

# Module 2: Product Development

## Lesson 1 - Intro to Entrepreneurship

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### OVERVIEW

In this lesson, students will explore the concept of **entrepreneurship**.

### OBJECTIVES

1. Define entrepreneurship.
2. Distinguish between a small business and a startup company.
3. Identify various ways startup companies can fund a new business.
4. Explain venture capital.

### KEY TERMS

*Bankruptcy*

*Corporations (C-Corp and S-Corp)*

*Crowdfunding*

*Entrepreneurship*

*Limited Liability Company (LLC)*

*Partnership*

*Self-funding*

*Small Business Loan*

*Sole Proprietorship*

*Startup*

*Venture Capital (VC)*

### This Lesson Bundle Includes:

- Entrepreneurship - Lesson Outline
- Entrepreneurship - Presentation Slides
- Industry Application - Related Links

# Lesson 1 - Intro to Entrepreneurship

## ENTREPRENEURSHIP

### What is Entrepreneurship?

**Entrepreneurship** is the process of creating a new business with the goal of making a profit while taking on all startup risks. An entrepreneur is a person who creates a new business, taking on these risks, but also reaping the bulk of the rewards. Entrepreneurs are usually marketplace innovators, bringing in fresh ideas, new goods or services, and/or business procedures. These innovations can be based on existing concepts or completely new ideas. Entrepreneurship includes all business ventures, new and old, and includes sole-proprietorships, small businesses, partnerships, firms, and corporations.

Entrepreneurship always begins with an idea. The idea becomes a concept, eventually leading to the development of a product or service. The entrepreneur then determines the best way to market and sell the product or service.

### What is a Startup?

While a startup shares similar characteristics with the concept of entrepreneurship in that both result in the start of a new venture, a startup typically has more ambitious plans. **Startups** are formed with the intention to grow past the original, solo company founder. Startups are also different from a traditional entrepreneurship venture in that they are typically temporary, the “startup” is essentially a stage in the process of building a much bigger entity.

### America Runs on Small Business

The majority of businesses in the United States are small businesses. In fact, more than 98 percent of American businesses have fewer than 100 employees.

**According to U.S. Census [data](#):**

- Companies with fewer than 500 employees account for 99.7% of U.S. businesses.
- Companies with fewer than 100 employees account for 98.1%.
- Companies with fewer than 20 employees make up 89.0%.
- Companies with fewer than 10 employees account for 78.5%.

Entrepreneurship plays a critical role in society as a whole. Small business impacts everyone on a daily basis. Through inventions and innovations and the products and services they provide, entrepreneurs shape how consumers communicate, learn, live, and experience life. Entrepreneurs provide a significant piece of a larger global economic puzzle. Societies thrive on the backs of small businesses.



### Small Business Statistics:

- According to the Small Business Administration, there are 32.5 million small businesses currently operating in the United States.<sup>1</sup>
- There are currently [61.2 million small business employees](#) in the US, which make up approximately half (46.8 percent) of the US workforce.
- Of the new jobs created between 1995 and 2020, small businesses accounted for 62% — 12.7 million compared to 7.9 million by large enterprises.
- According to the Small Business Association, small businesses account for 44% of U.S. economic activity.
- According to information from the latest [US Census](#), California is the state with the highest number of small businesses.
  - With [4.2 million](#) small businesses, the Golden State is home to 40 percent more small businesses than Texas, the state with the second-highest number of small businesses in the US.
    - California's small business employees make up 48.2 percent of the state's total employees, which is higher than the national average.<sup>2</sup>
  - States with the most number of small businesses in the US:
    1. California: 4.2 million
    2. Texas: 3.0 million
    3. Florida: 2.8 million
    4. New York: 2.3 million
    5. Illinois: 1.2 million

