Entrepreneurship

A REAL-WORLD APPROACH

noun. The launching and execution of a new undertaking, typically a business, requiring vision, planning, and risk.
Praise for Books from PlanningShop

PlanningShop

“PlanningShop has been invaluable to our organization. We use PlanningShop materials for our entrepreneur classes because the content is comprehensive and constantly updated.”

— Ken Freeman, Director Small Business Development Center, Yuba Community College District

Bringing the Cloud Down to Earth

“No matter how you refer to it, working in the Cloud is a fundamental business practice these days and Abrams has done a terrific job of making this sometimes confusing subject relevant and practical for businesses of all shapes and sizes.”

— John Jantsch, author of Duct Tape Marketing and The Referral Engine

Successful Marketing: Secrets & Strategies

“Successful Marketing encourages students to think through standard marketing concepts while applying them directly to their business idea.”

— Meredith Carpenter, Entrepreneurship Instructor, Haywood Community College

Successful Business Research

“At last, a straightforward book that demystifies the process behind conducting effective business research … gives business practitioners and students an incredibly useful tool to enable them to find accurate and timely information for business plans, academic papers, and other business uses.”

— Molly Lavik, Practitioner Faculty of Marketing, Graziadio School of Business and Management, Pepperdine University
Successful Business Plan: Secrets & Strategies

“[Successful Business Plan] is user-friendly and exhaustive…highly recommended. Abrams’ book works because she tirelessly researched the subject. Most how-to books on entrepreneurship aren’t worth a dime; among the thousands of small business titles, Abrams’ is an exception.”

— Forbes Magazine

“There are plenty of decent business-plan guides out there, but Abrams’ was a cut above the others I saw. Successful Business Plan won points with me because it was thorough and well organized, with handy worksheets and good quotes. Also, Abrams does a better job than most at explaining the business plan as a planning tool rather than a formulaic exercise. Well done.”

— Inc. Magazine

“We are again using Successful Business Plan in my business honors course this semester. Must be working, as Penn State was just named (by Kaplan and Newsweek magazine) as the ‘hottest school in the U.S. for student entrepreneurs!’

— Greg Pierce, Penn State University

“Successful Business Plan enables my Entrepreneurship students at the University of Vermont to develop really great business plans. The book’s easy-to-follow, step-by-step format makes preparing a plan logical and understandable. Over the years…several students have actually launched their businesses successfully. Our son used the book at St. Michael’s College in Vermont to develop a plan for airport fitness centers, winning the school’s annual business plan competition for business majors…with a hefty cash prize! His plan was so thorough, especially the financials, that he was flown to the West Coast to present his plan to a prospective buyer. The bottom line, there is no better road map to business plan success than Successful Business Plan!”

— David Kaufman, University of Vermont

“Successful Business Plan was an excellent learning tool for me at the University of Vermont and proved to be incredibly valuable as I started my own business after graduation. The step-by-step guidance through business planning ensures that you have all your bases covered before investing time and money in a new enterprise. The book helped me start a promotional products business and I have since recommended this book to dozens of other entrepreneurs who have used it for everything from restaurants to fashion boutiques. If you are considering starting your first, second, third or tenth business you need to look at Successful Business Plan!”

— Issa Sawabini, University of Vermont, ’99
Partner, Monitor Premiums LLC
“If you’d like something that goes beyond the mere construction of your plan and is more fun to use, try *Successful Business Plan: Secrets and Strategies*, by Rhonda Abrams…this book can take the pain out of the process.”

— “Small Business School,” PBS television show

“*Successful Business Plan* is easy to follow and comprehensive. From the first chapter to the last, it guides you through the business planning process with a proven systematic approach.”

— Sean S. Murphy, Ernst & Young LLP

“As a 20 plus year veteran SBDC director, consultant and entrepreneurship instructor, I have assisted thousands of individuals and business owners through the planning process. Having reviewed tens of thousands of plans and critiquing hundreds of planning texts, programs and tools, *Successful Business Plan: Secrets & Strategies* remains my hands-down favorite text/workbook/guide. The content and construction is comprehensive, practical and ‘do-able’ for the serious small business owner/entrepreneur.”

— David Gay, Illinois Small Business Development Center at College of DuPage

“In my opinion, your book is the definitive guide for successful business plans. I particularly appreciate and recommend the use of the Flow-Through Financial worksheets. Each is a great device to illustrate the connection between the qualitative and quantitative elements of a plan.”

— Gene Elliott, Business Consultant, New Mexico

“I’ve been using and promoting *Successful Business Plan* since 1993, and it’s great! I’ve taught business plan writing in several local SBDCs, as well as nationally, through the Neighborhood Reinvestment Training Institute. My course is designed and delivered around your book.”

— Ransom S. Stafford, Business Consultant, Twin Cities, MN

“One of the best books on business planning. The overall quality of this book is excellent, but three things make it stand out: First, it contains worksheets that walk you through the information gathering process. Fill them out, and even the financials—always the hardest part of a plan—will fall right into place. Second, it has a sample plan that reads like a real business plan, written by a real person for a real business. You can use much of the wording in your own plan. Third, it has tips from successful managers, leaders, and business owners, large and small. I was especially fascinated reading the tips from ex-49’er head coach Bill Walsh. You can’t go wrong following his advice on planning and organizing!”

— Economic Chamber of Macedonia
“Successful Business Plan is thorough, well-organized, and a very useful tool for business planning and development. It’s an excellent guide to the details involved with creating a solid, useful business plan.”

— Jim Jindrick, The Institute of Electrical and Electronics Engineers and the University of Arizona

“I chose Successful Business Plan because of its ease of use, its clarity, and its good examples. I have used the book for a number of years now.”

— Jean Morris, The Culinary Institute of America

“It has a clearly defined, comprehensive approach.”

— Zane Swanson, Emporia State University, KS

Here at the SBDC we offer clients an eight-week business planning counseling program called Business Plan Expedited (BPE). BPE is structured around Successful Business Plan—the end result is a well-written business plan that can be used as a part of a business loan application package. I specifically chose this text because I used it, per recommendation from my graduate school advisor, for my MBA project in graduate school 13 years ago!

