

Chapter 1

What is
Entrepreneurship?



Section

1.1

Objectives

- Discuss the role of small business and entrepreneurship in the economy.
- Describe economic systems.
- Explain how economics is about making choices.
- Discuss the role of economic indicators and business cycles.
- Describe what entrepreneurs contribute to the economy.

Entrepreneurship



As an **entrepreneur**, you accept the risks and responsibilities of business ownership.

entrepreneur
an individual who undertakes the creation, organization, and ownership of a business

Entrepreneurship

Creating and running a business **venture** requires a variety of skills.

venture a new business undertaking that involves risk



Entrepreneurship vs. Entrepreneurial



the process of recognizing an opportunity, testing it in the market, and gathering resources necessary to go into business

acting like an entrepreneur or having an entrepreneurial mind-set

Entrepreneur



- About one in three households is involved in an **entrepreneurial** enterprise.
- Most businesses, 90%, are small businesses with fewer than 100 employees.

Entrepreneurship



- **Why is owning and operating a business today much different than the past???**
- **The global marketplace and Information Technology have opened new markets**

Question:

How do entrepreneurs relate to the economy?



Entrepreneurship Today

Knowledge of **economics** contributes to an understanding of how entrepreneurs and customers interact.

economics the study of how people allocate scarce resources to fulfill their unlimited wants



Economic Systems



- An economic system includes a set of laws, institutions, and activities that guide economic decision making

Economic Systems

What goods and services should be produced?

What quantity of goods and services should be produced?

All economic systems attempt to answer four basic questions.

How should goods and services be produced?

For whom should goods and services be produced?


The Free Enterprise System

Most democratic nations have a **free enterprise system**.

A free enterprise system is also known as capitalism or a market economy.



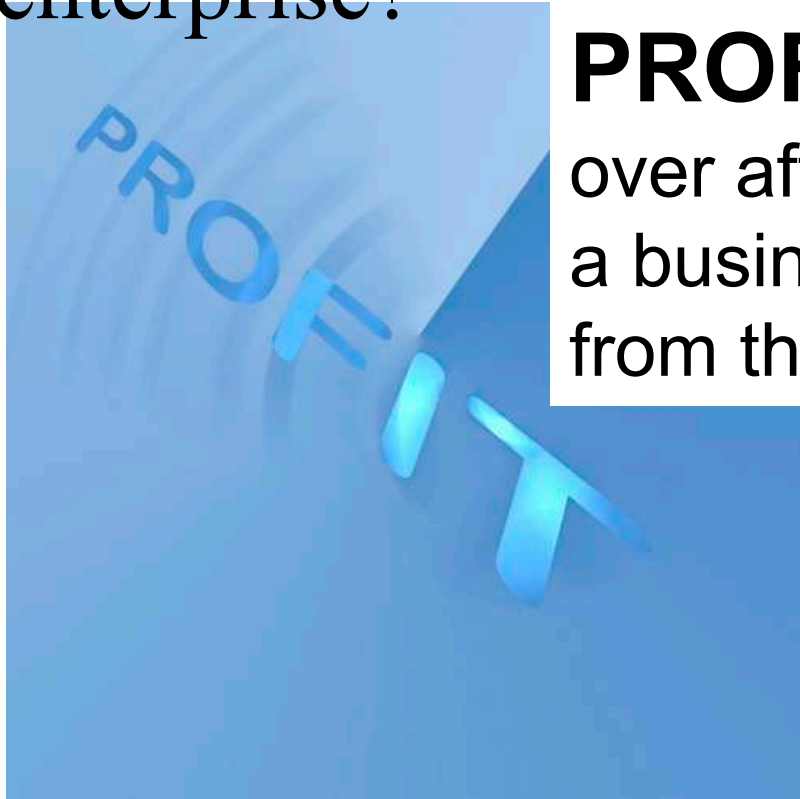
With a Free Enterprise System

- People can choose what to buy.
 - They can choose to own private property.
 - They can choose to start a business and compete.
- 

The Free Enterprise System

What is the primary incentive of free enterprise?

