective in counseling them.

Teaching Suggestions for the Exercise

One suggestion for in-class work is a paired discussion (20 minutes). Instructions for this discussion are given below.

Pair Discussion:

Now is a good juncture to pair up with a person of your choice (or with two persons if there is an odd number). Exchange your "Part V: Thinking Ahead" "My Real Goals (Step 4)" lists (tear out), and review them. You should help each other to review, refine, and clarify these goal statements, and you should begin to identify their relative importance to you personally. You may find it useful in focusing your discussion:

1. How do your goals relate to some of the issues raised previously in the book, particularly work style and lifestyle?
2. How do your goals relate to the creation or acquisition of your own business?
3. Do some of the goals conflict with others?
4. How do your goals relate to your other self-assessments?
5. Can you rank-order the priority of the goals?

Another suggestion for in-class work is to divide into small groups of four or five persons to discuss the exercise with particular attention devoted to the following questions:

1. What was involved? What did we do?
2. What were the differences between what we put on the first two lists and the items on step 7 and later, in terms of concreteness, etc.?
3. Do any of the action items identified in steps 9 and 11 relate to strengths or weaknesses identified previously?
4. What criteria would we now use for judging whether or not we are really setting goals?

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Class Session—Optional

A class session can be used for an organized session in which students exchange, discuss, and reality check the self-assessments. If there is not time for this, assign it for outside class. Ask them to pair up with someone of their choice. You can also assign from each person a 1-2 page summary of "Observations and Action Recommendations" for their partner.

Wrap-up

Key Points:

1. Fundamentals of the "Value Creation: The Driving Forces" framework in Chapter 3 (**Text Exhibit 3.5 "The Timmons Model of the Entrepreneurial Process"** on p. 96) can be used here for reinforcement and preview of key issues to follow.
2. Notion of "apprenticeship" from can be reviewed and reinforced in terms of personal implications for each student.
3. The earlier exhibits in the chapter can also be used for a wrap-up.

Notes on Case

"Lakota Hills"

Introduction/Overview of the Case

The Lakota Hills case follows Laura Ryan, a Native American who has taken her family's special recipe for fry bread from her kitchen to supermarkets all over the Midwest United States. But is her current strategy of selling to grocery stores the best way to build her family's specialty foods venture? This case provides an excellent overview of the entrepreneurial process, including creating value, channel marketing, and fun-raising. The case includes metrics that will work for MBA-level discussions and analysis.

The case provides a detailed background of Laura and her education and early start in the entrepreneurial process. She weaves her education between the entrepreneurial pursuits and also manages her growing family. With many skills and abilities (teaching, quilting, fry bread,) the introductory history at the beginning of the case profiles Laura so students can assess her background.

The case emphasizes the content of Chapter Two in that it presents the strategies, habits, attitudes, and behaviors of the lead entrepreneur Laura Ryan and her family as they work to build a high-potential venture. Laura is internally motivated, has high-energy, and we see her unique tolerance for ambiguity as she moves from various jobs, educational programs, and entrepreneurial ventures. See exhibits a keen eye toward mitigating risk and has the passion for discovery and innovation stressed in Chapter Two.

The key focus for students to consider after studying the case is whether Laura Ryan fits the seven dominant themes of an entrepreneur -- commitment and determination; courage; leadership; opportunity obsession; tolerance of risk, ambiguity, and uncertainty; creativity, self-reliance, and

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adaptability; and motivation to excel). Students should quickly recognize that she does and has acquired the 50,000 chunks of experience discussed in the chapter.

The case ends with Laura pondering strategies to grow the fry bread business in grocery stores and other outlets. The marketing process, dealing with food brokers and the need to constantly be in the stores providing samples to customers is stressing the small team at the same time their expenses are rising. She and her son Michael must consider the trade-offs, the logistics, and the costs of various options for expanding the business. Cash flow projections are provided to aid the decision-making.

Positioning and Objectives of the Case

The case is positioned to follow Chapter Two – The Entrepreneurial Mind: Crafting a Personal Entrepreneurial Strategy. The case can be covered early in the course to profile a classic entrepreneur as they move through the new venture process. It also presents an interesting opportunity to learn about Native American people, their culture, and their food. This may be unfamiliar to most students and represents an interesting opportunity for students to consider how they'd feel about this new fry bread product if they encountered it in their supermarket or specialty food retailer. Students may find Laura's process leading up to starting the fry bread business interesting. Students should discuss her training, education, and past entrepreneurial experiences and hypothesize how these helped to shape Laura as an entrepreneur. The case also presents dialogue from her son Michael who doesn't like having the assembly operations in their home kitchen and we follow his entry into the business as a full-time general manager. With the two profiles, students have a chance to assess the small entrepreneurial team together. This case has rich material for an in-class discussion during one full class period covering the entrepreneur Laura and her personal entrepreneurial strategy. Coverage of the financial information and projections could be the subject of a second class period if desired (this may be more appropriate for senior-level students or MBA students after they have completed a finance or accounting class).