— Indria Gillespie, Sierra College SBDC

“Your book has been both an inspirational read as well as a comprehensive guide for starting my business. Being relatively inexperienced with entrepreneurship, your book has not only given me the ability to create a solid roadmap for planning, but has also provided an encouraging and easy way to cope with the enormous amount of information and organization needed. I particularly enjoy the various quotes from business professionals who have had experience in business planning. They give precious insight and different viewpoints that I would not have seen. Thank you for writing this book!”

— Simon Lee, entrepreneur

“It combines, in a very clear way, both aspects of business planning and effective writing of business plans. The book is very well written. The forms are very useful.”

— Eyal Yaniv, Bar Ilan University, Israel
About the Author

Entrepreneur, author, and nationally syndicated columnist Rhonda Abrams is widely recognized as a leading expert on entrepreneurship and small business. Rhonda’s column for USA Today, “Successful Strategies,” is the most widely distributed column on small business and entrepreneurship in the United States, reaching tens of millions of readers each week.

Rhonda’s books have been used by millions of entrepreneurs. Her first book, Successful Business Plan: Secrets & Strategies, is the best-selling business plan guide in America. It was named one of the top 10 business books for entrepreneurs by both Forbes and Inc. magazines. She is also the author of more than a dozen other books on entrepreneurship and has sold more than a million copies of her books. Rhonda’s other books are perennial best sellers, with three of them having reached the nationally recognized “Top 50 Business Best-Seller” list.

Rhonda not only writes about business—she lives it! As the founder of three successful companies, Rhonda has accumulated an extraordinary depth of experience and a real-life understanding of the challenges facing entrepreneurs. Rhonda first founded a management consulting practice working with clients ranging from one-person start-ups to Fortune 500 companies. An early web pioneer, she founded a website for small business that she later sold. Today, Rhonda is CEO of the publishing company PlanningShop, which focuses exclusively on the topics of business planning, entrepreneurship, and new business development. PlanningShop is America’s leading academic publisher in the discipline of entrepreneurship.

A popular public speaker, Rhonda regularly addresses leading industry and trade associations, business schools, and corporate conventions and events. Educated at Harvard University and UCLA, Rhonda lives in Palo Alto, California.
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CHAPTER 1

What Is Entrepreneurship?

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Entrepreneurs Make a Difference
learning objectives

In this chapter, you’ll learn how to:

- Understand the importance of entrepreneurship
- Recognize the positive contributions of entrepreneurship to society
- Describe the characteristics of successful entrepreneurs
- Recognize the various aspects of change and learn to embrace and leverage them
- Understand the positive aspects of failure
- Define the advantages and disadvantages of entrepreneurship
- Determine personal goals and a company vision

Understanding Entrepreneurship

Do you dream of one day owning your own business? Do you have an idea for a new or improved product or service that you hope to turn into a reality—something that people will want, buy, value, and even love?

Do you feel a need to be in control of your own life? To have the opportunity to act on your ideas? Do you want to be your own boss?

Are you able to motivate yourself to work hard, to do well, even without a boss, or teacher, or parent looking over your shoulder? Do you have the persistence to stick with something until you can make it a reality?

Are you willing to risk security—of a job, a paycheck, a manager guiding you, the structure of a workplace—for the excitement and possibility of creating your own company? For the chance to perhaps make a fortune or at least earn a good living?

Are you willing to learn how to handle failure in return for the possibility of independent business success?

Then what you are dreaming about is “entrepreneurship.”

The origin of the word is “entreprendre”—French for “to undertake.” Take a look at that word—“undertake.” Notice that it emphasizes an attempt to act, and not the outcome of that action. You undertake something.

This implies that what matters is that you have begun something; you’ve started on a journey. And although traveling on that journey may not always be a smooth ride, at least you’re in the driver’s seat.
Entrepreneurs change the world

Entrepreneurs make enormous contributions to societies around the globe. Fast-growing entrepreneurial ventures transform entire economies. Even smaller enterprises make tremendous contributions to the health and stability of their communities.

Entrepreneurial companies produce far more than just money. They also provide:

- **New ideas and innovation.** Although some large corporations have research and development departments, overwhelmingly, new products and services are created and introduced by new small companies. This is certainly true in technology, but it’s also true in the entire spectrum of products and services. Many Fortune 500 companies—from computers to cars, cola to cartoons—were started by entrepreneurs with little more than a new and better idea.

- **New jobs.** Total new-job creation in the United States is a result of new businesses. In fact, America relies on new businesses to offset the job losses from bigger and older corporations. The Small Business Administration (SBA) estimates that small businesses create 65 percent of all new jobs in the country. Worldwide, substantial job creation is largely a result of new business formation, especially in emerging economies.

**entrepreneurship** key terms

**Business**
An entity organized for the purpose of buying and selling a product, service, knowledge, or other thing of value; a company set up with the intention of making a profit; an activity established to provide income and financial well-being for the person running the business.

**Entrepreneur**
An individual who, through their own initiative and hard work, launches a new undertaking—typically a business—that involves risk and uncertainty. Ordinarily, entrepreneurs seize on opportunities, innovate, experiment, and pioneer to bring to market a new, better, less expensive, or somehow improved product or service, or to open up new markets. Many entrepreneurs also aim to advance social goals in their ventures.

**Entrepreneurial thinking**
Applying the characteristics of entrepreneurs—such as innovation, creativity, risk-taking, the willingness to accept failure, and fast response time—to other endeavors, such as corporate enterprises, education, and social programs.

**Risk**
In entrepreneurial terms, risk involves uncertainty, with the possibility of encountering unexpected setbacks, suffering losses, and even resulting in failure. New ventures present various types of risk, such as market risk in that target customers may not be ready for the product or service; or technology risks in that the necessary technology may not be able to be developed in an acceptable time frame; or execution risks, in that the planned activities may not be able to be carried out.

**Start-up**
A term often used for a young business; most often applied when the business has the intent or potential to grow to substantial size.

**Venture**
An entrepreneurial undertaking, usually referring to a new business.

**Vision**
The ability for an entrepreneur to conceive a company, product, or service that doesn’t yet exist, typically in response to a specific need in the market and often in somewhat great detail. A visionary is one who can see possibilities where others do not.
Entrepreneurs not only create new businesses, but when they’re incredibly successful, they may even end up creating entire new industries. In recent years, for example, the success of a few social media companies—like Facebook—has fostered the generation of a whole ecosystem based around those companies. This leads to an immense explosion of jobs in related businesses.

Middle class income. In many areas—including rural areas, developing countries, and older regions in the United States—there are no large corporations to provide decent jobs. There, the only path to a middle class lifestyle (or better) is through the creation of one’s own business.

