



Jim Balsillie, businessman, philanthropist, and co-founder and former co-CEO of BlackBerry (formerly Research in Motion).

THE POWER OF ENTREPRENEURSHIP

CHAPTER OUTLINE

Historical Entrepreneurship

Learning Objective 1.0 Introduce a brief global history of entrepreneurship.

Entrepreneurship and Small Business in Canada

Learning Objective 1.1 Describe entrepreneurship and small business in Canada.

The Entrepreneurial Revolution

Learning Objective 1.2 Outline the causes of the entrepreneurial revolution.

Global Entrepreneurship Monitor (GEM)

Learning Objective 1.3 Describe what the Global Entrepreneurship Monitor (GEM) is and outline the principal findings from GEM.

Entrepreneurship Empowers Everyone

Learning Objective 1.4 Explore how under-represented groups leverage the inclusive power of entrepreneurship.

Historical Entrepreneurship

THROUGHOUT HISTORY, the entrepreneur's ceaseless quest to discover and/or develop new markets has been pursued through a variety of means, all of which had an enormous impact on society.

The economist William Baumol defined the entrepreneur as the individual willing to embark on an adventure in pursuit of economic goals. For this brief historical review, we leverage Baumol's 1993 definition of the entrepreneur.¹ However, in my learned opinion the concept of being entrepreneurial has been around far longer. Starting around 10,000 years ago, the advent of agriculture and the domestication of plants and animals allowed humans to settle in one place and form larger and more stable communities. This provided the basis for civilization as well as the development and spread of human knowledge. Specialization of different tasks enabled individuals to become experts in certain areas, leading to the exchange of goods and services and increasing standards of living.

The invention of money, approximately 5000 years ago by the Mesopotamian people, allowed for greater ease of trade between different communities, and the availability of resources and dependable food supplies enabled humans to build permanent homes. The first true entrepreneurs may have first emerged around 4000 BCE with the formation of the first settlements and cities in Sumeria. With the advent of towns came further specialization and the creation of full-time jobs in various industries such as toolmaking, pottery, carpentry, woolmaking, and masonry.

The Middle Ages saw a period of increased trade and exploration, with trade routes expanding and connecting different civilizations around the world. This allowed for the exchange of goods and ideas, and the development of more complex political systems, religions, and philosophies. Gunpowder and iron weaponry led to the formation of empires and the spread of knowledge. The final years of the 1300s saw the creation of the banking system and the rise of the Medici family. By establishing bank branches in major trading centers across Europe, the Medici bank tapped into foreign trade networks and offered exchange and transfer of credit for clients.

The Age of Exploration, beginning in 1492 with Columbus' voyage to the Americas, marked a major turning point for our species. The reconnection of the hemispheres led to the rise of the Atlantic trade and the beginning of a shift of power to the West. In the centuries that followed, Europeans colonized and laid the foundations for a globalized world.

Notwithstanding, the oversimplification of the foregoing, Indigenous Entrepreneurship has a long and rich history in pre-colonial North America, Australia, and other parts of the world. Indigenous peoples have been trading and engaging in commerce since time immemorial and have been involved in a variety of entrepreneurial activities such as farming, fishing, hunting, gathering, and trading.

In North America, Indigenous entrepreneurs have been involved in activities such as fur trading, fishing, and whaling. One of the earliest examples of Indigenous specialization of trade was recorded at Poverty Point (Louisiana, USA) around 1500–1100 BCE.² This Indigenous community would source materials from hundreds (sometimes thousands) of kilometers away to craft items that they would then export to other areas. In Australia, Indigenous entrepreneurs have been involved in activities such as mining and trading of ochre and other resources. For more than 40,000 years before the arrival of the First Fleet in Sydney Harbour, Australian Aborigines had been mining the land for ochre and stone.³

The contemporary entrepreneur emerged throughout the Industrial Revolution of the eighteenth and nineteenth centuries. Entrepreneurs realized the promise for increased

production and efficiency as new technologies such as steam engines and electricity emerged. These technological developments enabled entrepreneurs to build vast factories for mass manufacture of goods. This period also saw the creation of modern businesses and the advent of industrial tycoons.

The growth of technology in the twentieth century witnessed the creation of contemporary technology startups. Entrepreneurs were able to design new goods and services that could be quickly expanded around the globe as computer power and digital networks increased.

The Internet has made it possible for businesses to reach a worldwide audience and operate internationally from the start. The emergence of digital platforms and the sharing economy in the early decades of the twenty-first century enable today's entrepreneurs to launch new ventures in novel and creative ways and do so all while spending less money and time than ever before. Billionaire entrepreneurs like Elon Musk, Sir Richard Branson, and Jeff Bezos have become household names throughout the world and regularly dominate the headlines.

Entrepreneurial Age

This is the entrepreneurial age. More than 300 million people worldwide either were actively involved in trying to start a new venture or were owner-managers of a new business in 2021.⁴ Data from the U.S. Census Bureau shows that 5,044,748 new businesses were started in 2022.⁵ Likewise, more than 101,000 new businesses are born each year in Canada.⁶ Entrepreneurs are driving a revolution that is transforming and renewing economies worldwide.

Entrepreneurship is the essence of free enterprise because the birth of new businesses gives a market economy its vitality. New and emerging businesses create a large proportion of the innovative products and services that transform the way we work and live such as personal computers (PCs), computer software, the Internet and the World Wide Web (WWW or the Web), social media, biotechnology drugs, overnight package deliveries, and big-box stores. Between 2020 and 2021, small businesses in Canada were responsible for 69.0% of the net employment change in the private sector, which was an increase of approximately 494,300 jobs (see Figure 1.1).⁷

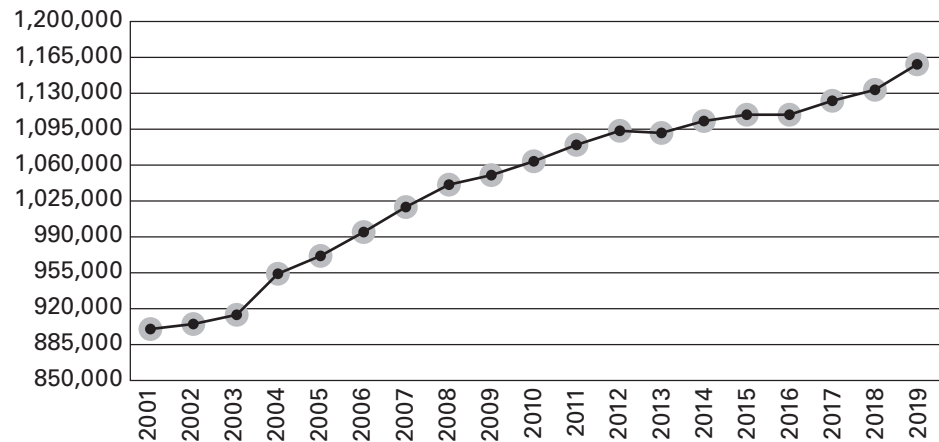
There has never been a better time to practice the art and science of entrepreneurship.

However, what is entrepreneurship? Early in the twentieth century, Joseph Schumpeter, the Moravian-born economist writing in Vienna, gave us the modern definition of an entrepreneur:

A person who destroys the existing economic order by introducing new products and services, by introducing new methods of production, by creating new forms of organization, or by exploiting new raw materials.

According to Schumpeter, that person is most likely to accomplish this destruction by founding a new business but may also do it within an existing one. Schumpeter explained how entrepreneurs had suddenly increased the standard of living of a few industrialized nations.⁸ When the Industrial Revolution began in England around 1760, no nation had enjoyed a standard of living equal to that of Imperial Rome 2000 years earlier. But from 1870 to 1979, for example, the standard of living of 16 nations jumped sevenfold on average.^{9,10}

Very few new businesses have the potential to initiate a Schumpeterian “gale” of creative destruction, as Apple Computers did to the computer industry. Most startups enter existing



Source: Statistics Canada, Economic Analysis Division, National Accounts Longitudinal Microdata File

Figure 1.1

Number of businesses with at least one employee, Canada, 2001–2019

markets. So, in this textbook, we adopt a broader definition of entrepreneurship than Schumpeter's. Ours encompasses everyone who starts a new business.

Our entrepreneur is the person who perceives an opportunity and creates an organization to pursue it. Furthermore, the entrepreneurial process includes all the functions, activities, and actions associated with perceiving opportunities and creating organizations to pursue these opportunities. Our entrepreneur's new business may, in a few rare instances, be the revolutionary sort that rearranges the global economic order as Walmart, FedEx, Apple, Microsoft, Google, eBay, Uber, OpenAI, and Amazon have done and social networking companies such as Facebook, TikTok, Instagram, Telegram, and Twitter are now doing. Rather, it is much more likely to be of the incremental kind that enters an existing market.

In this chapter, we will look at the importance of entrepreneurship and small business to Canada as well as the global economies. We will describe the entrepreneurial revolution and present a conceptual model for the entrepreneurial sector of the economy. We will then use this model to explain major factors in the revolution. Finally, we will compare entrepreneurial activity among nations within the context of the conceptual model.

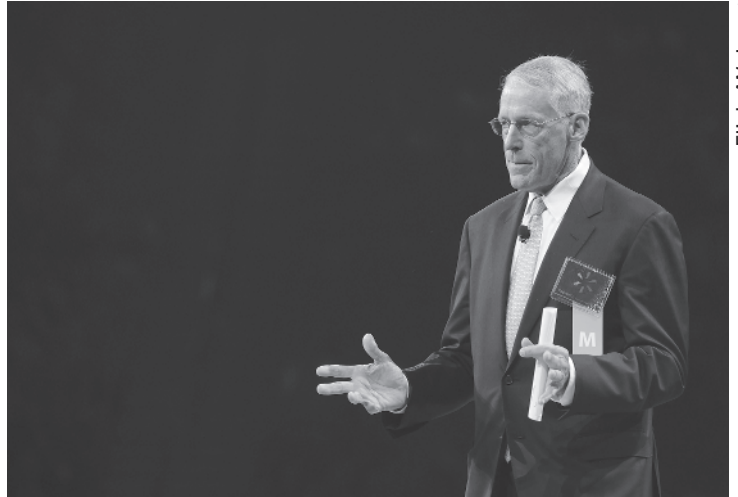
The Changing Economy

General Motors (GM) was founded in 1908 as a holding company for Buick. On December 31, 1955, GM became the first American corporation to make over \$1 billion in a single year. At one point, it was the largest corporation in the United States in terms of its revenues as a percentage of gross domestic product

(GDP). In 1979, its employment in the United States peaked at 600,000. In 2008, GM reported a loss of \$30.9 billion and burned through \$19.2 billion in cash. In a desperate attempt to save the company in February 2009, GM announced plans to reduce its total U.S. workforce from 96,537 people in 2008 to between 65,000 and 75,000 in 2012. By March 2009, GM which had already received \$13.4 billion

of bailout money from the U.S. government was asking for an additional \$16.6 billion. The Obama administration forced GM's CEO Rick Wagoner to resign. Wagoner's replacement Fritz Henderson said that bankruptcy was a real possibility. It became a reality when GM filed for bankruptcy in June and emerged as a shrunken company 40 days later. However, these changes reinvigorated and retooled GM to help it rebound. By 2022, GM in the United States employed more than 93,000 employees. By comparison, Walmart was founded by Sam Walton in 1962, and for the fiscal year ending on January 31, 2012, Walmart had record sales of \$443.9 billion, record earnings of \$15.8 billion, and free cash flow of \$10.7 billion. Today, Walmart is one of the world's largest corporations, and as of the end of FY2023, Walmart employed approximately 2.1 million associates worldwide, with approximately 1.6 million of associates based in the United States.

We're all working together; that's the secret. And we'll lower the cost of living for everyone, not just in America, but we'll give



Flickr/Walmart

the world an opportunity to see what it's like to save and have a better lifestyle, a better life for all. We're proud of what we've accomplished; we've just begun.

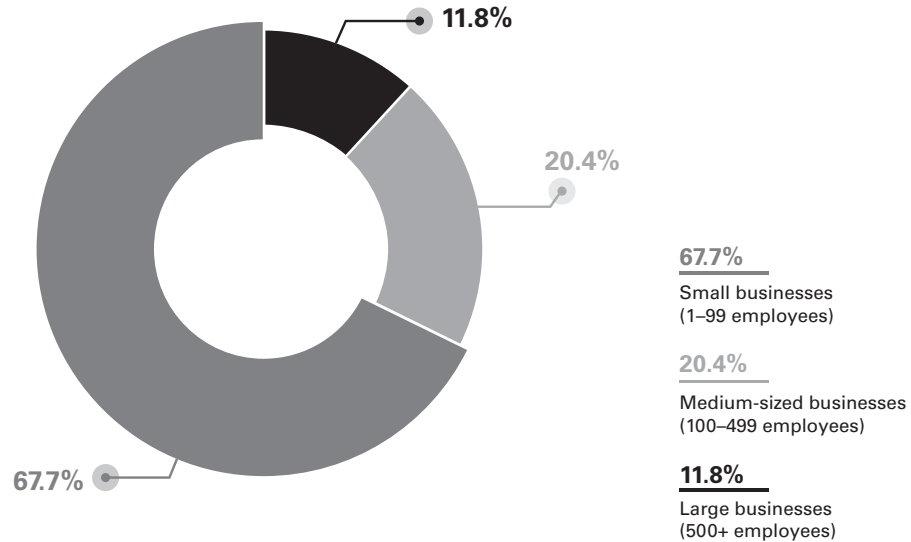
—Sam Walton (1918–1992)

Entrepreneurship and Small Business in Canada

As of December 2021, there were 1.21 million businesses with employees in Canada. Of these, 1.19 million (97.9%) were small businesses, 22,700 (1.9%) were medium-sized businesses, and 2868 (0.2%) were large businesses.¹¹ In general, businesses with 100 or fewer employees are classified as small. These small businesses employed approximately 8.2 million individuals in Canada, or 66.7% of the total labor force in the private sector.¹² Not only are small businesses the engine for job creation, but they are also a powerful force for innovation. From 2015 to 2019, the average contribution of small firms to GDP was 38.1%, 14.3% for medium-sized firms, and 47.6% for large firms. In other words, small to medium enterprises (SMEs) accounted for more than 50.0% of the value added to the country's output (see Figure 1.2).¹³

Of the 1,213,226 employer businesses in Canada, 21.2% are in the goods-producing sector and 78.8% are in the services-producing sector. Micro-enterprises (1–4 employees) make up 55.3% of Canadian businesses. By adding those businesses with 5–9 employees, this number increases to 74.1%. In other words, almost three out of four Canadian businesses have 1–9 employees. It should be noted that the distribution of businesses according to the number of employees vary slightly between the goods-producing and services-producing sectors.¹⁴

About one-half of the full-time businesses in Canada are unincorporated, while the other half are incorporated.¹⁵ The percentage of the population involved in entrepreneurship in



Source: Statistics Canada, Labour Force Survey; and ISED calculations.

Figure 1.2

Distribution of private sector employees by business size, 2021

Canada has increased more than 50% over the last ten years according to the Global Entrepreneurship Monitor (GEM). In 2021, approximately 20% of the adult population of Canada was involved in planning or starting up a business.¹⁶

In 2022, 43% of Americans planned to start a business that same year¹⁷ and one-third of 2022 startups came from first time entrepreneurs.¹⁸ In 2021, a *RBC Small Business Poll*, found that more than half (55%) of Canadians polled said they have thought about owning a business.¹⁹ Notwithstanding the strong growth in both countries, more recent reports show that new starts have stalled in Canada but continue to grow in the United States.²⁰

Why Start a Business?

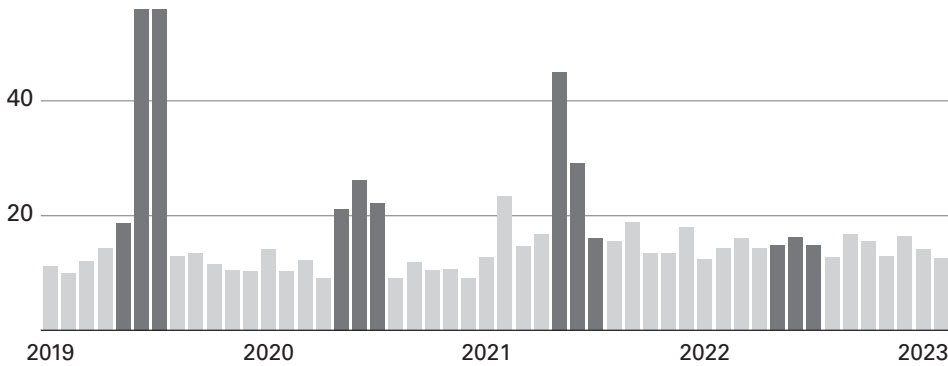
In 2021, the GEM asked a series of questions to probe entrepreneurial motivation, as shown in the table below (see Figure 1.4).²¹

On a global basis, there are significant differences between male and female entrepreneurs. The biggest motivator for male entrepreneurs in 2021 was “to earn a living as jobs are scarce,” which probably reflects the turmoil caused by COVID-19. For female entrepreneurs, the biggest motivator was “to make a difference in the world.”

In Canada, the motivation for starting a business can vary; however, a majority of Canada’s small and medium business owners consistently report that passion is a stronger motivator for them than personal financial gain.²² GEM measures two metrics for entrepreneurial activity—TEA (Total early-stage entrepreneurial activity) and EB (established businesses). TEA consists of the fraction of the adult population actively planning to start a new business plus those running a business less than 42 months old. EBs are businesses older than 42 months. The graph below shows how Canada compares with other G7 countries (see Figure 1.5).

New business creation in Canada has stalled

New business starts by month; May, June, and July—historically the busiest months for starts—highlighted for each year



Source: Adapted from <https://www.theglobeandmail.com/business/article-entrepreneurship-recovery-covid-canada/>.

Figure 1.3

New business creation

Motivation	Male	Female
To make a difference in the world	16.3	12.0
To make wealth	16.5	10.9
To follow a family tradition	13.2	6.8
To earn a living because jobs are scarce	17.6	10.7

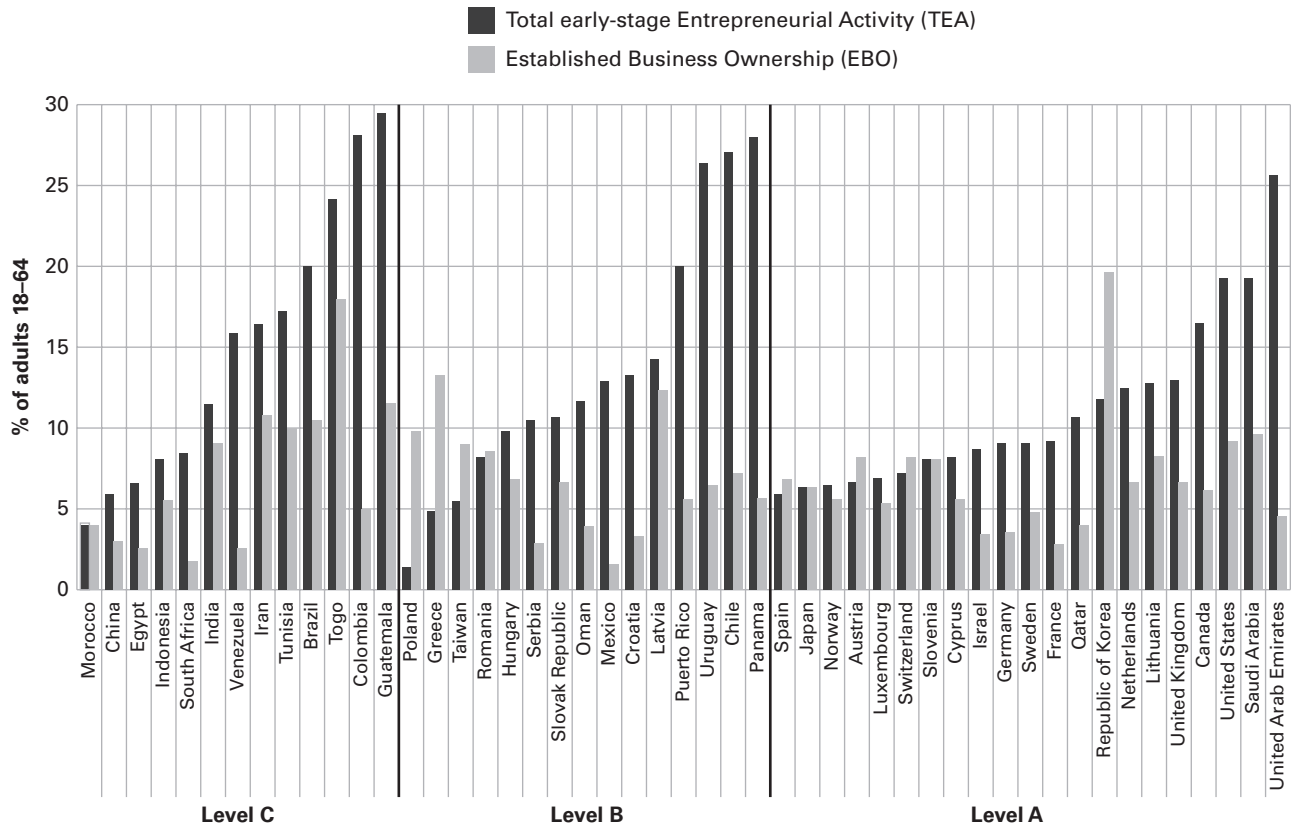
Figure 1.4

Entrepreneurial motivation

Canada is ranked among the countries with the most significant Total Entrepreneurial Activity rate. For several years, Canada had a higher TEA rate than the United States. However, in 2022, Canada experienced a decline in its TEA rate while the United States witnessed an increase, surpassing Canada. In 2022, approximately half of the high-income countries observed an upsurge in entrepreneurship, while the other half experienced a decrease compared to 2021. This trend is likely linked to the recovery from the COVID-19 pandemic and the respective responses at the local level.