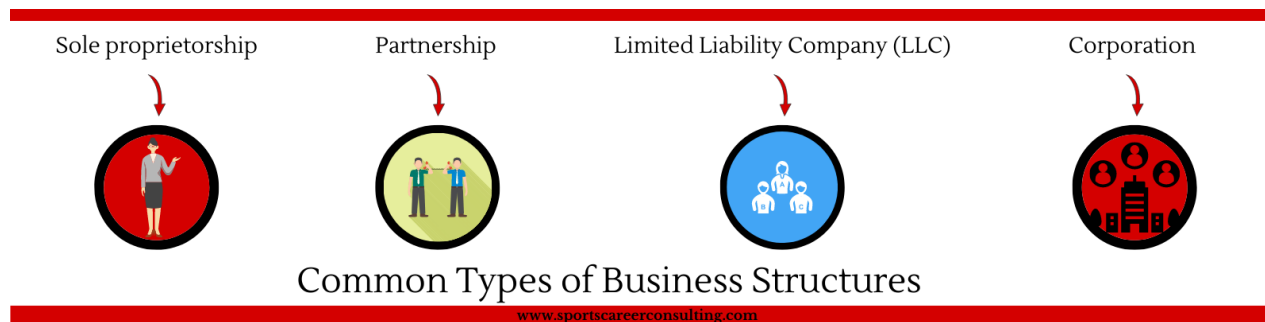
## Types of Businesses

One of the first major (and most important) decisions for any new business is determining an appropriate legal structure for their business. That determination is typically made based on tax, liability, financing and risk factors.

### Four most common types of new businesses:

- **Sole proprietorship**
- **Partnership**
- **Limited Liability Company (LLC)**
- **Corporations (C-Corp and S-Corp)**

Businesses can be structured as “for-profit”, like any company created with the goal of generating a profit, or organized as a not-for-profit, like a charitable organization.



## Sole Proprietorship

A **sole proprietorship** is a type of business that is owned and operated by a single individual. This is the most common form of legal structure for small businesses.

<sup>1</sup> <https://www.oberlo.com/blog/small-business-statistics>

<sup>2</sup> <https://www.census.gov/topics/business-economy/small-business.html>

## Partnership

A **partnership** is an association between two or more people with the goal of generating a profit. Because the ownership structure involves more than one individual, a partnership agreement is typically created. This agreement typically communicates, at a minimum, partnership terms by determining how profit/loss will be shared, ownership percentages, dissolution terms, and management rights.

## Limited Liability Company (LLC)

A **Limited Liability Company (LLC)** is a business structure that protects the individual owner or owners from personal liability. Owners of an LLC are considered to be “members”, and a member could be any combination of individuals, corporations and LLCs. An LLC with only one owner is known as a single-member LLC.

One of the biggest benefits to forming an LLC is that the individual member’s personal assets are protected. For example, if a business can’t pay rent on an office space lease, the landlord cannot legally come after the LLC member’s personal assets like a personal bank account, home/property or automobile, making an LLC one of the most risk-averse forms of business.

## Corporations (C-Corp and S-Corp)

The most complicated form of business is a corporation. A **corporation** is a legal entity that is separate and independent from the people who own or run the corporation, primarily its shareholders. Typically, corporations are more appropriate for larger companies with a lot of employees. A corporation’s owners are designated by issuing shares of stock and management must answer to a board of directors. However, the corporation is liable for the actions and finances of the business, not the shareholders.

## Key Considerations for Starting a Successful Business



# 188%

Millennials and Gen Zers are 188% more likely to have ambitions for creating a side business when compared to the Baby Boomer generation.

Source: Salesforce

Finding a need or opportunity in the market and filling it is fundamental to entrepreneurship and small business success. However, that doesn’t mean that starting a business similar to one already in existence can’t be successful. Opportunities also exist to own and operate a franchise. There are a variety of ways someone with an entrepreneurial spirit can start a business. Creating a “side hustle”, starting a part-time small business in addition to existing employment or education responsibilities, is a great way to test the waters to see if entrepreneurship is the right choice for any individual. This practice is becoming more and more common among Gen Z entrepreneurs, with opportunities in many different industries and markets.

However, before getting started, it is important to think about why they want to start a business, who that business will serve, and how they will serve customers.

