Entrepreneurship v3 1st edition Portolese Solutions Manual

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Chapter 1
What Is Entrepreneurship?

Case Study—Jane Quilts

- People may start businesses to turn a hobby into an enterprise, to supplement their income, or to make their own schedule (perhaps even working from home).
- To turn the dream of business ownership into a reality, you need to know how to turn an idea into a viable enterprise and know how to run that enterprise successfully.

Discussion Question 1: Have you ever thought of starting your own business? If so, what is your most compelling reason for starting a business?

Answers will very. Students should be willing to think about ways of making a living that do not include a traditional work experience. Some reasons for starting a business may include autonomy, freedom and independence, being your own boss, tax advantages, passion, or wanting to help others, to name a few.

Discussion Question 2: As we saw in the case study, Jane turned her love of quilting into a thriving business. Do you have a hobby, or do you have a friend or family member that might have a hobby that could become a business opportunity? Describe what that might look like.

Answers will vary. Students should be able to describe something that they are passionate about doing and what that might look like as a business. Many students will have experience buying goods or services related to their hobby and should be able to relate those experiences toward a business venture.

Discussion Question 3: Describe one obstacle that would keep you from pursuing your own business? Provide at least one way in which you might overcome that obstacle.

Answers will vary. Expect answers around areas of startup costs and experience as the biggest obstacles. At this point in the course, expect solutions to be underdeveloped.

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1. Entrepreneurs and Entrepreneurship—Defining What We Mean by Small Business

1. Identify different types of small businesses.
2. Differentiate between a small business and an entrepreneurial venture.

Section Outline

Who Is an Entrepreneur? What Is Entrepreneurship?

- The terms entrepreneur and entrepreneurship may be used interchangeably with "small business owner" and "small business." However, they are different terms.
- An entrepreneur is someone that starts a business venture.
- Entrepreneurship is the activity of starting or building a business.
- Many businesses start as small businesses and grow into thriving enterprises.
    - **What Defines a Small Business?** Defined by the Small Business Association.
        - Size (the number of employees and the annual income), based on the industry in which it operates.
        - Types include home-based, storefront, online retailer, professional services, food service, franchise, agency, and consulting/contracting.

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- **The Difference Between a Small Business and an Entrepreneurial Venture**: There are several differences between small businesses and entrepreneurial ventures that can be both subtle and complex.
    - One distinct difference is that small businesses deal with known products, whereas entrepreneurial ventures seek new/innovative opportunities.
    - Small businesses are likely to know the risks from the beginning of their venture, more so than entrepreneurial ventures that are more innovative.
    - Entrepreneurships are intended to grow quickly and with rapid rewards, these entities may later be sold for a profit.
    - Entrepreneurships often start as small businesses but not all small business owners are entrepreneurs. Some small business owners purchase their business from someone else, inherit it, or franchise it.

Key Takeaway

- Small businesses are the engine of America; they represent the American dream.

Interactive Activity

1. Take the quiz on Entrepreneur.com (https://www.entrepreneur.com/article/246454)

Insights will vary. Some activities around this may include the following:

- *Ask students to consider whether they are Santa or elf and describe how this describes their view of running an enterprise.*
- *Ask students to describe how their relationship with money may represent their level of risk aversion. How might they mitigate risk aversion?*
- *Ask students on a scale of 1 to 10 how comfortable they are "flying blind." How might this impact their decision to start an enterprise?*
- *Ask students if there are any factors that would make starting an enterprise undesirable based on their personal beliefs or needs. For example, the business would need to be a home-based business, or one that would not be impacted by supply-chain issues.*
- *Ask your student to discuss how the COVID-19 pandemic may have impacted their thoughts about entrepreneurship.*

Key Terms

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- **entrepreneur:** An individual or individuals engaged in the formation and start-up of an innovative small business enterprise.
- **entrepreneurship:** The act of starting a small business enterprise.
- **sole proprietorships:** Simplest form of business in which there is one business owner
- **innovative:** A term referring to new and original ideas. Often these ideas become new products and services.
- **risk:** A situation or condition that may expose a business to harm or loss, often financial.