In Canada, the survival rates for businesses in the goods-producing and services-producing sectors demonstrated comparable trends during the initial three years following their inception.

However, starting from the fourth year, a higher business survival rate was observed in the goods-producing sector compared to the services-producing sector. By the end of five years, 70.7% of businesses in the goods-producing sector remained operational, whereas this number was slightly lower in the services-producing sector at 68.2%. After a decade, the survival rate for the goods-producing sector stood at 50.0%, while the services-producing sector



Source: GEM. <https://www.gemconsortium.org/news/canada-performance-strong-compared-to-peers-in-latest-gem-global-report/Global-Entrepreneurship-Monitor>.

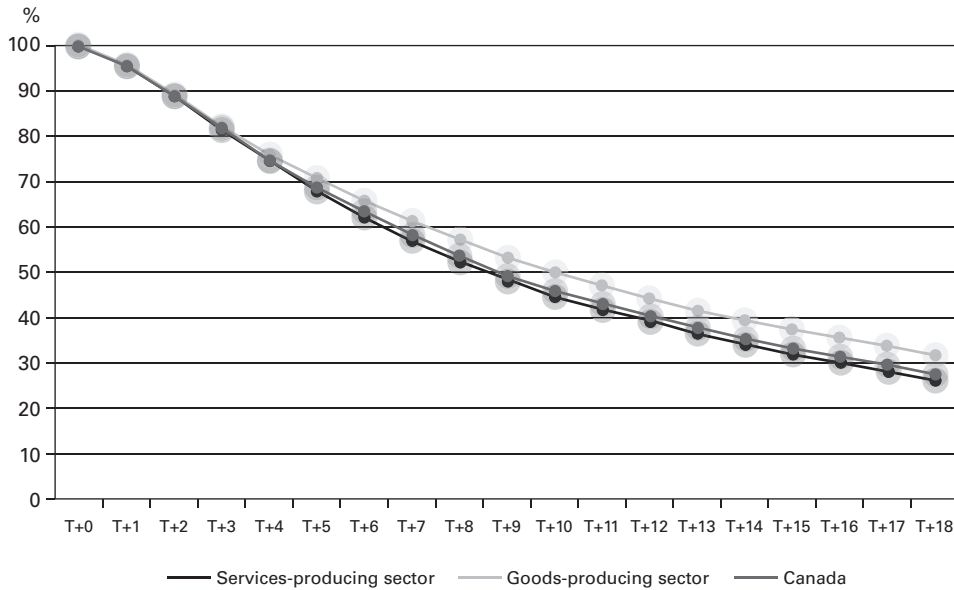
Figure 1.5

Canada’s recent performance on key indicators of entrepreneurial performance

lagged at 44.7%. Looking further into the future, eighteen years’ post-establishment, 31.7% of businesses in the goods-producing sector continued to be active, compared to a slightly lower 26.4% in the services-producing sector. These businesses were all a part of the Canadian market (see Figure 1.6).²³

Of course, mere survival does not necessarily spell success. In general, the median income of small business owners is almost the same as that of wage and salary earners. However, the income distribution is much broader for small business owners, which means that they are more likely to have significantly less income or significantly more income than wage and salaried workers.²⁴ Nonetheless, small business owners are also building equity in their companies as well as taking income from them, so it is possible that small business owners are better off overall than their wage-earning cohorts. However, a study of business owners disposing of their businesses through sale, closure, passing it on, and other methods found that comparatively few saw their standard of living changed by their business. Only 17% reported that their business had raised their standard of living, while 6% reported the opposite.²⁵

No issue gets the attention of politicians more than job creation and employment. In 2021, private sector businesses employed 12.1 million people in Canada. Most of these employees, 67.7% (8.2 million), worked for small businesses, compared with 20.4% (2.5 million) for medium-sized businesses and 11.8% (1.4 million) for large businesses. In total, SMEs employed 88.2% of the private sector workforce (10.7 million individuals),



Source: <https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2022#f4>/Government of Canada.

Figure 1.6

Survival rate of businesses with one or more employees, goods-producing sector and services-producing sector, Canada

highlighting the important role that SMEs play in employing Canadians. In 2021, approximately 16.2 million individuals were employed in Canada. Of this number, 74.8% worked in the private sector and 25.2% worked in the public sector.²⁶ The distribution of the number of people employed according to business size varies considerably between the private and public sectors. In 2021, 88.2% of employed individuals in the private sector worked for SMEs, compared with 75.2% of those employed by public organizations of the same size.²⁷ The contribution to net employment change was 69.0% from small businesses and 17.4% from medium-sized businesses. SMEs were responsible for 86.4% of net employment change over the last year.²⁸

The Entrepreneurial Revolution

On November 1, 1999, Chevron, Goodyear Tire & Rubber Company, Sears Roebuck, and Union Carbide were removed from the Dow Jones Industrial Average (DJIA) and replaced by Intel, Microsoft, Home Depot, and SBC Communications. Of these, Intel and Microsoft became the first two companies traded on the NASDAQ exchange to be listed in the DJIA. This event symbolized what is now called the entrepreneurship revolution that transformed the North American economy in the last quarter of the twentieth century. Intel and Microsoft are the two major entrepreneurial driving forces in the information technology revolution that have fundamentally changed the way in which we live, work, and play. SBC (formerly Southwestern Bell Corporation) was one of the original “Baby Bells” formed after the U.S. Department of



Frederic Legrand - COMEIO/Shutterstock.com

“When I was 19, I caught sight of the future and based my career on what I saw. I turned out to have been right.”

—Bill Gates

Justice’s antitrust action resulted in the breakup of AT&T. It is an excellent example of how dismantling a monopoly leads to entrepreneurial opportunities.

Intel

Intel was founded in Silicon Valley by Gordon Moore and Robert Noyce and funded by Arthur Rock, the legendary venture capitalist. Gordon Moore, the inventor of Moore’s Law²⁹, and Robert Noyce, one of the two inventors of the integrated circuit³⁰, had been at the birth of Silicon Valley with William Shockley, the co-inventor of the transistor, when Shockley Semiconductor Laboratory was founded in Mountain View, CA in 1956. Both Moore and Noyce left Shockley in 1957 to found Fairchild Semiconductor, which in 1961 introduced the first commercial integrated circuit. In 1968, they left Fairchild to start Intel.

In 1971, Intel launched the first commercial microprocessor, heralding a new era in integrated electronics. Then, in 1974, Intel launched the first general-purpose microprocessor, the Intel 8080. This was the brain behind one of the first personal computers called the Altair, which was a \$439 pc kit used by hobbyist and not for commercial purposes. This flagship PC housing the 8080 processor was introduced by MITS (Micro

Instrumentation and Telemetry Systems of Albuquerque) on the front cover of the January 1, 1975, edition of Popular Electronics.

Microsoft

According to personal computer folklore, Paul Allen, then working at the minicomputer division of Honeywell in Massachusetts, hurried to his childhood friend and fellow computer enthusiast Bill Gates, who was a Harvard sophomore, and while waving Popular Electronics with a mockup of the Altair 8080 on its front cover, exclaimed, “This is it! It’s about to begin!” Within a month or so, Gates had a version of BASIC to run on the Altair. He and Allen joined together in an informal partnership called Microsoft and moved to Albuquerque.

Microsoft grew steadily by developing software for personal computers. By 1979 the company had moved to Bellevue, Washington near Seattle where Gates and Allen had grown up. At that time, Microsoft had revenue of more than \$2 million and 28 employees. The company got its big break in 1980–1981 when, building on the core of a product acquired from Seattle Computer Products, Microsoft introduced MS-DOS for IBM’s first PC. Fourteen years later, when Microsoft released Windows 95, it sold 4 million copies in four days. Its success helped move the personal computer into 250 million homes, businesses, and schools worldwide. In the early 1990s, Microsoft committed itself to adding Internet capabilities to its products. When Microsoft joined the DJIA in 1999, there were more than 200 million internet users. This number was up from 3 million just five years earlier.

Southwestern Bell Corporation

SBC came about in 1984 because of the breakup of AT&T. SBC’s growth has come mainly through acquisitions, so we are not making the case that SBC itself is especially entrepreneurial. However, the breakup of AT&T did unleash a wave of entrepreneurship that produced explosive growth of the telecommunications industry over the past twenty years. According to a 2005 survey, the top five innovations since 1980 are the internet, cellphones, personal

computers, fiber optics, and email³¹. No doubt, the phenomenal growth of wireless communications and the internet would not have happened if AT&T had been allowed to keep its pre-1983 stranglehold on the telecom industry. AT&T floundered after it was broken up, and in 2004 it was dropped from the DJIA. In 2005, it was subsequently acquired by SBC, which then adopted AT&T, Inc. as its corporate name. As a result, AT&T's legendary "T" ticker symbol on the New York Stock Exchange returned to the DJIA.

Home Depot

Home Depot was founded in 1979 by Bernie Marcus and Arthur Blank. The chain of hardware and do-it-yourself (DIY) stores holds the record for the fastest time for a retailer to pass the \$30 billion, \$40 billion, \$50 billion, \$60 billion, and \$70 billion annual revenue milestones. It is the second largest retailer in the United States, surpassed only by Walmart. Furthermore, Home Depot nearly set the record for the fastest time from starting up to joining the DJIA when the company was only 20 years old. By comparison, Walmart was 35 years old when it displaced F. W. Woolworth in the DJIA. Along with Walmart, Home Depot has set the pace for the retail industry over the last two decades. Together, the two account for more than 2% of U.S. GDP and 1.7 million jobs.



The Home Depot

Bernard Marcus and Arthur Blank, founders of Home Depot

BlackBerry

BlackBerry, formerly known as Research in Motion (RIM), is a global leader in wireless innovation and is headquartered in Waterloo, Ontario. Mike Lazaridis and Douglas Fregin, two Canadian entrepreneurs, founded the technology giant in 1984. The duo managed to raise \$30 million in pre-IPO financing before the company went public on the Toronto Stock Exchange (TSX) in 1998.³² As of December 1, 2012, BlackBerry had 79 million users globally.³³ Between 2012 and 2021, RIM faced a tumultuous period. The company initially struggled to keep up with the rapid rise of touchscreen smartphones, losing market share to competitors like Apple and Samsung. In 2013, RIM rebranded itself as BlackBerry and launched the BlackBerry 10 platform aiming to revitalize its presence. Despite efforts to innovate and regain market share, BlackBerry continued to face challenges. The company underwent leadership changes, layoffs, and a shift towards software and services. By 2021, BlackBerry had transitioned into a cybersecurity-focused company, providing software solutions for enterprise and government customers.



Jim Balsillie, businessman, philanthropist, and co-founder and former co-CEO of BlackBerry (formerly Research in Motion)

FedEx

Perhaps one of the most revolutionary entrepreneurial ideas outside of high-tech industries was Fred Smith's notion to deliver packages overnight anywhere in the United States. In a term paper that he wrote as a Yale undergraduate, Smith identified a need for shippers to have a system designed specifically for air freight that could accommodate time-sensitive shipments such as medicine, computer parts, and electronics. Smith's professor did not think much of the idea and gave the paper a C. After tours of duty in Vietnam, Smith founded his company Federal Express (FedEx) in 1971, and it began operating in 1973 out of the Memphis International Airport. By the mid-1970s, FedEx had taken a leading role in

lobbying for air cargo deregulation, which finally came in 1977. These changes allowed FedEx to use larger aircraft and spurred the company's rapid growth. Today, FedEx has the world's largest all-cargo air fleet, including the McDonnell Douglas MD-11s and the Airbus A300s and A310s.³⁴

Southwest Airlines

In 1971, when Southwest Airlines began operations, interstate airline travel was highly regulated by the U.S. federal government, which had set up the Civil Aeronautics Board (CAB) in 1938 to regulate all domestic air transport as a public utility thus setting fares, routes, and schedules. The CAB was required to ensure that the airlines had a reasonable rate of return. Most of the major airlines, whose profits were virtually guaranteed, favored the system. Not surprisingly, competition was stifled, and almost no new airlines attempted to enter the market. However, intrastate passenger travel was not regulated by the CAB, so Southwest, following the pioneering path of Pacific Southwest Airlines (PSA's) service within California, initiated passenger service within Texas. The success of PSA and Southwest in providing cheap airline travel within California and Texas provided powerful ammunition for the deregulation of interstate travel, which came in 1981 because of the Airline Deregulation Act of 1978.³⁵ Since deregulation, more than 100 startup airlines have inaugurated interstate scheduled passenger service with a jet aircraft.³⁶ Herb Kelleher, the charismatic co-founder of Southwest Airlines, is often credited with triggering airline deregulation by persevering with his legal battle to get Southwest airborne in the face of fierce legal opposition from Braniff, Trans-Texas, and Continental Airlines. Two of which took their legal battle all the way to the U.S. Supreme Court, which ruled in Southwest's favor at the end of 1970.³⁷

lululemon

Dennis "Chip" Wilson, born March 3, 1956, is a Canadian businessman and entrepreneur who founded several retail apparel companies. The most notable of them is the yoga-inspired athletic apparel company lululemon athletica, commonly referred to as lululemon. Wilson attended his first yoga class in 1997 and was quickly inspired. By 1998, he had started lululemon, which he quickly built into a leading retailer of yoga apparel for men and women. lululemon reached revenues of \$100 million in the mid-2000s and went public in 2007, raising \$327.6 million through the public offering.³⁸ By 2011, the company had expanded rapidly and had generated revenues of \$1 billion.³⁹

WestJet

WestJet, founded in 1996 by Clive Beddoe and four partners, is currently Canada's second largest airline behind Air Canada. WestJet was created on the premise of offering patrons a lower-cost alternative to flying without sacrificing the quality of flight and service. Initially, the airline had three aircrafts, 220 employees, and only flew to five Canadian destinations.⁴⁰ Incorporating a unique corporate culture, WestJet has established a solid footing within the airline industry. WestJet was inducted into the corporate hall of fame after being consecutively named one of Canada's most admired corporate cultures in 2005, 2006, 2007, and 2008. The company offers each of their 9600 employees the opportunity to purchase company shares through an employee share purchase plan (ESPP).⁴¹ Currently, WestJet has a fleet of 98 aircraft and is Canada's leading high-value low-fare airline and offers flights to 76 unique destinations in Canada, the United States, Mexico, and the Caribbean.⁴²

New Tech Ventures

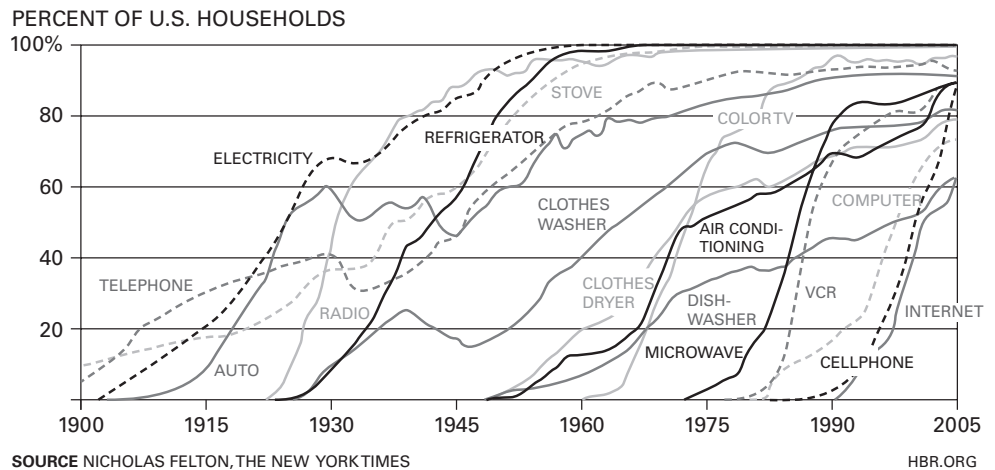
Robert Swanson was 27 when he conceived the idea that a company could be formed to commercialize biotechnology. At that time, he knew almost nothing about the field, but by engaging with scientific literature, Swanson identified the leading biotechnology scientists and contacted them. He was quoted as saying, “Everybody said I was too early—it would take 10 years to turn out the first microorganism from a human hormone or maybe 20 years to have a commercial product—everybody except Herb Boyer.”⁴³ Swanson was referring to Professor Herbert Boyer at the University of California at San Francisco, co-inventor of the patents that, according to some observers, now form the basis of the biotechnology industry. When Swanson and Boyer met in early 1976, they almost immediately agreed to become partners in an endeavor to explore the commercial possibilities of recombinant DNA. Boyer named their venture Genentech, an acronym for genetic engineering technology. Just seven months later, Genentech announced its first success, a genetically engineered human brain hormone called somatostatin. According to Swanson, they accomplished 10 years of development in seven months. Most observers say it was Swanson’s entrepreneurial vision that brought about the founding of the biotech industry. By 2012, there were about 1850 U.S. biotech companies with combined revenues of more than \$87 billion.⁴⁴

At almost the same time that Swanson was starting Genentech in southern San Francisco, not many miles away Steve Jobs and Stephen Wozniak were starting Apple Computers in Silicon Valley. Their computer, the Apple I in kit form, was an instant hit with hobbyists. The Byte Shop—the first full-time computer store anywhere in the world, which opened in Silicon Valley in December 1975—ordered 25 Apple I’s in June 1976. The owner of The Byte Shop asked Jobs to put the Apple I computer board in a case because his customers were asking for complete units, not just kits. When this was done, both Apple and The Byte Shop had a hot product on their hands. The Byte Shop grew to a chain of 75 stores. By responding to consumer demand Wozniak and Jobs had launched the microcomputer.⁴⁵

Genentech’s initial public offering (IPO) in October 1980, followed by Apple’s IPO only two months later, signaled that something magical was stirring in the biotech and personal computer industries. It triggered a wave of venture capital investment and IPOs in both industries. A tipping point in the infant personal computer industry was the introduction of the VisiCalc spreadsheet. Dan Bricklin conceived of the idea when he was sitting in an MBA class at Harvard in 1978, daydreaming about how he could make it easier to do repetitive calculations. Bricklin designed the prototype software to run on an Apple II. Together with Bob Frankston he formed a company called Software Arts to develop the VisiCalc spreadsheet. When they introduced their first version in May 1979, it turbocharged the sale of Apple computers. Subsequently, sales of IBM PCs rocketed into the stratosphere by Mitch Kapor’s Lotus 1-2-3 worksheet.

The late 1970s and early 1980s were miraculous years for entrepreneurial ventures in the computer industry. The miniaturization of hard-disk drives, a vital component in the information technology revolution, was pioneered by Al Shugart, first at Shugart Associates and then at Seagate Technology. Like Shugart, Dick Eagan and Roger Marino started EMC Corporation in 1979, initially selling computer furniture. With the seed money from that venture, they launched into selling Intel-compatible memory. From that beginning, Eagan and Marino built EMC into a company that during the 1990s achieved the highest single-decade performance of any listed stock in the history of the New York Stock Exchange. Today, it is the dominant company in the data storage industry.

Robert Metcalfe, the inventor of Ethernet, founded 3Com in 1979 to manufacture computer network products. 3Com built its business around Ethernet plug-in cards for personal computers. Today Ethernet is so widely used that it is typically built into most PC

CONSUMPTION SPREADS FASTER TODAY

Source: <https://ryansholin.com/2008/02/11/consumption-spreads-faster-today-the-new-york-times/>.

Figure 1.7

Penetration of new technologies by year

motherboards. In similar fashion, Michael Dell, while still a student at the University of Texas at Austin in 1984, began selling IBM-compatible computers built from stock components that he marketed directly to customers. By concentrating on direct sales of customized products, Dell became the largest manufacturer of personal computers in the world. To date, Michael Dell has been the longest sitting CEO in the PC hardware industry.

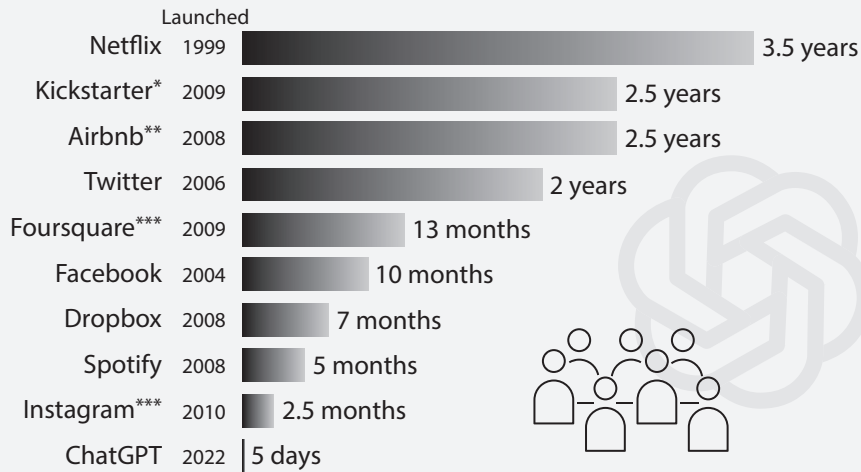
In 1979, Geoffrey Ballard, a Canadian geophysicist and businessman, founded Ballard Research Inc. to develop commercial applications in high-energy lithium batteries. In 1983, and operating under the name Ballard Power Systems, Ballard ventured into the development of proton exchange membrane fuel cells, which later evolved into full-scale prototype systems.⁴⁶ Ballard worked with automakers such as Daimler and Ford Motor Company to evolve their use of lithium batteries in motor vehicles.⁴⁷ In 1999, Ballard was named “Hero of the Planet” by Time magazine because his technology continued to help companies incorporate high-efficiency technologies that did not negatively impact the environment.

