

THE HARVARD BUSINESS REVIEW ENTREPRENEUR'S HANDBOOK

**EVERYTHING YOU NEED TO LAUNCH AND
GROW YOUR NEW BUSINESS**

BY HARVARD BUSINESS REVIEW

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TABLE 1-1

Common entrepreneurial traits				
Ideas and drive	People skills	Work style	Financial savvy	Entrepreneurial background
Creativity	Leadership	Goal oriented	Comfortable with finance	Family members have started businesses
Vision	Persuasion	Comfortable with uncertainty	Comfortable with financial governance	Friends have started businesses
Ability to identify opportunities	Influence	Self-challenging		You have worked at a small business or startup
Passion	Network building	Perseverance in the face of adversity		
	Ability to excite people by vision	Solitary: don't like working for others; prefer being own boss		
		Rarely satisfied or complacent; can't sit still		
		Driven to plan and be prepared		
		Experimental mindset; OK with starting small and recognizing and moving past failures		
		Tendency to continuously look for a better or different way to do things		
		Ability to close a deal		
		Ability to listen, trust, take advice		

Sources: Bill J. Bonnstetter, "New Research: The Skills That Make an Entrepreneur," HBR.org, December 7, 2012; Daniel Isenberg, "Should You Be an Entrepreneur? Take This Test," HBR.org, February 12, 2010; Harvard Business Review, "For Founders, Preparation Trumps Passion," *Harvard Business Review*, July–August 2015; HBS Working Knowledge, "Skills and Behaviors That Make Entrepreneurs Successful," June 6, 2016; Veroniek Collewaert and Frederik Anseel, "How Entrepreneurs Can Keep Their Passion from Fading," HBR.org, June 16, 2016.

TABLE 2-1

Market evaluation for the Electric Car Care Center

Aspect of the market	Cesar’s evaluation	Cesar’s confidence and unknowns
Problem you are trying to solve	<ul style="list-style-type: none">• Help customers take care of their electric vehicles.	Confident that this will be a need—but will customers see it, and what will make them choose my shop rather than their dealer?
Customer benefit from your solution	<ul style="list-style-type: none">• Lower price than equivalent service at the dealer.• Greater expertise. We service only electric vehicles and have all the right equipment.	Dealers tend to be expensive, so lower price seems likely to be a good benefit—but will it be good enough to attract customers away from their dealers? It would be great to test some pricing with existing electric car owners.
Market size	<ul style="list-style-type: none">• Currently over two million electric vehicles on the road worldwide.	We’ve been seeing more and more electric cars on the road, but it’s not clear what the trajectory of growth will be. We’ll want to understand this more before investing heavily.
Market growth rate	<ul style="list-style-type: none">• A 32 percent compound annual rate occurred in the United States over past four years.• Industry projections differ substantially on growth projections.	Will this growth be sustained? And is the growth of electric car ownership the same in our town as nationally?
Market share	<ul style="list-style-type: none">• Share of service business within a twenty-mile radius estimated at 18 percent during the first five years.	This is a guess; we’ll need to test it.
Competitors	<ul style="list-style-type: none">• Primary competition is dealers who get most of the business during warranty periods.• Other new electric specialty shops are likely to open to service the rising demand.• Few neighborhood garages would have the training or equipment to provide service.	These observations seem accurate or likely.
Customer awareness of need	<ul style="list-style-type: none">• Will become obvious as warranty periods expire and the high cost of dealer service becomes clear.	We will definitely want to test this projection.
Customers	<ul style="list-style-type: none">• All owners of electric vehicles of all makes and models.	We need to learn more about the demographics of people who buy electric cars. Most who come into the shop tend to be wealthy—early adopters. But will that change if the price of fuel rises?
Reaching customers	<ul style="list-style-type: none">• Buy list of electric car owners for direct email.• Use social media.• Advertise on hyper-local sites.• Offer free informational clinics (“Understanding Your Electric Vehicle”).• Partner with local environmental groups to get the word out.	We have lots to test here—maybe start a Twitter account or Facebook page with electric car care tips and see how many people follow us? Then we’ll be able to market to those customers as well.

