Harvard Business Review

Entrepreneur's Handbook

Everything You Need to Launch and Grow Your New Business

Harvard Business Review

Entrepreneur's Handbook

Everything You Need to Launch and Grow Your New Business

Harvard Business Review Press
Boston, Massachusetts

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

The material in this book has been adapted and revised from works listed in the Sources section and from *Harvard Business Essentials Entrepreneur's Toolkit: Tools and Techniques to Launch and Grow Your New Business* (Harvard Business School Press, 2005), subject adviser Alfred E. Osborne.

Library of Congress cataloging information is forthcoming.

Paperback ISBN: 9781633693685

Hardcover ISBN: 9781633693708

eBook ISBN: 9781633693692

The paper used in this publication meets the requirements of the American National Standard for Permanence of Paper for Publications and Documents in Libraries and Archives Z39.48-1992.

Contents

PART FOUR
Scaling Up

PART FIVE
Looking to the Future

Introduction

William Bygrave, a scholar and practitioner of entrepreneurship, describes an entrepreneur as someone who not only perceives an opportunity but also "creates an organization to pursue it."

That last part of Bygrave's definition is essential. Ideas are one thing, but opportunities as we generally understand them are best addressed through business organizations formed by entrepreneurs. Thomas Edison, for example, recognized the business opportunity in urban electric illumination, which he pursued through tireless laboratory experiments that eventually produced a workable incandescent light bulb. But invention was only part of Edison's genius. He also formed a company that brought together the human and financial resources needed to implement his vision of commercial and residential lighting. That company was the forerunner of the General Electric Company, one of today's largest and most powerful enterprises.

The same formula has been repeated through history: recognizing opportunity and addressing it through an organization. Some opportunities are evident and just need to be harnessed; others are created by the entrepreneur. For example, in 2007, when roommates Brian Chesky and Joe Gebbia could no longer afford the rent on their San Francisco loft, they decided to rent out space to guests. They set up a website with some photos of their apartment, quickly gaining three guests for their first weekend, at $80 each. Soon they began hearing from others who had found their site and wanted a similar offering for informal lodging in cities around the world.

The next spring, Chesky and Gebbia enlisted former roommate Nathan Blecharczyk to help them establish Airbed & Breakfast. To raise early funding, they bought cartons of breakfast cereal, repackaged it in the theme of the 2008 election, and resold it to conventioneers, raising about $30,000. Nevertheless, their site's growth stalled. While living off the extra cereal, though, they were accepted into Y Combinator's accelerator program. In the summer of 2009, they began testing their own services to better understand their users' needs. Realizing how poorly the properties were represented online, the entrepreneurs began a photography program in which hosts could have professional shots of their properties taken.

Learning and course-correcting as they went, Chesky and Gebbia saw their customer base rocket from one thousand in 2009 to over a million in 2011. Airbnb's financials are not formally disclosed, but in 2015, market reports placed its value at $25.5 billion with projected revenue of $900 million for the year, based on the company's reported three-million-plus listed properties worldwide.

Not all startup stories are so bright, of course. A complete definition of the entrepreneur must also recognize another factor: risk. In the financial world, risk contains the possibility of both gain and loss. The entrepreneur puts skin in the game—usually in the form of time and personal savings. If the venture goes badly, his or her time and hard-earned savings are lost. And indeed, 75 percent of startup ventures fail to return investors' capital, according to research by Harvard Business School's Shikhar Ghosh. But if things go well, the entrepreneur can reap a sizable profit. So if you have a business idea or an idea about how to fill a market need—or even if you just think you're interested in starting a business—how do you make sure that your venture is successful?

The same basic process applies whether your idea is the next high-growth wunderkind, a robust B2B player in a critical industry niche, or a local retail shop close to home. You recognize a potential commercial opportunity and pursue it through an organization, your own managerial or technical talents, and some combination of human and financial capital. Of course it's never quite this simple; in fact, the entrepreneurial journey often takes many twists and turns. This book will walk you through this process in more detail.

The role of entrepreneurs

Entrepreneurs play an important role in society. As described by economist Joseph Schumpeter in the 1930s, entrepreneurs act as a force for creative destruction, sweeping away established technologies, products, and ways of doing things and replacing them with others that the marketplace as a whole sees as representing greater value. In this sense, entrepreneurs are agents of change and, hopefully, progress. Thus, it was entrepreneurs who displaced home kerosene lamps with brighter and cleaner-burning gas in the middle to late 1800s. Those gas lamps, in turn, were displaced by Edison's incandescent electric light system, which provided better performance and greater safety. Fluorescent lighting came along years later, displacing many incandescent applications.

