ENTREPRENEURS

OBJECTIVES

Students will:

- Understand the role of entrepreneurs in the economy
- Identify the traits of successful entrepreneurs
- Think about whether they might want to be an entrepreneur
- Learn the ways entrepreneurs fund their businesses
- Evaluate the trade-off between risk and reward for entrepreneurs

VOCABULARY

Bond – A financial instrument that is a promise to repay borrowed money. Bonds are issued at a fixed rate of interest, and with a specified maturity date. Bonds traded in the financial markets include treasuries, municipal bonds, corporate bonds and asset backed securities, such as those backed by a package of mortgage loans.

Stock – A share of ownership in a company.

Entrepreneur – Someone who starts a new business. More than 50% of the jobs in the private sector in the United States are in companies started by entrepreneurs.

Venture Capitalist – A person who invests in new businesses and entrepreneurs' companies.

CURRICULUM UNIT GUIDE: ENTREPRENEURS

Introduction

Entrepreneurs are heroes in our culture. Celebrity entrepreneurs are often featured in magazines and newspapers and given awards. Company founders and innovators fuel economic growth, create new jobs and give America its competitive edge in the world. Today, more than 50% of all private sector employees work for small businesses, so entrepreneurs are key to the American economy. The President, Congress, local politicians, foundations and business owners all have ideas for policies that will promote entrepreneurship and lead to the start-up of more successful small businesses.

Successful Entrepreneurs

Entrepreneurs are constantly measuring the trade-off between the risk and reward of starting a new business. In their passion to succeed, entrepreneurs often work 60-80 hours a week. Successful entrepreneurs are market driven, action oriented and focused on their clients' needs. They try to make their businesses different from existing products, services or technologies, by exploiting their competitive advantage and protecting their ideas from competitors. The single most important characteristic of entrepreneurs is focused persistence.

Successful entrepreneurs range from well-known business celebrities — like Bill Gates and Jay-Z — to local small business owners, like the owner of a pet-grooming service. The Museum of American Finance has interactive displays in which successful entrepreneurs discuss how they built their businesses. There are video interviews with more than 15 entrepreneurs about what led them to start their businesses, the challenges they encountered and their strategies for success. Among those interviewed are:

- David Neeleman, founder of Jet Blue
- Felix Sencion, founder of Futbol Mundial
- Muriel Siebert, founder of Muriel Siebert & Co.
- Robin Chase, founder of ZipCar
- Princess Jenkins, founder of The Boutique

Why People Become Entrepreneurs

Compared to working in an established company, being an entrepreneur means taking a risk. Entrepreneurs' emotions move from the thrill of success to the fear of failure. Why do people do it? According to a recent report by the Kauffman Foundation, the most common reason entrepreneurs give for starting their businesses is the desire to build wealth. But there are many other reasons for choosing this path, which are reflected in this exhibit: Some are young entrepreneurs who have a dream to improve their neighborhood; others are drawn to the challenge of starting a new business; some have an idea for a new fashion design; some are engineers who have made enough money after working for many years to take a risk on commercializing a new technology; others simply don't want to have to work for anyone but themselves. Below are quotes from two entrepreneurs describing what led them to start new businesses:

> "For me, more than any other factor, the ability to let the imagination run wild with visions of success, impact and expansion – and then the opportunity to go pursue those visions is the distinguishing quality of start-up culture. Entrepreneurship is so much about daydreaming what an organization or company could look like if everything goes right. Few other positions give the opportunity to dream big and then go chase success."

> "My vision has always been bigger than being a boutique owner. My vision was to create the first African American department store. I felt Harlem was ripe and ready… That's why we expanded so quickly; two and a half years after opening, we had three floors of the brownstone…every day I set the bar a little higher to challenge myself and keep going."

How Entrepreneurs Fund their Businesses

Successful entrepreneurs keep their expenses as low as possible from the start of their business ventures. Their financial goal is not to have to borrow money until they are making money. This may mean that they work out of their homes or apartments, or start their businesses "on the side" while holding down a full-time job or attending school.

But some businesses need more money to get started than others, and it is often necessary for entrepreneurs to seek funds to maintain themselves and grow their businesses. Many entrepreneurs and small business owners max out their credit cards, use personal savings or solicit loans from family and friends to get started. When their businesses have grown to the point that they are generating income, entrepreneurs write a formal business plan to seek additional funds.

Business plan in hand, entrepreneurs look for funding from regular bank loans and from government subsidized bank loans, such as Small Business Loans (SBAs), or local economic development loans, such as from the Upper Manhattan Development Zone. They may also reach out to investors. "Angel investors" are often themselves successful entrepreneurs looking to invest in and nurture promising start-ups. People who invest in a group of business start-ups are called *venture capitalists*. They are investors that specialize in early-stage businesses, looking to make a profit for themselves and for people investing in their venture capital funds.

Finally, when a business has consistently made a profit over a period of time, the entrepreneur and his or her investors may use the financial markets to fund their businesses' growth, or to sell their stake in the business. They typically approach an investment bank, which might accomplish this by borrowing funds through issuing bonds, or by helping the entrepreneur sell ownership stakes in the company, by issuing stocks. Although some entrepreneurs sell their entire share of their business when stock is issued, most keep a share in the on-going business by holding onto a share of ownership and continuing to play a role in the running of the business.

DISCUSSION QUESTIONS

1. Do you think you are the kind of person who could be an entrepreneur? Why or why not?

2. If you were an angel investor, who would you invest in? List your choices from 1 (most likely) to 6 (least likely) from the choices below:

   - A person with a business plan for a home healthcare employment service run from her home who already has 10 clients
   - A retired chemist with a dream to cure cystic fibrosis
   - A teenage boy with an idea for a pet-grooming service, but no clients
   - An engineer with a patent for a new material for industrial pipes and a business plan for manufacturing it
   - A manufacturer of solar panels with three years of sales of $500,000/year
   - A well-known, award-winning web-designer who wants to quit her full-time job with an ad agency to go into business for herself designing websites

3. Can you name four well-known technology companies started by entrepreneurs?

4. Why do you think a person needs to be an optimist to succeed as an entrepreneur?

5. What do you think the President of the United States can do to make it easier for Americans to start new businesses?

CLASSROOM ACTIVITY

Write a one-page business plan for starting a bicycle repair shop. Assume that there are currently no bicycle repair shops in your neighborhood. Business plans usually include at least the following:

1. Summary
2. Business Potential and Competitors
3. Marketing Plan (How to get customers)
4. Projection of Income and Expenses for First Year of Operation