FIGURE 2-1

The business-model canvas

Key partners	Key activities	Value propositions	Customer relationships	Customer segments
Who are our key partners? Who are our key suppliers? Which key resources are we acquiring from our partners? Which key activities do partners perform?	What key activities do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?	What value do we deliver to the customer? Which one of our customers' problems are we helping to solve? What bundles of products and services are we offering to each segment?	How do we get, keep, and grow customers? Which customer relationships have we established? How are they integrated with the rest of our business model? How costly are they?	For whom are we creating value? Who are our most important customers? What are the customer archetypes?
	Key resources	Which customer needs are we satisfying? What is the minimum viable product?	Channels	
	What key resources do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?		Through which channels do our customer segments want to be reached? How do other companies reach them now? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?	
Cost structure		Revenue streams		
What are the most important costs inherent to our business model? Which key resources are most expensive? Which key activities are most expensive?		For what value are our customers willing to pay? For what do they currently pay? What is the revenue model? What are the pricing tactics?		

Source: Strategyzer, "Canvases, Tools and More," accessed July 12, 2017, www.businessmodelgeneration.com/canvas. Canvas developed by Alexander Osterwalder and Yves Pigneur.

FIGURE 2-2

The risk-versus-return trade-off

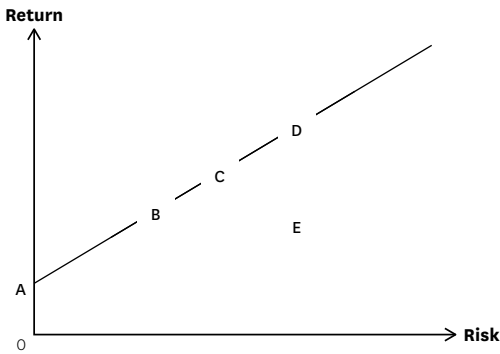


TABLE 2-2

The Electric Car Care Center, pro forma income statement for years ending December 31, 2018, 2019, and 2020

	2018	2019	2020
Revenues	\$450,000	\$700,000	\$1,000,000
Expenses:			
Owner's salary	40,000	70,000	90,000
Employee salaries	140,000	160,000	200,000
Benefits	70,000	85,000	100,000
Workers' insurance	14,000	15,000	20,000
Equipment loan 1 ^a	42,000	42,000	42,000
Equipment loan 2 ^b			14,000
Insurance	4,000	4,200	45,000
Shop rent	40,000	40,000	40,000
Utilities	6,000	6,200	6,400
Other	10,000	10,000	10,000
Parts & materials	100,000	185,000	250,000
Advertising	5,000	6,000	7,000
Total expenses	471,000	623,400	824,400
Profits before tax	(21,000)	76,600	175,600
Tax	0	22,980	35,400
Profits after tax	(21,000)	53,620	140,200

a. \$300,000 loan at 9 percent for twelve years.

b. \$100,000 loan at 9 percent for twelve years.

TABLE 3-1

Business model analogies

Try adapting one of these basic forms.

Analogy	How it works	Example
Affinity club	Pay royalties to some large organization for the right to sell your product exclusively to its customers.	MBNA
Brokerage	Bring together buyers and sellers, charging a fee per transaction to one or another party.	Century 21 Orbitz
Bundling	Package related goods and services together.	Fast-food value meals iPod and iTunes
Cell phone	Charge different rates for discrete levels of a service.	Sprint Better Place
Crowdsourcing	Get a large group of people to contribute content for free in exchange for access to other people's content.	Wikipedia YouTube
Disintermediation	Sell direct, sidestepping traditional intermediaries.	Dell WebMD
Fractionalization	Sell partial use of something.	NetJets Time-shares
Freemium	Offer basic services for free, and charge for premium service.	LinkedIn
Leasing	Rent, rather than sell, high-margin, high-priced products.	Cars MachineryLink
Low-touch	Lower prices by decreasing service.	Walmart IKEA
Negative operating cycle	Lower prices by receiving payment before delivering the offering.	Amazon
Pay as you go	Charge for actual, metered usage.	Electric companies
Razor/blades	Offer the high-margin companion product (razor) below cost to increase volume sales of low-margin item (blades).	Printers and ink
Reverse razor/blades	Offer the low-margin item below cost to encourage sales of the high-margin companion product.	Kindle iPod/iTunes
Reverse auction	Set a ceiling price, and have participants bid as the price drops.	Elance.com
Product to service	Rather than sell a product, sell the service the product performs.	Zipcar
Standardization	Standardize a previously personalized service to lower costs.	MinuteClinic
Subscription	Charge a subscription fee for a service.	Netflix
User communities	Grant members access to a network, charging both membership fees and advertising.	Angie's List

Source: Adapted from Mark W. Johnson, *Seizing the White Space: Business Model Innovation for Growth and Renewal* (Boston: Harvard Business Review Press, 2010).