We see this pattern repeated in virtually every industry. Entrepreneurs invent or commercialize new technologies that displace the old. Photocopying, the personal computer, the World Wide Web, the spreadsheet, and new and improved drug therapies and medical devices are all products of enterprising entrepreneurs. Entrepreneurs also introduce products, services, and platforms that deliver something entirely new: the electronic calculator, next-day package delivery, crowd fund-raising, aircraft simulation software, oral contraceptives, angioplasty to open narrow heart arteries, and online marketplaces for everything from apartment rentals and ride-sharing to homemade crafts and financial payments. Entrepreneurs have given us even mundanely useful things that our parents or grandparents would not have imagined: computers we take everywhere (like our iPhones), contact lenses, milk in aseptic packaging that requires no refrigeration, online auctions that bring together buyers and sellers from every part of the world, and on and on. These products and services improve customers' lives. Many are also beneficial to society and to the planet, be they improved drug therapies, microloan systems that alleviate poverty around the globe, or drones that target pesticides to the crops that need them most, eliminating waste and pollution.

In conceiving of these new products and services and forming and running enterprises to bring them to customers and users, entrepreneurs often sweep away stagnant industries and replace them with growing ones that generate new jobs, often at higher wages. Thus they have a central role in building wealth and dynamism in the societies in which their enterprises operate.

What's ahead

This book takes a linear approach to entrepreneurship, from initial questions that you should ask yourself before you begin ("Am I the type of person who should start a business?") to the last issue that you'll need to consider as a successful business owner ("How can I cash out of the business I've built?"). Though your own experience is likely to differ from this simplified framework—the entrepreneurial process is nothing if not iterative—this book should give you a good overview of the issues you'll probably face and how to approach them.

Part 1 prepares you for your journey. In chapter 1, we describe the self-diagnosis that every prospective entrepreneur should undertake. Are you the right type of person to start up and operate a business? This chapter will help you answer that important question.

Part 2 helps you define your enterprise. The first steps in the entrepreneurial process are to identify and evaluate potential business opportunities. Chapter 2 offers five characteristics you should look for in a business opportunity, particularly focusing on the problem your business is trying to solve. It also introduces the lean-startup methodology as a way to evaluate market interest and to experiment with other hypotheses about the opportunity you've identified.

If your initial evaluation of the opportunity pans out, you'll further refine your business model and strategy. These two critical concepts are the focus of chapter 3. It describes how the business model explains the way key components of the enterprise work together to make money—and how to begin to test your business model with real customers. It also shows how strategy must be designed to differentiate the entity and confer it with a competitive advantage. Finally, the chapter offers a five-step process for formulating strategy and aligning business activities with it.

Assuming that your evaluations and experiments have given you continued confidence in your business idea, you'll need to structure your business from a legal perspective. In chapter 4, you'll learn about the various legal forms of business organization used in the United States. You'll see their pros and cons and decide which organizational structure is best for your venture: a limited-liability corporation, a sole proprietorship, a partnership, a corporation, or something else.

Chapter 5 gets you started on writing a plan for your business, incorporating many of the elements discussed previously. A business plan explains the opportunity, identifies the market to be served, and provides details about how your organization expects to pursue the opportunity. The plan also describes the unique qualifications that the management team brings to the effort, lists the resources required for success, and predicts the results over a reasonable time horizon. This chapter tells you why a business plan is necessary, gives you a format for organizing one, and offers tips for developing each section in the format. It also describes other documents similar to a business plan, such as a pitch deck.

Part 3 focuses on how to get the funding you need to finance the various stages of your enterprise. The global recession of 2008 took a big toll on entrepreneurship, a sector that has not yet recovered. In the United States, new business starts went from 525,000 in 2007 to just over 400,000 in 2014. There are many reasons for this drop-off, but small businesses tend to fare the worst in a recession because they depend heavily on bank debt, which becomes harder to obtain during economic downturns. Since the recession, some new forms of financing, such as crowdfunding, angel investing, and online banking, have appeared. This part of the book describes those new forms along with more traditional methods of raising capital.

Chapter 6 concentrates on the financing requirements that businesses typically encounter in the first phase of their life cycles. It also provides an overview of life cycles for different types of businesses.