

BT 415 – ENTREPRENEURSHIP

| | |
|-----------------|---|
| Instructor: | Andrew T. Long |
| Office: | 718.855.4403 |
| Office Hours: | By appointment only |
| E-Mail | along@stevens.edu |
| Required Texts: | The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It by Michael E. Gerber HarperBusiness, 1995; ISBN: 0887307280 The Billion-Dollar Molecule by Barry Werth Touchstone Books, 1995; ISBN: 0671510576 Startup : A Silicon Valley Adventure by Jerry Kaplan Penguin Books ISBN: 0140257314 |

Course Description

The difference between entrepreneurial and established companies is much more than a matter of size. The nature of the challenges faced by entrepreneurial managers, while superficially similar to those faced by corporate managers, in fact, are very different. Successful entrepreneurial managers often fail as corporate managers and successful corporate managers often fail as entrepreneurs. Most management theory focuses, by necessity, on the practices of large organizations. While such practices are successful in large organizations, they often fail in smaller organizations. The successful entrepreneur must learn to adopt the 'best practices' traditionally taught by business schools to a different reality.

Before any meaningful discussion of entrepreneurial enterprises can begin, we must agree on exactly what such an enterprise is.

To say that an entrepreneurial enterprise is any enterprise managed by an entrepreneur, while true, is somewhat circular until and unless we can agree on the nature of entrepreneurship.

BT 415 – ENTREPRENEURSHIP

The term 'entrepreneur' is one of the most widely misused in American business. Entrepreneurial is defined as

“1: of or relating to an entrepreneur; "entrepreneurial risks" 2: willing to take risks in order to make a profit”¹

It is certainly true that entrepreneurs assume high levels of risk but not every risk taker is an entrepreneur. Moreover, entrepreneurs are generally associated with high-growth/high-technology startups. Once again, the founders of such start-ups are often, although not always, entrepreneurs but such companies are only a small percentage of the entrepreneurial enterprises in the United States.

An entrepreneur is characterized by the following:

1. S/he is a substantial owner of a business enterprise.
2. S/he is an active owner; that is, s/he assumes a significant management role in the day-to-day operations of the enterprise.
3. S/he has a substantial portion of his/her personal wealth at risk in the organization.

It is important to note that the growth potential of his/her company is not a characteristic of an entrepreneur. Nor must a company be a start-up to be entrepreneurial. Finally, it is important to note that the most successful entrepreneurs cease to be entrepreneurs – in fact, it could be argued that the ultimate goal of all entrepreneurs is to stop being entrepreneurs.

The overall goal of the class is to take the theory that students have learned over the prior 3½ years and teach them how to 'tweak' that theory in order to put into practice within an entrepreneurial environment. The class will be divided into four sections:

I. The Nature of Entrepreneurs

Large companies develop cultures that are separate and apart from the individuals who run them. This is not true of entrepreneurial enterprises. Such enterprises reflect the characteristics and dreams of the individuals who own and run them. It is impossible to understand these companies without understanding the motivations and traits of the entrepreneurs who create them.

Entrepreneurs are different from other people and it is mistake to believe that anyone can succeed as an entrepreneur regardless of their success in other fields or with other companies. By looking at the traits of successful entrepreneurs, and the failings of unsuccessful entrepreneurs, each student will (a) receive a better understanding of whether or not s/he is suited to entrepreneurship and (b) understand how the nature of the entrepreneur is reflected in the way in which the business is and should be run.

¹ WordNet ® 1.6, © 1997 Princeton University

BT 415 – ENTREPRENEURSHIP

Although the primary focus will be on the role of the entrepreneur, the task of working for an entrepreneur will also be examined. Working for a start-up is very different from working for General Motors and those differences will be examined from the perspective of helping students to decide if they are suited to work for an entrepreneurial organization, even if they are not the entrepreneurs themselves.

II. Getting Started as an Entrepreneur

This section will give the student a better understanding of how to get started as an entrepreneur. It will examine the critical questions of the best way to implement an idea, through start up, acquisition or franchise and the range of activities that the enterprise should undertake. For example, the role of the virtual corporation will be examined along with its strengths and weaknesses.

This section will range from the strategic: what form of organization should the enterprise take and what are appropriate make/buy decisions, to the practical: what does one have to do to incorporate or why should you only buy assets when acquiring a company.

III. Financing the Venture

Few, if any entrepreneurs, are capable of funding their own ventures; they must inevitably turn to outside sources for capital. Traditional business education has focused on venture capital as the source of this funding. This is unfortunate because venture capital is appropriate for less than 10% of all entrepreneurial enterprises. Banks, SBIC's, EDC's, IRB's, angels, strategic investors and even governments are examples of non-VC investors who may be appropriate for particular companies. It is important that students be aware of the characteristics of alternative sources of capital, the factors that each source will use in considering a potential investment and the types of returns and restrictions demanded by each investor.

After describing these various types of investors, students will learn how to approach these investors and how to provide the information each investor needs in order to make a decision.

Students will be given insights about typical deal structures such as interest rates, equity participation, board participation, pledges and guarantees, restrictive covenants and the like.