Flexibility. Smaller companies can open, close, move, and change focus much more quickly than big corporations. Typically, smaller companies are the first to respond to changing market needs and conditions, and often provide a testing ground for big corporations to learn how they themselves will need to adapt. The smaller companies offer the job opportunities and new products our society needs until big firms figure out how to catch up.

Old values. Big companies get distracted by things such as keeping Wall Street happy, arranging mergers and acquisitions, and rewarding executives with huge bonuses. Newer companies, by contrast, concentrate on the basics: cash flow, profits, providing high-quality products and services, and serving and retaining their customers. Perhaps even more important, owners of newer or smaller businesses know their employees are people, not “human resources,” and need to be treated as such.

Entrepreneurs, in short, make a huge difference. They innovate, pioneering new industries and producing new products. They provide vital services. They support their communities. They create wealth, for the entrepreneurs, the investors, and society. Most important, they create jobs. And when you create jobs—good jobs, with fair pay and good working conditions, where people can take pride in their work and be treated with respect—you change their world, your world, and the world in general.

Growth of entrepreneurship

Humans have been engaged in entrepreneurial endeavors for thousands of years. It’s nothing new for someone to see something that people want to buy and then figure out a way to sell it. It may be part of human nature to be able to identify an opportunity and wish to seize on it, and, through hard work, be motivated to make money in the process.

While it’s true that entrepreneurship has been around for a long time, we are now in a golden age of entrepreneurship. Throughout the world, entrepreneurs are making a greater impact than ever before, and gaining the recognition that comes from that impact.

Although much attention is paid to technology-based start-ups, especially in places like Silicon Valley in California, the truth is entrepreneurship is flowering...
in all industries and geographic locations around the world. Even concepts that once were the sole province of philanthropists and charitable organizations have now become the interest of entrepreneurs who aim to apply their innovative and strategic thinking to solving some of the globe’s most pressing problems.

Indeed, since the earliest part of the 21st century, there has been a ground shift. The best and the brightest in our society, who before might have gone to work for big corporations, now want to start their own ventures, at younger and younger ages. Some of the growth in entrepreneurial desire has certainly come from seeing the example of those who have succeeded—especially young entrepreneurs—who have created whole new industries, transformed the way we live and work, and made fortunes along the way. Seemingly overnight, entrepreneurs have become millionaires—even billionaires—as a result of launching innovative businesses.

Of course, most entrepreneurs never become millionaires. Yet the chance to act on your ideas, to make your own way, to create new products, to invent new services, and to make a difference in the world, has encouraged record numbers of people to become entrepreneurs.

**Factors driving the growth of entrepreneurship**

Besides the example of successful entrepreneurs, what’s propelling the rapid growth of interest in launching one’s own businesses?

- **Less job stability.** The days are long gone when people assumed they would work for one company all their lives. For starters, a large number of businesses today run extraordinarily “lean.” Rather than hiring full-time permanent employees, many businesses opt for part-time personnel or either temporary or contract workers. There has also been a cultural shift in how people view their employment and careers. Most people expect to—want to—change jobs. A person born in the later years of the “baby boom” (1957–1964) held an average number of 11 jobs just between ages 18 and 44. Younger people today are likely to have as many different jobs, if not more. Indeed, it’s typical for people in developed countries, especially the United States, to have two, three, or even more “careers” over the course of their lifetimes as their interests change and evolve. With less job stability, there’s more opportunity—and more need—to start your own business.

- **Lifestyle driving career choices.** Want to live in the mountains so you can ski, or by the beach so you can surf? Be home in the afternoon to raise your kids? Increasingly, people want their careers to mesh with their lifestyle goals. Entrepreneurship allows much more flexibility to create an income in a way that meets personal goals. You can create businesses in locales where the kind of job you want doesn’t exist, have more flexibility in work hours, and spend less time commuting and more time on family,

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hobbies, or other interests. The desire for a lifestyle that a traditional job can’t satisfy is one key reason that people choose an entrepreneurial path.

- **Technology infrastructure.** It has become cheaper and easier than ever to start a businesses. Businesses that once required a huge upfront investment in infrastructure, equipment, and staff can now do a lot more for a lot less. Many of the daily administrative and office tasks can easily be automated; a huge array of companies exists to provide technology solutions to small and new businesses. Web design firms, search marketing specialists, third-party IT services providers, and all sorts of consultants represent merely a few of the new types of business opportunities that have emerged. It’s possible to build a fairly substantial business with only a virtual team, especially for technology needs.

- **Technology opportunities.** New technology creates new business opportunities. The Internet, in particular, over the last few decades has created entire new industries—mobile, cloud, and social media. Advances in technology and science have led to an explosion in biotech, genetics, and medical equipment and other health care–related industries. “Green” technology is providing significant new prospects in a wide range of environmentally related businesses. In virtually every category, the rapid changes in underlying technology have opened up great possibilities for entrepreneurs.

- **Government support for entrepreneurs.** Throughout the world, governments have increasingly recognized the importance of new ventures and small businesses for their economic growth and health. National governments are setting up agencies to assist entrepreneurs, lessening regulation and red tape for starting new businesses, and providing tax benefits. Even state, regional, and local governmental entities are getting in on the act, helping to make it easier for new business formation. Officials realize that without new businesses economies stagnate.

- **Mature financing environment.** Investors have become more and more comfortable with putting their funds into new and risky ventures. The unbelievable financial success of those who have invested in entrepreneurial ventures since the last two decades of the 20th century and during the first decade in this century has led to the growth of a large pool of investors willing to take risks on entrepreneurs and new ventures. There’s now a mature, sophisticated, and well-funded investing community in a few key regions of developed countries. And, even in smaller communities and less developed areas, many more private investors—“angel investors”—are willing to support entrepreneurs. The availability of more venture capital means the possibility of many more new businesses launching.

- **Financial considerations.** Many people simply don’t feel they can meet their financial goals by working for an hourly wage or even a professional-level salary. This is especially true in areas with few high-growth and professional opportunities, as well as in many developing countries. The
notoriety given to young multimillionaire founders and early employees of high-tech start-ups has fueled many people’s dreams. No surprise, then, that many people feel that they can achieve their financial goals more fully and easily if they choose to become self-employed—or to build their own business and employ others.