Preparation Questions

These questions should be assigned as homework for students as they prepare the case for the subsequent class discussion. Answers to these preparation questions are as follows:

1. *Discuss the challenges and advantages of developing a specialty food business.*

<u>Challenges:</u>

- difficult to secure supermarket placement
- difficult to learn the retail grocery industry
- hard to read brokers and buyers as to their interest
- specialty foods may be a one-time purchase for consumers
- requires more consumer education, sampling/tasking, and marketing to explain the product
- people are not as familiar with Indian fry bread as with some other specialty foods
- Limited shelf space in supermarkets make it difficult to place a product

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- Specialty products need a selection of choices, and not just one product, to be attractive to supermarkets
- Expensive start-up for packaging, marketing (floor displays, sell sheets, and other marketing collateral), distribution costs, advertising
- Competition from other ethnic and specialty foods as well as competition from other fry bread mix manufacturers
- Expense to attend trade shows – the Efficient Collaborative retail Marketing convention; also much terminology to learn
- Additional 10 to 15% cost for food broker's commission
- Often requires travel and expense for direct selling and store visits.
- May be confusing for customers and for stores as to where to place the item

Advantages:

- Minority-certified businesses selling specialty foods (or any foods) are not required to pay a shelf/store slotting fee for placement
- May entice customers to buy and try a new product
- Represents an innovative product to many marketplaces
- Is a growing segment of food purchases
- Compete in a specialty food segment with fewer products/competitors than many other grocery products
- Initial long list of interested buyers
- Demand for direct line extensions
- Other minority-certified business advantages
- May benefit from free advertising and initial publicity to build demand

2. *Is their current strategy the best way to build Lakota Hills?*

Given the staff of two, Laura and her son Michael, and the intensive travel, set-up, sampling, and direct selling required it is not the best strategy. Also the supermarket shopper may buy the product only once a month or less. Adding the product to an existing food chain (like a fry bread pizza at Pizza Hut or a fry bread taco at Taco Bell) would move Laura away from the specialty packaging. She could sell to restaurants in bulk packaging. The food chain would also be responsible for marketing the product, relieving Laura and Michael for the travel and difficulty experiences in the grocery retail channel. Students may also mention selling to food establishments (though this product may be too much of a specialty product for institutions) or via QVC or warehouse stores.

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3. *How might they integrate other channels into their overall selling model?*

It is possible to explore these various channels mentioned in number 2 above, plus tourist specialty stores and on-line selling as a test market to see which avenues are best. However, Laura requires additional employees with experience working with these various marketing channels. The learning curve is steep and somewhat long in moving into these channels. This time line can be shortened with additional help.

4. *How will Lakota Hills make money?*

Lakota Hills will make money with volume. They most promote this specialty product while working to add new items. Revenue projections are positive and growing through 2007 and 2008 but this depends on market acceptance, growth in retail outlets carrying the fry bread, and consumer acceptance. With competition for other specialty foods and limited shelf space, the retail grocery store placement may not yield this projected success. Laura and Michael and their newly hired team must consider the profitability and tradeoffs of the various channels and carefully project their cash flow as they arrive at one or two best options for selling the fry bread.

5. A*s an angel investor, would you participate in the round this venture is seeking?*

No, given the difficulty of breaking into the retail grocery stores, the difficulty of navigating the complex process of food brokers and buyers, and the limited commercial success the fry bread will have in markets outside the Midwest. Changing food preferences, dieting and concern for reducing carbohydrates, and the limited number of families with time to prepare this fry bread product also are challenging. While Laura has a great idea and product, she needs help bringing it to the best location and channel for profitability. The team should be expended and more research conducted into additional channels before investing.

Yes, Laura is a seasoned entrepreneur who knows her product and has done her homework. It takes time and money to break into the market with a specialty product like her fry bread and the additional infusion of capital can cover the marketing, promotion, and additional staff to call on the various retail supermarkets in the U.S. Additional funds are needed for sales representatives and territory managers. This should free Laura to develop the other ideas and to extend the specialty product line. With a growing emphasis on new specialty foods, the time is right for another culture's food to take center stage. Today Italian, Mexican, and Chinese foods are so pervasive, they seem American in origin. Now could be the time for Indian fry bread from a unique native-American entrepreneur.