TABLE 4-1

Forms of business

Form of business	Key benefits	Key disadvantages
Sole proprietorship	<ul style="list-style-type: none"> • Simple to organize and operate • One level of taxation 	<ul style="list-style-type: none"> • Full liability of the owner • Cannot raise outside equity capital, thus limiting potential size of the business
General partnership	<ul style="list-style-type: none"> • Can bring in additional talent and personal capital • One level of taxation 	<ul style="list-style-type: none"> • Full liability of partners • Capital limited to the pockets of the partners and their ability to borrow • Unless addressed through the partnership agreement, business dissolves with the death or withdrawal of any partner
Limited partnership	<ul style="list-style-type: none"> • Limited liability • One level of taxation 	<ul style="list-style-type: none"> • Complex to set up
C corporation	<ul style="list-style-type: none"> • Theoretically capable of attracting equity capital through share ownership • Preferred form of venture capitalists • Able to deduct many benefit payments to employees • Shareholders enjoy limited liability 	<ul style="list-style-type: none"> • Complex to set up and operate • Income subject to double taxation
S corporation	<ul style="list-style-type: none"> • Like a proprietorship and partnership, subject to only one level of taxation • Shareholders enjoy limited liability 	<ul style="list-style-type: none"> • Complex to set up and operate • Limited in the number of shareholders • Venture capitalists cannot be shareholders
Limited-liability company (LLC)	<ul style="list-style-type: none"> • Simpler to set up and operate than a corporation • Limited liability for members • One level of taxation • Infinite number of possible members 	<ul style="list-style-type: none"> • Cannot attract outside equity capital

FIGURE 5-1

Prototype business plan format

Lo-Sugar Foods Company	
Contents	
I. Executive summary.....	2
II. The opportunity	5
III. The company and its offering and strategy	12
IV. The team	15
V. Marketing plan	18
VI. Operating plan	22
VII. Financial plan	25
Appendix	
Résumés of management team members	30
Supporting market research	32
Sales projections for initial products	40

TABLE 5-1

Lo-Sugar key team members

Team member	Position	Salary
Joanne Galloway	CEO	\$100,000
Philip Lindstrom	VP Product Development	95,000
Gunther Schwartz	VP Manufacturing	95,000
Carlos Talavera	VP Sales & Marketing	95,000
Diane Johnson	Financial consultant	Day rate
Mikhail Wolfe	Administrative assistant	50,000

TABLE 5-2

Forecasted revenues by distribution channel (percentage of sales)			
Distribution channel	2018	2019	2020
Health food stores	\$112,000 (100%)	\$160,000 (80%)	\$200,000 (38%)
Supermarkets	0	40,000 (20%)	80,000 (15%)
Private-label business	0	0	240,000 (46%)
Total sales	\$112,000 (100%)	200,000 (100%)	520,000 (99%)

TABLE 5-3

Marketing expense	2018	2019	2020
Sales commissions	\$11,000 (10%)	\$20,000 (9%)	\$52,000 (9%)
Research	70,000 (63%)	80,000 (36%)	85,000 (15%)
Promotion	20,000 (18%)	32,000 (15%)	50,000 (9%)
Total expense	\$101,000 (91%)	132,000 (60%)	187,000 (33%)

