THE ENTREPRENEURIAL PROCESS
DEMYSTIFYING ENTREPRENEURSHIP

- Results in creation, enhancement, realisation, renewal of value for owners, participants, shareholders, stakeholders

- Creation/recognition of opportunities is central to entrepreneurship
  - Will & initiative
  - Personal & financial calculated risks balanced with perceived reward
  - Limited resources

- Many organisation types engage in entrepreneurship
DEMYSTIFYING ENTREPRENEURSHIP

Entrepreneurial leaders

- Inject imagination, motivation, commitment, passion, tenacity, integrity, teamwork, vision into their companies
- Face dilemmas, ambiguity, contradictions in decision making
- Do not get rich quick
- Are never satisfied
CLASSIC OBSERVATIONS

- Start up is typical expression of entrepreneurship
- Nimble, lean, fast, adaptable, knocking off the brontosaurus glacial businesses
- Established organisations move toward entrepreneurial thinking, entrepreneurial spirit, entrepreneurial management to survive and renew
ENTREPRENEURIAL METAPHORS

- The conductor, blending and balancing a group of diverse people with different skills, talents and personalities into a suburb team.
- The talents and agility of a juggler who under stress must keep all the balls in the air.
- Complex decisions and numerous alternatives facing the entrepreneur have parallels with the mental agility displayed by chess players - the most creative thinker who can imagine several alternative moves in advance, anticipating possible defences, wins.
ENTREPRENEURIAL METAPHORS

- Chuck Yeager – what it felt like to break the sound barrier in a jet (from The Right Stuff by Tom Wolfe)

“In the thin air at the edge of space.....in an atmosphere so thin that the ordinary laws of aerodynamics no longer applied and a plane could skid into a flat spin like a cereal bowl on a waxed Formica counter and then start tumbling, end over end like a brick...you had to be “afraid to panic”. In the skids, the tumbles, the spins, there was only one thing you could let yourself think about : what do I do next?”

- This feeling also experienced by entrepreneurs who run out of cash......
Entrepreneurship = Paradox

- Opportunities with little or no potential turn into big opportunities
  - HP rejects Apple founder’s ideas
  - Xerox ignores GUI – goes to Bill Gates
- To make money first have to lose money
  - Long lead times before sustaining profitability or going public
- To succeed must experience failure
  - Common pattern of big VC losses before a venture succeeds
  - $80m VC lost on pen-based computer, later On-Sale Inc auction
Entrepreneurship = Paradox

- Requires considerable thought, planning, preparation – but really is an unplannable activity
  - Highly dynamic, changing technologies, markets, competitors make the future unpredictable
  - Business plans are obsolete when printed
  - Need a creative iterative process, constantly planning reacting assessing – 2nd nature

- Creativity and innovativeness do need discipline and rigor
  - Without it – ideas, inventions remain uncommercialised
Entrepreneurship = Paradox

- Requires a bias towards action but also patience and perseverance
  - Sometimes reacting can be costly, to sit tight might be best alternative
- The greater the orderliness, discipline, control the less control over your ultimate destiny
- Adhering to perceived best practice may sow seeds of destruction
  - New nimble lean competitors may do things differently
ENTREPRENEURSHIP = PARADOX

- Long term equity value requires forfeiting short term profitability
  - Requires investment in people, equipment, products support systems which use up short term profits

- To create wealth you have to relinquish wealth
  - Rewarding those who contribute to the company’s success eg Microsoft, private companies is Australia
Entrepreneurship is a full contact sport. The value comes from the "collision"

- Spontaneity, opportunism
- Discipline, Processes
Size Does Matter

- Starting small is sensible
  - Simple, more affordable, manageable, less demanding and risky
- Smaller ventures may be more risky
  - Lower chance of survival
  - Less financially rewarding
- Start small think big….
  - High potential ventures become high-impact firms = make the world a better place to live
AUSTRALIAN BUSINESS DEMOGRAPHY

