Part One, “Getting Started as an Entrepreneur,” includes six chapters that establish the foundations of entrepreneurship, from understanding the personal attributes and management challenges that entrepreneurs will confront to developing ideas, business opportunities, and setting up a company. Chapter 1 discusses the personal attributes of entrepreneurs and the management skills that need to be developed within the context of a new business. We have placed this chapter first to assist you in the process to understand the makeup of a typical entrepreneur and how closely you fit the mold. It is important that you consider “what you may be getting yourself into” before starting on the road to identifying an opportunity. The scope of the business idea should match your personal aspirations and lifestyle aims. Chapter 2 describes the entrepreneurial process and the steps to becoming an entrepreneur. Chapter 3 shows how ideas are developed into business opportunities in the early venture stage. Here you will also learn why innovation is important and the techniques used to be creative in developing new business ideas. Chapter 4 shows how to analyze the market and potential customers, conduct a competitive analysis, and create a marketing plan for the venture. Chapter 5 teaches how to structure the first outline business plan, and Chapter 6 explores the various forms ventures may take and describes name and company registration.
ROADMAP for PATTERNS OF ENTREPRENEURSHIP

Getting Started as an Entrepreneur

- An Entrepreneurial Perspective
- Commonly Shared Entrepreneurial Characteristics
- The Need to Control
- Entrepreneurship Roller Coaster
- So Why Become an Entrepreneur?
- The Spiderweb Model
- Finding Early Mentors
- Managing Stress
- The Five-stage Entrepreneurial Process
- The Growth of Entrepreneurial Companies
- The Growth Period
- Why Innovation Is Important
- Definition and Types of Innovation
- Frameworks for Learning Innovation Skills
- Finding and Assessing Ideas
- Converting an Idea into an Opportunity
- Opportunity: Five Phases to Success
- Formulating a Successful Marketing Plan
- Preparing the Marketing Analysis and Plan
- Defining the Market Segmentation
- Conducting a Competitive Analysis
- Preparing the Pricing and Sales Strategy
- Penetrating the Market and Setting up Sales Channels
- The Value of a Business Plan
- Setting Goals and Objectives
- Starting the Process to Write the Plan: Five Steps
- Determining What Type of Business Plan Is Best
- A Typical Business Plan Format and Content
- Understanding Why Business Plans Fail
- Identifying What Form of Ownership Is Best
- Forms of Doing Business
- Sole Proprietorship
- C-corporation
- S-corporation
- Partnership
- Limited Liability Company
- Business Start-up Checklist
CHAPTER 1
WHAT IS AN ENTREPRENEUR?

“Good management is the art of making problems so interesting and their solutions so constructive that everyone wants to get to work and deal with them.”

PAUL HAWKEN

OBJECTIVES

■ Place entrepreneurship in today’s context.
■ Understand what differentiates an entrepreneur.
■ Classify different types of entrepreneurs.
■ Explore what control means to you and the choices it affects.
■ Learn the master-case story and context.
■ Understand your strengths and limitations.

CHAPTER OUTLINE

Introduction
Profile: Wayne McVicker—A Typical Entrepreneur
An Entrepreneurial Perspective
Commonly Shared Entrepreneurial Characteristics
Types of Entrepreneurs
The Need to Control
Entrepreneurship Roller Coaster
So Why Become an Entrepreneur?