PROFIT - money that is left over after all expenses of running a business have been deducted from the income



Market Structures & Competition

| | # of Competitors | Differentiated Products? | Control over Price? |
|---------------------|-----------------------------------|--------------------------|---------------------|
| Perfect Competition | Numerous | No | No |
| Monopolistic | Competitors sell similar products | Yes | Some |
| Monopoly | None | Yes | Yes |
| Oligopoly | Few | Yes | Some |

Economics 101

goods and services

factors of production

basic concepts of economics

scarcity

supply and demand
theory

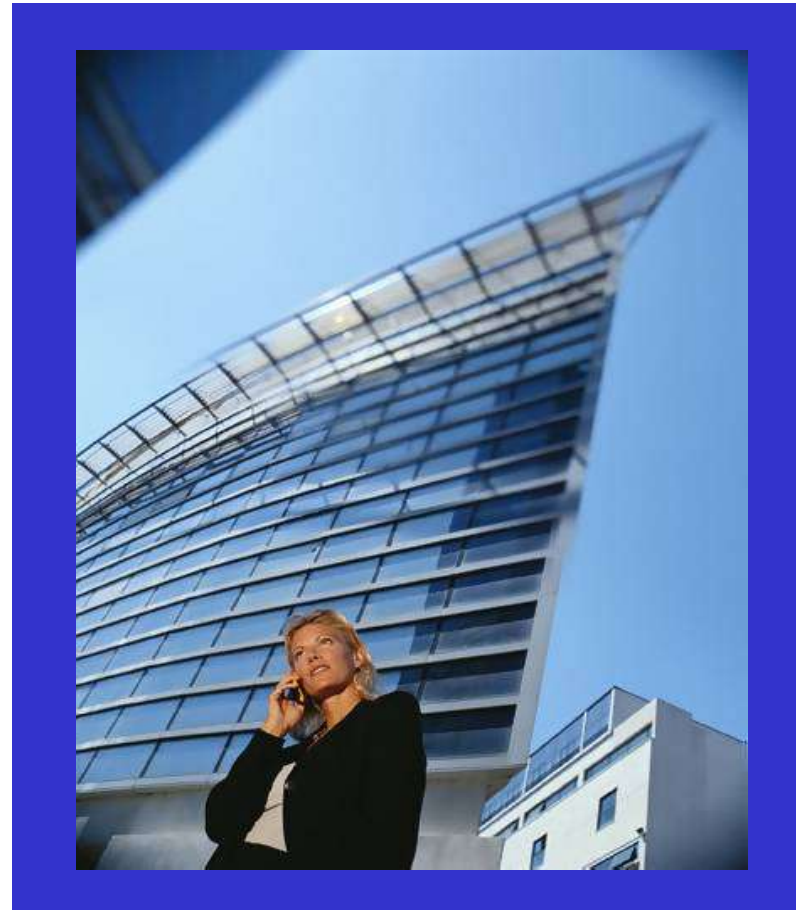
Economics 101

- **Goods** and **services** are the products of our economic system.
- Entrepreneurs respond to consumers' **wants** and **needs** with goods and services.

Economics 101

The four basic **factors of production**:

- Land (Nat. Resources on and beneath)
- Labor (human effort)
- Entrepreneurship (Ideas and Decisions)
- Capital (\$, Equip., Factory, and Tools needed)