FIGURE 5-2

How people get downtown

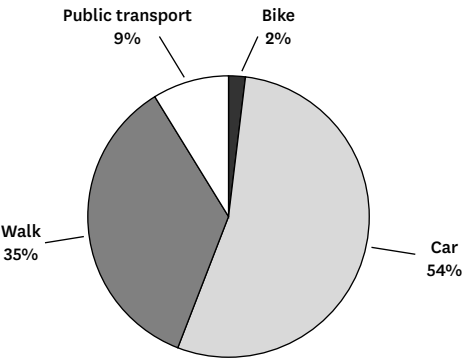
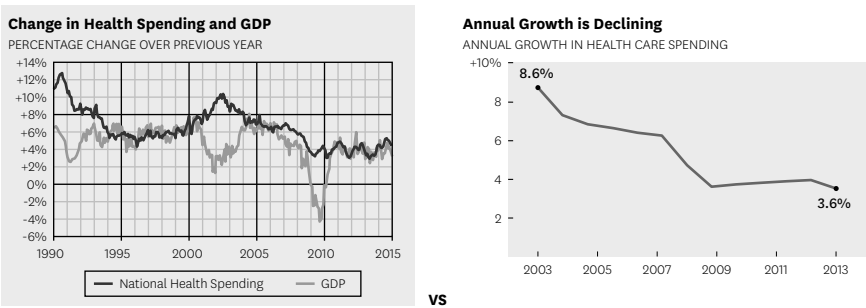


FIGURE 5-3

Persuasive charts

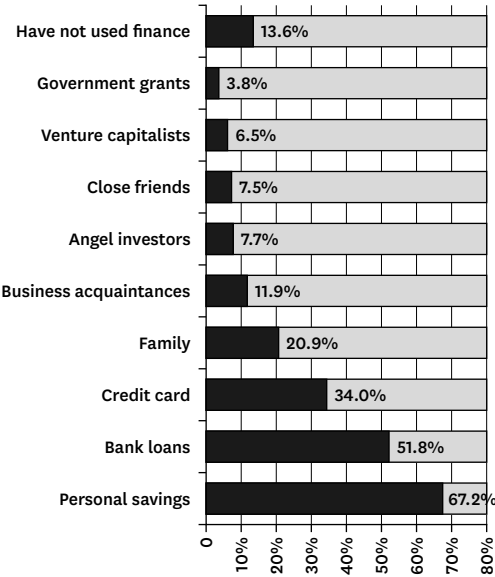
The chart on the right makes a much clearer, easier-to-digest point.



Source: Scott Berinato, "Visualizations That Really Work," *Harvard Business Review*, June 2016.

FIGURE 6-1

Sources of funding for *Inc.* magazine’s five thousand fastest-growing US companies in 2014



Source: “How Entrepreneurs Access Capital and Get Funded,” *Entrepreneurship Policy Digest*, Kauffman Foundation, June 2, 2015.

TABLE 6-1

Current asset requirements

Cash	\$8,000
Inventory	
Lumber	4,000
Hardware	2,500
Other	1,000
Total inventory	7,500
Prepaid expenses	
Insurance (1 year)	1,500
Rent (3 months)	5,000
Total prepaid expenses	6,500
Total current assets	22,000

TABLE 6-2

Fixed asset requirements

Used panel truck	\$7,500
Lathes	900
Other tools	800
Shop fixtures	800
Total fixed assets	10,000
Total current assets (from table 6-1)	22,000
Total current and fixed assets	32,000

TABLE 6-3

Liabilities and owners' equity

Current liabilities	
Current portion of five-year loan	\$1,000
Long-term liabilities	
Balance of five-year loan	<u>4,000</u>
Total liabilities	5,000
Original owners' equity	25,000
Crowdfunding proceeds	<u>2,000</u>
Total owners' equity	<u>27,000</u>
Total liabilities and owners' equity	32,000

TABLE 6-4

The four institutions that support startups

	Incubators	Angel investors	Accelerators	Hybrid
Duration	1 to 5 years	Ongoing	3 to 6 months	3 months to 2 years
Cohorts	No	No	Yes	No
Business model	Rent; nonprofit	Investment	Investment; can also be nonprofit	Investment; can also be nonprofit
Selection	Noncompetitive	Competitive, ongoing	Competitive, cyclical	Competitive, ongoing
Venture stage	Early or late	Early	Early	Early
Education	Ad hoc, human resources, legal	None	Seminars	Various incubator and accelerator practices
Mentorship	Minimal, tactical	As needed by investor	Intense, by self and others	Staff expert support, some mentoring
Venture location	On-site	Off-site	On-site	On-site

Source: Susan Cohen, “What Do Accelerators Do? Insights from Incubators and Angels,” *Innovations* 8, no. 3–4 (2013): 20. Adaptations by Ian Hathaway.

