SIXTH EDITION

New Venture Creation

ENTREPRENEURSHIP FOR THE 21ST CENTURY

Jeffry A. Timmons, A.B., M.B.A., **D.B.A.**Franklin W. Olin Distinguished Professor of Entrepreneurship

Director, Price Babson College Fellows Program

Babson College

Babson Park, Massachusetts

and

Stephen Spinelli, Jr., B.A., M.B.A., Ph.D. John H. Muller, Jr. Chair, Entrepreneurship

Director, Arthur M. Blank Center for Entrepreneurship

Chairman, Entrepreneurship Division

Babson College

Babson Park, Massachusetts



Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis Bangkok Bogota Caracas Kuala Lumpur Lisbon London Madrid Mexico City Milan Montreal New Delhi Santiago Seoul Singapore Sydney Taipei Toronto

<u>PARTI</u>

The Opportunity

The Entrepreneurial Revolution 3 The Entrepreneurial Revolution 3 The Entrepreneurial Generation and the Death of Brontosaurus Capitalism 4 Entrepreneurship: America's Secret Weapon 4 Entrepreneurship: A New Centerpiece in American Public Policy Debate 4 The Entrepreneurial Revolution: A Decade of Acceleration and Boom 14 The Global Economic Weapon 15 America's Self-Made Millionaires 16 Dawn of the New Age of Equity Creation 16 Building an Entrepreneurial Society 17 Chapter Summary 1 9 Study Questions 19 Mind Stretchers 20 Exercise Visit with an Entrepreneur and Create a Lifelong Learning Log 21 Case: PC-Build, Inc. 23	Entrepreneurship in Post-Brontosaurus Capitalism: Beyond Startups 48 "People Don't Want to Be Managed. They Want to Be Led" 48 Signs of Hope in a Corporate Ice Age 49 Metaphors 49 Entrepreneurship = Paradoxes 50 The Higher Potential Venture: Think Big Enough 51 Smaller Means Higher Failure Odds 52 Getting the Odds in Your Favor 53 Threshold Concept 54 Promise of Growth 54 Venture Capital Backing 54 Private Investors Join Venture Capitalists 55 Find Financial Backers and Associates Who Add Value 55 Option: The Lifestyle Venture 55 The Timmons Model: Where Theory and Practice Collide in the Real World 56 Intellectual and Practical Collisions with the Real World 56 Value Creation: The Driving Forces 56
2 The Entrepreneurial Process 47 Demystifying Entrepreneurship 47 Classic Entrepreneurship: The Startup 48	Change the Odds: Fix It, Shape It, Mold It, Make It 56 Recent Research Supports the Model, 63

Entrepreneurial Reasoning: The Screening Criteria: The Characteristics Entrepreneurial Mind in Action 63 of High Potential Ventures 91 Apprenticeship: Acquiring the 50,000 Gathering Information 100 Chunks 65 Finding Ideas 100 Role Models 66 Published Sources 103 Myths and Realities 66 Other Intelligence 104 What Can Be Learned? 66 Chapter Summary 104 A Word of Caution: What SATs. IQ Study Questions 105 Tests, GMATs, and Others Don't Mind Stretchers 105 Measure 69 Case: Roxanne Quimby 106 Chapter Summary 70 Exercises 113 Study Questions 70 Mind Stretchers 71 Case: James Kenefic: The Making of an **Screening Venture Opportunities** Entrepreneur 72 Screening Venture Opportunities 1 19 Four Anchors 119 QuickScreen 120 The Opportunity: Creating, Shaping, Venture Opportunity Screening Recognizing, Seizing 79 Exercises (VOSE) 120 Think Big Enough 79 Exercise QuickScreen 121 Opportunity through a Zoom Lens 80 Venture Opportunity Screening Transforming Caterpillars into Exercises 122 Butterflies 80 Exercise 1 Opportunity Concept and New Venture Realities 80 Strategy Statement 1 23 The Circle of Ecstasy and the Food Exercise 2 The Venture Opportunity Chain for Ventures 81 Profile 124 When Is an Idea an Opportunity? 82 Exercise 3 Opportunity Shaping Research and Exercise 1 28 The Real World 82 Exercise 4 Customer Contact Research Spawners and Drivers of and Exercise 1 34 Opportunities 82 Exercise 5 Mining the Value Chain-Search for Sea Changes 84 Defining the "White Space" 1 37 Desirable Business/Revenue Model Exercise 6 Economics of the Metrics 84 Business—How Do You Make Money The Role of Ideas 84 in the White Space 141 Ideas as Tools 84 Exercise 7 Capital and Harvest-How The Great Mousetrap Fallacy 85 Will You Realize Dollars from the Contributors to the Fallacy 86 Venture 148 Pattern Recognition 86 Exercise 8 Competitive Landscape— The Experience Factor 86 Your Strategic Analysis 150 Enhancing Creative Thinking 87 Exercise 9 Founder's Commitment 159 Approaches to Unleashing Exercise 10 Flaws, Assumptions, and Creativity 87 Downside Consequences—Risk Team Creativity 87 Reconsidered 161 Big Opportunities with Little Capital 88 Exercise 1 1 Action Steps—Setting a Real Time 89 Wee/c-by-Week Schedule 1 63 Relation to the Framework Exercise 1 2 Four Anchors of Analysis 90 Revisited 165 Screening Opportunities 91 Case: Gary and George Mueller 166 Opportunity Focus 91