Economics 101

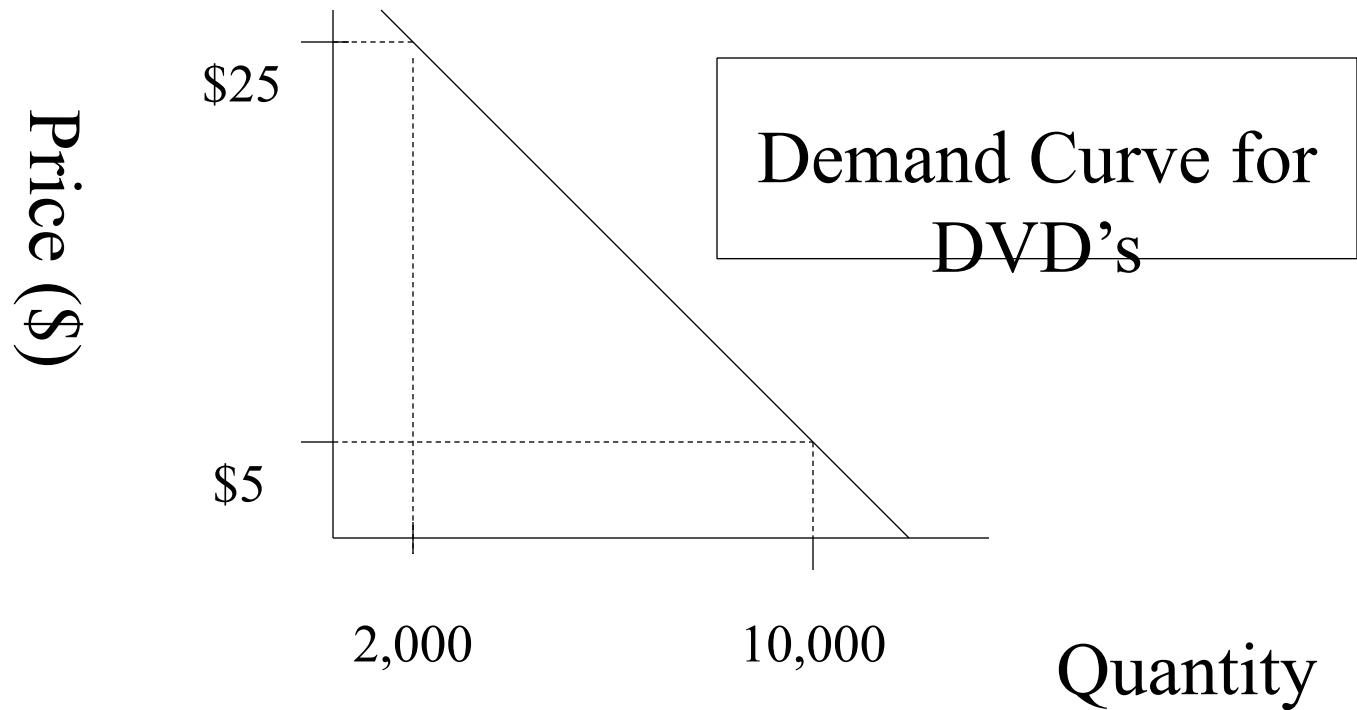
Scarcity

Giving up one thing to gain another.



Economics 101

- Demand is Quantity of goods and service consumers are willing and able to buy.
- Demand Curve
 - Shows the relationship between price and the quantity demanded



Economics 101

Elastic Demand



Change in Price =
Change in Demand

VS

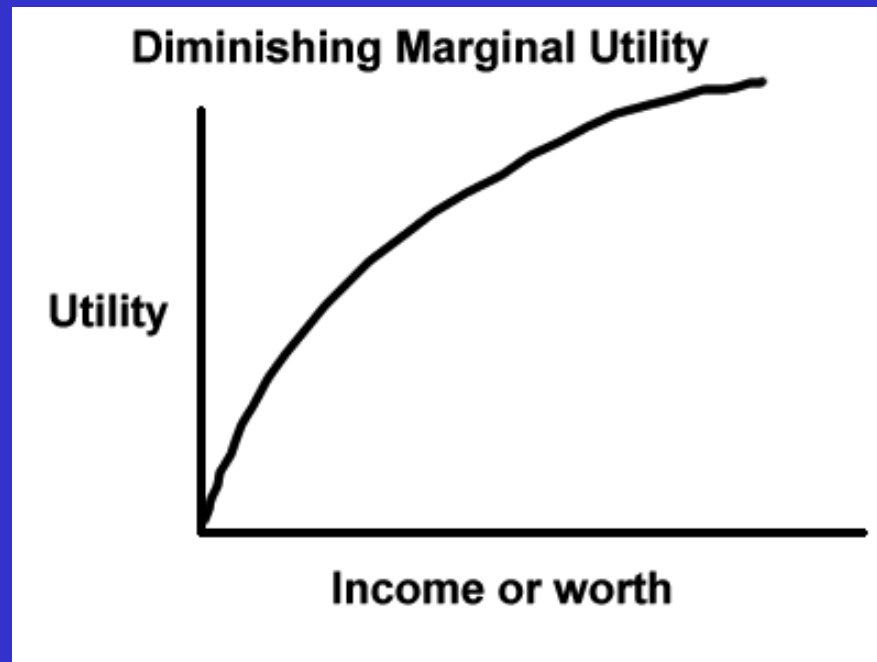
Change in Price = Little/No
Change in Demand



