**CHAPTER 1**

Understanding Entrepreneurship

Summary and author’s note

This chapter sets the stage for a course in entrepreneurship that delves into how to conceive, create, develop, launch, and grow a new business. At a macro level, the chapter addresses the role of entrepreneurs in the global economy, their impact on industry and business formation, and their economic role through disruptive innovation and the creation of new value and new jobs. Importantly, the chapter clearly distinguishes entrepreneurial ventures from the more common small lifestyle or economic core businesses, which is critical to understanding the fundamental theme of this book--to encourage an entrepreneurial way of thinking about any business

To put entrepreneurship into a historical context, the chapter offers a brief history of the entrepreneurial revolution as well as major current trends:: intelligent technology, such as artificial intelligence; augmented and virtual reality; synthetic biology; and genomics. It also includes a breakdown of the rest of the book so students enjoy a complete picture of the depth and complexity of the field of entrepreneurship.

I have always believed that it is important for students to understand their entrepreneurial roots, their potential impact on business and society as entrepreneurs, and the effects of their entrepreneurial efforts on the global economy. So, even though many students may want to skip this first chapter, you should encourage a discussion on the issues raised. The better they understand the importance of entrepreneurship to the world, the greater the possibility they may choose to start meaningful businesses that have a positive impact on society.

CHAPTER Objectives

After reading this chapter, students will be able to:

* Define entrepreneurship.
* Explain the role of entrepreneurship in economic growth.
* Distinguish entrepreneurial ventures from small businesses in terms of their purpose and goals.
* Describe the evolution of entrepreneurship as a field of study since the 1960s.
* Identify today’s broad trends in the field of entrepreneurship.

## CHAPTER OUTLINE

1.1 The Role of Entrepreneurship in the Economy

1.1a Entrepreneurs Spur Economic Growth  1.1b Entrepreneurs Create New Industries  1.1c Entrepreneurs Create Jobs

1.2 The Nature of Entrepreneurial Startups

1.2a Risk and the Entrepreneurial Venture 1.2b New Business Failure

1.3 Why Entrepreneurship Is What It Is: A Brief History That You Need to Understand

 1.3a The Decades of Entrepreneurship

1.4 Current Entrepreneurial Trends

1.4a Intelligent Technology 1.4b Digital

1.4c Disruption

1.5 Looking Ahead: The Organization of the Book

SUGGESTIONS FOR QUESTIONS ON KEY ISSUES

The following questions can be used for discussion purposes or as short-response exam questions.

1. Define the term *entrepreneurship*.

Entrepreneurship is a mindset or way of thinking that is opportunity-focused, innovative, and growth-oriented. Entrepreneurs recognize opportunity, gather the resources required to act on the opportunity, and drive the opportunity to completion.

1. How do entrepreneurial ventures differ from small businesses?

Schumpeter described entrepreneurs as equilibrium disrupters who introduce new products and processes that change the way we do things, whereas small business owners typically operate a business to make a living or create a job. Examples of small businesses include shops, restaurants, and professional service businesses. They form what has been called the “economic core.” Entrepreneurial ventures, by contrast, tend to be innovative, growth oriented, and value creating, meaning they solve problems in new ways.

2. As the mayor of your community, what incentives would you put into place to encourage entrepreneurship?

Students’ answers will vary, but they may suggest tax incentives for locating the business in a developing area of the community or labor incentives such as paying half the wages of workers who are trained for positions in the new company. They may also suggest a community incubator with low-cost space and services for startup businesses. But they should also be encouraged to think “out of the box” about what would attract new businesses to start or locate in their community.

3. Describe the current environment for entrepreneurship. Compare that environment to another country in a different part of the world. To introduce this topic, you might want to have students look at the current GEM (Global Entrepreneurship Monitor) study, arguably the most comprehensive on entrepreneurship at a global level. It can be found at https://www.gemconsortium.org/

Students’ responses will vary, but in general, the current environment is providing more opportunities, more resources, and more support for new entrepreneurs than at any time in history. Paradoxically, we have seen a continuous decline in entrepreneurship in the U.S. at the same time as ”necessity entrepreneurship is sparking new growth in other parts of the world.