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Class Discussion Guidelines

Opener and Votes - To stimulate the class discussion, poll the class (by a show of hands) as to how many students would invest in the business as an angel investor. (This is preparation question 5). You could ask students to e-mail their responses or log-on to a discussion board to have this information before class.

Typically less than half the class will vote to invest. Follow this question by polling students about the appeal of the fry bread. Is it a product they would like to try? Would they try it more than once? If not, how could this be a problem as Laura branches out into additional grocery stores?

A good opening question is: *Who is Laura Ryan?*

This discussion enables students to explore how it is that she finds an opportunity, and may challenge many of the stereotypes they hold about whom the entrepreneurs are and what it takes. Probing for descriptions, underlying assumptions, and insights about her goals, values, motivations and the various pressures and forces that contributed to her decision to create a business can be powerful here. Follow-up probes can include: What is she like? What does she like and not like? Why? Speculate for a moment: What would it be like to work for her; with her? What will to be her strengths and shortcomings? What was so entrepreneurial about her, and why was this?

An excellent discussion on this opener can come from asking students to reflect on the entrepreneurs they have known and know of, and consider the following: Who can, or cannot, be an entrepreneur? Be prepared for a lively discussion, which can be ended by saying this is a common thread that runs throughout the course, and is one of the most important issues for them to think about personally. It will be revisited in many of the cases and with outside entrepreneurs who speak to the class. Urge each student to shape their own views, definitions and boundaries for these core questions.

Next cover the preparation questions. Question one about the challenges and advantages of developing a specialty food business is also a good question to stimulate initial class discussion. You might even go around the room and ask students to first give a challenge followed by a second round of questions asking each student to give an advantage of developing a specialty food business. Ask students to brainstorm as many issues as possible and divide the board into two sections and record the answers.

Ask students to define their current strategy (of marketing the specialty food product through food brokers and buyers to grocery stores). Poll students if this is the best way to build Lakota Hills or would another method be better. Students will likely point to the difficulties of selling the fry bread without product sampling and may also point to the fact this is often a one-time purchase. The lack of ease of preparation and clean-up may emerge as an issue with the product itself. As for the marketing through buyers and brokers, it is a difficult task to break into the retail food industry and Laura and Michael admit they have much to learn. Students may point to her past product success with QVC and may even recommend selling the product at wholesale clubs like Sam's Club, Costco, and BJ's where there are more opportunities for customers to sample the product and buy

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more at one time. Ask students how the freshness dating and shelf life are hindering the grocery sales strategy.

Continue by asking students how to integrate other channels into their overall selling model. Call on one student for their ideas. Clear the board and record these ideas and leave space under the idea to discuss the strengths and weaknesses of the various distribution channels suggested which could include (sales through brokers, through grocery buyers, on QVC, in wholesale stores, in gift and specialty shops, etc.).

Next discuss preparation question 4 as to how Lakota Hills will make money? Give the students a few minutes to consider Exhibit 3 as to the various channel costs and pricing snapshots. Students may be surprised at the markup at various locations including supermarkets, specialty food stores, tourist destination shops, and wholesale bulk. Students will note that as volume increases (wholesale bulk) their price decreases. The lower volume tourist destination shops garner the higher prices but these businesses are subject to seasonal variations and are extremely sensitive to default in a depressed economy. Next direct students to Exhibit 4A's income statement and projections.

Additional Discussion Questions

1. *Are their projections realistic?*

Probably not given the difficulty of breaking into the retail grocery store market and the recent practice of having to offer two-for-one specials to move out older product with a rapidly approaching expiration date. The limited product line with only one current product and the remaining questions of which distribution channels are best and why still must be answered. It seems to be a large task for Laura and Michael.

2. *What has Michael learned from his encountered traveling to each store to promote the product and set up displays? How will operating expenses increase if he continues this practice?*

Michael has realized he has much to learn about the grocery and food industry. Even with his business degree and working toward his MBA he had not learned about the retail practices. Even when well-designed products, packaging, and promotional materials are delivered to the grocery stores, it seldom all makes it to the selling isles and often it is shelved in the wrong place by careless stockers. Direct visits, sampling, and meeting with store managers seem to be necessary for each outlet. As they continue to grow, Michael will be unable to visit all stores outside the Midwest region. As they continue to add staff and travel, expenses will continue to increase. They will increase too as new specialty products are added.

3. *What new staff and employees need to be hired by Lakota Hills?*

First is additional sales staff to cover the expansion regions and meet with store managers as discussed in Question 2 above. Additional employees with skills and past experience with specialty food products and navigating additional channels and with logistics experience would help the team excel.