Inelastic Demand

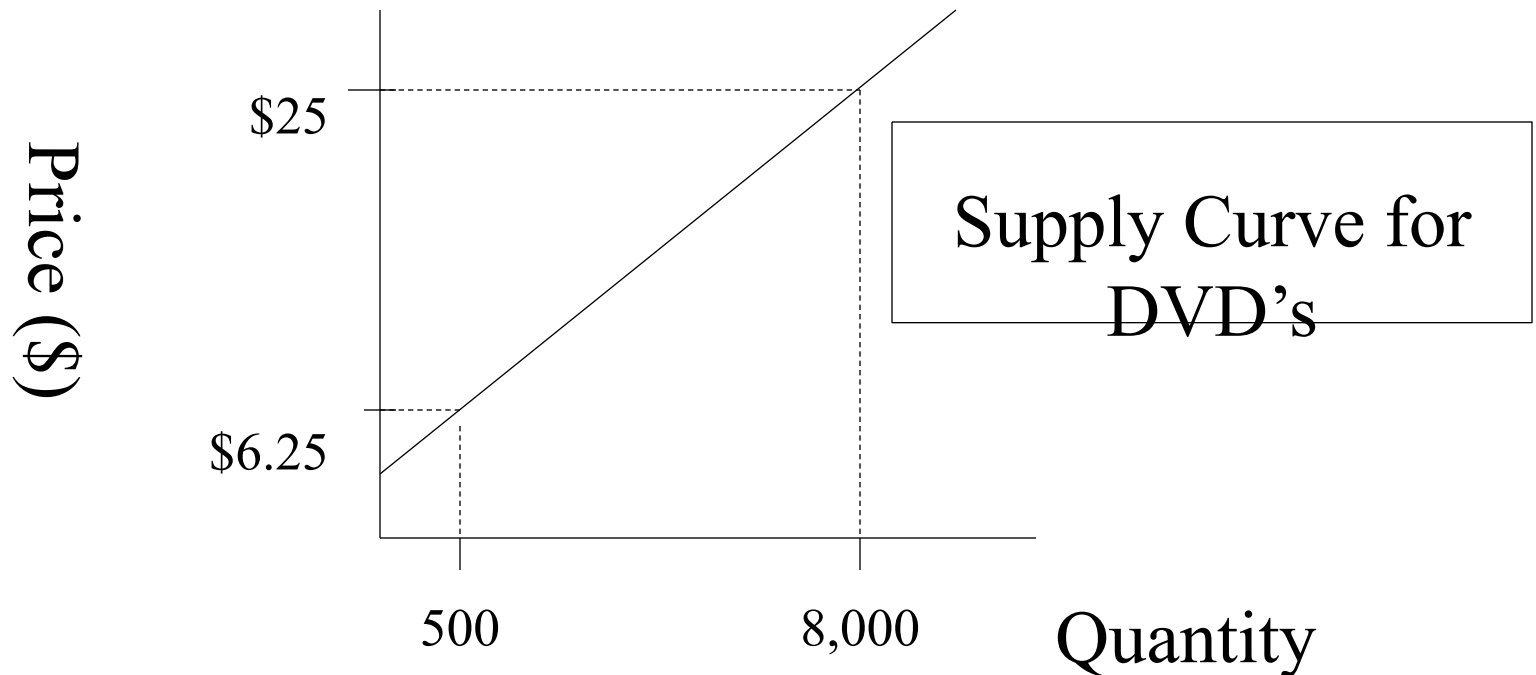
Economics 101

Due to the law of diminishing marginal utility, even when a product's price is low, people will not keep buying it indefinitely.



Economics 101

- Supply Curve
 - Shows the relationship between the price and quantity supplied.