TABLE 7-1

Sources of capital for growth-stage financing

Internal cash flow from operations	<ul style="list-style-type: none"> • Cost-free if shareholders aren't anxious for dividends. • May not be enough to finance substantial growth in the productive base of the business.
Debt capital	<ul style="list-style-type: none"> • Costly, but interest payments are deductible from taxable income (if there is any income). • Interest rate is a function of prevailing rates, the term of the loan, and the creditworthiness of the borrower. • Debt increases the riskiness of the enterprise.
Venture capital	<ul style="list-style-type: none"> • The most expensive capital available, since the VC will take a significant share of ownership—and of future prospects for the company. • The entrepreneur must share power with the VC. • Unlike any other form of capital, this one comes with business advice that may be valuable.
Initial public offering	<ul style="list-style-type: none"> • Perhaps the only way to round up a large bundle of money. But like venture capital, the IPO dilutes the ownership interests of the entrepreneur and earlier investors. Also, the duties of being a public company are often onerous.

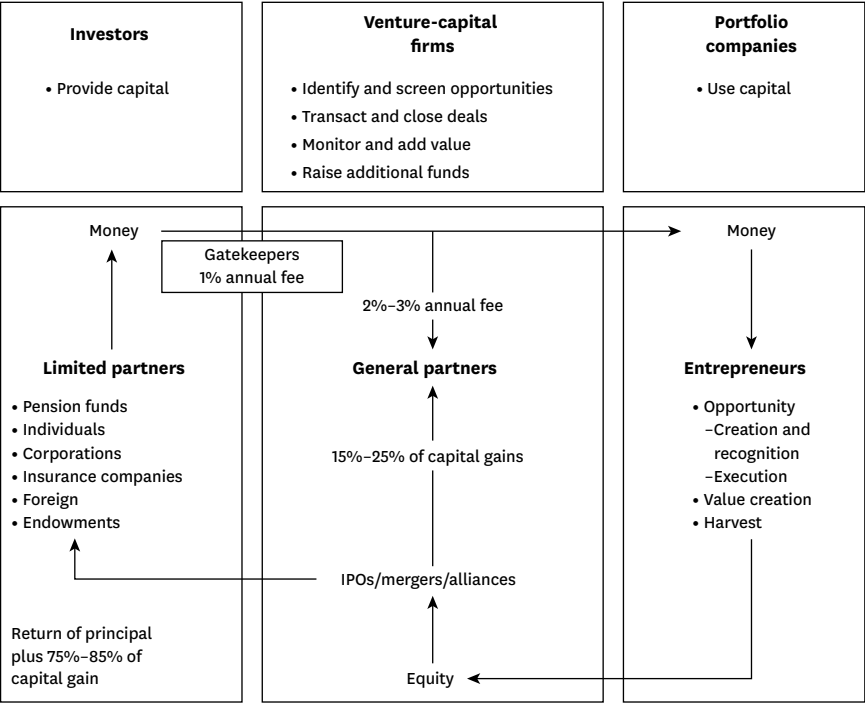
TABLE 7-2**eBay's cash flow, 1998 through 2000 (in thousands of dollars)**

	2000	1999	1998
Net cash provided by operating activities	\$100,148	\$62,852	\$6,041
Net cash used in investing activities	(206,054)	(603,363)	(53,024)
Net cash provided by financing activities	85,978	725,027	72,159
Net increase (decrease) in cash and cash equivalents	(19,928)	184,516	25,176
Cash and cash equivalents at end of year (after accounting for beginning balance)	201,873	221,801	37,285

Source: eBay 10-K report, 2000.