Thinking like an Entrepreneur

Can you learn to be an entrepreneur, or must you be born with an entrepreneurial spirit? While some people are naturally more oriented toward an entrepreneurial lifestyle, and feel more comfortable with the uncertainty that comes with entrepreneurship, it’s definitely possible to work on developing some of the key attitudes and attributes of those who start and grow successful businesses.

Many business books and experts assert that there’s just one kind of person who can be a successful entrepreneur—someone who’s a risk taker, extroverted, a natural salesperson, a leader and a visionary, someone willing to work around the clock.

It’s a great list, but it’s just not true. There’s a whole range of personalities who become successful entrepreneurs. The key is to find the right type of business to suit you.

Of course, someone who, by nature, needs an extremely high level of security, guidance, and reassurance might be a poor fit for an entrepreneurial lifestyle. But the idea that you must relish risk—be an emotional skydiver—is often overstated when describing the types of people who make good entrepreneurs. Many people who don’t think of themselves as embracing risk become entrepreneurs. The key is that although a successful entrepreneur takes risks, those risks are measured. While entrepreneurs frequently go out on limbs, the ones that make it generally test that limb first to make sure it has a good chance of bearing their weight.

Great entrepreneurs expect change

Change is inevitable, but one thing that sets successful entrepreneurs apart from others is their willingness to adapt to, embrace, even leverage change for their own gain. Many entrepreneurial companies, especially those involved in technology, have change at the very core of their existence. Still, for every business, change is inevitable.

Even companies that were created on the basis of innovation often become staid over time. Once they have established customers, channels, business units, and models, it’s easy for them to get complacent. Their employees become used to doing things the way they always did. When companies are mired down in doing things the same old way, they’re viewed as rich targets for newer, entrepreneurial companies to go after.
The best entrepreneurs—the ones who succeed over decades—recognize that they must keep responding to change, reinventing their companies, continually innovating.

In planning for change, keep in mind the kinds of conditions that will affect your business’s future.

- **Technological changes.** It's impossible to predict the exact technological developments that will affect your industry, but you can be sure that you'll be faced with such changes. Even if you are making old-fashioned chocolate chip cookies, you'll find that advancements in oven design, food storage, and inventory control software will place competitive pressures on your business. Competitors' technological advances may cause significant downward pricing pressures on you.

- **Sociological changes.** Evaluate demographic and lifestyle trends in light of their potential influence on your business. In the cookie business, for example, consumer interest in natural foods or the number of school-age children in the population may influence the number and kind of cookies you sell. What sociological factors have the greatest impact on your company? Keep your eye on trends that represent true change; be careful not to build a business on passing fads.

- **Competitive changes.** New businesses launch every day. How hard is it for a new competitor to enter the market, and what are the barriers to entry? The Internet has made it possible for companies all over the world to compete against each other, increasing the number and type of competitors you may face.

- **Market and marketing changes.** Consider how your company deals with these outside changes. Also anticipate major internal changes, such as growth, the arrival or departure of key personnel, and new products or services. No business is static. Planning a company to be agile and responsive to change will make the inevitable changes easier.

**Great entrepreneurs know how to fail**

One critical key to **entrepreneurial thinking** is to learn how to think differently about “failure.” True, nobody wants to fail, but, for most entrepreneurs, some failure is inevitable. Or at least it is if you ever hope to succeed. Virtually all success depends on trying things that may fail.

Successful entrepreneurs possess the ability—or rather, the determination—to view failure as an opportunity to learn and then apply that lesson to their next business attempt. Indeed, many venture capitalists say they prefer to finance entrepreneurs who've already failed in at least one business, because they've learned a lot from failure. “Let them learn on someone else's nickel,” one VC once said, recognizing that the best entrepreneurs learn from their setbacks.
The most successful entrepreneurs possess numerous key characteristics. Not all entrepreneurs have all of them, of course. But check the traits that apply to you. Work on developing the ones you’re missing.

- You see opportunities where others see problems. When you encounter a need that isn’t filled or a flaw in a product, service, or even our society, you look to see if there’s a way to solve it.

- You are driven to succeed. You’re so motivated to achieve your goals that you’re prepared to overcome obstacles that would likely discourage or stop others.

- You are a self-starter. Rather than waiting for someone to issue instructions, you can take initiative. When you’re interested in something, you don’t need others to tell you what to do.

- You are persistent. You don’t give up on things easily. You can handle setbacks and keep on going.

- You are innovative. You can think “outside the box” when attempting to meet challenges.

- You are energized by challenges. The idea of having to solve a problem, create something new, or build something from nothing, spurs you rather than deters you.

- You take control of your own destiny and bear responsibility for your own actions. You don’t blame others for what happens to you in life. You can honestly accept responsibility for the results—both positive and negative—of decisions you make and actions you take.

- You are willing to give up the security blanket of a “regular” job. You don’t mind working without the safety net of a regular paycheck or the benefits and social structure that an established employer provides.

- You accept and embrace change. Change is inevitable, yet in the entrepreneurial world, change comes even faster and more frequently. But rather than fearing it, you welcome it and enjoy the excitement of the ride.

- You can be a team player. No great entrepreneurs succeed on their own. You’re able to work with others to achieve a common goal. You’re capable of listening to others’ ideas and incorporating the good ones into your own thinking.

- You understand the importance of making a profit. You know that all your best intentions and actions are for naught if you aren’t actually making a profit—that is, bringing in more money by selling a product or service than it costs you to provide it. You’re not embarrassed by the idea of making money.
Great entrepreneurs are good at failing. But there are different ways to fail. To succeed, try to fail the right way:

- **Fail fast.** Try new things without obsessing about perfection. Develop things quickly, then get them out the door. You need real-world feedback from customers, users, and partners, to be able to fix your mistakes. Google’s product development mantra reflects this reality: “Experiment, Expedite, Iterate.” Other companies that grew quickly also embraced this kind of failure. One of Facebook’s mottos is “Move fast and break things.” To fail fast, give employees the authority to make decisions and act on them independently. They will make mistakes—fail. If things don’t work out, move on quickly—without a lot of criticism. Start, fail, change. Fast.

- **Fail forward.** If you’re going to fail—and you will—fail in a way that moves your company, products, or services in a new direction. Failure only leads to success if you’re stretching yourself, trying new things, innovating. Remember, innovation doesn’t require perfection. It’s now a “version 1.0” world. There’s great tolerance for new products and services that aren’t perfect at first. Move fast and forward.