5 Entrepreneurs and the Continuing Internet Revolution: The Expanding Frontier 183

The Continuing Internet Revolution: The

Expanding Frontier 183

Internet Overview 184

Origins of the Internet 186

A Quick Overview of Internet Basics 187

WebSites 187

Usenet 187

Mailing Lists 188

Search Engines 188

The Dot.com Experience 188

The Internet Business Environment and

Business Models 189

Internet Business Environment 189

Internet Business Models 190

How an Existing Business Can Benefit

from the Internet 191

Customer Service/Support 192

Technical Support 194

Data Retrieval 194

Public Relations and Investor

Relations 195

Selling Products and Services 195

An Example: The Internet Fashion

Mall 195

Factors to Consider in Designing Your

Commercial Web Site 195

Security and Payment Issues 196

Cutting Costs 196

Obtaining Advice/Information 197 Internet-Related Opportunities for the

Creation of New Businesses 198

Chapter Summary 199

Study Questions 199

Mind Stretchers 199

Case: Securities Online, Inc. 200

Appendix A Excerpts from the Securities

Online Business Plan 203

6 Franchising 221

Introduction 221

Job Creation versus Wealth

Creation 222

Franchising: A History of

Entrepreneurship 222

Franchising: Assembling

the Opportunity 223

Primary Target Audience 223

Evaluating a Franchise: Initial Due

Diligence 225

Franchisor as the High Potential

Venture 226

Key Components of a Franchise

Offering 227

Service Delivery System 227

Training 228

Field Support 228

Marketing, Advertising,

and Promotion 229

Product Purchase Provision 230

Franchise Relationship Model 230

Chapter Summary 232

Study Questions 232

Mind Stretcher 232

Case: Mike Bellobuono 233

PART II

The Founders

7 Entrepreneurial Mind in Thought and Action 245

The Search for Understanding 245

Three Principles for Achieving

Entrepreneurial Greatness 245

Leadership and Human Behavior 246

Research 247

Converging on the Entrepreneurial

Mind 249

Desirable and Acquirable Attitudes

and Behaviors 249

Six Dominant Themes 249

Other Desirable (But Not So Acquirable)