FIGURE 8-1

The flow of venture capital

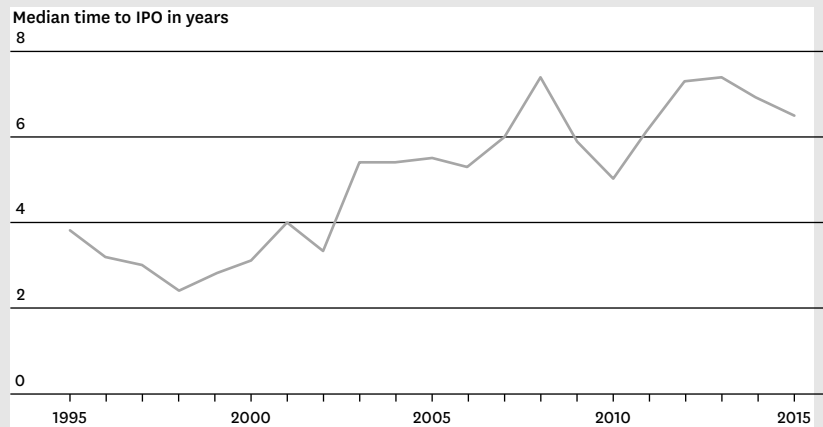


Source: William D. Bygrave and Jeffrey A. Timmons, *Venture Capital at the Crossroads* (Boston: Harvard Business School Press, 1992), 11. Reproduced with permission.

FIGURE 9-1

Waiting game

Over the past decade, venture-capital-backed companies have tended to stay private longer. The higher regulatory requirements imposed by Sarbanes-Oxley are responsible in part for this trend.



Source: "Pure Storage's CEO on Choosing the Right Time for an IPO," NVCA Yearbook, June 2016.

TABLE 11-1

Four leadership approaches

	Leader's focus			
	Content	Behavior	Results	Context
Situation	Young, small, simple enterprise	Somewhat larger, more involved enterprise	Large, complex organization	Very large, very complex, mature organization
Driving assumptions	Insufficient knowledge, experience to plan Subordinates not capable of independent action or decisions	Too little time to do everything Subordinates can act independently but in accordance with managerial prescription	Too little time Subordinates can achieve better outcomes with their own means	Too little time and knowledge Right people in the right environment with the right mission will succeed
Behavior	On the front lines Barking orders Pitching in to help out	Developing process and procedure Observing	Attending meetings, reviews Studying plans, papers, reports Writing memos	Lots of time on key hires and promotion Tone-setting events
Key skills, tools	Action Decisions	Policies Procedures Behavior audit	Plans Budgets Organizing structure and systems	Communication Leadership by example

Source: Michael J. Roberts, "Managing Transitions in the Growing Enterprise," in *The Entrepreneurial Venture*, 2nd ed., eds William A. Sahlman, Howard H. Stevenson, Michael J. Roberts, and Amar Bhidé (Boston: Harvard Business School Press, 1999), 390.