- **Fail smart.** You don’t learn much, or gain much, if you fail because you’re doing something stupid and avoidable: partnerships imploding because of a lack of communication, employees unmotivated because they’re treated poorly, or management not taking care of business fundamentals, such as getting contracts signed or sending out invoices. Failure is only useful if you’re learning something from it.

- **Fail cheap.** Try to keep your financial losses from a failure as minimal as possible. One way to do this is to start “lean”—try new things with the least amount of investment, to test the concept. The idea is to launch the “minimal viable” version of whatever you’re trying. Remember, it doesn’t usually have to be perfect to test a concept.

- **Fail with integrity.** Character matters. Even if you fail, there’s a very good possibility that people who worked with you before—even invested in you—will be willing to team with you again in the future. But that’s possible only if you’ve proven to be a person they trust and respect. If you’ve failed because you are dishonest, because your word is not reliable, or because you cheat, then your one failure is likely to become permanent failure. Experienced and intelligent people will forgive your failures if they’re honest attempts to accomplish something.

Keep in mind, an unexamined failure is just a plain failure. You’ve got to learn from your mistakes and failures to grow.
The Advantages and Challenges of Entrepreneurship

It seems cool to be an entrepreneur. Movies are made about young entrepreneurs, portraying them as contemporary heroes. Being an entrepreneur seems exciting. The possibility of becoming fabulously wealthy is enticing. It seems easy to create the next big thing.

Yet, as in all things in life, there are advantages and challenges to entrepreneurship. And it’s wise to understand both as you consider becoming an entrepreneur.

**Advantages**

The advantages of entrepreneurship fall into three general categories: personal, professional, and financial.

**PERSONAL BENEFITS**

Many people focus on the financial rewards of being an entrepreneur, but much of the payback that people get from their entrepreneurial ventures is personal, increasing the possibility that you’ll derive greater satisfaction from your working life than you would as someone else’s employee.

First and foremost is the ability to do something that interests you. You almost certainly will choose to start a business in some field that attracts your attention. It may not be “sexy” to others—perhaps you’re finding a new way to crunch data, to manage mobile networks, or even to improve cleaning supplies—but it holds interest for you. It’s a great personal benefit to have the opportunity to do something you have a passion for, rather than spending the majority of your waking hours performing tasks in which you have little real interest.

Next, you get to create something of your own making. Being able to make something from nothing brings tremendous satisfaction. It can be something as simple as a food truck or a corner bakery, even being a self-employed consultant, but the idea of having created a job and a business yourself is highly rewarding and empowering and will give you a tremendous sense of pride.

You also get more personal choice over where, when, and how you work. Many people want to live in a particular geographic area—say, close to the mountains or by the ocean—or perhaps in a place where there aren’t an abundance of jobs. Creating your own business enables you to have more location choice. Having the independence and flexibility to make time for family, hobbies, or other activities is another huge draw to the entrepreneurial life.

Most important, you’re your own boss. The idea of not having a boss is intensely appealing for many. You have no one to answer to, no one to judge you, and no one who can fire or transfer you. If you’ve only had bad bosses, not having a boss can be a huge draw.

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Oprah OWNs up to failure

Hopes were sky-high when the extraordinarily popular TV personality Oprah Winfrey launched her own television network—OWN—in January 2011. But by the end of the first year, OWN was, by virtually any measure, a failure. Winfrey was committed to the long-term success of the network, however, and took a realistic view of her entrepreneurial failure, saying, “Who hasn’t made mistakes? The beauty is you can say, ‘I learned from that.’ I don’t worry about failure. I worry about, ‘Did I do all I could do?’”
PROFESSIONAL BENEFITS
You’ll also reap extensive professional benefits from your entrepreneurial endeavors. For starters, you can advance more rapidly than you would in a traditional office setting. You won’t be held back because you lack experience or seniority or by office politics. You won’t be limited by what your boss thinks of you. You’ll succeed or fail on your own merits.

You’ll also be able to fully leverage your creativity and ingenuity. Rather than simply carrying out other people’s ideas or implementing their visions, you reap the professional benefits of any exciting insights or “ahas!” you get. You can aggressively pursue exciting new ideas for products and services. When you have a good idea, you can act on it—instead of waiting for a committee or encountering bureaucratic opposition.

You get to choose the people you work with. When you’re in charge, you can hire a team that works well together, with people you respect and like. You’re not stuck with the other employees whom some boss hires. Your only limits on whom you can hire are your company needs, your cash, the available labor force, and labor laws.

Finally, you’ll thrive because of the sheer adrenaline factor. Entrepreneurs are challenged and surprised every day, and because of this they grow at a much faster rate, professionally, than their counterparts in traditional employment situations. And because you’re the boss, you can invest in further education and training as you want or need it.

FINANCIAL BENEFITS
The financial benefits of running your own firm can be substantial. Research performed by Thomas Stanley and William Danko for their book The Millionaire Next Door found that self-employed businesspersons were four times more likely to be millionaires than those in traditional employer-employee roles. Your earning potential is theoretically unlimited: You can go as far as your business idea will take you. You also benefit directly from your success. The fruits of your labors belong to you. You can take as much or as little out of your business as you choose. And you’re un tethered from the economic ups and downs—and whims—of a traditional employer. You make, and reap, the financial rewards of your own hard work.

Challenges
You’ll inevitably confront and surmount a number of challenges on your entrepreneurial journey. Among other challenges, you’ll need to find ways to manage the following realities.

YOU’LL FACE RISK
There’s a chance—a very good chance—that whatever business or enterprise you start may fail. Reports of the percentage of entrepreneurial failures are often overstated, but nevertheless there’s a high likelihood that you’ll end
up having to (or choosing to) close up shop. With failure comes loss—loss of pride, loss of time, financial loss. The stress of dealing with a failing business puts tremendous strains on personal and professional relationships. Your family may not understand the pressure you’re under. You may have friends and family who have invested their money, and their hopes, in you, and they may not be as understanding or patient as you’d like. And you may feel guilt and shame at disappointing them. Failure is never easy.

Even when you don’t fail, you have a greater sense of risk in an entrepreneurial undertaking than by being someone else’s employee. Sure, you may get laid off from a job, but generally, there isn’t the day-to-day understanding of the reality of risk as there is when you own a business. And when you’re the one in charge, especially when you have others dependent on you for their livelihood, this can put you under a tremendous amount of pressure.