### Important considerations for an aspiring entrepreneur:

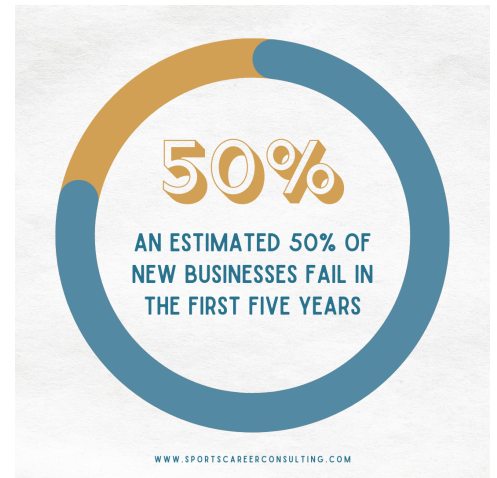
- What is the financial position of the aspiring entrepreneur and how will the business be funded?
- What are the unmet market needs the product or service will address?
- What are the problems the product or service can solve?
- Who is in the entrepreneur’s immediate network and how can those connections help to build and grow the business?
- What is the entrepreneur’s overall vision and how will that translate to a mission statement that can guide the business to success?



## Risk Assessment

Uncertainty is a major factor that can impact small businesses. COVID-19 took a significant toll on American small business. Over 70 percent of US small businesses shut down in March 2020 when the US became [the epicenter](#) of the COVID-19 pandemic. More than 60 percent of these small businesses that closed, shut down due to government or health authority orders, as large parts of the United States went into lockdown in a bid to curb the spread of the virus.

One of the biggest fears that people who start their own business have is the risk of failure. And it's not an unrealistic fear. According to the Bureau of Labor Statistics, more than 20% of small businesses fail in the first year, and nearly 50% will fail within the first five years. Within 10 years, that number jumps to a whopping 70%. According to the [SBA](#), failure rates vary by industry, but the risk of failure looms large for an aspiring entrepreneur.



### Why do many new businesses fail?

According to [CB Insights](#), 42% of small businesses fail because of a lack of demand within the market. If there's one thing an entrepreneur should be sure of, it is that there is a need and demand for the product or service they are offering.

The next most likely reason that new businesses fail is a depletion of financial resources. Statistically, 29 percent of new businesses cease operations because of a lack of funding. Without sufficient capital, it is impossible for a business to survive.

#### Other reasons businesses fail include:

- Hiring the wrong employees and/or staffing issues
- Competing products or services are better or more in demand
- Poor service and/or inability to generate loyal customer base
- Poor quality of product or service being offered
- Ineffective business plan
- Poor marketing
- Bad location
- Expanding too quickly
- Not understanding the customer



## What happens when a business fails?

When a business cannot resolve its financial difficulties, meaning it cannot pay its bills or pay back debts, it will either close or declare bankruptcy. Closure occurs when the business ceases all operations and liquidates its assets (if it has any) to repay creditors.

**Bankruptcy** refers to the legal process that businesses go through when they are unable to repay their debts. The process allows a business to get a new start by liquidating assets so they can pay existing debts or to create a repayment plan. Any type of business, from new startups to established companies that have been in business for years, can go out of business or declare bankruptcy.

## Why Are New Businesses Started?

In some cases, an aspiring entrepreneur may choose to leave a stable job and steady paycheck to start a new business. In others, the individual or individuals may be out of work and view entrepreneurship as an opportunity to make money for themselves. In any case, there are typically four primary reasons entrepreneurs decide to start a business.

1. **Control:** Entrepreneurs prefer to work for themselves rather than work for someone else and have the ability to make their own decisions that impact the business
2. **Flexibility:** Entrepreneurs want the freedom to set their own hours
3. **“Ambition”:** Entrepreneurs have the ambition and a vision (ambition) for starting a business from the ground up
4. **Financial:** Entrepreneurs are drawn to the potential financial opportunity that owning a business could provide

## Starting a Business

### Starting a Business Requires:

1. **A business concept or idea**
  - This could be a new or unique concept or idea, a fresh take on an existing concept or idea, or even ambitions for owning and operating a franchise
2. **Support**
  - New businesses need to be surrounded with people who will support the venture, including some combination of employees, contractors, mentors, advisors and vendors
  - This will look different for each individual business
3. **Business plan**
  - A business plan provides a road map for the new venture to follow that details how the product or service will be created or developed, how it will reach the market, and how it will be promoted, sold and supported
4. **Funding**
  - Entrepreneurs must have enough “seed” money to stabilize the company until it can generate revenue

## Funding

Funding is one of the most important steps in the process of starting a new business. There are four primary financial resources available to aspiring entrepreneurs.