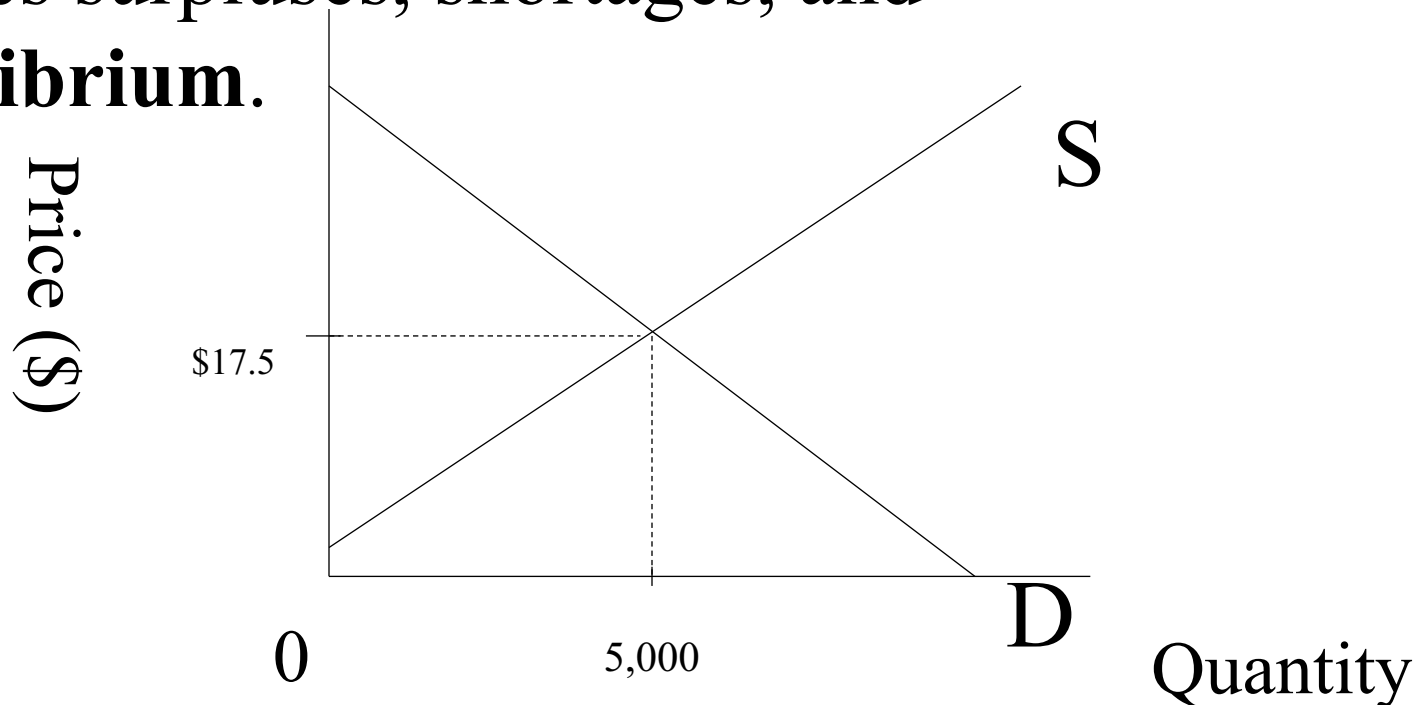
Economics 101

- If something is in heavy demand, but in short supply, prices will go up.
- If something is in heavy supply, but in short demand, prices will go down.



Economics 101

Because supply and demand are continually shifting in the marketplace, the change creates surpluses, shortages, and **equilibrium.**



Economic Indicators

The federal government publishes statistics, called **economic indicators**, that help entrepreneurs understand the economy and predict possible changes.



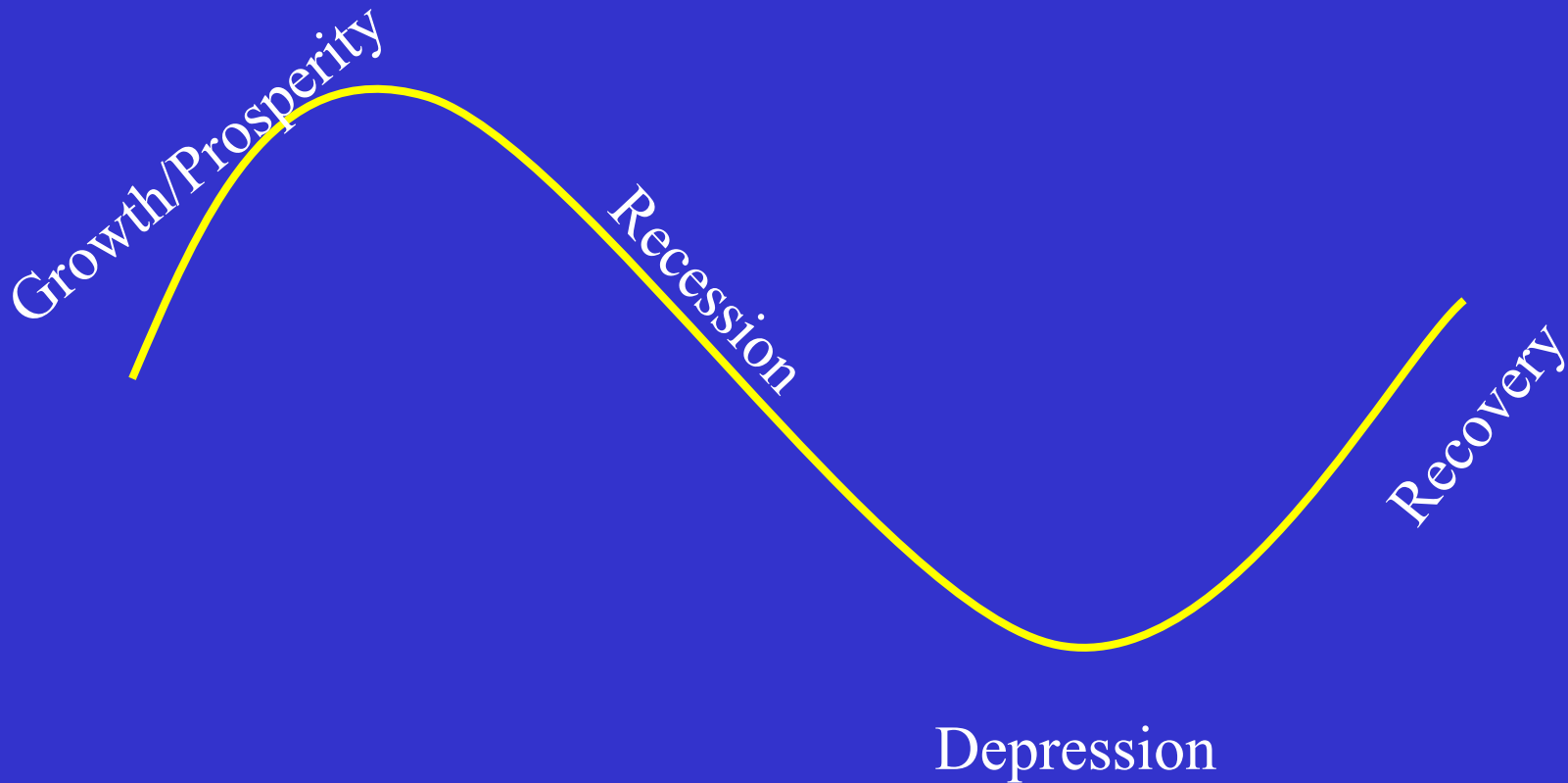
Ex. Gross Domestic Product (GDP)