Use the Master-Case to Develop Management Skills
Summary
Study Questions
Exercises
Interactive Learning on the Web
Appendix: The Master-Case, Neoforma, Inc.
Neoforma—A Summary of the Master-Case
Additional Resources

INTRODUCTION

No sector of the economy is as vital, dynamic, and creative as entrepreneurship. For the past thirty years, the impact of entrepreneurs and small-business owners in the creation of new ventures has been felt in every sector of the United States and in virtually all the world’s mature economies. The startling growth of entrepreneurial ventures forms the heart of our changing economic system as more employees work for these owners than any other sector of the economy. In the United States today, the
number of employees in small and entrepreneurial ventures is growing faster than in any other sector of the labor force, and there is no sign of a reversal in this trend. The Global Entrepreneurship Monitor states that as much as one-third of the differences in economic growth among nations may be due to differences in entrepreneurial activity. A key factor affecting the U.S. economy is the annual creation of 600,000 to 800,000 new companies, which produces many new jobs.1

Entrepreneurship—the process of planning, organizing, operating, and assuming the risk of a business venture—is now a mainstream activity. Starting a business is never easy; it requires a special blend of courage, self-confidence, and skills, all of which determine the success or failure of an enterprise. However, a world of resources is now available to individuals who wish to launch ventures. The Internet provides access to up-to-date market and technology information and offers would-be entrepreneurs many useful support networks. In addition, business schools even teach the fundamentals of entrepreneurship, which were not even part of the curriculum until the 1990s.2,3

Throughout this text you’ll read about entrepreneurs from many types of entrepreneurial businesses. Their stories will help you explore possible paths for building your own successful career. You’ll also have the opportunity to assess your present career profile and strategy and contrast them with the approaches these entrepreneurs have developed. The career choices and paths you take are deeply embedded not only in relationships, but also in individual characteristics and valued outcomes. The course you follow will be based on a collected set of skills, knowledge, abilities, and experiences, as well as the recognition of unique opportunities.

PROFILE: WAYNE McVICKER4—A TYPICAL ENTREPRENEUR

Wayne McVicker, originally trained as an architect, first had the idea of starting a company while working for Varian Corporation in California. The idea to create a new and transparent way to market complex medical equipment did not get much support within Varian, so together with another employee, Jeff Kleck, he started Neoforma. (Interestingly, more than 60 percent of ideas for start-ups come when working for someone else!) They did this with full knowledge of their employer. At first McVicker worked out of his home, while still full time at Varian, but eventually he untied the knot. Using loans from family members, his home equity, and retirement and college funds, he started building the company. He was fortunate to meet Jack Russo, a local attorney who took Wayne and his partner under his wing. Jack gave them a little money and introduced them to some local successful entrepreneurs who eventually invested in Neoforma. The company grew rapidly, continually putting Wayne and Jeff under stress to find money, people, and advisors. They made a number of common mistakes, including wrong hires, chasing fruitless initiatives, not delegating tasks, and gradually losing control of their company as venture capitalists and new managers entered the picture. Despite these trials and tribulations, the passion that Wayne and Jeff had to make health care better carried the company through to a public sale of stock and an eventual purchase by a group of large health-care companies. After a short breather to get over the years of intense activity and stress, the founding partners started another company, Attainia, to do an even better job at opening up the health-care market. Using the lessons learned from Neoforma, they were better equipped to avoid most of the start-up traps. (See the Appendix to this chapter for more on Wayne and Neoforma.)
AN ENTREPRENEURIAL PERSPECTIVE

The word entrepreneur comes from the seventeenth-century French word entreprendre, which refers to individuals who “undertook” the risk of new enterprise. Early entrepreneurs were also “contractors” who bore the risks of profit or loss, and many were soldiers of fortune, adventurers, builders, and merchants. Early references to the entrepreneur spoke of tax contractors—individuals who paid a fixed sum of money to a government for the license to collect taxes in their region. Tax entrepreneurs bore the risk of collecting individual taxes. If they collected more than the sum paid for their licenses, they made a profit; if not, they lost money.

Today the definition of entrepreneurship includes more than the mere creation of a business; it also includes the generation and implementation of an idea. Understanding this team concept is critical if you wish to be a successful entrepreneur. The idea of a sole individual being able to take on enormous risks, attempt innovations, leap without the appropriate background research, and succeed by working long hours and persevering at all costs is no longer relevant in today’s global economy. Entrepreneurs also communicate effectively, not only to their teams, but also to external “stakeholders” such as investors, bankers, and corporate partners, which are necessary components of their growth path.