YOU’LL DEAL WITH FINANCIAL INSTABILITY

When you own a business, expect your income to fluctuate considerably. Frequently, business owners experience an economic roller coaster, with great highs and deep lows in income. This is far different than having the comfort of a steady paycheck. What you sell to customers or bill clients is what you get. You’ll inevitably experience dry spells or go through times when your resources are stretched. And you may need to look beyond your own means for the cash to grow your business or even to keep your doors open if times get tough.

Moreover, when you have employees, you get paid last. By law, you must pay employees what you owe them—and by ethics, you’d want to make sure you’re paying your employees on time. That means that when the coffers are low, you’re the one who has to make do, who goes without a paycheck, who gives up income.

And you don’t get benefits. Want a vacation? Sure, you can take one anytime you like, but it’s not a “paid vacation.” While you’re away, you lose any income you would have made. Need health care insurance? When you start your own business, you have the same kind of decisions to make as the largest publicly traded companies: What kind of health benefits will you be able to afford—both for yourself and for any others you employ? Which insurance company (or companies) will provide them? How will you fund these benefits? Likewise for retirement savings—both your own and for any employees. Will you contribute to a 401(k) plan?

YOU’LL WORK HARD AND DRIVE YOURSELF

This is a given of the entrepreneurial life: Self-employed individuals tend to work longer hours than the typical employee. There’s no such thing as a “typical” workday—you’ll often find yourself working nights and weekends, on family holidays, during vacations. You don’t get paid for the time you’re not working. This means that you will lose revenue for each day you
are sick and for vacation days, so it’s likely you’ll find yourself taking fewer days away from work. Moreover, many entrepreneurs have to continue doing their “day” jobs until their entrepreneurial ventures are established. So expect long hours for many years.

You also have to be a self-sufficient worker. You must be a disciplined self-starter. No one assigns you tasks—that may seem liberating at first, but it may also feel burdensome when you don’t know which way to turn. Depending on the type of business you start, you may be working on your own most of the time. You won’t have the traditional “network” of coworkers to turn to for support or assistance. If your computer breaks down, you’ll have to figure out how to get it up and running again—either yourself or by hiring outside help. You’ll either do your own books or find a good accountant. And you won’t have the built-in social structure of the traditional workplace.

YOU MUST COPE WITH CONSTANT CHANGE
The one constant you face is change. And just when you think you have everything under control, something new will come along—count on it. You’ll need to develop your capacity for rolling with the punches. Nimble companies that can quickly evaluate and respond to changing conditions will most likely succeed.

Therefore, you must be a fast learner. Unless you’re a most unusual person, you will be largely jumping into the great unknown when you start your business. You may have a deep understanding of your professional field—nursing or engineering or culinary arts—but it’s a given that you will be confronted regularly with unanticipated challenges. Your ability to learn the ropes and pick up on things quickly will be one of the prime determinants of your success.

THE BUCK STOPS WITH YOU
As an entrepreneur, you’ll be faced with a constant barrage of decisions you need to make—how much to charge a customer? how much to pay an employee? what kind of equipment to purchase? where to locate your office? what new products to develop? which ones to phase out? And on and on.

Good entrepreneurs learn how to delegate many decisions to others, yet at the end of the day the final decisions always rest with you. You establish and maintain the company culture. You are the final voice on all major or critical decisions. Your choices are the ones that matter most. Being in charge is a huge burden.
Your Goals, Ideas, and Vision

Now that you have a general understanding of entrepreneurs and entrepreneurship, it’s time to take a closer look at your own motivations and vision. Why do you want to be an entrepreneur, and what kind of entrepreneur do you want to be? When you think of creating your own company, what do you envision that company to be?

The Four Cs

When you start out, it’s important to understand your personal goals. Some entrepreneurial ventures fail and others flounder precisely because their founders or executives are uncertain of what they really want to achieve. They don’t structure the company and their responsibilities in ways that satisfy their personal needs and ambitions.

Most entrepreneurs’ personal goals can be summed up by the Four Cs: creativity, control, challenge, and cash. Of course, everyone wants all four of these, to some degree, but knowing which ones you most want or need can help you structure your company to best achieve your goals.

Which of the Four Cs motivates you most?

- **Creativity.** Entrepreneurs want to leave their mark. Their companies provide not only a means of making a living but also a way for them to create something that bears their stamp. Creativity comes in many forms, from designing a new “thing” to devising a new business process or even coming up with an innovative way to make sales, handle customers, or reward employees.

  If you have a high need for creativity, make certain you remain involved in the creative process as your company develops. You’ll want to shape your business so it’s not simply an instrument for earning an income, but beyond that a way for maintaining your creative stimulation and making a larger contribution to society. But don’t overpersonalize your company, especially if it’s large. Allow room for others, particularly partners and key personnel, to share in the creative process.

- **Control.** Many people start businesses because they want more control over their lives. Perhaps you’d like more control over the way your good ideas are implemented. Maybe you want, or need, greater control over your work hours or conditions so that you can be more involved in family, community, or hobbies. Control is a major motivation for most entrepreneurs—usually more important than money. But how much control you need—especially day to day—directly influences how large your company can be.

  If you need or want a great deal of control over your time, you’ll most likely need to keep your company smaller. In a large company, you have less immediate control over many decisions. If you’re a person who

What’s your chance of success?

When you start a business, you’ll often hear one statistic repeated over and over: “Fifty percent of all new businesses fail within five years.” The facts are actually somewhat different.

About 50 percent of all new businesses still exist after five years, and about 50 percent will have closed. Those may have closed for many reasons: The owner found a good job, moved, decided to pursue another line of business, and so on. “Failure”—meaning the business couldn’t make a profit—may have been only one of many causes.
needs control, you can still grow your business larger. You’ll simply need to structure communication and reporting systems to ensure that you have sufficient information about and direction over developments, thus meeting your needs. If you seek outside funding in the form of investors, understand the nature of control your funders will exert and be certain you’re comfortable with these arrangements.

**Challenge.** If you’re starting or expanding a business, it’s clear you like challenge—at least to some degree. You’re likely a problem-solver and risk-taker, enjoying the tasks of figuring out solutions to problems or devising new undertakings. Challenge-hungry entrepreneurs can be some of the most successful businesspeople, but they can also be their own worst enemies—flitting from one thing to another, never focusing on one long enough to succeed.