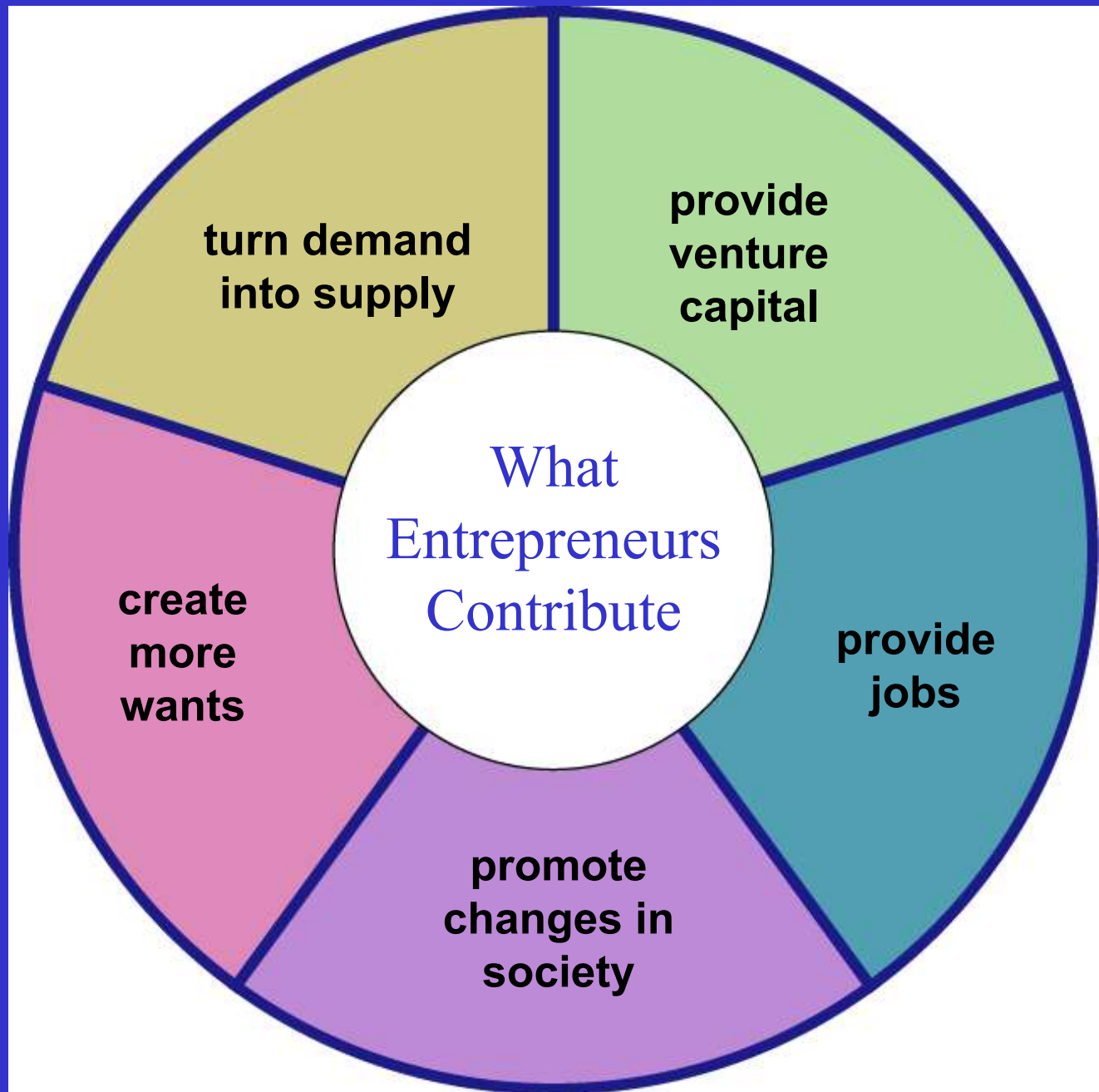
GDP by Country - 2013 (in millions)