2. How Small Businesses Helped Shape America

1. Explain the history of small businesses in America.
2. Explain how small businesses affect the American economy.

Section Outline

A Brief History of Small Business Ownership—The American Dream

- The American dream says that anyone can achieve success through hard work and effort.
- Early Americans were landowners, farmers, and ranchers, who had to produce the necessities they needed. What they could not produce themselves, they would trade for.
- Over time, businesses became more localized as craftsman and merchants would serve areas. This was made even easier with the advent of transportation.
- During the industrial revolution, goods were more frequently produced by machine. Manufacturing facilities contributed to the growth of towns.
- Increasingly, work moved from being labor-based to knowledge-based.
- Then, the invention of the computer shifted business again as businesses could process information faster and with greater accuracy, which benefitted customers.
- Technologies available through the Internet made communication between customers and businesses easier, instantaneous.
- Communication technologies allowed for a global reach.
- New types of businesses have developed as a result of new technologies.

The Value of Small Businesses to the American Economy

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- Small businesses are a force in the American economy. They account for as much as 50 percent of the country's gross domestic product.
- Small businesses have a big impact on the economy, accounting for over 99.9 percent of all firms in the U.S. and over 50 percent of sales in the U.S.
- A minority of small businesses are owned by women, minorities, and veterans. Approximately one-fifth are family owned. Approximately 50 percent are home-based. 60 percent of all firms have no employees. Small businesses utilize 30–50 percent of commercial space.
- Small businesses account for approximately 63 percent of all net new jobs.

The Internet Revolution and Business

- The internet has played a key role in developing the new e-commerce marketplace.
- Small and large businesses can utilize online sales through platforms such as Amazon.
- Many small businesses choose to host their own e-commerce website.
- The internet also offers opportunities for monetization:
    - **Mark Zuckerberg—Facebook:** What started in a Harvard University dorm room grew into the leading social media platform. After adding the news feed, the platform grew, and Facebook was able to make money through advertising sales.
    - **Sergey Brin and Larry Page—Google:** These two collaborated at Stanford University to develop an efficient way to find information on the internet. Their idea became Google which currently also earns money from advertising.
    - **Mark Cuban—Broadcast.com:** AudioNet allowed for radio stations to be streamed over the internet. This was a pioneer among streaming platforms.

Major Entrepreneurial Theories

- Entrepreneurs have shaped the economic growth and history of America.
- Multiple theories attempt to explain entrepreneurship trends:
    - **Marshall (1890)—Entrepreneurship:** Defines several characteristics of an entrepreneur, including good leadership skills, the ability to foresee supply and demand changes, and a willingness to take risks and act when needed. These factors may be influenced heavily by the economic conditions at the time.
    - **Weber (late 1800s, early 1900s)—Sociological:** Suggests that religion, and religious viewpoints, determine how one views entrepreneurship, the accumulation of wealth, and how one views a means to an end.
    - **Knight (1921) Risk—Bearing:** Suggests that profit is the reward for taking risks during uncertainty. Also referred to as the Cost of Uncertainty theory.
    - **Schumpeter (1934)—Innovation:** Suggests that innovation and entrepreneurship are key factors in economic growth. Innovation, or creating something new, using new processes or methods, opening new markets, acquiring new supplies or suppliers, or developing new positions or structures will drive business success.