Finally, students will be exposed to financing strategy for entrepreneurial enterprises. The amount and timing of financings is crucial to the success of the entrepreneurial firm. Capital shortfalls are a frequent and often fatal problem for entrepreneurs but borrowing too much money too soon can kill a company through excess servicing costs while selling too much equity too soon can reduce an entrepreneur's profits to next to nothing.

BT 415 – ENTREPRENEURSHIP

Students will learn how to set financing milestones and how to tie fund raising to those milestones.

IV. Operating the Venture

This section will focus on how running an entrepreneurial firm differs from running a larger organization.

Two of the primary operational differences between established firms and entrepreneurial ones are that (i) the rate of change is usually much faster in entrepreneurial firms than in larger firms and (ii) the margin of error is much less for entrepreneurial firms. Rate of change means that entrepreneurial firms can react to changes much more quickly but it also means that changes affect such firms to a greater degree. Limited margins of error mean that entrepreneurial firms can not absorb many mistakes. Both of these conditions make managing an entrepreneurial firm different from managing larger firms.

Entrepreneurial enterprises usually lack the resources of larger firms. Capital is certainly one of those resources but personnel and time also figure prominently. As a result, entrepreneurial firms often take ‘shortcuts’ in the way that they manage their business – some of these ‘shortcuts’ are justified and some represent poor management. The key is the ability to tell the difference.

This section will focus on the four primary functional areas: marketing/sales, production/operations, accounting/control and human resources. Typical problems will be considered in each area and the decision-making processes compared. More importantly, students will be given insight into how to decide when shortcuts are appropriate and when such shortcuts will lead to poor results.

Special emphasis will be placed on crisis management. Large companies face ‘life-threatening’ crises only very rarely. Even the least successful large company can exist for years in a Chapter 11 and complete liquidation is relatively rare for such companies. This is not true of entrepreneurial enterprises – even the most successful face life-and-death crises on a more-or-less regular basis, particularly in their early periods. The ability to manage crises successfully is an important part of entrepreneurship.

BT 415 – ENTREPRENEURSHIP

Schedule:

| Date | Title | Reading |
|---------------------------------------|--|--|
| Monday January 26, 2009 | Introduction | |
| Thursday January 29, 2009 | What Makes an Entrepreneur | Gerber - Chapters 1-6 (pp. 9-76) |
| Monday February 2, 2009 | Getting Started | Werth - Chapters 1-4 (pp.9-78) |
| Monday February 9, 2009 | Financing the Venture - Creating a Strategy | Werth - Chapters 5-8 (pp.79-156) |
| Wednesday February 18, 2009 | Financial Sources - Part 1 | Werth - Chapters 9-12 (pp.157-235) |
| Monday February 23, 2009 | Financial Sources - Part 2 | Werth - Chapters 13-16 (pp.236-317) |
| Monday March 2, 2009 | Valuation Elevator Pitches Due | Werth - Chapters 17-19 (pp.318-391) |
| Monday March 9, 2009 | No Class Spring Break | |
| Monday March 16, 2009 | Structure | Werth - Chapter 20 and Epilogue (pp.392-429) |
| Monday March 23, 2009 | Entrepreneurial Marketing - Part 1 | Gerber - Chapters 10-13 (pp.117-165) Kaplan – Prologue & Chapters 1 & 2 (pp.1-36) |
| Monday March 30, 2009 | Entrepreneurial Marketing - Part 2 | Gerber – Chapter 17 (pp.218-233) Kaplan - Chapters 3-5 (pp. 37-96) |
| Monday April 6, 2009 | Marketing Presentations | Gerber – Chapters 7-9 (pp. 79-114) Kaplan - Chapters 6-8 (pp. 97-169) |
| Monday April 13, 2009 | Entrepreneurial Operations | Gerber – Chapters 14-15 (pp. 166-196) Kaplan - Chapters 9-11 (pp. 197-234) |

BT 415 – ENTREPRENEURSHIP

| | | |
|--------------------------|--|---|
| Monday April 20, 2009 | Entrepreneurial Human Resources Take-Home Final Distributed | Kaplan – Chapters 12-14 & Epilogue (pp.235-300) |
| Monday April 27, 2009 | Final Discussion Final Exam Due | |

The typical class will last for two-and-a-half hours and will be structured as follows:

- Guest Speaker (1 hour)
- Break (10 minutes)
- Lecture (40 minutes)
- Discussion (40 minutes)

Class attendance is mandatory except by prior consent of the instructor. Students are expected to be on time.

Grading:

| | |
|------------------------|-----|
| Class Participation | 25% |
| Elevator Pitch | 10% |
| Marketing Presentation | 25% |
| Final Exam | 40% |

Each student will prepare a written elevator pitch for the startup company discussed during the class. This pitch will be no more than 150 words.

Students will form teams of no more than four and prepare a marketing plan for the startup company discussed during the class. This presentation will take no more than 10 minutes with an additional five minutes for questions. All team members will receive identical grades.

The instructor reserves the right to add a mid-term exam if it is warranted and may add have “pop” quizzes. If mid-term/project/quizzes are added the corresponding weight of participation and the final exam will be reduced.