Entrepreneurs were at the conception and birth of new products and services that have transformed the global economy over the last 35 years. However, what turned out to be the biggest of them all began in 1989 when Tim (now Sir Timothy) Berners-Lee conceived the World Wide Web. We are currently amid a revolution that is changing our lives more profoundly and faster than anyone could have imagined before the Web became operational in 1992.

However, even the speed of change is increasing. The rate of technology adoption used to be measured in years. For instance, it took decades for the telephone to reach 50% of households prior to 1900. It took less than five years for mobile phones to accomplish the same penetration in 1990. Fast forward a decade from the introduction of the mobile phone to see that it took Netflix only 3.5 years to acquire 1 million users. Whereas, it took Facebook only 10 months to do the same. Fast forward another decade and you will see exponential change as well. In 2022, it took less than five days for OpenAI to acquire 1,000,000 users (see Figure 1.8).

ChatGPT Sprints to One Million Users

Time it took for selected online services to reach one million users



* one million backers ** one million nights booked *** one million downloads

Source: Company announcements via Business Insider/LinkedIn



statista

Source: <https://www.statista.com/chart/29174/time-to-one-million-users/> /Statista.

Figure 1.8

Reaching one million users: Time for selected online services

Web: Three Revolutions Converge

In 1989, when Tim Berners-Lee wrote a proposal to develop software that resulted in the World Wide Web, he was not the first to conceive the idea. As far back as 1945, Vannevar Bush proposed a “memex” machine with which users could create information “trails” linking related text and illustrations and store the trails for future reference.⁴⁸ As it turned out, he was 50 years ahead of the technologies that were needed to implement his idea. After all, the first digital computer was then only a couple of years old. Fifteen years later, Ted Nelson who was inspired by Bush’s “memex” was the first person to develop the modern version of hypertext. He wrote prophetically in 1960 that “the future of humanity is at the interactive computer screen . . . the new writing and movies will be interactive and interlinked . . . we need a world-wide network to deliver it.”⁴⁹ Like Bush, Nelson too was far ahead of the technology. In 1962, there were fewer than 10,000 computers in the world, and these cost hundreds of thousands of dollars. The computers were primitive machines with only a few thousand bytes of magnetic core memory, and programming them was complicated and tedious. Furthermore, AT&T had a monopoly over the phone lines that were used for data communication, and the ARPANET the forerunner of the Internet had not yet been conceived.⁵⁰

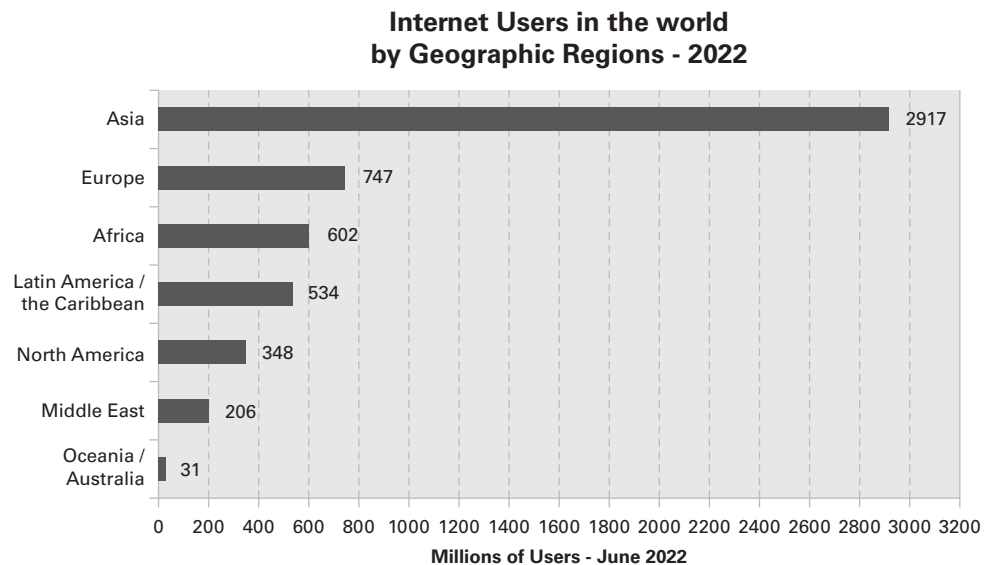
As with the others, Berners-Lee was a 25-year-old physics graduate of Oxford University working as a consultant at CERN⁵¹ in 1980 when he wrote his own private program for storing information using the random associations that the human brain makes. His Enquire program, which was never published, formed the conceptual basis for his future development of the Web.⁵² In 1980, the technology existed for implementing Berners-Lee’s concept, but the power of the technology was low and the installed base of computers was tiny compared to what it would be 10 years later.

By 1989, when he revised his idea, three revolutions were ready for it. These were in digital technology, information technology (IT), and entrepreneurship. The semiconductor revolution enabled the digital revolution, which in turn enabled the IT revolution. By 1992, when the Web was released by CERN, the Internet had 1 million hosts. Additionally, computers at the time were 1000 million times faster than before, and network bandwidth was 20 million times greater than 20 years prior. The entrepreneurship revolution meant that there was an army of entrepreneurs and would-be entrepreneurs, especially in the United States, with the vision and capacity to seize the commercial opportunities presented by the Web. In February 1993, the National Center for Supercomputing Applications (NCSA) released the first alpha version of Marc Andreessen’s Mosaic. By December 1994, the Web was growing at approximately 1% a day—with a doubling period of less than 10 weeks.⁵³ Over the next 10 years, Internet usage exploded.⁵⁴

By 2009, users numbered 1.7 billion, which was about 25% of the entire population of the world. Fast forward and 5.3 billion users have access to the Internet (67.9% of the world population). This is a more than a 1300% increase since 2000 (see Figure 1.9).

Entrepreneurship Revolution Strikes Gold

Marc Andreessen moved to Silicon Valley in 1994, and he teamed up with veteran IT entrepreneur Jim Clark. Together they incorporated Mosaic Communications (later renamed Netscape



Basis: 5,385,798,406 Internet users estimated in June 30, 2022
 Copyright © 2022, Miniwatts Marketing Group

Source: <https://www.internetworldstats.com/stats.ht/Miniwatts Marketing Group>

Figure 1.9
Global Internet usage by region

Communications). Clark put \$6 million of his own money into Mosaic, and venture capitalists added another \$6 million.⁵⁵ Their intent was to create a browser that would surpass the original Mosaic. It was a classic Silicon Valley startup with programmers working 18-hour days, seven days a week, and sometimes working a 48-hour stretch just coding. In October 1994, the Netscape browser was posted as a download on the Internet. In no time, it was the browser of choice for most Web users.

In December 1994, Netscape Communications began shipping Netscape Navigator, which subsequently started to produce income for the company. Netscape Navigator was an instant success, gaining 75% of the browser market within four months of its introduction. Netscape Communications was only 16 months old when it went public in August 1995. Its IPO was one of the most spectacular in history and made Jim Clark the first internet billionaire. According to an article in *Fortune*, “It was the spark that touched off the internet boom.”⁵⁶ The article noted that a gold rush was under way and stated that “Netscape mesmerized investors and captured America’s imagination.” Netscape and others set the technological, social, and financial tone of the Internet age.⁵⁷ A generation of would-be entrepreneurs was inspired by Netscape’s success. What’s more, corporate executives from established businesses wanted to emulate Jim Barksdale who was the former president of McCaw Communications. Barksdale joined Netscape’s board in October 1994 and became CEO in January 1995. He made a huge fortune in just eight months. Investors—both angels and venture capitalists—hustled to invest in Internet-related startups. It seemed as if everyone was panning for Internet gold, not only in Silicon Valley but throughout North America—and a couple of years later throughout the rest of the world.

Venture Capital. Netscape is a superb example of American venture capital (VC) at its best, accelerating the commercialization of innovations, especially at the birth of revolutionary new industries that were driven by technology. Venture capitalists were at the forefront of the semiconductor and the minicomputer industries in the late 1950s and early 1960s. Later, these VCs built the biotech and the personal computer industries in the late 1970s. With Netscape, these VCs were eager to invest in what promised to be the biggest revolution of them all, the Internet and the Web.

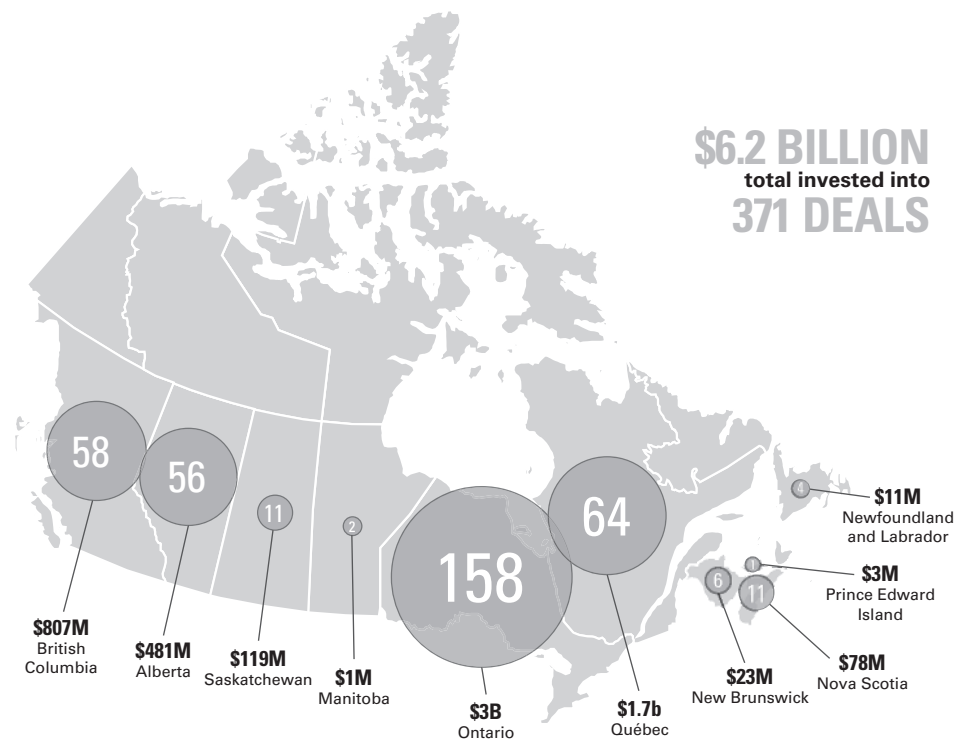
Venture capital is not invested exclusively in technology companies. This type of funding was used at the beginning of the overnight package delivery industry with investments in FedEx. Likewise, VC was used at the start of major big-box retailers such as Home Depot and Staples and at the creation of new airlines, including JetBlue. No wonder Jiro Tokuyama, then dean of the Nomura School of Advanced Management in Japan and a highly influential economist, stated that entrepreneurial firms and VC are the great advantages for North Americans.⁵⁸ Since the early 1970s, approximately \$500 billion of VC has backed 32,000 U.S. companies. In 2010, those venture-backed companies employed more than 12 million people or 11% of the private sector employment, and generated revenues of \$3.1 trillion or 21% of the U.S. GDP.⁵⁹

During a 1999 news conference at the World Economic Forum in Davos, Switzerland, reporters pestered Bill Gates repeatedly with variations of the same question: “These internet stocks, are they a bubble?” An irritated Bill Gates finally confronted the reporters: “*Look, you bozos, of course they is a bubble, but you’re all missing the point. This bubble is attracting so much new capital to the internet industry; it is going to drive innovation faster and faster.*”⁶⁰ Much has changed since that time.

In Canada, VC has had a tremendous impact on the development of small and medium-sized enterprises. This can be best depicted by a 2022 report completed by CVCA, which stated the following:

*“[i]n 2022, the Canadian venture capital market saw the second-highest record in both deal count and deal value, despite market uncertainties and pointed to the renewal in the ecosystem, evidenced by the sustained activity of venture investors and the number of early-stage financings that occurred during the course of 2022.”*⁶¹

H1 2022 VENTURE CAPITAL HEAT MAP



Source: https://www.cvca.ca/assets/files/reports/h1-2022-vc-pe-canadian-market-overview/CVCA_VC_H1_2022_FINAL.pdf /CVCA

Figure 1.10

Distribution of venture capital deals in Canada

In Canada's VC market, the second quarter of 2022 saw \$1.65B invested across 182 deals, concluding the first half of the year with \$6.2B invested across 371 deals in total. Total investment value normalizes after 2021, an outlier year, and returns to pre pandemic levels that were seen in Q2 2019.⁶² Investment into seed stage companies in Canada remained strong, relatively insulated from the public market slowdown that had led to lower investments into later and growth-stage companies. In Q2, 2022 Canada saw the highest seed stage investment and deal count in investments on record (104 deals totaling \$263M). The top 3 provinces for VC investment in the first half of 2022 included ON, QB, and BC. These provinces closed the first half of that year with investment levels surpassing 2020 annual levels and are currently on track to exceed pre-pandemic levels on an annualized basis. Ontario received 49% of all Canadian investments in the first half of 2022 with \$3B invested across 158 deals, with most of the investment activity focused on Toronto-based companies (\$2.8B over 123 deals).⁶³ (See Figure 1.10).

The Web presented numerous opportunities that were soon being exploited by entrepreneurs. It created a huge demand for more capacity on the internet, which in turn presented opportunities for hardware and software entrepreneurs. They were fortunate to find venture capitalists eager to invest in their startups. The period from 1996 through 2000 was a golden era for classic venture capitalists and the entrepreneurial companies in which they invested.⁶⁴ It was

golden both metaphorically and literally, as more venture capitalists and entrepreneurs seemed to have acquired the Midas touch. Some of the financial gains from VC-backed companies were indeed of mythological proportions. For instance, Benchmark Capital's investment of \$5 million in eBay multiplied 1500-fold in just two years.⁶⁵ True, Benchmark's investment in eBay set the record for Silicon Valley, but there were plenty of instances when investments increased at least a hundredfold and, in some cases, a thousand fold. With investments such as those, overall returns on classic VC soared and, in some cases, peaking at 143% at the end of the third quarter in 2000, compared with average annual returns in the mid-teens prior to the golden era.

However, the gold rush came to an end in 2000, and the internet bubble burst. Many companies failed; others were forced into fire-sale mergers. Investors were hammered, and many jobs were lost. The doom and gloom of it all was pervasive. There was much hand wringing about the incredible wastefulness of the U.S.' method of financing new industries. However, by August 9, 2005—the tenth anniversary of Netscape's IPO—some companies founded during the gold rush were thriving. The market capitalization of just four of them—Google, eBay, Yahoo, and Amazon—was roughly \$200 billion, which handily exceeded all the VC invested in all the internet-related companies through 2000. What's more, this market capitalization topped the combined amount raised from VC and IPOs. Granted, there were many more losers than winners, but five years after the bust it was clear that society had already benefited mightily, and the best was yet to come—but not for everyone. As Schumpeter observed, revolutionary entrepreneurship creates new products, services, and business methods that undermine and sometimes destroy old ones.⁶⁶

Web 2.0

Next came Web 2.0.⁶⁷ The focus of Web 2.0 was to provide websites and applications that presented user-generated content for other users. Innovations such as smartphones, mobile internet access, and social networks have driven the exponential growth of Web 2.0. Hence, Web 2.0 disrupted sectors that failed to integrate a web-based business model.

The Web 2.0 phenomenon is often characterized by greater user interactivity and collaboration. The connectivity of the networks is also more pervasive and offers enhanced communication channels. Web 2.0 also introduced software development as a service business model. Social media sites such as Facebook, Instagram, and Twitter are examples of Web 2.0 as are Shopify and Uber.

Shopify, a Canadian startup founded in 2006 by Tobias Lütke, Scott Lake, and Daniel Weinand, experienced a remarkable journey in its history leading up to 2021. Originally an e-commerce platform for snowboarders, Shopify quickly evolved into a robust and scalable solution for businesses of all sizes. The company gained significant traction and attention, attracting millions of merchants worldwide. In 2015, Shopify went public, listing on the NYSE and the TSX. Its user-friendly interface, extensive app marketplace, and focus on empowering entrepreneurs propelled its growth. By 2021, Shopify had become a dominant force in the e-commerce industry, supporting countless businesses globally and continually expanding its product offerings and services.

Uber, the ride-hailing giant, was founded in 2009 by Garrett Camp, a Canadian entrepreneur, along with Travis Kalanick. Camp's vision was to revolutionize the transportation industry by leveraging technology. The company initially launched in San Francisco and quickly expanded to other cities, disrupting the traditional taxi industry. Uber's convenient app-based platform allowed users to request rides with ease, providing an alternative to traditional taxis. Despite facing regulatory challenges and controversy, Uber continued to expand globally and introduced additional services like UberEATS and UberPOOL. By 2021, Uber had become a household name, transforming the way people commute and establishing itself as a dominant force in the transportation sector.



The Age of Unicorns

A startup unicorn is a company that reaches a billion dollars in valuation in the first five years. The term was coined in 2013 by Aileen Lee founder of Cowboy Ventures, a seed-stage fund that backs entrepreneurs reinventing work and personal life. The Age of Unicorns runs from around 2013 to 2019. During this timeframe, a study by researchers at MIT, Northwestern, Wharton, and the U.S. Census Bureau found that on average startup founders are older than one would think. The average age of founders within the group of the high-growth unicorns (which make up less than 1 in 1,000 of the fastest-growing ventures) is 45 years old. The study shows that the likelihood of success of a founder increases with age, all the way up to 60. Other interesting Unicorn facts include:

- ❑ Startups that save time and money are the most common needs addressed by billion dollar companies. Productivity startups accounted for close to 40% of those observed.
- ❑ Contrary to popular belief, billion-dollar startups are more likely to be created in large existing markets than small, nascent ones. Only 32% of these companies created a new market, and the rest competed for market share.
- ❑ Competition against powerful incumbents is possible—and expected—but a startup must be defensible against copycats. Engineering is a common defense against copies, as 56% of billion-dollar startups have utilized this method.
- ❑ Experience is not always a requirement for billion-dollar startups. Over 50% of CEOs and over 70% of CXOs (chief experience officers) had less than a year of industry or relevant work experience before they launched their companies. However, Science related startups are a different story. On average, 75% of founders had directly relevant experience.
- ❑ Industry background matters, but it does not necessarily define the outcome of a startup. The data reveals that 50.5% of billion-dollar company founders had a business background, while 49.5% had a technical background.

Famous startup unicorns include Reddit, Airbnb, BuzzFeed, DoorDash, Quora, and Roblox. Canadian unicorns include Dapper Labs, AnyBoard, 1password, and Clearco. Ultimately, the Age of the Unicorn ended in 2019 with the onset of the COVID-19 pandemic.

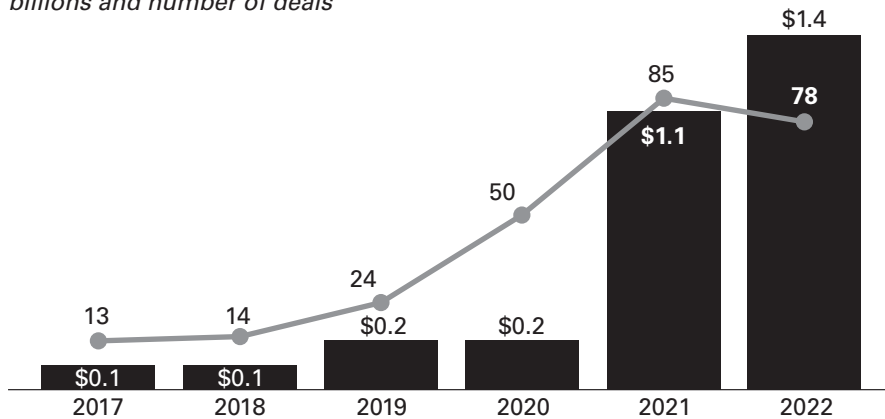
Web3

In recent years, a remarkable transformation has been taking place in the digital realm, catalyzed by the unprecedented circumstances of the pandemic. This paradigm shift has given rise to a revolutionary concept known as Web3, which is poised to redefine the way we interact with the online world. Drawing upon cutting-edge technologies such as machine learning and artificial intelligence, Web3 empowers users with a semantic decentralized Internet that delivers faster and highly personalized experiences.