4. Which of the entrepreneurial trends discussed in the chapter will have the biggest impact, and why?

Most students will probably say that virtual reality and augmented reality are the most impactful, often because they are familiar with applications of these technologies in video games.

Of course, students can make equally strong cases for any of the other trends discussed in the chapter and should be encouraged to do so. Acquiring a good understanding of how we define impact would be important to deciding which trends are most impactful. In fact, agreeing on a definition before considering the trends discussed in the chapter might be the most effective way to deal with this question.

Suggestions for Experiencing Entrepreneurship

If your course includes experiential activities, the experiential exercises in each of the chapters will help students apply what they have learned in real-life situations. The entrepreneur interview has been a staple of entrepreneurship courses for years and you will find some form of it in many of the exercises. To be effective, it’s important that students prepare their questions so they can elicit the maximum amount of free-flowing conversation and insights from the entrepreneur. Students can only accomplish this if they do some background research on the entrepreneur so that they don’t waste time asking questions about things that were easy to find online. The questions below will help the student interviewer to formulate some questions for the entrepreneur.

1. Interview an entrepreneur in an industry or business that interests you. Be sure to choose someone you don’t know (no relatives or friends); choose someone who has started and is still running his or her business. Focus the interview on how and why this entrepreneur started his or her business. Think about the following when deciding on the questions you will ask:

a.

a. Why is this person an entrepreneur?

b. What influenced the entrepreneur to identify and pursue this opportunity?

c. How did the entrepreneur’s background (family history, prior education, and work experience) affect the opportunity discovered?

d. Describe the opportunity that the entrepreneur decided to pursue and the process the entrepreneur used to evaluate the opportunity.

1. How did the entrepreneur evaluate the opportunity?
2. What criteria did the entrepreneur use to decide whether to pursue the opportunity?
3. What were the perceived risks of this opportunity and how did the entrepreneur expect to manage them?
4. What did the entrepreneur do to turn the opportunity into a business?
5. Identify specific activities the entrepreneur undertook to develop the opportunity into a business.
6. Identify when the entrepreneur did these activities (provide dates: month and year).
7. Identify important contacts and individuals who were helpful during the startup process.
8. What major problems did the entrepreneur encounter along the way?
9. How were these problems solved?
10. What advice would the entrepreneur give to someone thinking about pursuing an opportunity?
11. Why was this entrepreneur successful?

Be sure to collect the following demographic information online if possible and to demonstrate that you chose an entrepreneur who was not a relative or close friend.

* + Contact information
	+ The entrepreneur’s name, address, title, company name, and phone number
	+ How did you find this person and why did you choose her or him?

2. Analyze how the factors in Question 1 affect this entrepreneur’s success.

This exercise extends the learning from the first exercise. Assuming the chosen entrepreneur is successful, students will have a natural tendency to want to focus on the business when considering why they became successful. Therefore, you will have to help them understand that the business resulted from the entrepreneur’s decisions, his or her experiences, and how that entrepreneur created the opportunity in the first place. Ask the students to investigate the entrepreneur’s motivations, networking efforts, and decision strategy BEFORE starting the business.

**Case Study 1**

 **ADROLL: A CASE STUDY OF ENTREPRENEURIAL GROWTH**

**SUMMARY AND AUTHOR’S NOTE**

The case examines the background, start-up, and growth of one of the fastest growing companies in the U.S, AdRoll. The case examines the various strategic factors related to the growth of AdRoll and how the founders must address these issues to maintain their level of growth.

The case study is especially interesting not only because it focuses on one of the fastest growing young firms in the country, but also because it deals with on an understudied topic within the field of entrepreneurship: entrepreneurial growth. Students will learn about the start-up and growth of AdRoll. They will be required to make recommendations to the company’s owners as to the future direction of the company.