Attitudes and Behaviors 255

Demographic Shifts in the Entrepreneurial

Landscape 256

The Impact of Gender 256

Race, Ethnicity, and Culture 257

A New Generation of Business

Owners 258

Toward Inclusion of Diverse Groups in

Entrepreneurship 258

A Look at the Nonentrepreneurial Anchoring Vision in Team Philosophy - and Attitudes 304 Mind 258 A Process of Evolution 306 The Concept of Apprenticeship 259 Filling the Gaps 306 Shaping and Managing an Additional Considerations 308 Apprenticeship 259 Windows of Apprenticeship 260 Common Pitfalls 309 Rewards and Incentives 310 A Personal Strategy 261 Entrepreneur's Creed 262 Slicing the Founder's Pie 310 Chapter Summary 262 The Reward System 311 Study Questions 262 Critical Issues 31 1 Mind Stretchers 263 Considerations of Timing 312 Exercise QuickLook: The Personal Considerations of Value 312 Entrepreneurial Strategy 26 A Compensation and Incentives in High Case: Michael Healey (A) 265 Potential Ventures 313 Chapter Summary 313 The Entrepreneurial Manager Study Questions 313 The Entrepreneurial Domain 273 Mind Stretchers 313 Converging on the Entrepreneurial Case: Michigan Lighting, Inc. 314 Manager 273 Exercise Rewards 322 Principle Forces and Venture 10 Personal Ethics and the Entrepreneur 327 Models 274 Exercise Ethics 327 Stages of Growth 276 Overview of Ethics 332 A Theoretical View 276 Ethical Stereotypes 333 Managing for Rapid Growth 277 Should Ethics Be Taught? 334 What Entrepreneurial Managers Need Ethics Can and Should Be Taught 334 to Know 280 The Usefulness of Academic Ethics 335 Management Competencies 281 Integrity as Governing Ethic 335 Skills in Building Entrepreneurial Entrepreneurs' Perspectives 336 Culture 281 Thorny Issues for Entrepreneurs 337 Other Management Competencies 283 Action under Pressure 338 Chapter Summary 285 Study Questions 285 Different Views 338 Mind Stretchers 286 Problems of Law 339 Exercise Managerial Skills and Know-Examples of the Ends-and-Means how Assessment 287 Issue 339 Case: Burt's Bees 297 An Example of Integrity 340 Ethics Exercise Revisited 340 The New Venture Team Chapter Summary 340 The Importance of the Team 303 Study Questions 341 The Connection to Success 303 Mind Stretchers 341 Forming and Building Teams 304 Case: Wayne Postoak 342

PART III

Resource Requirements

11 Resource Requirements 347

The Entrepreneurial Approach to Resources 347

Bootstrapping Strategies: Marshaling and Minimizing Resources 348 Build Your Brain Trust 349

Using Other People's Resources Work in Progress-Bent Knees Required 398 (OPR) 349 The Plan Is Not the Business 398 Outside People Resources 350 Board of Directors 350 Some Tips from the Trenches 399 Alternatives to a Formal Board 352 Sell, Sell, Sell! Myopia 400 Attorneys 353 The Dehydrated Business Plan 400 Bankers and Other Lenders 355 Who Develops the Business Accountants 356 Plan? 401 Consultants 357 A Closer Look at the What 401 Financial Resources 358 The Relationship between Goals Analyzing Financial Requirements 358 and Action 401 General Resource Information 364 Segmenting and Integrating Chapter Summary 364 Information 401 Study Questions 364 Establishing Action Steps 402 Mind Stretchers 365 Preparing a Business Plan 402 Exercise Build Your Brain Trust 366 A Complete Business Plan 402 Exercise How Entrepreneurs Turn Less into Chapter Summary 404 More 367 Study Questions 404 Case: FAX International, Inc. 368 Mind Stretchers 405 Exercise The Business Plan 12 The Business Plan Guide 406 Developing the Business Plan 397 Case: Douglas Ranalli and Shae Plimley 421 The Plan Is Obsolete at the Printer 398 PART IV **Financing Entrepreneurial Ventures** 13 Entrepreneurial Finance 443 14 Obtaining Venture and Growth Capital 469 Venture Financing: The Entrepreneur's The Capital Markets Food Chain 469

Achilles' Heel 443

Financing Management Myopia: It Can't Happen to Me 444 Critical Financing Issues 445

Entrepreneurial Finance: The Owner's

Perspective 446

Determining Capital Requirements 449 Financial Strategy Framework 449 Free Cash Flow: Burn Rate, OOC, and TTC 450