So, what sets Web3 apart from its predecessors, Web 1.0 and 2.0? Well Web 1.0 allowed users to passively consume information on websites; while Web 2.0 built on Web 1.0 and then introduced the ability to actively contribute and interact with web content and applications. Recently Web3 has emerged as the even more fitting solution for our ever-evolving digital landscape. Web3 encompasses several significant features that set it apart. Firstly, it is built using open source software that is accessible for public scrutiny, ensuring transparency and fostering collaborative development. Moreover, Web3 enables users to engage in both private and public interactions, safeguarding their privacy and mitigating potential risks. Additionally, Web3 eliminates the need for permission to access

US Venture Capital Investment Activity in the Generative AI Sector, 2017–2022

billions and number of deals



■ Venture capital investment activity in the generative AI sector
 ■ Number of deals

Source: PitchBook, Jan 1, 2023

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InsiderIntelligence.com

Insider Intelligence

Figure 1.11

2017–2022: AI sector venture capital investment in the United States

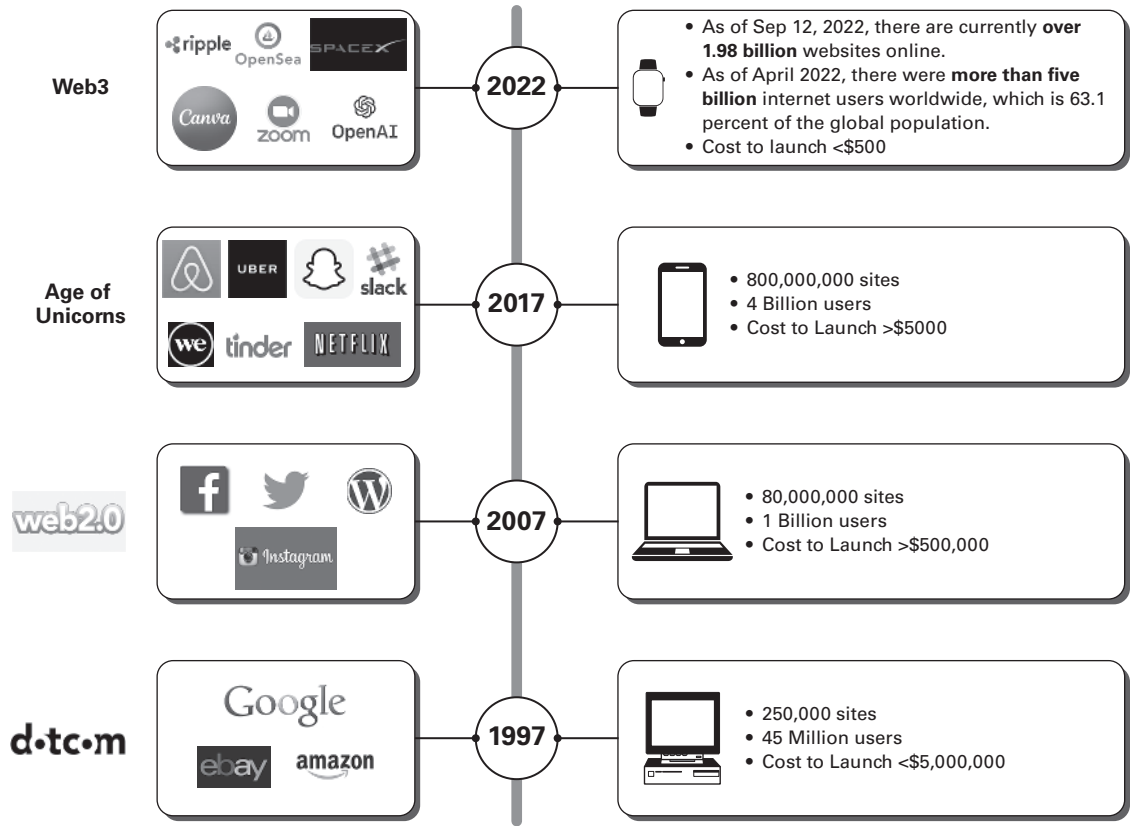
and transmit data, democratizing the internet and making it available to all, regardless of time or location.

While Web3 is still in its early stages, it has already sparked the emergence of various startups dedicated to exploring its immense potential. These ventures are delving into exciting frontiers such as the Metaverse, non-fungible tokens (NFTs), cryptocurrencies, blockchain technology, machine learning, hyper-personalized content, VR/AR, and generative AI. OpenAI's ChatGPT and Apple's new augmented reality platform may reverberate in the years to come as innovation inflection points, as both domains are long outstanding but underwhelming and poorly addressed to date. A simple look at the VC investments into the generative AI sector (see Figure 1.11) would certainly suggest another turning point has been reached.

In conclusion, Web3 represents a transformative leap forward in our online experiences. By harnessing the power of advanced technologies and embracing decentralization, it holds the promise of revolutionizing the internet as we know it. As we continue to explore and shape the future of Web3, we anticipate even more groundbreaking innovations and opportunities that will reshape the way we connect, create, and interact in the digital world.

Creative Destruction

The Web continues to blow gales of creative destruction through many old industries. No industry more so than that of print newspapers. Newspapers whose publishers were slow to recognize that their business models were endangered—perhaps fatally—by the Web. Some



© 2023 Sean Wise

Figure 1.12

A visual startup history

long-established U.S. newspapers, such as the *Rocky Mountain News* and the *Tucson Citizen*, shut down completely. Whereas, others have drastically reduced their operations, and a few, including the *Christian Science Monitor* and the *Seattle Post-Intelligencer*, now publish solely on the Web. *Newsweek's* final print edition was published on December 31, 2012, ending almost 80 years in print. Several prominent newspaper chains, including the Tribune Company, the Minneapolis Star Tribune, Philadelphia Newspapers, and the Sun-Times Media Group, have filed for bankruptcy. The 2009 demise of *Editor and Publisher*, the 125-year-old trade magazine for the newspaper industry, seemed to symbolize the plight of the industry.

Newspapers have withstood potential competition from the introduction of other forms of news broadcasting and media. Platforms such as radio in the 1920s and 1930s, television in the 1950s, and 24-hour cable news channels in the 1980s and 1990s posed serious threats, but newspapers not only survived, but they also prospered. So, why should this industry have foreseen in the early 1990s the havoc that the fledgling Web was about to wreak? What most print publishers did not foresee was that the Web would undermine the two basic sources of newspaper revenues: advertising and paid circulation. Annual ad revenue plunged from its peak of more than \$60 billion in 2000 to \$20 billion in 2012.⁶⁸

The underlying cause is the changes in society brought about by the Internet, which was used by about 80% of the U.S. population in 2012 compared with less than 3% in

1993.⁶⁹ Web portals such as Yahoo along with social networking services such as Twitter and individual bloggers gave readers instant access to breaking news stories and these often broke news ahead of the old media. Likewise, Google and other search engines made it easy to find stories from anywhere in the world at lightning speed. Perhaps, best of all, this was free. For advertisers, the allure of the Web over print newspapers and magazines was that it allowed for the targeting of ads to individuals—every Web user was now a market segment of just one individual—and it provided much better metrics for tracking the effectiveness of ads.

The Internet has devastated the North American print media's business model, and publishers are groping for a new model. Some think it will be a hybrid of print and the Web, while others believe that print will continue to lose ground to the Web and more papers will only be published in Web formats. In the new era of government bailouts, some in the U.S. Congress have proposed a "Newspaper Revitalization Act" to help ailing newspapers.⁷⁰ Similar trends regarding the use of the traditional newspaper have also risen in Canada. Recent data released by Statistics Canada shows that most Canadians (63.7%) went online to read the news or sports in 2007.⁷¹ This is primarily because of the ease of access, vast resources of information, and the ability to participate in community interactions as represented by the 29.2% of Canadians⁷² who went online during that period to read comments by other community members regarding trending media topics.

For non-internet related companies or sectors, there are other determinants in creatively destroying a business or even an entire industry. Those determinants are related to the 10x rule, which states that you must offer exponential value to current users (e.g., 10x cheaper, 10x faster, 10x smaller, 10x more efficient, etc.) compared to current market incumbents to overcome sunk costs and brand loyalty in order to creatively destroy the incumbents.⁷³ A classic example of this concept comes from email, which destroyed snail mail because it is 10x faster. Other examples include Uber (destroying the taxi business) and Wikipedia (destroying the need for paper based Encyclopedias).

Causes of the Entrepreneurial Revolution

The United States has always been a nation of entrepreneurs, but why has it become more entrepreneurial since the end of the 1960s—creating what is now called the entrepreneurial revolution? First, we need to step back and look at the U.S. economy in the decades before the 1970s. The Great Depression, which followed the stock market collapse of October 1929, had an enormous effect on society. By 1932, when Franklin Roosevelt was elected president, over 13 million Americans had lost their jobs, and the GDP had fallen 31%. The Roosevelt administration implemented many policies to try to bring the nation out of the Depression, but it was not until World War II that the nation once again started to become prosperous. The end of the war in 1945 heralded an era of economic growth and opportunity. However, the memories left by the Depression meant that workers preferred secure jobs with good wages and benefits that medium and big companies offered, and big business was booming.

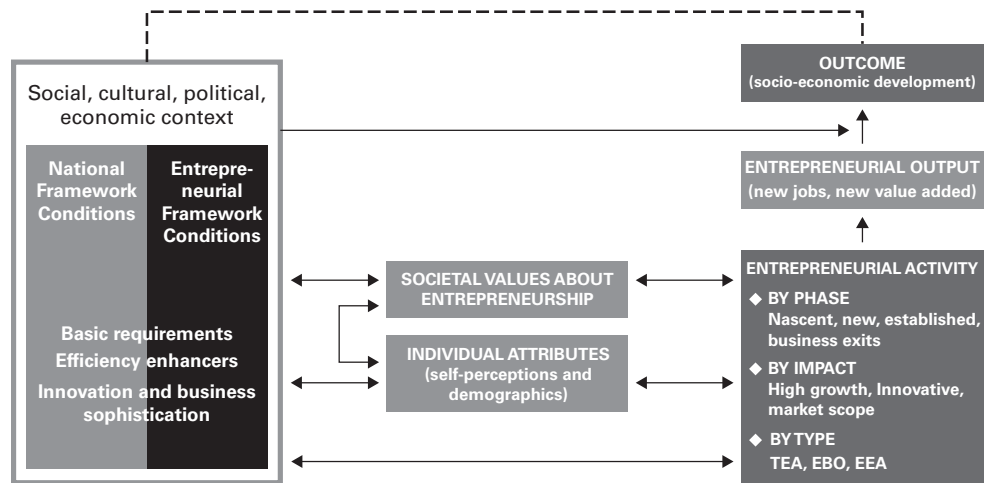
The late 40s, 50s, and 60s were the era of the corporate employee. This era was immortalized by William Whyte in *The Organization Man*,⁷⁴ in which he "argued in 1956 that American business life had abandoned the old virtues of self-reliance and entrepreneurship in favor of a bureaucratic 'social ethic' of loyalty, security and 'belongingness.' With the rise of the postwar corporation, American individualism had disappeared from the mainstream of middle-class life."⁷⁵ He argued that the key to a successful career was this: "Be loyal to the company and the company will be loyal to you." Whyte's writing assumed the change was permanent and it favored the large corporation.

Big American businesses were seen as the way of the future, not just in North America but worldwide. John Kenneth Galbraith’s seminal book *The New Industrial State*⁷⁶ and JeanJacques Servan-Schreiber’s *Le Défi Américain* (The American Challenge)⁷⁷ both “became the bible to advocates of industrial policies”⁷⁸ supporting big business. Both books were instant best sellers. *Le Défi Américain* sold 600,000 copies in France alone and was translated into 15 languages. Galbraith wrote in 1967, “By all but the pathologically romantic, it is now recognized that this is not the age of the small man.” He believed that the best economic size for corporations was “very, very large.”

The works of Whyte, Galbraith, and Servan-Schreiber were required reading in universities through the 70s. Schumpeter’s work was hardly ever mentioned,⁷⁹ and when it was, it was his book *Capitalism, Socialism, and Democracy* published in 1942⁸⁰ in which he was very pessimistic that capitalism would survive. Unlike Karl Marx, who believed the proletariat would bring about the downfall of capitalism, Schumpeter reasoned that the very success of free enterprise would create a class of elites who would favor central control of the economy and thereby curb free enterprise. His first book *The Theory of Economic Development*,⁸¹ which was originally published in German in 1911 and in which he endorsed entrepreneurship, was hardly ever mentioned. What’s more, in the 70s there was an abundance of university courses dealing with Karl Marx and almost none dealing with entrepreneurship. Thus, it is not surprising that the world was first alerted to the entrepreneurial revolution by a journalist, Norman Macrae, rather than by an academic scholar. About a decade later, researchers confirmed retrospectively that entrepreneurial activity had indeed been on the increase in the United States in the 70s.⁸² Entrepreneurship did not disappear in the 30s, 40s, 50s, and 60s, rather it simply did not grow much.

What brought about the change in the economy that stirred up entrepreneurship around 1970? To try to understand what changes were taking place, we need to look at the social, cultural, and political context of an economy. A framework for this perspective is presented in Figure 1.13, the Global Entrepreneurship Monitor (GEM) model for the economy.⁸³

The central argument of the GEM model⁸⁴ is that national economic growth is a function of two sets of interrelated activities: those associated with established firms and those related



Source: <https://www.gemconsortium.org/news/executive/Global-Entrepreneurship-Monitor>.

Figure 1.13

GEM model of economic growth

directly to the entrepreneurial process. Activity among established firms explains only part of the story behind variations in economic growth. The entrepreneurial process may also account for a significant proportion of the differences in economic prosperity among countries and among regions within countries.

When looking at the nature of the relationship between entrepreneurship and economic growth, it is important to distinguish between entrepreneurial opportunities and entrepreneurial capacity. What drives entrepreneurial activity is that people perceive opportunities and have the skills and motivation to exploit them. The outcome is the creation of new firms and the inevitable destruction of inefficient or outmoded existing firms. Schumpeter's process of creative destruction is captured in the model by business churning. Despite its negative connotation, creative destruction has a positive impact on economic growth—declining businesses are phased out as startups maneuver their way into the market. These dynamic transactions occur within a particular context, which the GEM model calls entrepreneurial framework conditions, and which includes factors such as availability of finance, government policies, programs designed to support startups, R&D transfer, physical and human infrastructure, education in general, education and training for entrepreneurship, cultural and social norms, and internal market openness.

Over the last four centuries, entrepreneurs have helped drive the Canadian economy forward. It started with Aboriginal peoples trading amongst themselves, and when the Europeans arrived, they started a lucrative global fur trade. In the nineteenth century, the city of Toronto began to challenge Montreal's dominance over the Canadian economy.⁸⁵ Throughout this era, businesses, such as Timothy Eaton's department stores, Peter Larkin's Salad Tea Company, and George Cox's Canada Life Insurance, arose that would dominate the Canadian business landscape.⁸⁶ We have seen signs of entrepreneurship among Canadians for many years, but recently more people are becoming or thinking of becoming entrepreneurial. What are the reasons for this sudden change or trend? Industry Canada has outlined three primary reasons: (1) the implicit understanding between employers and employees has changed, (2) in the past, people expected to be retained as employees if they did their jobs, and (3) recent economic downturns have been accompanied by downsizing, and people want to regain control over their paychecks by starting their own business.⁸⁷ People—especially young people—increasingly prefer an independent lifestyle. They want to do work they like and that offers autonomy over their hours and working conditions.⁸⁸ Entrepreneurs have become influential, and Canadian entrepreneurs are celebrated in their communities and in the media. In an age where people are cynical about many public figures, entrepreneurs are becoming new role models.⁸⁹

Changes in the Entrepreneurial Framework Conditions

Now let's look at some of the major changes in the framework conditions that have fueled the entrepreneurial revolution.

Cultural and Social Norms

First, let us consider the most important components, the entrepreneurs themselves. In the 60s, a generation of Americans and Canadians born in the late 1930s and 1940s—including the first baby boomers—came of age. They had no first-hand memory of the Great Depression. When they were growing up, the economy was doing well most of the time. Thus, they had not really experienced hard times like their parents had endured. Hence, they were not as concerned about job security. Many were even rebelling against large corporations, some of which were seen as members of the military-industrial complex that was supporting the unpopular war in Vietnam. Likewise, some companies were trading with South Africa, where apartheid

still prevailed, and others were under attack by consumer activists such as Ralph Nader.⁹⁰ It was a generation that was better educated than their parents, and for this group, starting a new business was a credible career.

In the 1960s, Fortune 500 companies employed 20% of the American workforce. That percentage began to decline in 1980 and continued to do so every year after and dropped to roughly 10% by 2005. Hence, jobs in big companies became scarcer. Many companies downsized, and according to George Gendron, who was the publisher of *Inc.* magazine during the 80s and 90s, 20% of downsized executives started businesses. Gendron also suggested that some of the executives who were retained—often the “best and the brightest”—became disillusioned by their career prospects in stagnant companies, which led to a “second exodus” that produced more entrepreneurial activity.⁹¹

Other important social changes boosted entrepreneurship in the 1990s. More women became business owners, and the proportion of firms owned by visible minorities increased (especially among the Asian, Hispanic, and black populations). According to Gendron, for people with limited options in employment, entrepreneurship represents the “last meritocracy.”

Another social boost to entrepreneurship came from people like Ian Portsmouth, publisher and editor of *Profit* magazine. *Profit* is Canada’s most-read publication for entrepreneurs and small businesses. Portsmouth is a passionate believer in the power of entrepreneurship, which is illustrated in the various articles within *Profit* that focus on how to find and seize an opportunity within Canada. *Profit* is published six times per year and is Canada’s most-read and best targeted publication for entrepreneurs and small business executives.⁹²

Government

The 1970s were the decade when the U.S. government bailed out companies such as Penn Central Railroad, Lockheed, and Chrysler. Washington seemed more concerned with big business than with small. However, the U.S. government did recognize the need to pay attention to startups with high potential, especially the ones funded by VCs. There had been a burst of VC-backed startups in the last half of the 1960s. But in the early 1970s, VC dried up to a trickle. Looking back from the perspective of almost 50 years, when \$26.7 billion of new money flowing into the VC industry seems routine, it is scarcely believable that only \$10 million of new money was committed in 1975. The U.S. Congress took urgent steps in 1978 to stimulate the venture capital industry, including reducing the capital gains tax and easing the ERISA prudent person rule, which had inhibited pension funds from investing in VC funds. The pension floodgates opened, and the inflow of venture capital increased to \$4.9 billion by 1987. Likewise, venture capital invested in portfolio companies increased from a low of \$250 million in 1975 to \$3.9 billion in 1987—a sixteen-fold increase.⁹³

The U.S. government asserted its role of ensuring market openness by minimizing anti-competitive behaviour. We have already mentioned that legislation toward the end of the 70s deregulated the airfreight and airline passenger industries. That was followed in the early 80s by the U.S. Justice Department’s move to break up AT&T’s monopoly.

The U.S. government deserves immense credit for its funding of R&D in government, universities, and corporations, both directly and indirectly through purchases of products. Its support was vital in the development of the computer, communications, biotech, and many other industries. Washington activated the Small Business Innovation Research (SBIR) program in 1983 to ensure that small businesses shared some of the federal R&D dollars for new technology-based developments. In 2009, around 5800 awards totaling \$2.2 billion went to small businesses as a result of the SBIR program. In general, funds awarded under the SBIR program went to develop new technologies that are high risk and high reward. Some might say

this program offered pre-venture capital money. From that viewpoint, \$2 billion is a significant amount when compared with \$1.7 billion that venture capitalists invested in 350 seed-stage companies in 2009. A total of \$30 billion has been awarded over the 28 years of the SBIR program through to 2010.⁹⁴ Companies like Symantec, Qualcomm, DaVinci, and iRobot all received R&D funding from this program.

Likewise, the Canadian government has also implemented programs and various government subsidies that help businesses with financing, growth, and international import/export guidelines. In September 1944, the Canadian Parliament proclaimed the creation of the Industrial Development Bank (IDB).⁹⁵ With an eye to the future, the government recognized that it would need to stimulate economic growth and help create new jobs for Canadians once the war ended. On July 13, 1995, the Business Development Bank of Canada Act (BDC) was adopted.⁹⁶ This statute gave the BDC a broadened and dynamic public interest mandate under which the bank pays special attention to exporting businesses and to businesses in the technology sector. Export Development Canada (EDC) is Canada's export credit agency. It supports the development of Canada's export trade by helping Canadian companies respond to international business opportunities.⁹⁷ It also provides insurance, financial services, and small business solutions to Canadian exporters and investors.

The Canadian government also recognized the importance of supporting young entrepreneurs and their business ideas. The Canadian Business Youth Foundation (CYBF), which is now called Futurpreneur Canada, was established in 1996 and has invested in more than 5,600 young Canadian entrepreneurs.⁹⁸ Futurpreneur offers entrepreneurs four fully integrated services that are built around the life cycle of a young entrepreneur, helping to ensure the development and success of every new startup or small business. The services include prelaunch expertise, online business resources, financing opportunities, and expert mentoring. So far, Futurpreneur has created more than 23,000 new Canadian jobs and more than \$163.6 million in tax revenue.⁹⁹

Research and Development

Commercial development of intellectual property resulting from federally funded research is a major benefit to the Canadian economy. The Canadian government offers two incentive programs to businesses conducting research and innovative projects: The Scientific Research and Experimental Development (SR&ED) program and the Industrial Research Assistance Program (IRAP). The SR&ED program is a federal tax incentive program administered by the Canada Revenue Agency (CRA) that encourages Canadian businesses of all sizes and in all sectors to conduct research and development (R&D) in Canada. The SR&ED program gives claimants cash refunds or tax credits for their expenditures on eligible R&D work done in Canada. The purpose of the program is to incentivize companies to further their R&D, thereby leading to new, improved, or technologically advanced products or processes. The SR&ED program is the largest single source of federal government support for industrial R&D,¹⁰⁰ Thus far, Canadian-controlled private corporations (CCPC) reap the largest SR&ED benefits. IRAP is headed by the National Research Council (NRC)¹⁰¹ and has been providing developing enterprises with funding for over 60 years. IRAP provides financial support to qualified small and medium-sized companies in Canada to help them undertake innovative technology initiatives. To be eligible for IRAP, a company must have 500 or fewer full-time employees. IRAP aims to stimulate Canada's technology innovation by investing in projects that strengthen the national technology industry. The program typically offers non-repayable grants ranging from \$10,000 to \$250,000. Furthermore, IRAP goes beyond financial assistance by providing companies with strategic support by connecting enterprises with established industry professionals.