FIGURE 12-1

Innovation portfolio

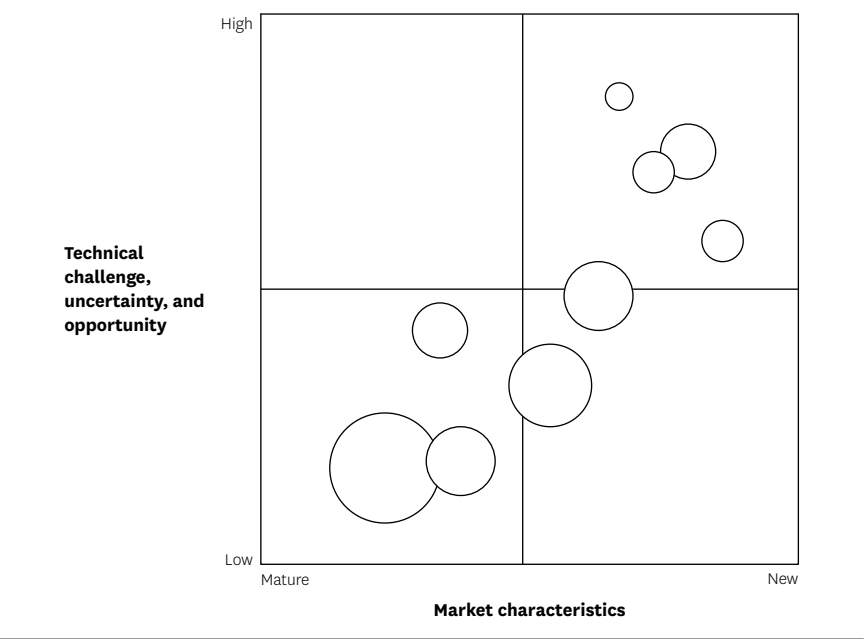


TABLE A-1

Amalgamated Hat Rack balance sheet as of December 31, 2017

	2017	2016	Increase (Decrease)
Assets			
Cash and marketable securities	\$652,500	486,500	166,000
Accounts receivable	555,000	512,000	43,000
Inventory	835,000	755,000	80,000
Prepaid expenses	123,000	98,000	25,000
Total current assets	2,165,500	1,851,500	314,000
Gross property, plant, and equipment	2,100,000	1,900,000	200,000
Less: Accumulated depreciation	333,000	290,500	(42,500)
Net property, plant, and equipment	1,767,000	1,609,500	157,500
Total assets	\$3,932,500	3,461,000	471,500
Liabilities and owners' equity			
Accounts payable	\$450,000	430,000	20,000
Accrued expenses	98,000	77,000	21,000
Income tax payable	17,000	9,000	8,000
Short-term debt	435,000	500,000	(65,000)
Total current liabilities	1,000,000	1,016,000	(16,000)
Long-term debt	750,000	660,000	90,000
Total liabilities	1,750,000	1,676,000	74,000
Contributed capital	900,000	850,000	50,000
Retained earnings	1,282,500	935,000	347,500
Total owners' equity	2,182,500	1,785,000	397,500
Total liabilities and owners' equity	\$3,932,500	\$3,461,000	\$471,500

TABLE A-2

Amalgamated Hat Rack income statement

For the period ending December 31, 2017	
Retail sales	\$2,200,000
Corporate sales	1,000,000
Total sales revenue	3,200,000
Less: Cost of goods sold	1,600,000
Gross profit	1,600,000
Less: Operating expenses	800,000
Less: Depreciation expenses	42,500
Earnings before interest and taxes (EBIT)	757,500
Less: Interest expense	110,000
Earnings before income taxes	647,500
Less: Income taxes	300,000
Net income	\$347,500

TABLE A-3

Amalgamated Hat Rack multiperiod income statement, 2015–2017

	FOR THE PERIOD ENDING DECEMBER 31		
	2017	2016	2015
Retail sales	\$2,200,000	2,000,000	1,720,000
Corporate sales	1,000,000	1,000,000	1,100,000
Total sales revenue	3,200,000	3,000,000	2,820,000
Less: Cost of goods sold	1,600,000	1,550,000	1,400,000
Gross profit	1,600,000	1,450,000	1,420,000
Less: Operating expenses	800,000	810,000	812,000
Less: Depreciation expenses	42,500	44,500	45,500
Earnings before interest and taxes (EBIT)	757,500	595,500	562,500
Less: Interest expense	110,000	110,000	150,000
Earnings before income taxes	647,500	485,500	412,500
Less: Income taxes	300,000	194,200	165,000
Net income	\$347,500	291,300	247,500

TABLE A-4

Amalgamated Hat Rack cash-flow statement for the year ending December 31, 2017

Net income	\$347,500
Operating activities	
Accounts receivable	(43,000)
Inventory	(80,000)
Prepaid expenses	(25,000)
Accounts payable	20,000
Accrued expenses	21,000
Income tax payable	8,000
Depreciation expense	42,500
Total changes in operating assets and liabilities	(56,500)
Cash flow from operations	291,000
Investing activities	
Sale of property, plant, and equipment	267,000*
Capital expenditures	(467,000)
Cash flow from investing activities	(200,000)
Financing activities	
Short-term debt decrease	(65,000)
Long-term borrowing	90,000
Capital stock	50,000
Cash dividends to stockholders	—
Cash flow from financing activities	75,000
Increase in cash during year	\$ 166,000

* Assumes sale price was at book value; the company had yet to start depreciating this asset.

TABLE C-1

Hypothetical income statements of Amalgamated Hat Rack and Acme Corporation

	Amalgamated	Acme
Earnings before interest and taxes	\$757,500	\$757,500
Less: Interest expense	\$110,000	\$350,000
Earnings before income tax	\$647,500	\$407,400
Less: Income tax	\$300,000	\$187,000
Net income	\$347,500	\$220,500