If you have a high need for challenge in your business life, it’s important to develop positive means to meet this need, especially once your company is established and you’ve met the initial challenge of starting a company. Otherwise, you may find yourself continually starting new projects that divert attention from your company’s main goals. As you plan your company, establish goals that not only provide you with sufficient stimulation but also advance—rather than distract from—the growth of your business.

**Cash.** Every entrepreneur wants to make money. Perhaps it’s just enough money to provide a decent income; perhaps it’s so much money that you can buy a jet. How much you want, or need, affects how you’ll develop your business. Will you require investors and, if so, when? Will you sacrifice control to grow the business quickly?

Keep in mind there are trade-offs between personal goals. For example, wanting more cash often means having less control, while staying at the center of the creative process can necessitate having a partner or growing slowly—once again trading off control or cash.

### The size of your vision

Once you’ve considered the Four Cs, you must continue to define other aspects of your vision. A good way to proceed is to identify how large a business you hope to launch—and how big you intend it to become. You have several options.

**SELF-EMPLOYMENT**

The greatest number of all businesses fit into this classification. These are one-person ventures that provide critical income for the entrepreneur—and often the *only* source of income for the entrepreneur’s family.

Solo sustainer businesses represent the classic self-employment business model—frequently called “sole proprietorships.” These businesses are owned by one person and are typically nonincorporated. Self-employed accountants, physicians, and others who provide professional services fall into this category.
# BUILD-YOUR-BUSINESS WORKSHEET

## The Four Cs

*Use this worksheet to help determine which of the Four Cs are the most important to you.*

<table>
<thead>
<tr>
<th>CREATIVITY</th>
<th>Extremely Important</th>
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<th>Somewhat Unimportant</th>
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<td>Determining the design or look of products/packaging</td>
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<td>Creating new products or services</td>
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<td>Devising new business procedures/policies</td>
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<td>Identifying new company opportunities</td>
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<td>Creating new business materials</td>
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<td>Devising new ways of doing “old” things</td>
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<th>CONTROL</th>
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<td>Over own time, work hours, etc.</td>
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<td>Over company decisions and directions</td>
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<td>Over social/environmental impact of products/services</td>
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<td>Over own future and business’s future</td>
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<th>CHALLENGE</th>
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<td>Long-term problem solving</td>
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<td>Critical problem solving (“putting out fires”)</td>
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<td>Handling many issues at one time</td>
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<td>Continually dealing with new issues</td>
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<td>Perfecting solutions, products, or services</td>
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<td>Organizing diverse projects &amp; keeping the group goal-focused</td>
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<td>Income needed currently</td>
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<td>Income desired within 12–24 months</td>
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<td>Wealth desired in 6–10 years</td>
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<tr>
<td>Income desired in 2–5 years</td>
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<td></td>
<td>Wealth desired in 10+ years</td>
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Entrepreneurship: A Real-World Approach © Rhonda Abrams. DO NOT REPRODUCE.
Businesses in the self-employment group share these characteristics:

- Income from the business is critical to maintaining the lifestyle of the entrepreneurs and their families.

- The entrepreneur generally works alone (or sometimes with the aid of part-time administrative assistants or independent service providers, such as attorneys, IT consultants, webmasters, and bookkeepers).

- The business generates current income for the entrepreneur, rather than creating ongoing income streams that could continue even if the entrepreneur were to leave the business.

In other words, in solo sustainer businesses, the business sustains the entrepreneur, while the entrepreneur sustains the business. Once the entrepreneur stops working, the business stops—period. In essence, the entrepreneur is the “product” that the company sells, and is the sole income generator for the business. There is no “business” independent of the entrepreneur.

SMALL BUSINESS

When someone uses the term “small business,” they usually mean a business that’s intended to grow to a reasonably healthy size and stay there. The goals of the venture’s founders typically include:

- The business is designed to be a career for the owner.

- The business also provides jobs for others.

- The business is designed to produce ongoing, annual income for the entrepreneur.

- The business may be capable of building value independent of, and lasting longer than, the entrepreneur’s personal involvement.

- The business is small enough for the owner to be able to control it, yet big enough to be able to support growth.

Ideally, a business like this will develop value in addition to the annual income it produces for the owner and the paychecks it generates for employees. With good planning and development, many of these businesses can be sold to others when it comes time for the entrepreneur to retire. They can also be passed down to family members or employees. Most independent, one- or two-location businesses fall into this category, such as restaurants, construction companies, auto repair shops and dealerships, retail stores, and small business or personal service firms.

Smaller businesses such as these may seem far less exciting than high-growth start-ups, although they’re also less risky. They tend to use proven business models, and they can reach out to established support networks, such as industry associations and consultants, for assistance.
HIGH-GROWTH START-UPS

The entrepreneur who starts this kind of venture has a different kind of ambition than those who launch other types of businesses. Yes, they may start small, but their vision doesn’t stop there. These entrepreneurs have plans to grow big. Their goal is to develop a company that will expand into a major enterprise—one worth many millions of dollars. They envision a company so substantial that perhaps it will become a household name, with publicly traded stock. Or they may hope that an even larger corporation might acquire the business in the future.

Google founders Larry Page and Sergey Brin right from the beginning hoped to make it really big by creating search technology that would harness the chaos that was the early Internet. Ray Kroc saw the possibilities in a small hamburger-franchise and grew the McDonald’s empire from a single burger stand, based on his vision of applying mass production concepts to a service industry (food preparation). And every day, venture capitalists are presented with business plans from would-be entrepreneurs whose definitions of success go well beyond merely earning a decent living.

High-growth start-ups are the types of new companies that get a lot of press. They are exciting, innovative businesses that aspire to new heights and strive to break new ground. They’re also risky. Since an entrepreneur creating a visionary venture wants to build a company with huge potential, they often have to put personal considerations—such as the business’s ability to generate current income for them or provide them with financial stability—second to the need to find a concept that can support the growth of a large enterprise.

Because visionary ventures inevitably involve finding and securing big markets—or developing new products or technologies—they typically require a great deal of money to get started. This means that the entrepreneur not only has to spend a lot of time seeking financing, but they also will probably need to give up a significant portion of the company’s ownership to investors.

Your business vision

Now that you’ve determined the level of importance of each of the Four Cs, and figured out which of them suits you, you can start thinking at a fairly high level about the type of company you want to build and run.