Physical Infrastructure

The biggest change in entrepreneurship in the last 30 years has been due to the Web, the great equalizer. Small businesses now have at their fingertips a tool so powerful that it is leveling the playing field. Big businesses no longer enjoy as many scale economies as they did before the internet. Information that could have been gathered only by a multitude of market researchers can now be found with a search engine and a couple of clicks of a mouse. Entrepreneurs do not have to spend a fortune to reach customers with print, radio, and television advertising. Rather, companies can target their potential customers anywhere in the world via the Web. When companies want to find a vendor, the Web is there to help them—as it is when they are seeking employees, bankers, and investors. Furthermore, the cost of communications (except snail mail) has plummeted since AT&T was split. A long-distance telephone call that cost 40 cents a minute in 1980 now can be made for as little as one cent. In addition, if these entrepreneurs need to travel by air, they can shop the Web to find the cheapest plane ticket, automobile rental, and hotel room.

Twitter co-founders (2nd from left to right) Jack Dorsey, Biz Stone, and Evan Williams on the floor of the New York Stock Exchange (NYSE) on November 7, 2013, after Twitter's initial public offering. Andrew Burton/Getty Images



The worldwide distribution of goods and services is now open to everyone. Just consider what eBay has already done to change the entrepreneurial landscape. According to a 2005 study by ACNielsen International Research, 724,000 Americans reported that selling on eBay was their primary or secondary source of income.¹⁰² A similar study conducted in 2006 found that more than 33,000 Canadian sellers used eBay as a primary or secondary source of income.¹⁰³ Modern companies and technologies allow an entrepreneur to sell merchandise to a customer anywhere in the world. For example, PayPal (founded in 1998 and now part of eBay) ensures that the entrepreneur receives payment speedily and securely online. Likewise, the merchandise being sold can be delivered to the buyer within a day or so via FedEx, and the buyer and/or seller can track the shipment online at each step of its journey. Outsourcing services and goods have made companies more efficient and effective. Entrepreneurs can now focus on their company's core competency and let vendors take care of non-core items such as payroll, Web hosting, telemarketing, manufacturing, and distribution. There are even companies that will help entrepreneurs find outsource partners. Outsourcing enables small businesses to act like big businesses, and some small companies have even been referred to as virtual companies because they outsource so much of their work.

Geography Constraints Fade

The COVID-19 pandemic sparked a transformative shift towards remote work, revolutionizing the startup landscape. Startups, such as Coinbase and GitHub, have embraced this change by abandoning costly office spaces and headquarters. The pandemic demonstrated the efficiency of remote work, as companies realized that many operations could thrive without a centralized physical workspace. This newfound flexibility enabled startups to significantly reduce overhead expenses. Establishing a physical office space traditionally incurred substantial costs, including rent, utilities, furnishings, and maintenance. Such expenses posed challenges for early-stage ventures with limited budgets. However, the pandemic necessitated alternative arrangements, leading to the abandonment of commercial office spaces as headquarters. In this new paradigm, companies like Coinbase and GitHub operate without a physical address or centralized headquarters. They leverage virtual collaboration tools, video conferencing, and communication platforms, such as Zoom (developed by Zoom Video Communications) to drive their operations. By eliminating the need for a physical office, these startups not only reduce costs but also gain access to a global talent pool without geographical constraints.

The absence of office space offers some advantages for startups launching and testing new ventures. Firstly, it alleviates the financial burden by eliminating rent and related expenses, allowing capital to be redirected to crucial aspects of the business, such as product development, marketing, and talent acquisition. Furthermore, the lack of physical space eliminates additional overhead costs, such as utilities, maintenance, and office supplies. Startups can operate in a lean and efficient manner, optimizing resources for maximum impact. This lean approach empowers startups to strategically allocate funds, fostering innovation and growth.

In conclusion, the COVID-19 pandemic accelerated the remote work trend and prompted startups to rethink the concept of headquarters. The absence of physical office space has emerged as an advantage, enabling startups to save costs and redirect resources to critical areas. With companies like Coinbase and GitHub at the forefront, the lack of office space has made it even more affordable to launch and test new ventures, unlocking opportunities for aspiring entrepreneurs worldwide. The normalization of video conferencing technology, exemplified by platforms like Zoom, has played a significant role in facilitating remote work and driving this transformative shift in the startup ecosystem.

The Falling Cost to Launch

The democratization of entrepreneurship has revolutionized the business landscape, providing individuals from diverse backgrounds the opportunity to embark on their entrepreneurial journeys. Technological advancements have substantially reduced the expenses associated with initiating a technology venture. In this context, let us look at an example. We will explore the cost of launching a unique jewelry store concept called “ONLY GOLD” across different eras. By examining this example, we aim to demonstrate how declining costs have opened doors to entrepreneurship for everyone.

The Early Days: Building from Scratch. In 1995, establishing an online ONLY GOLD jewelry store (perhaps ONLYgold.com) presented significant barriers to entry. Entrepreneurs had to develop everything from scratch, without readily available platforms or services like PayPal, Google AdWords, or Shopify. Launching and testing such an opportunity could cost upwards of \$5,000,000, making it accessible only to established entrepreneurs or those capable of securing millions in VC based on a business plan and an idea. The

high expenses associated with technology development restricted entrepreneurial endeavors to a select few.

The Web 2.0 Revolution: Harnessing Existing Platforms. The emergence of Web 2.0 brought about a transformative shift, allowing new ventures to leverage existing platforms and focus on their core competencies rather than starting from scratch. Costs decreased by approximately 10 times, reducing the financial burden to around \$500,000. Platforms such as PayPal and Google AdWords enabled entrepreneurs to tap into established systems, significantly lowering the barriers to entry and democratizing entrepreneurship. Now the founders of ONLY Gold would be able to focus more on their value proposition than retail store infrastructure.

The Age of Unicorns: Impact of Cloud Computing. Advancements in cloud computing further revolutionized the cost structure of technology ventures. By 2010, costs dropped an additional 10 times as deploying IT became more accessible and affordable. With the rise of cloud-based e-commerce platforms like Shopify, launching and testing the ONLY Gold jewelry store opportunity could be achievable with less than \$500. The Age of Unicorns witnessed a surge in startups and entrepreneurial activities, as entrepreneurs no longer needed extensive resources to pursue their dreams.

Web3: Towards Enhanced Global Accessibility. Looking ahead, the democratization of entrepreneurship is set to reach new heights. Innovations like blockchain and generative AI hold the potential to drive costs down even further. Predictions indicate a future where launching and testing ventures, such as the ONLY Gold jewelry store concept, could require as little as \$50. These advancements will continue to empower aspiring entrepreneurs, decrease launch costs, and foster a more inclusive and dynamic entrepreneurial ecosystem for all.

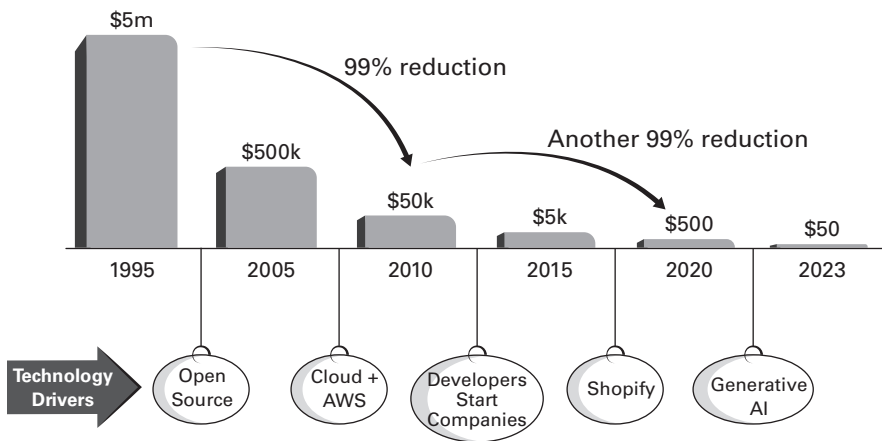
The falling costs of launching a technology venture have facilitated the democratization of entrepreneurship. As barriers such as the cost to launch diminish, individuals from diverse backgrounds and founders from financially constrained countries can unleash their creative potential and pursue entrepreneurial endeavors with unprecedented ease.

Incubators and Accelerators Arrive

For some entrepreneurs, business incubators combine many of the advantages of outsourcing. Incubators provide not only physical space but also shared services. Many incubators also provide ready access to human infrastructure. In 1980, there were only 12 business incubators in the United States. Over the period between 1985 and 1995, the number of U.S. incubators grew fifteen fold, from 40 to nearly 600¹⁰⁴—by 2006, there were some 1115 incubators.¹⁰⁵ There are now more than 8000 business accelerators worldwide, and more than half of these were founded between 2014 and 2020.¹⁰⁶

The differences between incubators and accelerators include: (1) accelerators are time limited and cohort driven, (2) accelerators, but not incubators, provide capital to the venture being supported, and (3) selling services is the business model for incubators while accelerators profits come from the equity acquired from the startups that are being supported and/or being crystalize (e.g., going public, being sold as part of M&A, etc.). The National Business Incubation Association (NBIA) estimated that in 2005 alone, North American incubators assisted more than 27,000 startup companies that provided full-time employment for more than 100,000 workers and generated annual revenues of more than \$17 billion.¹⁰⁷ According to the Canadian Association of Business Incubation (CABI), in

Falling cost of tech entrepreneurs launching product



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Source: GEM 2020/2021 Global Report

Figure 1.14

Cost associated with tech entrepreneur’s product launch by product

2012, there were approximately 130 startup incubators in Canada. By 2020, it was estimated that there were as many as 305 million global startups created every year, while there were only 7000 incubators.¹⁰⁸

Currently, there are roughly 8000 Startup accelerators worldwide; more than half of those were founded between 2014 and 2020.¹⁰⁹ These include both physical locations as well as virtual incubators that help startups with funding and early-stage growth.¹¹⁰ A few noteworthy incubators include Vancouver’s GrowLab and Version One Ventures, and Toronto’s Techstars Toronto and TMU’s DMZ.

Human Infrastructure







Access to human infrastructure is as important as access to physical infrastructure—maybe more so. The human infrastructure for entrepreneurs grew rapidly over the last 20 years or so, and gaining access to this resource has never been easier. Thirty years ago, starting a new venture was a lonely pursuit fraught with pitfalls that would have been avoided by someone with prior entrepreneurial experience.

Today numerous entrepreneurship experts gladly help people who are starting or growing companies. There are support networks, both informal and formal, of professionals who know a lot about the entrepreneurial process. Just search the Web for “entrepreneur AND assistance AND your town,” and you might be astonished by the number of hits.

Education, Training, and Professionalization

Entrepreneurship education and training is now readily available, which is part of the professionalization of entrepreneurship that has taken place over the last 30 years. According to Gendron, a body of knowledge and skills has developed over the last 20 years to enhance the chances of entrepreneurial success.¹¹¹ A good illustration

How Many Startups Are There?

-  **472 Million** entrepreneurs worldwide*
-  **305 Million** total startups annually*
-  **100 Million** startups opening each year*
-  **1.35 Million** tech startups*
-  **3,173** companies accelerated (ever) from 185 accelerator programs*
-  **182** exits (of companies accelerated)*

Source: a. Worldwide Business Start-Ups by Moya K. Mason
b. Market Study-MT on Cloud
c. Seed-DB

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is the widely dispensed advice that would-be entrepreneurs should write a business plan before they launch their new ventures. The world of entrepreneurship is awash with information about business plans and more recently how to start a startup.¹¹² The field has come a long way since the pioneers of entrepreneurship training put writing a business plan at the core of their programs in the 1970s.¹¹³ When Babson College and the University of Texas started their internal business plan competitions in 1985, only a few schools had entrepreneurship courses. Now more than 60% of four-year colleges and universities have at least one entrepreneurship course, and many have entrepreneurship centers. Today, entrepreneurship training courses are readily available to all sectors of the population.

In Canada, Toronto Metropolitan university (formally known as Ryerson) has aggressively focused on promoting entrepreneurial courses within the business curriculum. TMU has one of the largest entrepreneurship departments in Canada,¹¹⁴ with both major and minor degree programs. TMU houses more than 300 startups over more than 100,000 m³ of incubator space. This includes the DMZ,¹¹⁵ which is consistently voted one of the world's top university-based incubators.

TMU also hosts a yearly new venture competition, providing students with first-hand experience while obtaining valuable feedback and ideas from industry experts for improving their traction. The two winning participants are each given a \$25,000 cash prize to help them successfully launch their business.¹¹⁶

The Accidental Entrepreneur¹¹⁷

"Like many other scientists and engineers who have ended up founding companies, I didn't leave Caltech as an entrepreneur. I had no training in business; after my sophomore year of college I didn't take any courses outside of chemistry, math, and physics. My career as an entrepreneur happened quite by

accident. There is such a thing as a natural-born entrepreneur . . . But the accidental entrepreneur like me has to fall into the opportunity or be pushed into it. Most of what I learned as an entrepreneur was by trial and error, but I think a lot of this really could have been learned more efficiently."

—Gordon Moore (co-founder of Fairchild Semiconductor in 1957 and Intel in 1968).



Associated Press/Alamy
Stock Photo

Financial

Raising money for a new business is seldom easy, but the process of raising startup and expansion capital has become more efficient over the last 30 years. In 1982, for instance, an economist at the National Science Foundation (NSF) stated that venture capital was shrouded in empirical secrecy and an aura of beliefs.¹¹⁸ The same held true for angel investing. In contrast, there is an abundance of help today. The amount of VC under U.S. management has grown from \$3.7 billion in 1980 to \$199 billion in 2012,¹¹⁹ and has reached \$235 billion in 2022 (which was a 35% drop relative to 2021).¹²⁰

2017 estimates suggested that annual U.S. angel investment activity may have resulted in the success of more than 64,000 startups, though the exact number cannot be measured precisely.¹²¹ That same source¹²² reports that U.S. angel groups invested approximately \$950 million in 2021 in more than 1,000 companies and even more deals. On average, angel groups invested a total of \$5.3 million per group, an increase of 15% from 2020. The total amount invested in 2021 represents the highest total since we began tracking this data. Angels invested more dollars per company than years prior, although the absolute number of

deals per group declined slightly. In 2021, angel backed companies raised a total of more than \$5 billion, leveraging their initial angel investments by 5x as much.

In 2021, American angel investors continued to focus on investing in seed-stage deals, reducing investments in later rounds. Angels invested more than 50% of their dollars in series seed, which accounted for nearly 60% of the deals, up from 50% in the prior two years. Furthermore, informal investors (which includes both angels and friends & family funders) are ubiquitous. At one point, five percent of American adults reported that they “invested” in someone else’s venture within the last three years.¹²³ It is impossible to claim that the availability of financing has driven the entrepreneurial revolution, but it does appear that sufficient financing has been available to fuel it. Perhaps, this is the case when combined with the exponential fall in costs (see below for more) to launch and test a new venture opportunity.

In Canada, angels are very active. There are an estimated 20,000–50,000 individuals or groups in Canada who are actively investing in start-ups.¹²⁴ The Organization for Economic Cooperation and Development (OECD) estimates that angel investors invest between \$500 million and \$1 billion annually in Canada’s growth-oriented companies.¹²⁵ Angel investors typically invest within sectors they are familiar with and play an active role in mentoring the company’s founder while also assuming a position on the company’s board.

Incorporated in 2002, National Angel Capital Organization (NACO) is Canada’s professional association for angel investors and the only national platform for both angel collectives and the innovation hubs that support Canada’s entrepreneurs. NACO’s national network includes 4200 angel investors, 50 incubators and accelerators, and 45 angel groups. NACO members have invested \$1.38 billion into 1900 entrepreneurial companies.

Canada’s Venture Capital and Private Equity Association (CVCA) is dedicated to pursuing growth opportunities for the Canadian VC and private equity industry. The CVCA annual report for 2022, notes that Canadian VC ended 2022 with the second-highest record in both deal count and deal value.¹²⁶ In 2021, VCs in Canada invested more than \$10 billion into more than 700 deals. The report also highlighted that while early-stage and growth-stage deal sizes declined from 2021, average deal size year-over-year increased for investments in pre-seed, seed, and later stages. Notably, pre-seed and seed stage average deal sizes increased by 79% and 8%, respectively, compared to the previous year. Venture debt in 2022 also hit a new record in both value and deal count, with CAD \$139 million across 34 deals in Q4, totaling CAD \$664 million across 124 deals.

Churning and Economic Growth

Technological changes, deregulation, competition, and globalization presented countless opportunities that entrepreneurs seized and commercialized. It caused a lot of churning, or Schumpeter’s creative destruction. However, 11 new businesses with employees were started for every 10 that died over the decade of 1990–2000.¹²⁷ It is this churning that gives the economy its vitality. Only a society that willingly adapts to change can have a dynamic economy. Entrepreneurial competition, according to Schumpeter, “strikes not at the margins of the profits . . . of the existing firms but at their foundations and very lives.” Established companies that stick with their old ways of doing business self-destruct as their customers turn to new competitors with better business models.

We can find examples of churning in every industry that is not a monopoly or a regulated oligopoly. Who can recall VisiCalc or for that matter Lotus 1-2-3? At the height of their fame, they were two of the most widely used software packages for PCs. Today Excel is the spreadsheet of choice. In one week alone during May 1982 when Digital Equipment Corporation (DEC) introduced its ill-fated Rainbow PC four other companies introduced PCs. There were 119 at the peak of the PC industry frenzy in the early 1980s, and more than 200 companies either had introduced PCs or were planning to do so. Only a handful

of PC manufacturers exist today. DEC, which in 1982 was the second-largest computer manufacturer in the world, was eventually bought by Compaq, which in turn merged with Hewlett-Packard. In 2004, IBM sold its PC division to Lenovo, a company founded in 1984 by a group of academics at the government backed Chinese Academy of Sciences in Beijing. Not only did the advent of the PC churn up the entire computer industry, but it also virtually wiped out the typewriter industry. This also changed the way office work was organized. Secretaries had to learn computer skills, or they were out of work. Who knows what the future holds for the PC itself. In February 2013, one of the giants of the PC industry, Dell Inc. was bought out by a group of investors headed by Michael Dell, its founder. Dell was hoping to revive the company which had sales that dropped as laptop PCs faced increasing competition from tablet computers like the iPad and smartphones. Indeed, in 2013 Schumpeterian disruptions abounded throughout the information technology space, and the PC industry was being upset by mobile technologies. Likewise, servers and data storage are now being challenged by cloud technologies.

More examples of churning can be seen in other industries. Southwest Airlines is now the most successful U.S. airline. Two of Southwest's giant rivals from 1971 no longer exist. Likewise, its third largest rival, Continental Air, was bankrupt twice in both 1983 and 1990. Furthermore, United Airlines, US Airways, Hawaiian Airlines, ATA Airlines (also known as American Trans Air), Delta, Northwest, Aloha Airlines, and American Airlines have all been in Chapter 11 bankruptcy, and only a handful of the 100 or so passenger airlines started up since deregulation are still around. Skyservice, a Canadian charter airline that employed approximately 2000 people filed for bankruptcy in March 2010.¹²⁸ An increase in competition from WestJet, Porter, and Air Canada coupled with an increase in fuel costs forced the Toronto-based airline to cease operations. We might also wonder, who goes to a travel agent to get a regular airline ticket or book a hotel room today. Where is the fax machine headed? Likewise, who goes to video stores and/or CD retailers? Why are newspapers laying off workers? Who is buying a film camera? Even entrepreneurship academics had to pay attention. Startups like Udemy, Udacity, and Coursera seek to disrupt education.

Granted, churning causes a lot of disruption—and nowhere more than in the lives of those who lose their jobs as a result. Overall, society is the beneficiary of this churning as entrepreneurship produces new products and services, it increases productivity, it generates employment, and in some cases it keeps inflation in check. Economists estimate that Walmart alone knocked 20%—perhaps as much as 25%—off the rate of inflation in the 1990s.¹²⁹ According to Alfred Kahn, the father of airline deregulation, airline passengers are now saving \$20 billion a year. Likewise, with Skype (and other such platforms) and the Internet, you can “talk to anyone, anywhere in the world for free. Forever.”¹³⁰ Next, we will look at how various nations are faring with entrepreneurship:

SMEs versus Startups

In recent years there has been much deliberation when comparing a small to medium-sized enterprise (SME) to a startup. Steve Blank, one progenitors of the hypothesis driven entrepreneurship states the largest differentiating factor (after knowing the business models) between an SME and a startup is in their top financial objectives. Small businesses are driven by profitability and stable long-term value, while startups are focused on growth potential and scalable profitability.¹³¹

According to Blank, a startup is “a temporary organization that is searching for a sustainable, repeatable, scalable business model.” So, a startup is searching for a business model while an SME or small business already knows the business model and is trying to execute on that model competitively. Typically, an SME will consist of businesses such as laundromats, restaurants, retail stores, etc. Whereas a startup is a scalable business and is most often in the technology or software sector. Most startups consist of software companies, mobile applications companies, and Web-based businesses.