Gross World Product 63,048,823

- | | |
|-----------------------------|-----------------------------|
| 1) United States 16,800,000 | 6) United Kingdom 2,522,261 |
| 2) China 9,240,270 | 7) Brazil 2,245,263 |
| 3) Japan 4,901,530 | 8) Russian Fed. 2,096,777 |
| 4) Germany 3,634,823 | 9) Italy 2,071,037 |
| 5) France 2,734,949 | 10) India 1,876,797 |

Business Cycle





Small Businesses and Entrepreneurial Ventures

- The difference between small businesses and entrepreneurial ventures is that owners start small businesses to create jobs for themselves.
- Founders of entrepreneurial ventures have a desire to innovate, grow, and create new value.

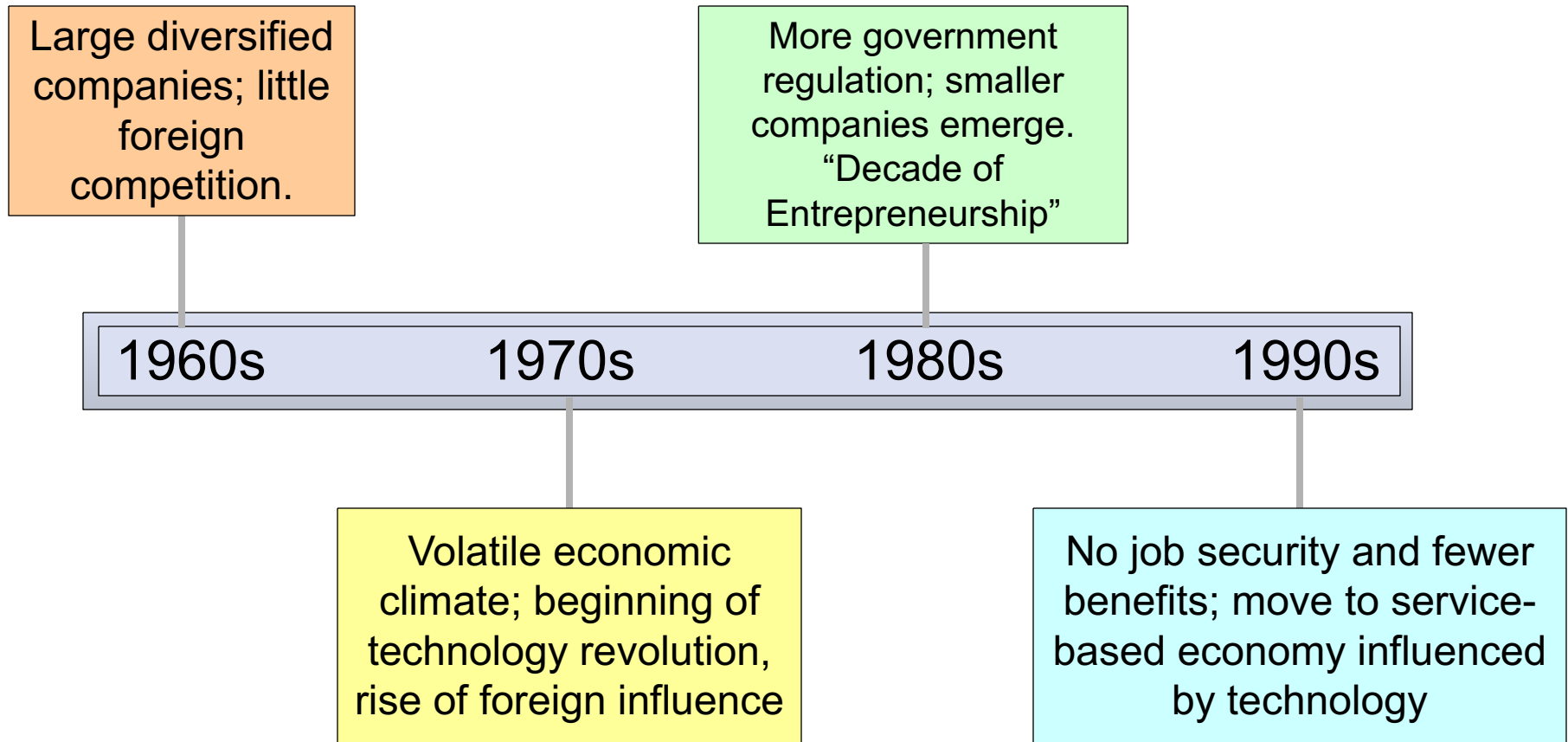
Section

1.2

Objectives

- Describe entrepreneurship from a historical perspective.
- Discuss the five components of the entrepreneurial start-up process.
- Explain how to achieve business success.

The History of Entrepreneurship



The Entrepreneurial Start-Up Process

Five components work together to create a new business.

The Entrepreneur

The Environment

The Opportunity

The New Venture

Start-up Resources

Organization

The Entrepreneur

The entrepreneur is the driving force of the start-up process.