**WHERE TO USE THIS CASE**

The case can be used in undergraduate or graduate level courses in entrepreneurship, small business management, or strategic management.

Chapter 4: Use to discuss how effective the team was at analyzing the industry and the market.

Chapter 8: Use to discuss the building of the team and whether they had the required capabilities to scale.

Chapter 16: Use to look at funding and growth and how entrepreneurs make decisions about the future.

**DISCUSSION QUESTIONS**

1. Describe the background of AdRoll to insure that the facts of the case are clear in preparation for strategy questions.

2. Perform a SWOT Analysis of AdRoll.

3. What is the current business-level strategy that AdRoll uses? Is this the appropriate strategy? If not, what would you recommend? What other strategies are they using? For example, what types of functional (Finance, Marketing, Management/HR, etc.) strategies are they using? Can you recommend any changes to help the organization?

4. Does AdRoll have a competitive advantage? If so what is the competitive advantage? Is the competitive advantage a sustainable competitive advantage? Why? If not, why?

5. What areas do you see as opportunities for growth and what strategies do you recommend to AdRoll? Why?

6. As AdRoll grows, how will the structure of its organization change? What affect will that have on AdRoll? What affect will that have on the culture of AdRoll?

7. What recommendations would you make to the founder(s) of AdRoll in regards to harvesting its organization (sell, merge, selling to employees, IPO, etc.)?

**ANSWERS TO DISCUSSION QUESTIONS**

1. **Describe the background of AdRoll.**

 AdRoll was founded in 2007 as a means to make advanced display advertising techniques available for brands of all sizes. In 2013, the original founders were still at the company along with two additions: Suresh Khanna, Vice President of Sales, and Greg Fulton, Senior Product Director, as well as 150 employees. It was projected that the company would have 450 employees by January 2014.

The company’s focus was on retargeting, which kept track of consumer’s online browsing behavior. Once this information was collected, AdRoll would then display ads of interest to the customer as they traveled around the web. Without retargeting, only 2% of potential customers return to a site. Using retargeting, AdRoll had the potential to bring back the other 98% of those customers who would have otherwise never returned. AdRoll also displayed ads for products the consumer had never seen but could potentially be interested in. For example, if a customer looked at a basketball online, ads for basketball shoes, by that same site, would follow that potential customer around the web.

At the beginning of 2013, AdRoll was in the growth stage of the industry life cycle. The company infiltrated the online marketing industry before the Great Recession of 2008. AdRoll chose to enhance the quality and performance of their products versus focusing on sales. AdRoll’s exponential growth started in 2009 when it went into advertisement retargeting. In 2008, AdRoll’s revenue was $111,000 and by 2012 it had sales of $50 million for a 45,000% increase over four years.

AdRoll captured 500 new customers a month with a 97% percent customer retention rate. The company began a partnership with Facebook that allowed most of AdRoll’s clientele to advertise on the largest social networking site in the world. With the ability to advertise on Facebook, customers received a 1,600% return on their investment.

 AdRoll received $15 million dollars in funding in July, 2012. With this injection, the company had plans to hire additional employees and expand their office space. The company was also in the process of creating high performance products in the mobile, video and social markets.

 AdRoll was a subsidiary of Semantic Sugar Inc., a technology company. Semantic Sugar, Inc. provided online advertising services. The company was incorporated in 2006 and was based in San Francisco, California. Semantic Sugar Inc. owned more than 50% of AdRoll.

1. **Perform a SWOT Analysis of AdRoll.**

***Strengths***

AdRoll’s strengths included: (1) 97% customer retention rate, (2) cutting edge display products, (3) products for all sizes of businesses, (4) one of eight companies to advertise through the Facebook platform, (5) a high return on investment for customers, (6) a skilled and experienced management team, (7) and a simple navigation platform.