Global Entrepreneurship Monitor (GEM)

The Global Entrepreneurship Monitor (GEM) was conceived in 1997 to study the economic impact and the determinants of national-level entrepreneurial activity. The GEM is the largest coordinated research effort ever undertaken to study population-level entrepreneurial activity. In 2022, a total of 49 economies accounting for approximately two thirds of the world's population were covered in the GEM's annual study. Because of its worldwide reach and rigorous scientific method, the GEM has become the world's most influential and authoritative source of empirical data and expertise on the entrepreneurial potential of nations.¹³²

The main objectives of the GEM are to gather data that measure the entrepreneurial activity of nations and other data related to entrepreneurial activity. As well as to examine what national characteristics are related to levels of entrepreneurial activity. To further explain how differences in entrepreneurial activity are related to different levels of economic growth among nations, the GEM distinguishes between two types of entrepreneurial activity.¹³³ Here are some of the GEM terms to keep in mind when reviewing the following:

- ▣ Nascent entrepreneurs are individuals who are actively trying to start a new business but who have not yet done so.
- ▣ Baby business managers are owner-managers of a new business that is no more than 42 months old.
- ▣ There are three main measures of entrepreneurial activity:
 - TEA (total entrepreneurial activity) is the percentage of the adult population that is either nascent entrepreneurs or baby businesses owner-managers or both. It measures the overall entrepreneurial activity of a nation.
 - TEA (opportunity) is the percentage of the adult population that is trying to start or has started a baby business to exploit a perceived opportunity. They are classified as improvement-driven opportunity motivated if they additionally seek to improve their income or independence through entrepreneurship.
 - TEA (necessity) is the percentage of the adult population that is trying to start or has started a baby business because all other options for work are either absent or unsatisfactory.
- ▣ EBO The percentage of adults (aged 18–64) who are currently the owner-manager of an established business that is, owning and managing a business that has paid salaries, wages, or any other payments to the owners, for more than 42 months.
- ▣ Income Classification is used to group economies into one of three categories:
 - Level A Economies with a Gross Domestic Product (GDP) per capita of more than \$40,000.
 - Level B Economies with a GDP per capita of between \$20,000 and \$40,000.
 - Level C Economies with a GDP per capita of less than \$20,000.

Principal Findings from the GEM

According to the GEM Report 2022/2023, more than 170,000 people in 49 economies participated in the annual GEM study, collectively representing all regions of the world and a broad range of economic development levels.¹³⁴ These 49 economies represented about two thirds of the global population in 2022. This report includes China with a population of 1.3 billion, as well as India, which according to the United Nations is likely to be declared the world's most populous country in 2023.

- ▣ Although the worst effects of the 2022 COVID-19 pandemic appear to be coming to an end, its economic impacts are still being felt across the globe and household incomes continue to be reduced.
- ▣ Fear of failure is a serious constraint on business startups in many economies from all income groups.
- ▣ The impact of the COVID-19 pandemic on entrepreneurial perceptions across the globe has been highly varied, with some counterintuitive findings.
- ▣ In 2022, the highest levels of early-stage entrepreneurial activity were in the Latin America & Caribbean region.
- ▣ New entrepreneurs frequently declare that they take social and environmental implications into account when making strategic decisions about the future of their business.
- ▣ Younger people are still more likely than older people to start new businesses. The Total early-stage Entrepreneurial Activity (TEA) rate of the 18–34 age group exceeded that of the 35–64 age group in 37 of the 49 economies in the GEM.
- ▣ Entrepreneurship brings jobs and incomes, turns ideas into new goods and services, hastens structural change, and improves lives.

Activity

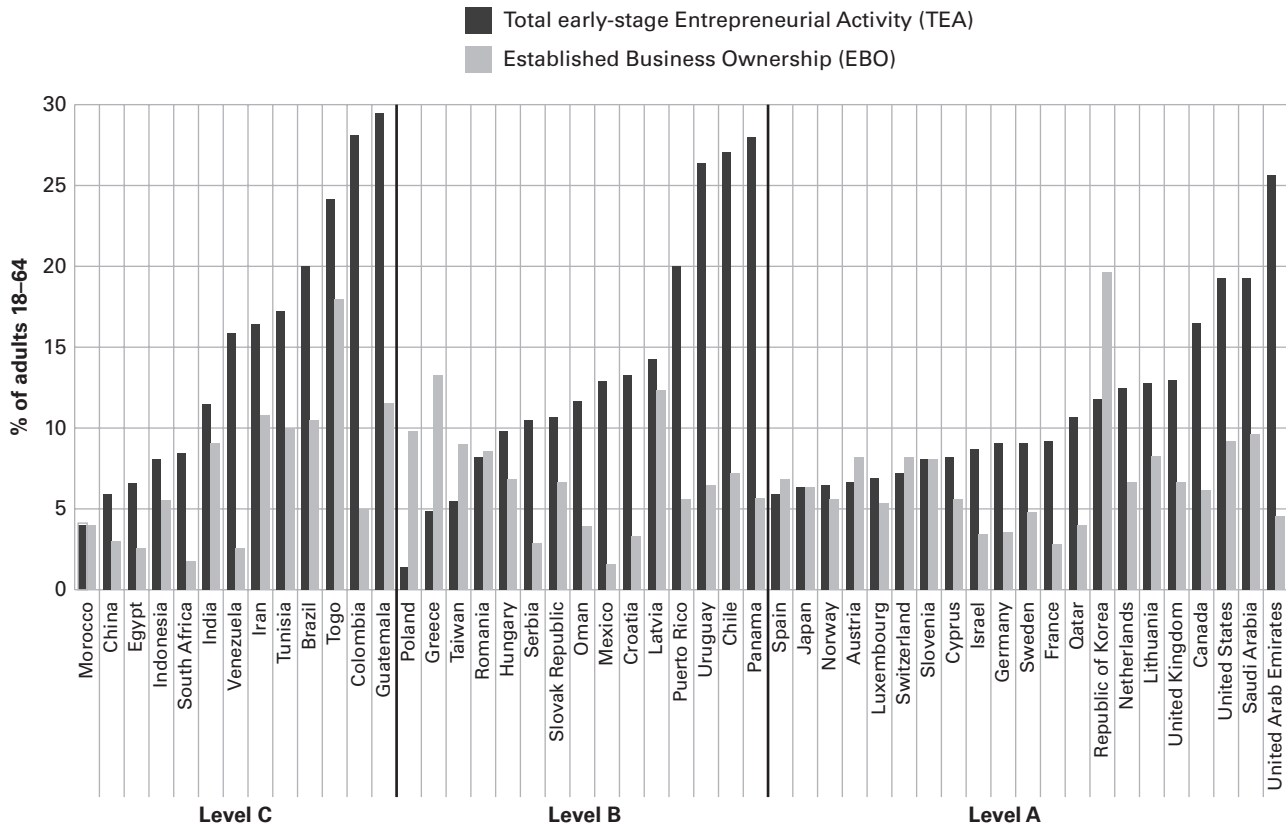
Total entrepreneurial activity (TEA) is a key indicator of the GEM. It measures the percentage of adults (aged 18–64) in an economy who are nascent and new entrepreneurs. In economies with low GDP per capita, TEA rates tend to be high, with a correspondingly higher proportion of necessity-motivated entrepreneurship. Conversely, high-GDP economies show lower levels of entrepreneurship, but a higher proportion of those with opportunity motivations. To at least some extent, development levels are associated with patterns in the level and type of entrepreneurial activity.

The levels of TEA and EBO across all 49 countries participating in the GEM APS in 2022 are set out in Figure 1.15.

While TEA rates were typically higher than established business rates in factor-driven economies, the gap narrows in the innovation-driven economies, with some showing more established business owners than entrepreneurs. For example, Greece, Spain, Switzerland, Ireland, and Finland in the EU and Japan, Republic of Korea, and Taiwan in Asia show at least one-third more established business owners than entrepreneurs. When viewed geographically, non-EU and Middle East and North Africa (MENA) regions have low rates of both TEA and established business ownership while sub-Saharan Africa has high rates of both, although TEA rates are much higher—twice as high on average compared with established business ownership.

Differences across regions can also be seen in the reasons for business discontinuance. For example, financing was identified as the key issue in business discontinuance in sub-Saharan Africa but was less of an issue in Asia. In North America and the European Union, individuals cited other jobs or business opportunities more often than those in other regions as a reason for business discontinuance—these are generally considered more positive causes.

Age & Entrepreneurship. The relationship between age and entrepreneurship is complex. Younger adults have less knowledge, experience, resources, and skills compared to older individuals. However, they may possess more energy, enthusiasm, drive, and a willingness to take risks. They also have fewer commitments and responsibilities, allowing them to explore new ventures. Additionally, younger adults may be more familiar with current trends and new technologies. On the other hand, older individuals have more experience, knowledge, and



Source: GEM Adult Population Survey 2022

<https://www.gemconsortium.org/news/canada-performance-strong-compared-to-peers-in-latest-gem-global-report/Global-Entrepreneurship-Monitor>.

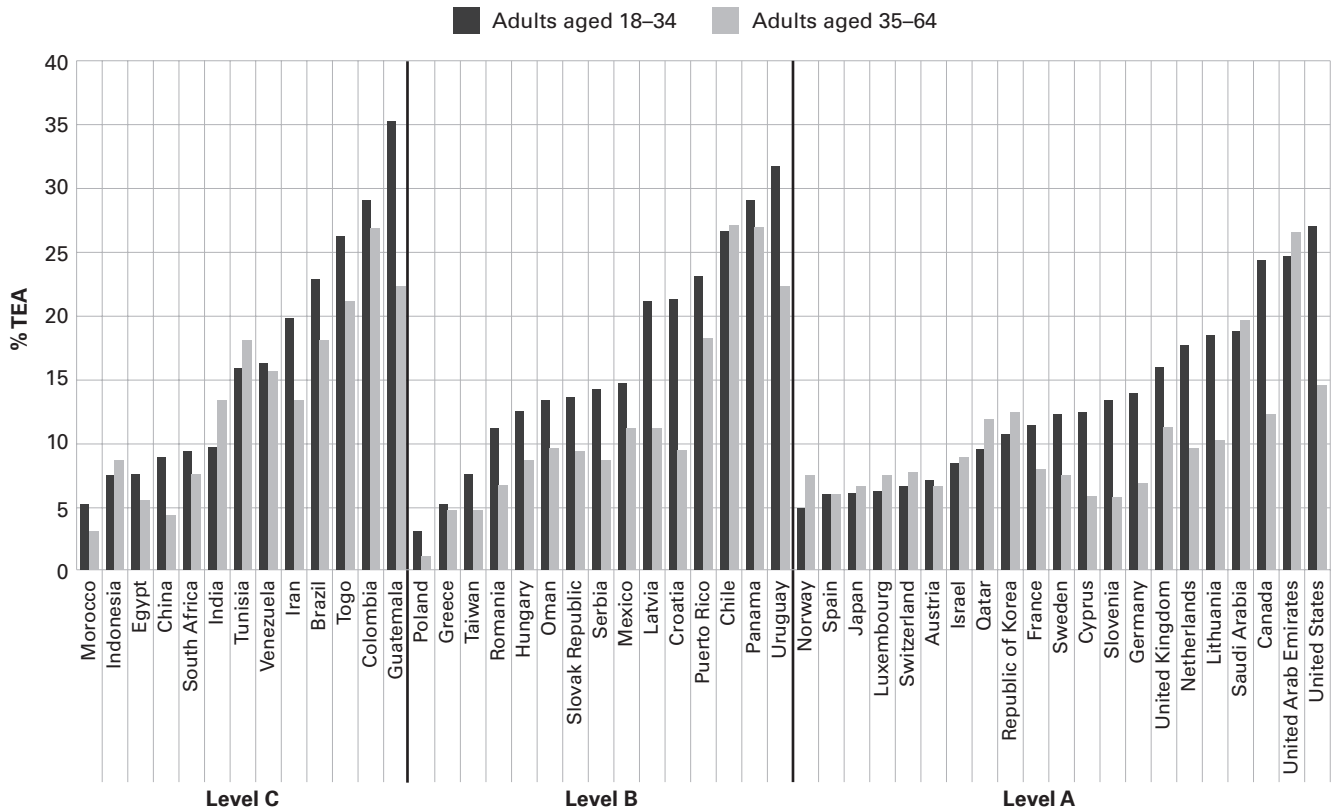
Figure 1.15

2022: Total early-stage Entrepreneurial Activity (TEA) and Established Business Ownership (EBO) (both % adults)

established networks. They are often more aware of market opportunities. However, they may also have more to lose and be cautious about taking risks.

Determining whether young or older people are more likely to start a business is an empirical question. The GEM's Adult Population Survey (APS) collects data on individuals engaged in starting or running new businesses and their age. By grouping respondents into younger (18–34 years) and older (35–64 years) age groups, the TEA rate can be calculated. In 2022, among the 49 GEM economies, several countries had high rates of entrepreneurship among younger adults. Guatemala and Uruguay had the highest rates at 35% and 32% respectively. However, there were also economies where fewer than 10% of younger adults were involved in entrepreneurship, such as Poland, Greece, Morocco, and Norway. For the older age group (35–64 years), four economies had high rates of entrepreneurship, including Chile, Colombia, Panama, and the United Arab Emirates. However, in 27 out of 49 economies, the rate of entrepreneurship among this age group was less than 10%. Poland had the lowest rate at 1%.¹³⁵

Overall, the evidence suggests that younger adults are more likely to be involved in starting or running new businesses than older adults. However, it is important to note that there



Source: GEM Adult Population Survey 2022
<https://www.gemconsortium.org/news/canada-performance-strong-compared-to-peers-in-latest-gem-global-report/> Global Entrepreneurship Monitor.

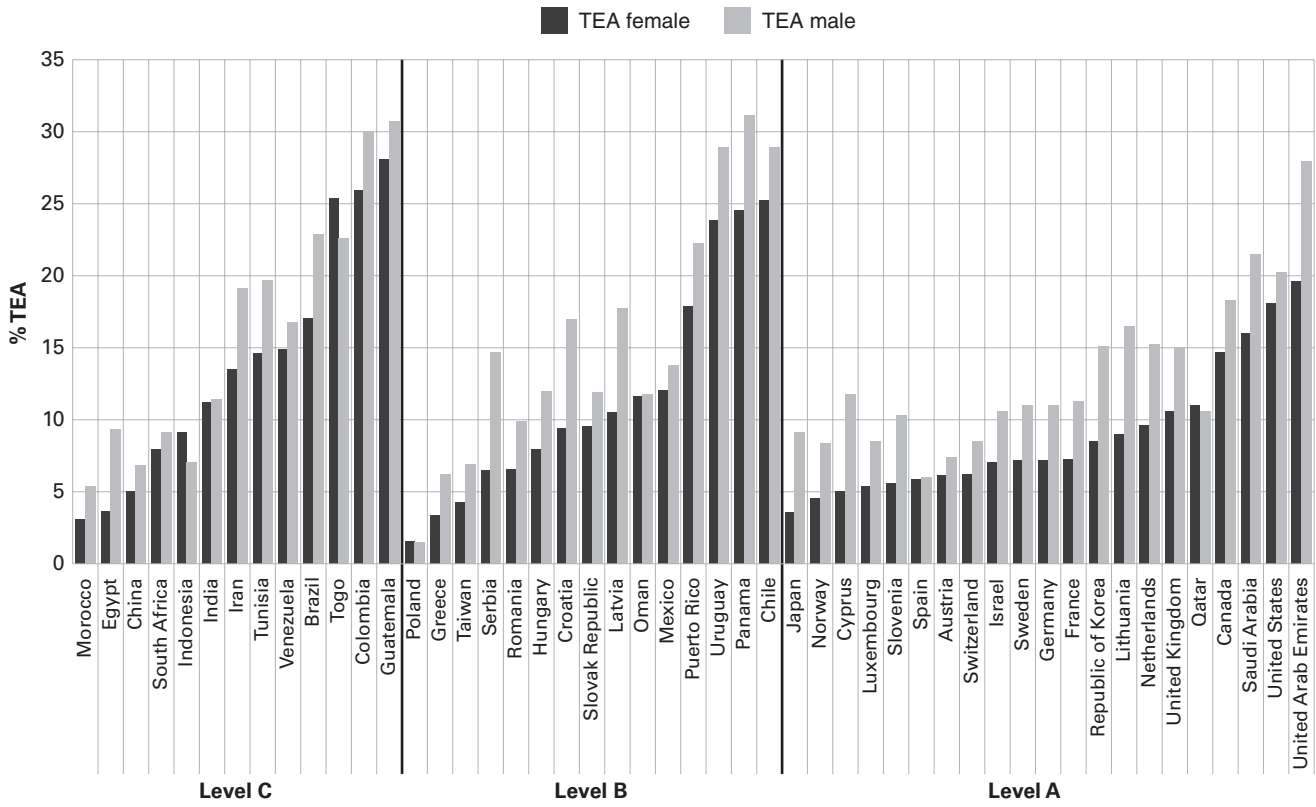
Figure 1.16

2022: Level of Total early-stage Entrepreneurial Activity (TEA) for adults aged 18–34 and for those aged 35–64 (% of adults in each age group)

is a strong positive association between the rates of entrepreneurship in both age groups, indicating that differences between countries are likely to outweigh differences between age groups. Encouraging and supporting older individuals to start new businesses could have a significant impact on the overall rate of new business formation. Policy changes targeted at older entrepreneurs could help foster entrepreneurship among this age group and contribute to economic growth.

Gender & Entrepreneurship. The data presented in Figure 1.17 illustrates the TEA rates for men and women across 49 economies in 2022. In most economies, the TEA rate is higher for men than for women, although there are four economies where the female TEA rate surpasses that of men: Togo, Indonesia, Poland, and Qatar. There are seven economies where at least one in five women are involved in starting or running a new business, with Guatemala and Colombia having the highest levels. However, there are also economies where fewer than one in 20 women participate in entrepreneurship, such as Poland, Morocco, and Greece.¹³⁶

The ownership of established businesses (Established Business Ownership or EBO) tends to be more male dominated than new entrepreneurship. Five economies, including Venezuela,



Source: GEM Adult Population Survey 2022

<https://www.gemconsortium.org/news/canada-performance-strong-compared-to-peers-in-latest-gem-global-report/Global-Entrepreneurship-Monitor>.

Figure 1.17

2022: Levels of Total early stage Entrepreneurial Activity (TEA) by gender (% women, % men)

Indonesia, and Togo, have more women than men owning established businesses, but the margins are small. On the other hand, in six economies, the proportion of men owning established businesses exceeds that of women by seven percentage points or more.

In terms of the relative gender gaps, there are economies where women face significant disadvantages. In some economies, there are at least two men starting or running a new business for every woman doing the same. Greece, Norway, and Slovenia are examples where women have missed opportunities to start new businesses, resulting in poorer outcomes for both women and the economy.

The impact of the pandemic on the entrepreneurial gender gap is also examined. While it was conjectured that women's entrepreneurship might have been more adversely affected due to increased caregiving responsibilities and vulnerability of customer-oriented services, the data from 38 economies participating in both 2019 and 2022 suggests a mixed picture.¹³⁷ In some economies, the ratio of female to male entrepreneurship decreased, supporting the conjecture. However, in other instances entrepreneurship increased, contradicting the conjecture. Overall, the limited evidence does not conclusively indicate a decline in women's entrepreneurship relative to men's during the pandemic.