June 2009 ABS Statistics
NB – data on GST paying businesses

- 2,051,085 active businesses at June 2009
- 95.6% of Australia businesses are small
- 62.7% small businesses do not employ staff
- 93.5% business entries were micro businesses
- 1.9m people operate 1 or more businesses
- 15.4% of businesses exit pa
- Males 68%
- Aged 25-54 = 64%
- Worked full time in their business = 72%
- 96% run small businesses
- 55% employ 1-19 people
- 52% Earn $799 ($41.5k) or less per week
**Type of Legal Organisation**

- **Companies**: 46%
- **Sole proprietors**: 28%
- **Partnerships**: 25%
- **Public sector**: 1%
BUSINESS ENTRY & EXIT RATES

2003-2004
2004-2005
2005-2006
2006-2007
2007-2008
2008-2009

Entry
Exit
Linear (Entry )
Linear (Exit)
AUSTRALIAN BUSINESS DEMOGRAPHY

- 60% of businesses are non-employing
- 89.1% of employing businesses <20 employees
  - 68% between 1-4 employees
  - 32% between 5-19 employees
  - 10.2% between 20-199
  - <1% with 200+ employees
- 39.7% business T/O between $50k to $200k pa
- 33.2% business T/O between $200K to $2m pa
Proportion of Employees in Employing Businesses

- 1-4 employees: 61%
- 5-19 employees: 29%
- 20-199 employees: 9%
- 200+ employees: 1%
**Turnover PA (T/O)**

- Less than $50k: 29%
- $50k - $200k: 34%
- $200k - $2m: 31%
- $2m +: 6%
**Survival Rates**

- Business survival is dependent on the age of the business
- Non employing businesses have higher non-survival rates but are the highest proportion of businesses
  - New employing business survival rate 81.9%
  - New non employing business survival rate 66.6%
- T/O > $2m 85.3% survival rate
- T/O <$50k 65.6% survival rate
- National average survival rate 71.5%
- Smaller businesses fail more often
- Larger businesses can survive
- Failure – not always bad
  - Part of creative destruction
    - Shifts in employment – typing pools, webpage content managers
  - Normal business cycle – birth & death
    - Closure because of no interest (e.g., cake shop in Prahan)
  - A feature of the learning process
  - Can be excruciating
    - Public, take your savings, savings of family members, creditors unpaid, emotional loss/grief, reputation (e.g., Poppy King story)
Threshold Concept

- Critical mass
  - 10+ employees
  - $2-$3m revenues

- Small businesses may be job substitutes
  - Might be undercapitalised, undermanaged, poorly located, not “business oriented” - if so likely to fail

- Liability of newness, liability of smallness
  - Keep tuition costs low
  - Examine the competition, respond, create a way to develop a competency
    - Producing to sell? Or producing to express your art?
    - Gotta jump off the shelf and run out the door with your customer
BUSINESS GROWTH

- Takes a long time to achieve
- 2 in 5 (US firms) survive 6 years, few achieve growth in 4 years
- Venture Capital
  - Injection of funds in return for equity and ownership
  - No guarantee of success
  - 3% VC funded startups survive (US)
- US Conclusion – 10-15% of new companies survive
WHAT TO DO?

- Private investors – cashed up entrepreneurs
  - Bring experience, know-how, mentoring
  - Become equity owners
  - Australian Small Scale Offerings Board, Polliniser, Melbourne Angels

- Backers who add value (know-how, networks, wisdom, specialist areas)

- Smarter & better than founder = raising the average for the whole business
So … what is it?

- It is *opportunity* driven
- By a lead *entrepreneur* with *entrepreneurial team*
- It is *resource* (people, money, equipment) parsimonious & creative
- Depends on the fit & balance between the above 3
- It is integrated and holistic
- It is sustainable
SUMMARY

- Demystifying entrepreneurship
  - Classic start-up definition
  - Opportunity focussed
  - Leadership balanced

- Metaphors of entrepreneurship give insights articulate the paradoxes

- Odds of survival are low – think big to survive

- 3 main forces – opportunities, the team, the resources