***Weaknesses***

AdRoll’s weaknesses included: (1) the seven other competing companies that were also a part of the Facebook platform, (2) negative consumer feedback, (3) the unsustainability of their high growth rate (11,082% in 3 years), (4) unfamiliarity with the growth process, (5) a lack of presence in the competitive mobile market, (6) and the need to bid into ad networks AdRoll did not own.

***Opportunities***

AdRoll’s opportunities included: (1) possible expansion from retargeting retail into retargeting for movies, gaming, sporting events, business to business marketing, and other social media sites (Twitter, Pinterest, etc.), (2) partnership with other search engines who could track consumers searches and get a more specific idea of the ads that would be effective, (3) providing search retargeting, a product that is sold by most of AdRoll’s competitors, (4) continuing development of RollFace in connection with Google glasses, (5) and further expansion into international markets.

***Threats***

Threats to AdRoll included: (1) possibility of lawsuits if consumers felt like their privacy had been infringed upon, (2) replication of their products/services, (3) possibility of Facebook’s presence in the social media world diminishing, (4) service weakening from an expanded client base, (5) and economic turndown.

**What was the core business level strategy that AdRoll used? Is this an appropriate strategy? If not, what would you recommend?**

AdRoll’s business-level strategy was overall low cost leadership. Before AdRoll was

founded, retargeting advertisements were primarily used by wealthy customers; however, AdRoll

expanded its target market to include small businesses and retailers and Fortune 500

companies. The focus on customer service was another big strategic reason that they were able to succeed. Reaching out to these small to mid-sized firms that did not yield the same opportunities as the larger firms in terms of retargeting enabled AdRoll to develop relationships with these companies.

1. **Did AdRoll have a competitive advantage? If so what was the competitive advantage? Was the competitive advantage a sustainable competitive advantage? Why? If not, why?**

AdRoll’s primary competitive advantage was the quality of their products. It claimed that the ads it placed on Facebook were two to three times as effective as the ads of the seven other competitors involved in the Facebook exchange. AdRoll showed an extremely high return on investment, which made existing customers unwilling to switch away from AdRoll. Another competitive advantage that AdRoll sustained was their customer service, which had given them a great reputation among smaller to midsized firms. Being the first company to cater to these companies enabled AdRoll to establish and maintain stable relationships with these coveted firms. The competitive advantages for AdRoll were sustainable, but required much effort.

1. **What areas do you see as opportunities for growth and what strategies do you recommend to AdRoll? Why?**

Areas for growth include:

1. Increasing the company size to accommodate a larger customer base
2. Creating a growth team to manage their expansion so that the rest of the company can focus on their customer base and creativity.
3. A progressive emphasis on their product.
4. Developing the company’s culture and structure further, and integrating search retargeting. A strategy that AdRoll could have implemented was to continue expansion into the international market. Tapping into new clientele bases provide even greater opportunities to gain new demographics. The product they provided had appeal all over the world, creating the potential to become an established worldwide presence.
5. **As AdRoll grows, how will the structure of its organization change? What affect will that have on AdRoll? What affect will that have on the culture of AdRoll?**

As AdRoll expanded and grew, it was either going to have to work hard to maintain the open structure or change it to a more functional specialization structure. The problem with this was that it might lead to less creativity and innovation, which was dangerous for AdRoll given that their company thrived on creativity. While growth was very important, it stretched thin the experienced team that AdRoll relied upon. AdRoll needed to select a growth team to manage their expansion so that the rest of the company could focus on their customer base and creativity.

1. **What recommendations would you make to the founder(s) of AdRoll in regards to**

**harvesting its organization (sell, merge, selling to employees, IPO, etc.)?**

To ensure their growth, AdRoll needs to incorporate an employee stock ownership plan (ESOP). This strategy will allow AdRoll to offer key talent a clear incentive for working for such a fast growing company. Employees can be offered stock giving them ownership of the company and a vested interest in their success. An ESOP will also enable AdRoll to avoid the risks of an IPO and the regulation that comes with it, as well as enable sustained growth.