Entrepreneurs recognize opportunities and pull together the resources to exploit opportunities.



Jake Burton Carpenter – Burton Snowboards

The Environment

The nature of
the environment

The availability
of resources

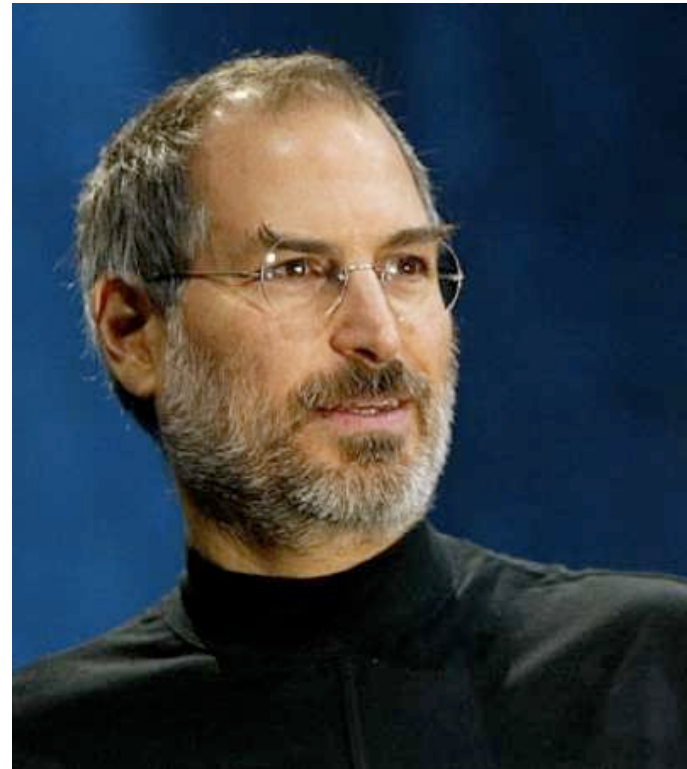
**Four Categories of Environmental
Variables**

Ways to
realize value

Incentives to
create new
businesses

The Environment

New businesses seek **enterprise zones** that provide incentives.



Steve Jobs - Apple

The Opportunity



A good **opportunity** can be turned into a business.

An Idea + A Market = An Opportunity

Start-Up Resources

When entrepreneurs are ready to start up a new business, they must use creative talent to put together the necessary **start-up resources**.



The New Venture Organization

The **new venture organization** is the infrastructure/foundation that supports all the products, processes, and services of a new business

The Foundation

Business Failures

A **business failure** files Chapter 7 bankruptcy.

A business that disappears from the tax rolls may be a failure or a **discontinuance**.

How Entrepreneurs Can Succeed

4. Plan and manage effectively

3. Assemble an expert team to execute the business concept

2. Test the opportunity in the marketplace

1. Recognize opportunity