Crafting Financial and Fund-Raising Strategies 451

Critical Variables 451 Financial Life Cycles 452 Investor Preferences 452

Chapter Summary 452 Study Questions 453

Mind Stretchers 454

Case: Fax International Japan (A) 455

Cover Your Equity 470

Timing 471

Angels and Informal Investors 471

Who They Are 471

Finding Informal Investors 472

Contacting Investors 473

Evaluation Process 473

The Decision 473

Venture Capital: Gold Mines and Tar

Pits 473

What Is Venture Capital? 474

The Venture Capital Industry 475

The Booming 90s 476

Beyond the Crash of 2000: The Venture Capital Cycle Repeats

Itself 477

The Venture Capital Process 479 Identifying Venture Capital

Investors 481

Dealing with Venture Capitalists 483 Tar Pits Facing Entrepreneurs 508 Questions the Entrepreneur Can Staged Capital Commitments 509 Ask 483 Structuring the Deal 510 Due Diligence: A Two-Way Street 483 What Is a Deal? 510 Other Equity Sources 484 Understanding the Bets 51 1 Small Business Administration's 7(a) Some of the Lessons Learned: The Dog Guaranteed Business Loan in the Suitcase 51 2 Program 484 Negotiations 512 Small Business Investment What Is Negotiable? 512 Companies 484 The Specific Issues Entrepreneurs Mezzanine Capital 485 Typically Face 51 3 Private Placements 485 The Term Sheet 514 Initial Public Stock Offerings 486 Black Box Technology, Inc., Term Private Placement after Going Sheet 515 Public 488 Sand Traps 515 Employee Stock Ownership Plans Strategic Circumference 515 (ESOPs) 489 Legal Circumference 515 Keeping Current about Capital Attraction to Status and Size 515 Markets 489 Unknown Territory 516 Chapter Summary 489 Opportunity Cost 516 Study Questions 490 Underestimation of Other Costs 517 Mind Stretchers 490 Greed 517 Case: Hindman & Company 491 Being Too Anxious 517 Impatience 517 15 The Deal: Valuation, Structure, and Take-the-Money-and-Run-Myopia 518 Negotiation 501 Chapter Summary 518 The Art and Craft of Valuation 501 Study Questions 518 What Is a Company's Worth? 501 Mind Stretchers 518 Determinants of Value 501 Case: Bridge Capital Investors, Inc. 519 Long-Term Value Creation versus Quarterly Earnings 502 16 Obtaining Debt Capital 531 Psychological Factors Determining A Cyclical Pattern: The Good Old Days Value 502 Return but Fade Again 531 A Theoretical Perspective 502 A Word of Caution 532 Investor's Required Rate of Return The Lender's Perspective 532 (IRR) 502 Sources of Debt Capital 532 Investor's Required Share of Trade Credit 534 Ownership 502 Commercial Bank Financing 534 The Theory of Company Pricing 503 Line of Credit Loans 534 The Reality 504 Time-Sales Finance 535 The Down Round or Cram Down circa 2002 504 Term Loans 535 Valuation Methods 505 Chattel Mortgages and Equipment The Venture Capital Method 505 Loans 536 The Fundamental Method 506 Conditional Sales Contracts 536 The First Chicago Method 507 Plant Improvement Loans 536 Ownership Dilution 507 Commercial Finance Companies 536 Discounted Cash Flow 508 Factoring 537 Other Rule-of-Thumb Valuation Leasing Companies 538

Before the Loan Decision 539

Methods 508

Approaching and Meeting the Banker 541

What the Banker Wants to Know 541

The Lending Decision 543 Lending Criteria 543

Loan Restrictions 544

Convenants to Look For 544

Personal Guarantees and the Loan 544

Building a Relationship 544

The TLC of a Banker or Other

Lender 545

What to Do When the Bank Says No 545

Tar Pits: Entrepreneurs Beware 546

Beware of Leverage: The ROE

Mirage 546

IRS: Time Bomb for Personal

Disaster 547

Neither a Borrower nor a Lender Be,

But If You Must... 547

Chapter Summary 547 Study Questions 547

Mi I O I I I 540

Mind Stretchers 548

Case: Jiffy Lube International, Inc. 549

PARTV

Startup and After

17 Managing Rapid Growth: Entrepreneurship Beyond Startup 559

Inventing New Organizational Paradigms 559

Entrepreneurial Leaders Are Not Administrators or Managers 560 Breakthrough Strategy: Babson's F. W.