1. **Self-funding:** If the aspiring entrepreneur has enough personal money saved to cover initial expenses for the venture, they may choose to self-fund the business.
2. **Crowdfunding:** The business might be able to successfully fund the new venture through “crowdfunding”, which is the process of raising small amounts of capital from a large group of people, often through online crowdfunding platforms like Kickstarter, Patreon, Indiegogo, CircleUp or GoFundMe.
3. **Small Business Loan:** Entrepreneurs may choose to look for funding from a bank, the SBA or other financial institution for the necessary capital to invest in the business in the form of a loan.
4. **Venture Capital (VC):** Venture Capital is another popular form of fundraising in which private investors, known as venture capitalists, provide entrepreneurs with capital to fund the business, typically in exchange for equity in the company.



## Finding Success

Succeeding as an entrepreneur takes commitment, hard work, persistence, resilience, and a little bit of luck. The recipe for entrepreneurship success often boils down to a business's ability to meet one of three criteria:

1. The ability to fill or meet a need, want or opportunity that is not currently being met within a specific market
2. Offering a better way to fill or a meet a need, want or opportunity than currently being offered by existing businesses
3. Consistently provide quality products or services with a sound sales and marketing plan, coupled with a customer service strategy that helps build the foundation for a loyal customer base

However, businesses can find success in other ways, and there are no guarantees in any circumstance that a business will thrive in the long-term. Entrepreneurs should lean on those within their network to help grow the business and focus on providing a quality product or service all while offering the best customer experience possible. Establishing effective marketing and sales strategies is often the difference between a failed venture and a successful business.

## Common Traits of Successful Entrepreneurs

A strong work ethic and passion for the business are cornerstone characteristics shared by successful entrepreneurs. However, there are other common traits among those who find success as business owners.

Those traits include:

- Strong work ethic
- Passion for the business
- Commitment to the enterprise
- Persistence
- Adaptability with the ability to solve problems quickly and evolve when necessary
- General sense of curiosity
- Ability to make decisions
- No fear of failure
- Ability to handle rejection
- Networking skills
- Optimism, even in the face of adversity
- Fiscal responsibility
- Strong time management skills
- Knowledge
  - Knowing the product or service
  - Understanding the customer
  - Comprehension of industry dynamics
- Persuasiveness
  - Like it or not, every entrepreneur is both a salesperson and a customer service representative

## Franchising

A **franchise** is a business where an aspiring entrepreneur pays a franchise fee in exchange for the rights to use an established company's products, services, and branding. The *franchisee* is the entrepreneur who pays for the rights to use the existing business's intellectual property, proprietary knowledge, and products and services. The *franchisor* provides insight, advertising, brand marks, logos and other intellectual property, and can offer initial assistance in helping to supervise and oversee the franchise operation.

With many established franchises with strong brand awareness, the initial investment required from the franchisee can be significant. For example, the upfront investment and financial requirements to owning a fast-food franchise like Five Guys or McDonald's would be a barrier to entry for most people. According to [Business Insider](#), McDonald's requires an initial investment of between \$1 million and \$2.2 million. The franchisee must also pay a \$45,000 franchise fee and monthly service fee equal to 4% of gross sales. Franchisees are also required to pay rent to the company. *Business Insider* also reports that Subway, by comparison, costs much less, reportedly between \$116,000 and \$263,000 for a franchise.



For those who have the capital to buy a McDonald's franchise, however, an opportunity for a lucrative business exists. According to QSR's "QSR 50" [ranking](#) of the top 50 fast food brands, the average McDonald's restaurant generates over \$2.9 million in annual sales. Chick-Fil-A franchises rake in more than any other fast food restaurant franchise, averaging over \$5 million in annual sales.