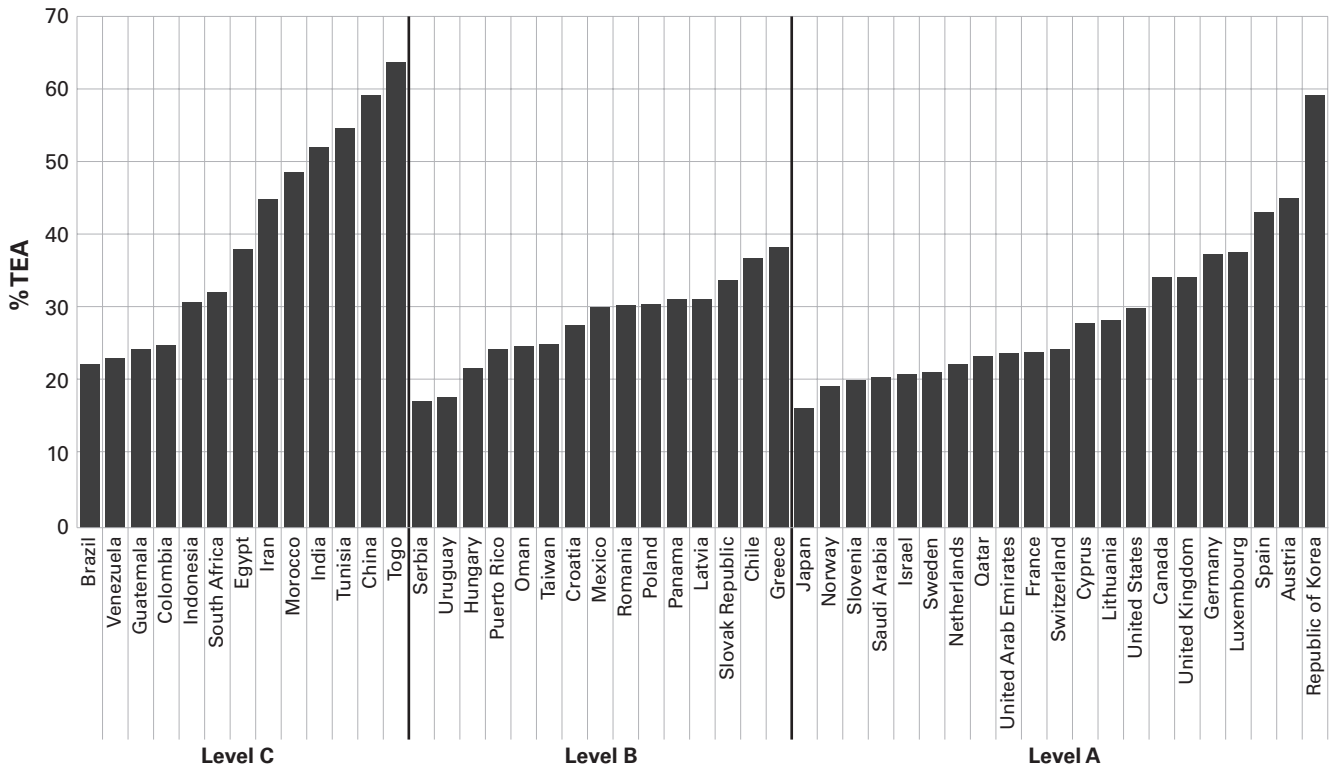
An analysis of opportunity and necessity motives shows that men in Latin America and sub-Saharan Africa are more likely to be opportunity motivated, while women have higher necessity motives. This is interesting, given that these regions have fewer differences between the sexes in TEA rates. In other words, although relatively more women participate in entrepreneurship in these regions, they are more likely necessity motivated. In contrast, women in Asia are proportionately more likely to be opportunity motivated, with men showing comparatively greater necessity motivations. However, with low entrepreneurship rates among women in this region, there are still fewer opportunity-motivated women than male entrepreneurs in the population, yet there are even fewer with necessity motives. This indicates that necessity drives more men than women to enter this activity in Asia. Two regions where men and women have comparable entrepreneurial motives are MENA and the EU. Both regions also show the highest regional level gender disparities. While it appears that women are pushed into entrepreneurship out of necessity more often than men in Latin America and sub-Saharan Africa, a lower sense of necessity may help account for the lower levels of female participation in Asia, MENA, and the EU. It is essential to address the gender gaps in entrepreneurship and provide support for women entrepreneurs, especially during challenging periods, to ensure equal opportunities and contribute to overall economic growth.

Growth Expectations. While TEA rates indicate how many entrepreneurs there are in each economy, growth expectations represent a quality measure of this activity. Entrepreneurs differ in their growth ambitions, and this can have significant potential impact on the employment growth and competitive advantage of their economies.

The data indicates that in several economies across different income levels, a significant portion of new entrepreneurs had lower growth expectations in 2022 compared to the previous year. This trend was observed in three Level C economies, five Level B economies, and 11 Level A economies, suggesting a slight decline in growth expectations with increasing income levels. Among all the economies, Togo, China, Tunisia, India, and the Korean Republic all had over half of their new entrepreneurs reporting lower growth expectations than the previous year.

To further explore the changes in growth expectations, a comparison was made between 2021 and 2022 for the 38 economies that participated in both years. Two distinct groups emerged. In 12 economies, including several from Europe, Africa, Uruguay, Canada, and the United Arab Emirates. The difference in growth expectations between the two years was less than five percentage points, indicating minimal change. However, in another group of 11 economies, the difference was 10 percentage points or more, signifying substantial change. In these economies, the percentage of new entrepreneurs with lower growth expectations decreased significantly. Examples include India, Poland, and Iran. Interestingly, there is no apparent pattern linking these 11 economies in terms of region or income level. Whereas 15 economies experienced an increase in the proportion of new entrepreneurs with lower growth expectations, with the United Kingdom, Romania, and Spain being the highest among them. These findings suggest that global economic turbulence in 2022 impacted the growth expectations of new entrepreneurs differently across various economies. Some experienced improvements, while others faced declines. Understanding these shifts in expectations is crucial for policymakers and support organizations to address the challenges and provide the necessary assistance to foster entrepreneurial growth.

Job Creation. The pandemic had an impact on job creation expectations among new business owners. Among the 32 economies that participated in the APS survey consistently from 2019 to 2022, there were 13 economies where the percentage of new business



Source: GEM Adult Population Survey 2022

<https://www.gemconsortium.org/news/canada-performance-strong-compared-to-peers-in-latest-gem-global-report/> Global Entrepreneurship Monitor.

Figure 1.18

2022: Proportion of those starting or running a new business and reporting lower growth expectations than a year ago (% Total early-stage Entrepreneurial Activity)

owners expecting to employ no additional people decreased. Notably, this decline was observed in economies such as Poland, Brazil, and the Republic of Korea. Conversely, there were 19 economies where the proportion of new business owners expecting to hire more people increased. Noteworthy examples include the Slovak Republic, Germany, and Switzerland.¹³⁸

One possible explanation for this divergence could be the varying motivations of individuals in different countries to start businesses during times of hardship. In some countries, individuals may have been driven to start businesses primarily to generate income for themselves, leading to a decrease in job creation expectations. However, in other countries, there may have been a greater emphasis on expanding business operations and hiring employees, resulting in an increase in the proportion of new business owners expecting to employ more people. These findings highlight the complex interplay between entrepreneurship, economic circumstances, and job creation expectations.

Understanding these dynamics is essential for policymakers and support organizations to develop effective strategies to promote job growth and support entrepreneurial endeavors, particularly during challenging times.

Entrepreneurship Empowers Everyone

Entrepreneurship of necessity is a theory that explains why people start their own businesses due to a lack of alternative economic opportunities. This phenomenon is often found in developing countries or emerging economies where unemployment rates are high and access to formal employment and resources is limited. While entrepreneurship may be seen as a negative outcome of poverty and economic hardship, it can also be a driving force for economic growth and development. The theory suggests that individuals are more likely to become entrepreneurs when they lack viable alternatives for income generation. In other words, necessity-driven entrepreneurs are motivated by the need to earn a living, rather than by the desire to create a new product or service. This means that they often start businesses that are low cost and low risk, such as selling goods or services in informal markets or providing services like cleaning or repair work.

One of the major challenges facing necessity-driven entrepreneurs is the lack of access to formal sources of finance. Without the necessary financial resources and collateral, these entrepreneurs are often forced to rely on informal sources of finance like family and friends or moneylenders. As a result, they may become trapped in a cycle of debt, with high interest rates making it difficult to repay loans and grow their businesses. Another challenge faced by necessity-driven entrepreneurs is the lack of skills and knowledge required to run a successful business. Without access to formal education and training, these entrepreneurs may struggle to develop the necessary skills and knowledge to effectively manage their businesses. This can lead to a high failure rate among necessity-driven entrepreneurs, as they may not have the skills to overcome the challenges and risks associated with starting and running a business.

Despite these challenges, entrepreneurship of necessity can have positive outcomes for individuals and the wider economy. According to the GEM report, necessity-driven entrepreneurship can contribute to the creation of employment opportunities for others and can help to promote innovation and competitiveness in the market. Furthermore, these entrepreneurs can contribute to the development of new products and services that meet the needs of their communities, leading to economic growth and poverty reduction.

To fully realize the potential of entrepreneurship of necessity, it is important to address the challenges faced by necessity-driven entrepreneurs. This can include providing access to formal sources of finance, such as microfinances and small business loans, and developing training and education programs that help entrepreneurs develop the skills and knowledge necessary to run successful businesses.

In conclusion, entrepreneurship of necessity is a significant phenomenon in developing countries and emerging economies where individuals may lack viable employment opportunities. While it poses significant challenges to necessity-driven entrepreneurs, it also presents an opportunity to drive economic growth and development. By addressing the challenges faced by these entrepreneurs and providing the necessary support, we can unlock the potential of entrepreneurship of necessity and help to build more inclusive and sustainable economies.

Newcomer Entrepreneurship

Newcomer entrepreneurship is a term used to describe the phenomenon of immigrants starting their own businesses in a new country. This type of entrepreneurship is often tied heavily to the theory of entrepreneurship by necessity, as immigrants may be more likely to start their own businesses out of necessity due to the challenges they face in accessing the formal workforce. These challenges may include a lack of recognition for their credentials and work experience, language barriers, and discrimination.

Newcomer entrepreneurs face a unique set of challenges when starting their businesses, including accessing funding, building networks, and navigating the complexities of the legal and regulatory environment. According to a report by the Immigrant Entrepreneurs and Innovation Task Force, newcomer entrepreneurs face challenges in accessing capital, with many relying on personal savings or loans from family and friends to start their businesses. Additionally, newcomers may struggle to navigate the complex legal and regulatory environment in a new country, which can be a significant barrier to success.

Despite these challenges, newcomer entrepreneurship can be a powerful driver of economic growth and job creation. According to a report by the Kauffman Foundation, immigrant entrepreneurs are more likely to start businesses than native-born entrepreneurs, and their businesses tend to create more jobs. Additionally, immigrant entrepreneurs are more likely to be innovative and to start businesses in high-growth industries, such as technology and healthcare.

However, the potential of newcomer entrepreneurship is often undermined by a lack of support and recognition. Immigrants may face significant barriers to accessing funding and support, particularly if they are unable to access traditional sources of finance. Additionally, newcomer entrepreneurs may struggle to have their credentials and work experience recognized in a new country, which can limit their opportunities and potential for success.

To address these challenges, it is important to develop programs and policies that support newcomer entrepreneurship. This can include providing access to funding and mentorship, developing programs that help newcomers navigate the legal and regulatory environment, and promoting initiatives that recognize the contributions of immigrant entrepreneurs. Additionally, it is important to address systemic barriers that may be limiting the potential of newcomer entrepreneurs, such as discrimination and language barriers.

One example of a program designed to support newcomer entrepreneurship is the Refugee Livelihood Lab. This program provides entrepreneurship training and support to refugees and other newcomers. The program includes a range of resources and services, including mentorship, access to funding, and support with legal and regulatory compliance. Another example is the Business Development Bank of Canada (BDC), which offers a range of programs and services designed to support immigrant entrepreneurs. These include access to financing, support with market research and business planning, and specialized advisory services.

In conclusion, newcomer entrepreneurship is a powerful force for economic growth and job creation, but it is often undermined by systemic barriers and lack of recognition. By providing the necessary support and resources, we can help unlock the potential of newcomer entrepreneurs and build more inclusive and sustainable economies. Additionally, by recognizing the contributions of immigrant entrepreneurs, we can help to build more diverse and vibrant communities that benefit everyone.

BIPOC Entrepreneurship

Black entrepreneurship, or more recently referred to as BIPOC entrepreneurship (BIPOC stands for Black, Indigenous, and People of Color), refers to the entrepreneurial activities of individuals from marginalized communities, particularly those who face significant social and economic barriers. This form of entrepreneurship is critical for building inclusive and sustainable economies that benefit everyone, but it is often undermined by systemic barriers and a lack of support.

According to the U.S. Census Bureau's Annual Business Survey (ABS), the number of U.S. Black-owned businesses experienced growth across all sectors of the U.S. economy between 2017 and 2019. In 2019, the ABS reported a total of 134,567 Black-owned

employer businesses (businesses with more than one employee) in all sectors of the U.S. economy. Key findings include—The number of Black-owned employer businesses in all sectors of the U.S. economy increased by 8% in 2019, rising from 124,551 businesses in 2018.

Black-owned businesses tend to be smaller and less profitable than businesses owned by other groups. These disparities are often attributed to systemic barriers, including discrimination, lack of access to capital and funding, and limited networks and resources. To address these challenges, there are a growing number of programs and initiatives that are designed to support BIPOC entrepreneurship. These initiatives aim to provide access to funding, mentorship, and other resources that can help BIPOC entrepreneurs overcome the barriers they face and succeed in their entrepreneurial endeavors. Some of the key programs and initiatives include:

- ❑ **Black and Brown Founders:** This is a community that provides resources and support to BIPOC entrepreneurs. The organization offers access to mentorship, education, and funding opportunities, as well as a supportive community of peers.¹³⁹
- ❑ **The Black Entrepreneurship Program:** A partnership between the Government of Canada, Black-led business organizations, and financial institutions. With an investment of up to \$265 million over four years, it will help Black Canadian business owners and entrepreneurs grow their businesses and succeed now and into the future.¹⁴⁰
- ❑ **Black Entrepreneur Startup Program:** Canada's Futurpreneurs program provides startup loan financing and access to mentorship for Black Entrepreneurs aged 18 to 39. The program guides you through all the steps of writing a business plan, from financing to launch.¹⁴¹
- ❑ **The Minority Business Development Agency (MBDA):** The MBDA is a U.S. federal agency that provides resources and support to minority-owned businesses, including BIPOC entrepreneurs. The agency offers a range of services, including access to funding, technical assistance, and business development resources.¹⁴²
- ❑ **The National Black MBA Association:** This is a U.S. based professional organization that supports Black professionals in various fields, including entrepreneurship. The organization offers access to mentorship, networking opportunities, and resources for business development and growth.¹⁴³
- ❑ **Black Girl Ventures:** This is a nonprofit organization that provides funding, mentorship, and other resources to Black and Brown women entrepreneurs. The organization offers pitch competitions and other events, as well as access to a supportive community of peers and mentors.¹⁴⁴

These initiatives are critical for supporting BIPOC entrepreneurship, but they are just one piece of the puzzle. It is also important to address systemic barriers that may be limiting the potential of BIPOC entrepreneurs, including discrimination, lack of access to capital and funding, and limited networks and resources. Additionally, it is important to recognize the significant contributions of BIPOC entrepreneurs to our economy and society. Black and Brown entrepreneurs are responsible for creating jobs, driving innovation, and building more inclusive and sustainable communities. By providing the necessary support and recognition, we can help to unlock the full potential of BIPOC entrepreneurship and build more equitable and just economies.

In conclusion, BIPOC entrepreneurship is a critical force for building more inclusive and sustainable economies, but it is often undermined by systemic barriers and a lack of support. By providing access to funding, mentorship, and other resources, we can help BIPOC entrepreneurs overcome these challenges and succeed in their entrepreneurial endeavors.

Entrepreneurial activity in North America now accounts for much of the region's prosperity and competitiveness in the global economy. The disappearance of "old" jobs, particularly in mature manufacturing industries and their replacement by "new" jobs, especially in service and knowledge-based industries, is disconcerting to workers whose jobs are threatened. However, society must accept churning—the creation of new enterprises and the destruction of obsolete ones—because it gives the Canadian and American economies their vitality. The entrepreneurial framework includes factors such as availability of finance, government policies and programs designed to support startups, R&D transfer, physical and human infrastructure, general education, specific education and training for entrepreneurship, social and cultural norms, and internal market openness. All these factors combined determine the degree of entrepreneurial activity in a nation, or for that matter in a region within a nation.

In this chapter we have looked at the importance of entrepreneurship to national economies. In the following chapters, we will look at the specifics of how entrepreneurs start and grow their new ventures.

CONCLUSION

We are excited that you are exploring an entrepreneurial journey, one that may lead you to launch a business while in university, after graduation, or at some future point in your life. We know that all great entrepreneurs are avid readers and thinkers, and as such, we encourage you to capture some of your thoughts as you read this book. These thoughts may focus on a new venture that you are interested in creating, or they may focus more on your entrepreneurial career plan. In either event, we will close each chapter with space for you to reflect on what it means to you and your potential venture.

YOUR OPPORTUNITY JOURNAL

Reflection Point	Your Thoughts. . .
1. What world-changing industries or opportunities do you see developing over the next 5 to 10 years?	
2. What innovations or new technologies will drive these world-changing opportunities?	
3. Which regions of the world have the greatest potential for developing these opportunities? Which are you most interested in?	
4. What skills do you need to develop to take advantage of these opportunities?	

What do you think will be the next major innovation (e.g., the Internet) that changes the way we live, work, and play? Search the Web to identify trends, statistics, and other evidence to support your insight. (*Hint:* Venture capitalists have a knack for spotting emergent industries.)

WEB EXERCISE

CASE

Alison Barnard

Having spent her Saturday morning redesigning window displays, folding inventory, and following up with a supplier who seemed disinclined to take back an entire shipment she felt was unacceptable, Alison Barnard, 27, was finally settled at her desk in the corner—fully intending to make some progress on her growing management task list. Chief among those neglected missions was getting up to speed on her software system for monitoring sales and inventory.

In-jean-ius, her upscale “jeans and T-shirt” boutique in Boston’s North End, was attracting professional and wealthy women from Maine to Rhode Island. As one of many satisfied customers wrote, “Alison has an uncanny ability to match up the right person with the perfect pair of jeans. If you have ever gone ‘jean shopping’ you know that that is not an easy thing to do! Experience In-jean-ius for yourself. You won’t shop for jeans anywhere else again.”

Alison looked up from her work with a weary smile.

Open just over six months, and actuals are tracking nearly twice my projections . . .

As it had from the very beginning, running her hit venture continued to consume nearly every waking hour. The creative, high-energy founder was far less concerned with burning out than with having the day-to-day concerns usurp her ability to plan and manage for growth. And with only one full-time employee—not yet fully trained—Alison couldn’t expect much relief anytime soon.

Her attention was suddenly drawn to an exchange between her salesperson and a well-dressed, middle-aged woman who was favoring a sleek pair of low rises. From where she sat, Alison could see that the woman was built for something a bit less daring. When the associate began fishing for the correct size in that style, Alison left her desk (and her task list) to steer the sale toward a more conservative brand that would ultimately prove to offer the best fit. Another satisfied customer . . .

Alison Barnard: Shopper

Like many rural-suburban American teens, young Alison Barnard had been an avid shopper. But there was something more. The daughter of a serial entrepreneur and an enterprising mother, she had developed an eye for opportunity and value-add that she ceaselessly trained on the business of creating a unique upscale shopping experience: trends, service, selection, presentation, decor. Despite her keen interest in retailing, she headed off for college with a more conservative career track in mind:

I really thought I wanted to be in brand management, marketing, or retail consulting. I figured that someday I would have a store but thought it might be something I’d do when I retired, like you kind of hung out in your store.

But I had all of these ideas. I like clothing, I like the shopping experience, and I like dealing with people. One idea was to have an all-black store because black apparel is such a staple for any woman’s wardrobe.

In May 2002, Alison received her undergraduate degree in business from the University of Richmond. Back in the Boston area, her first job was with a dot-com startup. She left there for an interesting opportunity with another high-potential venture. While the work environment there was most definitely not for her, that “mistake” would have a major impact on her career trajectory.

Catalysts

Hired as part of the seminar development team at a medical device company in Cambridge, Massachusetts, Alison quickly discovered that her talents weren't exactly appreciated:

They were part of this old boy network that really looked down on females. They told me, for example, that I needed to cover on Thursdays for the receptionist when she went to lunch. Swell. I hated that place, and I immediately began interviewing for something better.

At one point, I went on a job interview, and since my boss approved of higher education, I told her I had gone to Babson College to investigate their MBA program. When I checked into it in order to support my little lie, I found out that Babson had a one-year program that looked really interesting; you're there, you're focused and doing it, and then you're out.

Alison began the one-year MBA at Babson in the spring of 2003. Since she was still brainstorming retail store concepts with anyone who would engage, her mom's hairdresser suggested that as a next step she ought to get some floor time in the real world. That summer Alison started work as a part-timer at an upscale boutique near Boston. Although she still had no immediate plans to develop a new venture, her MBA studies melded well with her exposure to retailing:

I quickly realized that my first concept about an all-black store was a bad idea. Women buy black, but they don't shop for it. They'll even go into a store and say they want anything but black—because they have too much black in their wardrobe. But then in the end, they'll buy something black.

At that time, I was really getting into jeans myself. At Babson, I wore jeans and a T-shirt every day. My first pair was Sevens, one of the early entrants into what I would call the premium denim revolution. Jeans are no longer just weekend wear; they are worn in the workplace and for going out. Premium denim has become a fashion staple, and women now have an average of about eight pairs of jeans in their wardrobe.

So an all-jeans store became sort of my fun idea—something I thought would be just another idea that would be passed by. Still, my concept was interesting enough to attract a team in class to do the business plan.

Realizations

Nothing Alison and her team members discovered in their research surprised her in the least (see Exhibit 1.1). When asked what pain point she expected her store to relieve, she didn't hesitate a moment:

Women's point of pain is themselves. The reality is that every female hates herself in some sort of way. And if she doesn't like something about her body, jeans can bring out the worst qualities. But they can also make you look great if they fit right.

There are some decent stores in the area that sell premium jeans (see Exhibit 1.2), but they all forget to mention the fact that fit is by far a woman's number one concern when searching for jeans. Women are not brand loyal; they are fit loyal.

When she graduated in the spring of 2004, Alison was offered an opportunity to learn even more:

The woman who was managing the boutique was going on maternity leave starting in the fall. The partners knew I wanted to open a store someday and they said that they would train me and help me out until she returned in the spring of 2005.

EXHIBIT 1.1 Research Findings

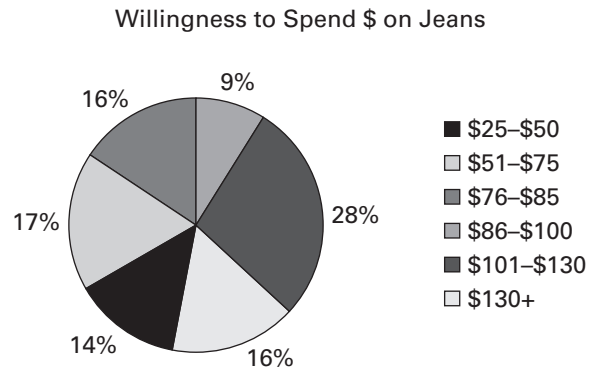
What Women Want: Survey Results

We conducted primary research through a survey of 90 women in the Boston area to find out their jean-buying habits, including number of jeans owned, where they purchase their jeans, brands they are loyal to, and what they would like to see in a jean store. The complete results can be found in Exhibit 1.2.