How big a company do you want to build? As you begin to think about your business, keep in mind that the business itself may dictate the size. Some people deliberately keep their business vision small: They want to be sole proprietors and have no interest in employing others or growing a business that requires more than their particular input. Those with professional skills like accounting or business consulting often fall into this category. Big ideas often require big companies to make them come to fruition. It would be impossible to run a furniture manufacturer that has mass-market reach with just three employees. A lot of this comes back...
to control. It’s hard to maintain a high degree of control over a larger company—although some people certainly try.

- **Do you want to work by yourself or with others?** This is a critical question. You may be a self-sufficient type who prefers being in control of every aspect of your business over delegating responsibility or partnering with others. Or you may be gregarious and socially inclined and need others to support you, to bounce ideas off, and to socialize with. Or your business may absolutely require others with complementary skills to make it a success. Your preferences in this regard will determine the type of business you’ll start.

- **What business values or corporate culture do you want to create?** What’s important to you about the nature of the business you build? How will you treat your employees? Interact with your community? Relate to the world in general? What code of ethical conduct will you adhere to when doing business? Management style plays into this: You may prefer a buttoned-down, traditional workplace. Or you might want to foster a more fun environment that includes scooters, video games, and even nap rooms. Here’s where your commitment to socially responsible behavior comes into play, as does your vision of how you want to be viewed by others in your organization. Do you want to create a role for yourself as a traditional authoritarian boss or to nurture a more collaborative, “flat” organizational culture? Some companies are committed to valuing families, allowing four-day workweeks and guaranteeing that employees can leave at 5 p.m. Your business values represent an important aspect of your business vision.

- **What are your business skills?** What are your leadership and management qualities or other personality traits that stand you in good stead when pursuing your passion? Do a careful inventory of your business skills at this point, because it will determine whether and how you should bring in other individuals to complement your skills, or what additional education or training you need if you hope to go it alone. Can you motivate others? Can you communicate well? Are you willing to learn these skills if you don’t currently possess them? Keep in mind that your inventory of business skills should include not only the ones you have now, but also the vital ones you’re willing to work on or develop.

**From dream to reality**

If you’re like most entrepreneurs, you probably have many dreams for your future. Dreaming is vital. The first step in starting your business is to be able to imagine a new reality. It can be a truly unique reality: a zero-emission sports car such as the Tesla, for example. Or it can be a down-to-earth reality: starting a retail auto-parts company that enables you to earn a decent living while creating respectable, long-term jobs for your employees.
## BUILD-YOUR-BUSINESS WORKSHEET

### Your Business Vision

*Now it's time to focus on the vision you have for your business. After completing this exercise, you will have a better idea of what your business goals are and what you need to do to achieve them.*

1. **How big a company do you want to build?**

2. **Do you want to work by yourself or with others?**

3. **What are your business values? What kind of corporate culture do you want to create?**

4. **Which of your leadership or management qualities or other personality traits will stand you in good stead when pursuing this passion?**

5. **What business skills are you willing to develop to make your venture a success?**

---

Entrepreneurship: A Real-World Approach © Rhonda Abrams. DO NOT REPRODUCE.
Most—if not all—successful businesses start with a dream. Yet there’s a difference between those who merely dream and those who make their entrepreneurial dreams come true.

The steps that move from dream to reality make up the entrepreneur’s “dream scale”—from the least-achievable stage of dreaming to the most achievable and action-oriented one.

1. **Fantasy.** These concepts are impossible or highly unrealistic to achieve. Hucksters make fortunes off people who fantasize about getting rich in their spare time. Whether it’s an infomercial, a weekend real-estate seminar, or a multilevel marketing program, what most of these people sell is the fantasy that you can make money without hard work or risk. Most of these schemes drain money and time away from achievable goals, such as going back to school or starting a realistic business.

2. **Dream.** Although these concepts are potentially achievable, at this stage, you see only the positive side. Most people have a dream business they’d like to run—a bed-and-breakfast, a wine bar, a fantastically successful social-networking site. Are these fantasies? No. Some people do run delightful B&Bs on Cape Cod; others start Facebook or Twitter. However, the reality is that it’s very difficult and expensive to succeed at most of these businesses. But at this stage, all you see is the upside.

3. **Concept.** At this stage, you have achievable ideas but you also bring the downsides and difficulties of your dream into focus. You’re willing to challenge your own assumptions and the claims of those who promise to make your dreams come true. You’re not afraid to look at the costs, limitations, or work required, and you’re willing to begin evaluating realistically your chances of success.

4. **Goals.** At this stage, you make a specific, realistic evaluation of what you personally want to achieve and what you’re willing to sacrifice to achieve it. Even practical visions involve trade-offs: If you want a large business, you may need investors who would exercise some or all the control over your company. Make sure you’re comfortable with these trade-offs.

5. **Business plan.** Finally, you’re ready to develop a thorough, thoughtful, step-by-step road map to success. This is where you actually figure out how to make your vision and goals a reality. You examine your industry, study the competition, and research your market. You identify the best strategies for success and detail your action items, milestones, marketing, and operations. This is your business road map. For more on business plans, see Chapter 4.
# BUILD-YOUR-BUSINESS WORKSHEET

## Moving from Dream to Reality

*Using your business idea, fill out the following worksheet to distinguish the achievable from the dream.*

Business Idea: ______________________________________________________

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<td>Closer look at costs, limitation, work required, and chances of success</td>
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<tr>
<td>Goals</td>
<td>Realistic evaluation of what you really want</td>
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Entrepreneurs Make a Difference

Finally, most people who choose the entrepreneurial life wouldn’t have it any other way. They recognize how difficult it can be; they may complain about the number of hours they put in, the vacations they’ve missed; they may have suffered the ups and downs of income. Their business—or businesses—may even have failed. But in the end, they’re sustained by how engaging and challenging being an entrepreneur can be.

As you start on your entrepreneurial journey, aim to make a difference. Businesses only succeed when they meet a real need. Yet those needs can be petty and small: Think of those who’ve created reality shows about housewives in New Jersey. Instead, look to fill needs that are important; make your contribution positive. Do something—create something—that has an impact. It doesn’t have to be world-changing. You need not invent a miracle medical device or devise a way to feed the world’s poor. But whatever you choose to do, try to make a beneficial impact on the world you inhabit.

Entrepreneurs change the world—*you can be one of them.*
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