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- **Drucker (1964)—Entrepreneurship:** Suggests that entrepreneurs are always looking for opportunities for change and to exploit those opportunities where they are present. An individual who seeks to maximize opportunities.
- **Leibenstein (1968)—X-Efficiency:** Refers to the degree to which resources within the firm are used inefficiently. Entrepreneurs seek to find opportunities to use resources more efficiently and in new ways.
- **Casson (1982)—Economic:** Suggests individuals engage in entrepreneurial pursuits based on the economic conditions. These include tax policies, materials, infrastructure, technology, and access to financing and market conditions.
- **McClelland (1987)—Human (Achievement) Motivation Theory:** Different types of motivation impact individual performance. Those driven by achievement are more focused on the attainment of the goals than on the rewards that may be earned.
- **Kirtzner (1997)—Entrepreneurship:** Suggests alert individuals take advantage of opportunities that others do not see. Entrepreneurs focus on new opportunities.

What Would You Do?

Encourage students to think of a specific business. Depending on the business, students will demonstrate several creative ways in which the business may bounce back from a significant loss of sales. Considering the example, students may suggest different marketing techniques including the use of social media. Students may consider moving the product out of the weight-loss area and into a health lifestyle choice.

Key Takeaways

- American history has included small businesses since its inception, beginning with family farms, continuing through the industrial revolution and growing to the many high-tech companies that exist today.
- Technology, such as electronic communications, cellular communications, the personal computer, networked computers, and the internet, has profoundly impacted the way in which business is performed, allowing many small businesses to flourish and compete.

Interactive Activity

1. In small groups, reflect on the challenges faced by many of the early settlers to America. Identify at least three ways in which the technology of the industrial revolution eliminated these challenges.

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Responses will vary. Some will include ease of obtaining needed goods such as food, clothing, and other necessities that dealt with basic survival. Technological advancements made food storage safer, moved goods faster, and made the manufacture of goods quicker.

Key Terms

- **small businesses:** Independently owned and operated company that conforms to guidelines set by the Small Business Administration for size and number of employees.
- **entrepreneurial ventures:** The result of starting a small business enterprise.
- **industrial revolution:** The time between the seventeenth and eighteenth century, which introduced machinery, gas powered equipment, and locomotive transportation. The Industrial Revolution began in Great Britain in the late 1700s and spread to American in the 1820s. Jobs moved from agriculture to factories.
- **knowledge-based jobs:** Sometimes referred to as "white collar jobs," these are jobs in which individuals use their minds rather than engage in physical labor. Some examples of knowledge-based jobs include computer programmers/developers, writers, doctors, pharmacists, engineers, accountants, and attorneys.
- **internet:** A global network of networks that allows computers from all over the world to communicate to one another.
- **economy:** Refers to the wealth and resources of a country or area and may refer to the complicated activities of the production and consumption of goods and services.
- **gross domestic product (GDP):** A measurement of a country's economy that refers to the total value of all goods produced, and services provided.

3. Why Start Your Own Business?

1. Explain why someone would want to start a small business.
2. Identify the benefits of small business ownership.

Section Outline

Individuals may choose to make a small business for many different reasons:

- Flexibility—able to work your own hours.
- Calling your own shots, making your own decisions.
- Setting your own deadlines.
- Working on projects you want to work on/selling products you want to sell.

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- Pursuing your own interests.
- Watching something you build from scratch become a reality.
- Helping people to improve their lives.
- Investing in yourself.

When you choose to start your own business, you can also attain tax benefits. The following items may be tax deductible:

- Office, retail, or warehouse space either rented or purchased.
- Equipment involved in the operations of the business or the manufacturing of items sold through the business.
- Automobile expenses.
- Legal, accounting, and other professional service fees.
- Advertising.
- Phone, internet, and other communications expenses.
- Software and computer equipment.
- Travel and travel related expenses.
- Insurance.
- Gifts.
- Bad debts.

Additional Benefits of Being a Small Business Owner

- Women and minorities who start a business may be able to access additional benefits, such as government contracting opportunities.
- The Small Business Association offers training, workshops, counseling, and guidance.
- The U.S. Department of Veterans Affairs also offers support through an online portal.

Key Takeaways

- There are several reasons why people start a business. These include financial freedom, the ability to be your own boss, flexibility, and pursuing your interests.
- Tax benefits exist for small business owners.