The survey conducted to extract the jean-purchasing behaviors of 90 females aged 21–35 reveals the following:

☐ Women are willing to spend money for jeans

- ☐ 28% \$25–\$50
- ☐ 16% \$51–\$75
- ☐ 14% \$76–\$85
- ☐ 17% \$86–\$100
- ☐ 16% \$101–\$130
- ☐ 9% \$130+



☐ Fit matters and influences where and which brands women purchase

- ☐ 86.7% of woman said their one reason for shopping at certain stores was that these stores carried jeans that fit them
- ☐ Brand preference is based on fit

☐ 82% of women say they are not loyal to one brand of jean. Woman need

- ☐ More selection → 49.4% want more options
- ☐ More information → so many jean brands and styles and so little time
- ☐ More help → make the process less time consuming, less of a hassle

In addition, open-ended questions regarding what they dislike about the jean-buying process and what they would like to see in a new jean store environment revealed the following:

☐ Overall, women dislike the jean-buying process, even though they enjoy buying a new pair of jeans.

☐ Disorganization of the store and inconsistency of jean sizes by brands made woman want to see more sales help, which was lacking in the stores they currently frequent for jean buying.

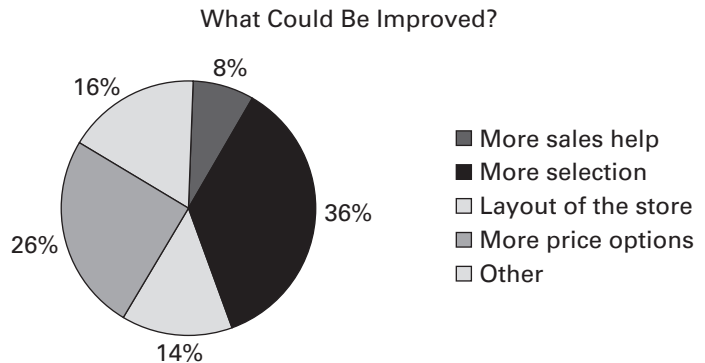


EXHIBIT 1.2 Premium Jean Stores in Eastern Massachusetts

Store	Private Label	Trendy Jean Brands	Jean Expertise	Knowledgeable Customer Service	Welcome Atmosphere	Large Selection of Brands
Jean Therapy		X	X	X		
The National Jean Co.		X		X		X
Banana Republic Express	X					
Riccardi		X				X
Diesel	X		X	X		
Intermix		X			X	
Gap	X					
Mudo		X	X	X		
Lucky Brand	X					
Jasmine Sola*		X			X	X
Jeans Addiction		X		X		X

*Luciano Manganella, who founded this upscale boutique in Harvard Square in 1970, four years after emigrating from Italy, sold Jasmine Sola in the summer of 2005 to the nearly national 500-store New York & Co. This move, Manganella said, was the only way he could expand beyond his present 15 stores to an expected 25 stores—all on the East Coast—by the end of 2006. The undisclosed amount of the sale was estimated to be in excess of \$20 million.

Alison accepted their offer. She soon discovered, however, that they would be delivering far less than they promised:

I never got anything we had agreed to, including health insurance or training of any kind. I did learn how to handle receivables, pricing, dating, and ordering, but I figured out that stuff on my own by examining the invoices and checking in the orders.

It wasn't long before Alison was certain that she could run a shop of her own. She was still drawn to the \$6.3 billion women's denim market, a highly fragmented space with hundreds of manufacturers and inconsistent retail offerings, from boutiques, chain stores, and department stores. Still, she felt that she "would have to jump on it right away before anyone else did"—it was now or never:

I had been keeping my idea secret from the store owners because I didn't trust them at all. Sure, they liked me, but they also had money and resources. That summer, I was attending a fashion show with one of the owners. He said that he had always wanted to open a jeans and T-shirt store but that his business partner—a woman—wasn't interested in the concept. At that point, I told him about my idea, and before you know it, we were talking about going into business together.

He called a few times after the trip to talk it over. We never touched on details like money or ownership breakdown, but we did go to look at a spot in Wellesley [Massachusetts]. But then he just dropped it; never talked about it again. It was as if we had never had a conversation about it! That's the sort of thing you get from a lot of people in this industry.

But how was I going to do it alone? Where was I going to get the money?

EXHIBIT 1.3 Five-Year Projections, Income Statement

Sales	Year 1	Year 2	Year 3	Year 4	Year 5
Jeans					
Unit Sales	1,635	1,962	2,315	2,547	2,801
Average Price	135	142	149	156	164
	220,725	278,604	344,935	397,332	459,364
Tops					
Unit Sales	2,453	3,434	4,120	4,862	5,737
Average Price	54	40	42	45	48
	132,462	137,360	173,040	218,790	275,376
Accessories					
Unit Sales	550	633	791	988	1,235
Average Price	45	45	50	50	55
	24,750	28,485	39,550	49,400	67,925
Total Sales	377,937	444,449	557,525	665,522	802,665
Cost of Sales					
Jeans	94,912	119,589	148,171	171,137	197,663
Tops	58,860	61,803	79,108	97,237	126,313
Accessories	11,550	13,283	12,452	15,565	19,457
Total Cost of Sales	165,322	194,675	239,731	283,939	343,433
Sales Expenses					
Credit Card Commissions	10,222	12,000	14,737	17,482	21,186
Discounts & Promos	2,759	3,476	4,307	4,975	5,746
Returns	14,031	16,470	20,228	23,995	29,078
Damage & Theft	12,026	14,117	17,338	20,567	24,924
Total Sales Expenses	39,038	46,063	56,610	67,019	80,934
Gross Margin	173,577	203,711	261,184	314,564	378,298
Buying Expenses Incl. Travel Administration					
2,400	3,600	4,000	4,200	4,400	
Rent	17,500	31,200	32,400	33,600	34,800
Staff Salaries & Benefits	24,960	31,200	33,600	33,600	33,600
Staff Payroll Taxes	7,488	9,360	10,080	10,080	10,080
Management Salaries	51,996	52,800	55,000	60,000	65,000
Management Payroll Taxes	15,439	15,840	15,840	15,840	15,840
Health Insurance	3,000	3,000	3,000	3,000	3,000
Interest	900	1,200	1,040	880	720
Communications & Media	3,300	3,300	3,300	3,300	3,300
Professional Fees	4,308	4,308	4,308	4,308	4,308
Depreciation	12,266	13,381	13,381	13,381	13,381
Insurance	2,880	2,880	2,880	2,880	2,880
Utilities (Electric & Gas)	4,200	4,200	4,200	4,200	4,200
	148,237	172,669	179,029	185,069	191,109
Total Expenses	150,637	176,269	183,029	189,269	195,509
Pretax Profit	22,940	27,442	78,155	125,295	182,789
Net Profit	14,844	17,425	47,914	76,265	110,825

EXHIBIT 1.3 (Continued)

Sales	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Cash	125,000	19,077	47,883	125,561	235,571
Inflows					
Sales	377,937	444,449	557,525	665,522	802,665
Depreciations	12,233	13,381	13,381	13,381	13,381
Outflows					
Cost of Sales	(165,322)	(194,675)	(239,731)	(283,939)	(343,333)
Sales Expenses	(39,038)	(46,063)	(56,610)	(67,018)	(80,934)
Marketing Expenses	(2,400)	(3,600)	(4,000)	(4,200)	(4,200)
Admin. Expenses	(148,237)	(172,669)	(179,029)	(185,069)	(191,109)
Note Payment	(20)	(2,000)	(2,000)	(2,000)	(2,000)
Taxes	(8,096)	(10,017)	(30,798)	(49,030)	(71,964)
Pre-opening & Build-Out	(58,000)				
Opening Inventory	(75,000)				
Increase in A/P			18,940	22,364	26,990
Net (Outflow) Inflow	(105,923)	28,806	77,678	110,010	149,296
Ending Cash Balance	19,077	47,883	125,561	235,571	384,867

Commitments

Based on her projections (see Exhibit 1.3), Alison expected her retail store would have first-year sales of just over \$375,000. She had also calculated that startup costs, including build-out and inventory, would be in the range of \$125,000. She was confident that she could attract investors, but first she wanted to secure a location that would be acceptable to what she was sure would be her toughest constituency:

Fashion denim manufacturers are represented by showrooms in New York City and in LA [Los Angeles]. They are very committed to their brands—and very particular about whom they will sell to. To avoid saturation, they won't sell to a store that is too close to another client, and they will even shut off an established shop that locates a new store too close to another buyer. Territory protection is a great asset for existing stores, but it makes it very hard to find locations that have the right customer traffic and are not in conflict with existing vendors.

Alison's boyfriend, Bryan, was active in the Boston real estate market. On weekends, Alison often accompanied him as he made the rounds to various properties he was managing. One icy morning in early 2005, Alison fell for a corner location in the North End:

This place was a bit removed from the busiest section of Hanover Street, but the outside was SO nice; all dark wood, newly redone. I had Bryan call the number because as a real estate agent, I knew they would take him seriously. He set up a meeting with the landlord—a top neurosurgeon who owned the building as an investment. He had already denied seven previous proposals, but said he liked mine a lot.

Soon, they were talking hard numbers:

I learned a lot in negotiating with him because he had a huge ego—just like a lot of good surgeons do. I had to figure out how to make him feel he was still getting something out of it. He was also getting stuck on little details. For example, he wanted to control my window displays and be able to go to arbitration over it.

And the space may have been beautiful on the outside, but the inside was unbelievably awful. It was scary. It needed new floors, new ceilings, new walls, and a new heating system.

In late February, Alison signed a three-year lease that included a few months of free rent—she now had until September. All along, her father had felt strongly that she should have lined up the capital first:

My dad was saying, “What are you thinking?” He totally disagreed with what I was doing, but I told him I’d find the money. He loaned me the deposit on the location, and he called up my uncle, who is an accountant. The three of us sat down and came up with an investment offering.

Finding the Money

Before she went the equity route, Alison wanted to investigate other avenues. The news was not good:

My dad referred me to some people he knew at Boston Private Bank—very conservative. Talks went fine until they became insistent that, if they were going to do anything, they would have to have a guarantor for the loan—a co-signer. Well, I wasn’t going to do that; I wanted this to be my responsibility.

I tried to get an SBA loan through a small bank on the North Shore, but I had no collateral, and I was paying off student loans. They said no way because, even though the SBA would be backing it, a bad loan would give them a worse rating through the SBA. I looked into grants, but the process was too long. I also tried to get startup funding through the Hatchery Program at Babson. They said no as well; that really surprised me.

With the clock ticking on her lease, Alison went ahead with the investor plan she had crafted with her closest advisors:

We were not going to give people the option of deciding how much money they could invest. Instead, we said this is the deal: There are six slots of \$25,000 each, and your options are full equity, debt/equity, or full debt.¹⁴⁵

I sent an email to all my contacts saying that this is where I am and that I was looking for investors. A lot of people responded to me; I was shocked.

A former classmate at Babson (who had started a men’s skincare line) emailed to say that he was very upset with me because he thought I was giving up way too much equity. But I didn’t look at it that way at all. It was a different business model; he was going to the masses, and I was very local.

Her father was in for one share; all equity. Her uncle let her choose, so she set him up as a debt/equity investor. She had a Babson woman (who had always liked her idea) in for all equity and a private investor in Denver for all debt. The final two shares were to be all equity:

A guy I used to work with told me he wanted to do \$50,000, but he wanted to do it for 15% equity instead of 12.5%. I quickly said no. I had deals in place with other people; those are the terms. He said that’s fine, he’d still like to do it.

Armed with a bit of cash and some solid commitments, Alison charged forward to make her vision a bricks-and-mortar reality.

Building Momentum (and Shelving)

Having initially envisioned a space in the range of 1,800 square feet, Alison found the 600 square foot shell to be a significant creative challenge—so much so that she hired an expert:

I needed to accommodate a starting inventory of around 600 pairs of jeans and a selection of tops (see Exhibit 1.4). My biggest concern was we had to have wide enough aisles to walk around.

EXHIBIT 1.4 Opening Inventory: Brand Selection

Denim Vendors	T-Shirt/Tops Vendors
ABS	ABS
AG	C & C California
Bella Dahl	Central Park West
Big Star	Custo
Blu Jeanious	Ella Moss
Cambio	Hale Bob
Chip and Pepper	Jakes
Christopher Blue	James Perse
Citizens of Humanity	Juicy Couture
Habitual	Lilla P.
Hudson	Michael Stars
IT Jeans	Mimi & Coco
James Jeans	Muchacha
Juicy Couture	Notice
Kasil	Rebecca Beeson
Notify	Splendid
Paper Denim & Cloth	Susana Monaco
Parasuco	Three Dots
Red Engine	Troo
Rock & Republic	Velvet
Sacred Blue	
Saddelite	
Salt Works	
Seven for All Mankind	
Tacto	
True Religion	
Tylerskye	
Womyn	
Yanuk	

I thought I could do it myself, but against my better judgment, I hired an interior designer. I worked with him and came up with a compact shelving system that started almost at the floor and went up only as high as I could reach. I am 5'5", and that is about the average. If someone was shorter, I could get it for them. I really wanted my store to feel very comfortable and warm—like you're in a good friend's closet. But the designer never quite got the need to maximize the space.

She added with a smile that she had been able to attract effective talent to the task of building out her vision:

Bryan built all of the shelving with his father, an engineer. I showed them my drawings, gave them the measurements, and they did it. He actually project managed the build-out, and we did a lot of the work together. I saved so much money because of him. We painted it ourselves, and did other little things here and there. The contractors knew him well, and since he gives them so much business, they were willing to cut us breaks here and there. I went around and found furniture pieces for practical use that would make it feel more homey, like an armoire, a big dining room table, and a couple of benches. The furniture is all white, so the store has a shabby-chic feeling to it.

To monitor her sales and margins, Alison invested in a high-end software inventory system. The trouble was that the salesperson had yet to train her, and he wasn't returning her calls. But that challenge would have to wait; it was time to buy.

Learning Curves

With investors in place and the build-out moving along, Alison flew to Los Angeles and New York to haggle (and sashay) for “permission” to play:

I had a list of brands that I wanted, based on my experience at the boutique. I was very concerned about fit and consistency. I was constantly looking at other girls' butts, so I knew that there was a core group of “in fashion” trendy jeans that I needed to have and that people liked. I also had to have some Mom jeans: higher-waisted, not young, but still sophisticated and nice looking.

From there, it was about attending big trade shows in New York to touch the material and examine the styles. That doesn't tell you much about fit, and unfortunately you can't try on the floor samples.

Buying is always stressful. There are times when my head is pounding and everything looks the same. The sellers are really snobby, and I had to dress totally trendified so they could look me up and down and say, “Okay, you can buy from us.” Great, thanks. If I'm a good businessperson, does the way I'm dressed matter at all? No, of course not; but that's what it's like.

Although I had a pretty good idea of what I needed for my opening inventory, I did make some mistakes. I also bought some jeans that I would not have normally, but I couldn't get some of the brands that I wanted to start with—they wouldn't sell to a new store.

The denim reps that did sell to her demanded full payment up front. Using bank cards secured with her mother's credit, Alison pulled together a \$75,000 inventory of jeans, tops, and accessories like trendy shoes and jewelry. That's when she was given a bit of a scare:

A month before I opened, my last investor calls to say he's going to knock his investment down because he didn't want to be an aggressive shareholder. I panicked; I was in the final phases of my build-out, I had done all my buying, and here he was telling me I was going to be \$25,000 short!

Despite her angst, Alison decided to sit tight. Things were moving along nicely, and it wasn't long before she realized that she'd be able to open her store without the additional capital.

In-jean-ius

A week before her opening in July 2005, Alison hired a friend of a friend as her first employee. Her mom was there to help out, along with her 17-year-old sister. The plan was to be open from around lunchtime to just past dinnertime, six days a week, and stay open a bit later on Sundays. Alison explained that it was soon evident that the location required a flexible approach:

The North End is interesting because in the summer they have a variety of feasts and festivals. I was often staying open until nearly midnight. I was working all the time—anything that would make a sale. I immediately surpassed my business plan estimates, and it kept building.

As a new retailer in town, she attracted a few of the usual suspects who thought they might be able to take advantage of the young proprietor. They thought wrong:

The area is safe, but like any city neighbourhood, it has its share of drug addicts. The first week I was open, two junkies came in. The guy was distracting me while the girl was stealing. I knew what was going on, but I didn't see her take anything. The general idea is that unless you see them do it, you can't do anything.

When they left, a girl walks in and says, “Excuse me, those two just walked out with a pair of jeans.” Well, I am not a very tough person—I grew up in the suburbs—and I don’t know what I was thinking or what came over me, but I ran after them. I took the jeans out of the guy’s hand and the bag off of her shoulder. I told her that I knew she had jewellery of mine, and I found it in there. I walked away from them to call the police. They ran away and my neighbours got in their car to go find them. They took my younger sister with them because she knew what they looked like.

They found them and brought them back to the store so I could positively ID them. They were arrested and taken away. From then on, everyone in the North End thought hey, she’s tough—and the druggies, who all talk, stayed away.

Soon after that, Alison was in hot pursuit again:

I chased another girl down the street, and when I wouldn’t let her get in her car, she tried to punch me. Bryan tells me all the time I have to stop doing that; someday I could get hurt.

Of course, I tell my employees not to do anything like that; just call the police. But I take it so personally; that’s mine, you’re stealing from me! How can you do that? Don’t you know I’m a new business?

Over the next few months, Alison’s total loss to theft was a single pair of shoes and a pair of earrings. The other good news was that sales continued to track far ahead of her estimates. In the first six months, the store had generated a net income of \$20,307 on sales of \$294,061. Alison explained that, although word of mouth was an important factor in her early success, attracting the imagination of the local press had been key:

I’m not the only one who has had this idea, and other trendy jeans stores have definitely gotten their share of press, but people are really taking to my message: “You’re going to get help, and we’re going to work with you to find jeans that fit. We have jeans for everybody.” Nobody else is saying that this is all about fit, and that’s the message that I relay in every piece of PR that I send out. And they keep coming to talk to me.

While the young entrepreneur was thrilled with how things were going, she was ready to start spending less time on the sales floor and more time with strategic and management challenges. Easier said than done.

Fold or Finance?

Since the local press always seemed to focus on *her* skills and *her* story, Alison wondered how that might impact her ability to replicate her concept:

How do you grow when the store is about you? People come here because they like dealing with me. How do I duplicate myself? That’s not to say that someone can’t do what I’m doing and do it well, but employees are never going to treat people exactly the way you do. I have a lot of learning to do in terms of managing my employees, delegating, and sharing my knowledge.

One of her many priorities was to develop a training manual that, in addition to describing the particular fit characteristics of various brands, would clearly articulate her vision for customer service. She thought of contacting the Ritz-Carlton in Boston—to her mind a master of customer service—to see if they might let her review their training materials. Until she did have some documentation in place though, she’d have to communicate her philosophy on the fly:

I sort of torture my employees when they’re hired. They have to come in and spend a few hours trying on everything in the store—like a restaurant that requires their servers to try everything on the menu so they can talk about it.

I am also pretty strict about keeping the store neat and organized. I think that is so important in a small space like this. Whenever I come into the store, I can immediately see items that are unfolded or out of place.

My office is a desk in the corner, so I'm right there to offer help or teach them the little tricks I've learned. I also try to stay at my desk and let them take care of whoever comes in, but I can't just keep quiet if they are not saying the right thing. I always have to get my two cents in.

Now that she had a full-time employee nearly up to speed and a sharp former classmate from Babson working on weekends as a fun job, Alison had begun to carve out some time each week to recharge:

I have had to give up spending much time with Bryan, and that has been a huge problem. My taking Sundays has become so important because we get to spend time together. Despite the fact that he is also an entrepreneur, he has had a really big struggle with the idea that he is number two to this business. That's been hard and it's something we're working on.

Her other challenging relationship was with the numbers:

Nailing down the actuals is a big issue for me, and I am in the process of doing that. I'm not bad with financials, but they are a bit intimidating; I am really just much more into customer service and marketing. There are so many other things that I could be doing to bring in sales, so I'd rather do those things first.

It's true; I would rather have my store neat and folded than work on my financials. That is always my first priority. If the store looks good, then I can do other things. The problem is that I am constantly rearranging the store, and that is my way of being creative: putting different things together, doing the windows over every week.

My uncle does my accounting, and I am paying close enough attention to know I'm doing much better than my projections, but I need to focus on it more. And I need to find a training course for that inventory software so I can run those reports and coordinate things the right way.

Down by One

It had been one of the best-selling days to date. Alison closed her shop at 8:30 that night and returned to her desk with the absurd idea that she might have some energy left for paperwork. It wasn't just that she was tired; she now had a brand-new challenge on her plate: That day her one full-time employee had given her two-week notice.

Discussion Questions

1. Is this business scalable? Discuss the limitations and challenges.
2. What tasks and goals should Alison be focusing on at this stage of her venture?
3. Discuss the signing of a lease prior to having the money. What was the risk?
4. Discuss her fundraising and valuation. If you were an equity investor, what return expectations would you have?
5. If women are coming to Alison's store from all over, how important is location? Discuss the implications for growth.

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