Olin Graduate School 560

Leading Practices of High Growth

Companies 560

Growing Up Big 561

Stages of Growth Revisited 561

Core Management Mode 562

The Problem in Rate of Growth 562

Industry Turbulence 565

The Importance of Culture and

Organizational Climate 566

Six Dimensions 566

Approaches to Management 567

Entrepreneurial Management for the

21st Century: Three Breakthroughs 568

Ewing Marion Kauffman and Marion

Labs 568

Jack Stack and Springfield

Remanufacturing Corporation 569

Ralph Stayer and Johnsonville Sausage

Company 569

The Chain of Greatness 570

Chapter Summary 571

Study Questions 571

Mind Stretchers 572

Case: Quick Lube Franchise Corporation

(QLFC) 573

18 The Entrepreneur and the Troubled Company 579

When the Bloom Is off the Rose 579

Getting into Trouble—The Causes 580

Getting Out of Trouble 581

Predicting Trouble 581

Net-Liquid-Balance-to-Total-Assets

Ratio 582

Nonquantitative Signals 582

The Gestation Period of Crisis 582

The Paradox of Optimism 583

The Bloom is off the Rose-Now

What? 583

Decline in Organizational Morale 583

The Threat of Bankruptcy 584

Voluntary Bankruptcy 584

Involuntary Bankruptcy 584

Bargaining Power 584

Intervention 585

Diagnosis 585

The Turnaround Plan 586

Longer-Term Remedial Actions 589

Chapter Summary 589

Study Questions 589

Mind Stretchers 589

Case: EverNet Corporation 590

19 The Harvest and Beyond 605

A Journey, Not a Destination 605 The Journey Can Be Addictive 605

First Build a Great Company 606

Table of Contents

Create Harvest Options 606

A Harvest Goal 607

Crafting a Harvest Strategy: Timing Is

Vital 608

Harvest Options 610

Capital Cow 610

Employee Stock Ownership Plan 610

Management Buyout 610

Merger, Acquisition, and Strategic

Alliance 610

Outright Sale 611

Public Offering 611

Wealth-Building Vehicles 612

Beyond the Harvest 612

The Road Ahead: Devise a Personal

Entrepreneurial Strategy 613

Goals Matter—A Lot! 613

Values and Principles Matter—

A Lot! 613

Seven Secrets of Success 614

Chapter Summary 614

Study Questions 614 Mind Stretchers 614

Case: PaulJ. Tobin 615

20 Crafting a Personal Entrepreneurial Strategy 643

A Conceptual Scheme for Self-

Assessment 644

Crafting an Entrepreneurial Strategy 643

Profiling the Past 644

Profiling the Present 645

Getting Constructive Feedback 645

Putting it All Together 646

Thinking Ahead 646

Chapter Summary 647

Study Questions 647

Mind Stretchers 647

Exercise Personal Entrepreneurial

Strategy 648

Case: Boston Communications Group, Inc. 669

Index 685

However, the various new venture creation studies that have emerged since the early 1980s lack cohesiveness, and the domain remains controversial. This article not only exposes the limitations of the existing body of understanding on the topic but attempts to develop a more comprehensive and comprehendible framework for start up (new venture) creation. To do so it uses the frameworks proposed by Whetten, and March and Smith to develop 11 propositions. The New Venture Creation programme has been designed to equip nascent entrepreneurs with the skills necessary to start a scalable business. All participants on this course will receive a certificate upon completion of the programme. New Venture Creation book. Read 11 reviews from the world's largest community for readers. Timmons&Spinelli's, New Venture Creation: Entrepreneurship For... Let us know what's wrong with this preview of New Venture Creation by Jeffry A. Timmons. Problem: It's the wrong book It's the wrong edition Other. Aims and Objectives Creating a new business is a challenging and complex task. The road to entrepreneurial success is long, winding and strewn with pitfalls, obstacles and blind turns. The risks of starting a new business are high, as illustrated by the high failure rates for new ventures. Synopsis Students will learn the process of new venture creation through actually working through the process themselves. Participants will business ventures. MBA 559 Syllabus January 2013 Required Text and Resources: Title: New Venture Creation, Entrepreneurship for the 21 st Century Author: Jeffrey AÂ Please make your initial post by midweek, and respond to at least one other students' post by the end of the week. Please check the Course Calendar for specific due dates. Wee k 02 Team Assignment - Executive Summary In your team, discuss and commit to a single new venture that you would like to pursue as your business plan for the course.