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4. *Discuss the fry bread competition and their likely reaction to Lakota Hills' expansion, if any.*

   Lakota Hills seems to have competitive advantages over Wooden Knife Fry Bread Mix, Crow Fry Bread Mix, and the Oklahoma Fry Bread Company. The competitors seem to have stale package designs and non-aggressive marketing. Wooden Knife Fry Bread seems to be the dominant competitor particularly in the Midwest region and in supermarkets and tourist outlets. Lakota Hills believes they have superior tastes to Wooden Knife Fry Bread Mix which is bitter and has not been adapted to non-Native-American tastes. Their prices are similar and Wooden Knife Fry Bread Mix competes in food services with frozen and bulk products.

5. *Online sales are projected to increase. Should Laura consider this as a more viable channel to explore? How can she drive customers to the website?*

   Yes, particularly given her initial success on QVC. Pairing this exposure with an on-line site can help the business grow inexpensively. Also noting the website on all product packaging can help her in her drive to promote new products she plans to add.

6. *Would recent health trends away from breads and carbohydrates hurt product sales?*

   Diet fads come and go and for specialty products, she is less susceptible to fads. However she could adapt her grandmother's recipe for low-fat menu options. These could easily be added to the website or included on the packaging or inside the packaging.

7. *How important are the muslin bags for packaging? Could costs and labor reduced in another format? Should the size be reduced to save costs?*

   This is an added expense and may be more important for tourist gift shops than for supermarket shelves. Cost-conscious consumers don't want to pay for extra packaging. If the bag is not reusable, she should consider a bright, decorative box to save costs. Reducing the price however, may change the perception of the product as a good value. Research may be needed to compare consumer perceptions of several price point combinations and package sizes. The strategy is to get consumers to try the product so she should maintain the size. Single serve or smaller packaging may be an attractive add-on in the future as could larger sizes. Focus groups and customer surveys can help her determine the best size and mix of packaging.

8. *Should they only consider specialty food outlets? Tourist destination shops?*

   No, but these are important first-steps to test the market for additional product. They also don't charge slotting fees, attract a higher price, and help to grow the brand and the product category.

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9. *What could be the advantages of a wholesale national program with restaurant chains or food service who order in large truckloads?*

   With a large volume purchaser, Lakota Hills could concentrate on the product which is their expertise and rely less on the challenges of marketing and distribution through various retail channels. Restaurant chains could promote the product too and stimulate demand for their retail packages of fry bread. Even though the volume purchasers buy at cheaper costs (and lower profit for Laura) this contributes to the gross margin of their venture and could provide the needed capital to expand as they want.

10. *Compare the advantages of a force-out marketing strategy in grocery stores versus having to personally introduce the buyer-approved fry bread to each store manager in a chain*?

    The force-out strategy offers a captive audience from the beginning without having to sell the product to a store manager, however with the challenges with stocking the product, placing it in the correct location, and managing the displays and marketing, the implementation of the strategies are not much different for Michael who is handling this part of the business.

11. *How can the shelf life and the buy one, get one free campaign hurt?*

    The freshness dating is important for consumers. They may be reluctant to buy a new, untried product if the shelf life is limited. Pushing more on-sale inventory directly to the retailers adds a glut of product that may not be sold in time for optimum freshness. Old, stale products may lead to unhappy consumers who will not re-buy the product and may engage in negative word of mouth to their friends and family which will harm growth and acceptance of the fry bread mix.

12. *Is it harder or easier for minorities including Native Americans to break into business? Why?*

    Initial advantages of no slotting fees and other grant and loan programs targeted to minorities and protected groups may provide an initial advantage but as Chapter Two clearly states, entrepreneurs must acquire the knowledge and apprenticeship they need through various ventures and education plus a personality to manage risks.

Applicable Teaching Tips

Remind students of the entrepreneurial drive of Laura and how she creatively used flour and other products supplied to her reservation by the U.S. government to develop the fry bread. Discuss her ingenuity. Have students create a time line for her various entrepreneurial ventures as well as her education. Discuss how both her prior ventures and her education helped her along the way. Why was her Uncle (profiled as unsuccessful but entrepreneurial) such an important role model for Laura? Was he indeed a good role model? Why? Students can also consider the impact of the business on her family and her life.

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For an advanced coverage of the income statement and projections, have students compare the sales made from the various product combinations in 2007 through 2010. Students will notice the number of 5-lb. cases muslin drop from 2007. Sales of 25-lb. bags continue to grow. Online sales only grow slightly. Have students discuss the implications of the changing product mix.

If time permits, students may want to research the specialty foods markets, tour a local grocery store and interview a manger to see which products are selling and discuss how products find shelf space. Students can also research the 4H organization and study more about the Lakota people to enhance their understanding of Laura and her unique background. The fry bread is similar to the chalupa shell currently sold at Taco Bell so students may want to try the product if they are unfamiliar with it.

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