Interactive Activities

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1. Identify at least three things about which you are passionate. List several possible business opportunities for each of these areas.

   Answers will vary. Students should be able to identify at least one area that might lead to a potential business opportunity.

2. Choose one business idea that you considered in the previous question, which you think you might be interested in pursuing as a small business. Investigate and identify existing businesses that would compete directly with your new business. Identify three possible ways in which to differentiate your business from the competition.

   Answers will vary. Students should be able to easily identify competitive businesses within their chosen domain, unless they have a truly unique business idea. Additionally, encourage creative ways in which students can differentiate themselves. Social media and social influencers are currently trending differentiators.

3. Identify your personal reasons for starting a business. List the top three reasons.

   Answers will vary. Look for connections to the text including flexibility, personal autonomy, schedule setting, personal passion, building something from scratch, helping people, and investing in yourself to name a few.

Key Terms

- **passion:** A strong emotion, excitement, or feeling for something you enjoy.
- **tax deductible:** Expenses incurred by the business which may be deducted when computing profit or loss, thereby lowering the overall tax liability owed.

4. Dispelling the Myths about Small Business Ownership

1. Discuss both the positive and negative aspects of small business ownership.

Section Outline

Starting a Small Business Is a Lot of Work

- A new business requires time, attention, and funding.
- Business start-up may take long hours, perhaps even more than a "regular job."
- Business developers may need to learn about financial obligations and legal regulations.

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- Small business owners may have more autonomy, but they still answer to others, including employees, vendors, and customers.

The Global Pandemic: COVID-19

- COVID-19, or the Coronavirus hit and created a global pandemic.
- For the most part, the world was unprepared for the massive shutdown of services.
- To avoid the spread of infection, work moved home, when possible, as did education. However, several service-oriented businesses were unable to stay in business.
- Several online businesses thrived. However, supply chain issues made deliveries slow and products difficult to obtain.
- Although the pandemic officially ended in May 2023, the impact is still being felt as many businesses were unable to recover from the shutdown.

Key Takeaways

- Small business owners typically work hard and put in a lot of hours starting, growing, and running their businesses.
- There are several myths about small business ownership. One of the most notable is the misconception that the small business owner answers only to themselves.

Interactive Activity

1. Choose a small business to investigate and interview the owners. Identify the three biggest challenges they faced when they started their business.
2. Do you feel they handled these challenges well?
3. Did they experience positive outcomes?
4. What might you have done differently?

Answers will vary. Look for connections to the text such as legal regulations, financial obligations, managing employees, or difficult customers to name a few.

Key Terms

- **legal regulations:** Laws that control the conduct and operations of the business, with which the business must abide.

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- **financial obligations:** The requirement to pay money owed by the business. Some forms of financial obligation include wages, taxes, loan debt, and payments to suppliers.
- **autonomy:** Refers to self-governing, self-directing, or being independent. Autonomy is the ability to determine one's own actions.

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5. Test Your Skills: Applied Case—Gina's Party Planning

- Gina started a party business just as people were beginning to venture out after COVID-19 shutdown.
- The business catered to both children and adult parties in addition to yard signs to celebrate special occasions and events.
- Gina's focus was full service themed events.

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1. Are there any legal requirements, such as permits, licenses, and insurance that Gina needs to comply with to operate her business safely and legally?

   Students should research similar businesses to see what legal requirements exist, specifically requirements in their city or county.

2. How will Gina differentiate her business from competitors, and what unique value proposition will she offer to attract clients?

   Students should be encouraged to provide "out of box" thinking for this question. How might technology be used to host a party? What about "drive by" parties?

3. What pricing strategy should Gina adopt to ensure profitability while remaining competitive in the market?

   Answers will vary but should include evidence that research into other similar businesses should be considered.

4. How will Gina manage the logistics of planning events, including vendor relationships, budgeting, and timelines, to ensure seamless execution for her clients?

   Answers will vary. Students should be ready to discuss technology solutions as well as relationship management ideas.

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