# Highest Grossing Fast Food Restaurant Chains

Average Annual Sales Volume Per Restaurant (in millions of dollars)

**Chick-Fil-A**

Category: Chicken



\$5.01 million

**Raising Cane's**

Category: Chicken



\$3.85 million

**Whataburger**

Category: Burger



\$3.2 million

**In-N-Out Burger**

Category: Burger



\$3.06 million

**McDonald's**

Category: Burger



\$2.94 million

Source: QSR Magazine (<https://www.qsrmagazine.com/reports/2021-qsr-50>)

- To see the entire QSR 50 ranking, click [here](#) to visit qsrmagazine.com.

## DISCUSSION



Have you ever thought of starting a business?

Do you know anyone who has a side hustle? What is it?

What could you do as a side hustle to earn extra income and gain experience as an entrepreneur?







## KEY TAKEAWAY

There are many ways, and reasons, aspiring entrepreneurs can start a business. There is also a significant amount of risk, so it is important that anyone interested in starting a business understand the risks and establish a sound business plan to provide a road map for success.

Creating a “side hustle”, or starting a part-time small business in addition to existing employment or education responsibilities, is a great way to test the waters to see if entrepreneurship is the right choice for any individual. This practice is becoming more and more common among Gen Z entrepreneurs, with opportunities in many different industries and markets.



## INDUSTRY APPLICATION

Connect your classroom with industry examples by reviewing the following news stories relating to concepts covered in this lesson:

**Startup** - [The 12 Most Influential Startups of the Last Decade](#)

**Startup** - [Want to launch a great startup? Be like Wordle. Here's what the game gets right.](#)

**Startup/Funding** - [Insect Farming Startup Raises \\$175 Million for Food Expansion](#)

**Side Hustles** - [21 Side Projects That Became Million-Dollar Startups \(and How Yours Can Too\)](#)

**Side Hustles** - [30-year-old spent \\$0 launching a food photography side hustle—now he brings in \\$134,000 a year](#)

**Side Hustles** - [She Used \\$10,000 in Savings to Turn Her Side Hustle Into an 8-Figure Brand You've Probably Seen](#)

**Entrepreneurship** - [These Entrepreneurs Are Putting Ads Inside Your Fortune Cookie](#)

**Entrepreneurship** - [How a Secret Pink Drink Consumed by NHL Pros Became the Powerhouse Brand BioSteel](#)

**Entrepreneurship** - [11 Most Famous Entrepreneurs of All Time \(and What Made Them Wildly Rich\)](#)

**Entrepreneurship** - [Prebiotic soda Olipop approaches \\$200 million in annual sales — and CEO says Coca-Cola and PepsiCo have already come knocking](#)

**Business Failure** - [Bed Bath & the great Beyond: How the home-goods giant went bankrupt](#)

**Business Failure** - [Why Instant Pot's Bankruptcy Isn't Necessarily the End of the Company](#)

**Funding** - [Smiler Raises \\$8.5 Million to Connect Photographers with Tourists: Startup Funding Roundup](#)

**Funding (Series A)** - [Two years after Lemon Perfect was spotted in Beyoncé's limo, the superstar is now a backer](#)

## KEY TERMS DEFINED:

**Bankruptcy:** the legal process that businesses go through when they are unable to repay their debts.

**Corporation:** A business that is a legal entity, separate and independent from the people who own or run the corporation, namely shareholders.

**Crowdfunding:** The process of raising small amounts of capital from a large group of people, often through online crowdfunding platforms.

**Entrepreneurship:** The process of creating a new business with the goal of making a profit while taking on all startup risks.

**Limited Liability Company (LLC):** A business structure that protects the individual owner or owners from personal liability. Owners of an LLC are considered to be “members”, and they could include individuals, corporations and LLCs.

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**Startup:** A type of entrepreneurship where a business is formed with the intention of growing past the original, solo company founder. Startups are also different in that they are typically temporary, the “startup” is essentially a stage in the process of building a much bigger entity.

**Venture Capital (VC):** A form of fundraising in which private investors, known as venture capitalists, provide entrepreneurs with capital to fund the business, typically in exchange for equity in the company.