"As professors of entrepreneurship, we are often asked if it is possible to ‘teach’ someone to be an entrepreneur. My response is that you can’t teach someone to acquire the drive, the hunger, the passion, and the tenacity to pursue an entrepreneurial path. However, give me someone who has such ‘fire in their belly’ and we can help them to develop critical entrepreneurial skills which will guide them along their journey."

ALEX DENOIRE
Professor of Management and Director of Academic Entrepreneurship Program, San Diego State University Entrepreneurial Management Center

COMMONLY SHARED ENTREPRENEURIAL CHARACTERISTICS

Entrepreneurs share a number of characteristics. Often these seem to be paradoxical or even mutually exclusive, which highlights their first key attribute:

- They have the ability to deal with ambiguity. They are comfortable with making decisions based on apparently conflicting and incomplete information. They do not need to nail down every detail, yet they can apply analytical skills when appropriate and necessary. They are also comfortable in complex situations; indeed they can spot opportunities from what may seem to others a chaotic environment, often using an innate intuitiveness to extract patterns not obvious to competitors. Operating in fuzzy-edged gray areas is a natural habitat.
- They are self-starters, optimists, perseverant, energetic, and action oriented. What to others may seem a fatal blow is an opportunity for entrepreneurs to learn, pick themselves up, and see a new opportunity. Threats are turned into great new ideas.
- They are persuasive leaders, people oriented, natural networkers, and communicators. Habitual entrepreneurs involve many people—both inside and outside the organization—in their pursuit of an opportunity. They create and sustain networks of relationships rather than going it alone, making the most of the intellectual and other resources people have to offer, all the while helping those people to achieve their goals as well. They lead by example rather than dictating.
- They are often creative and highly imaginative.
- They passionately seek new opportunities and are always looking for the chance to profit from change and disruption in the way business is done.
- They tolerate risk, but great entrepreneurs temper risk with reality.
- They work with urgency but balance this with a focus on long-term goals too.
- They focus on execution—specifically, adaptive execution. People with an entrepreneurial mindset execute: that is, they move forward instead of analyzing new ideas to death.
Chapter 1  What Is an Entrepreneur?

- They are open to change and do not hang on to old plans when they are not working. But they pursue only the very best opportunities and avoid exhausting themselves and their organizations by chasing every option. Even though many habitual entrepreneurs are wealthy, the most successful remain ruthlessly disciplined about limiting the number of projects they pursue.

These skills clearly conflict with the old idea of an entrepreneur being a loner coming up with new out-of-context inventions in the basement without having the personal skills to create a valuable and exciting business from the creativity.

ROADMAP
Entrepreneurs possess recognizable skills, many of which are embedded within us all. Understand these to uncover hidden traits, and develop them sufficiently to become a successful entrepreneur.

Many entrepreneurial skills do not apply only to starting a company but have broader applications to other career paths and, indeed, to the way one deals with many of the personal challenges in one’s life. As the world becomes more complex and job security in large organizations is no longer the norm, the ability to create and successfully build your own opportunities is vital. Therefore, even if you do not decide to start your own company (at least not yet), the lessons learned throughout this book will help you in whatever you do.

TYPES OF ENTREPRENEURS

Until recently, people tended to think of the world of work in distinct categories. Most people worked either in someone else’s business or in their own. The distinction between being an employee and being an entrepreneur was clear.

The rapid changes in the economy over the past two decades have blurred the lines between traditional employment and entrepreneurship. What counts now are portable skills and knowledge, meaningful work, on-the-job learning, and the ability to build effective networks and contacts, whether through teams or through the Internet. Many people now follow less predictable and even zigzagging career paths. The distinction between managing your own operations and working for others has become blurred. Owning your own business may be a lifetime pursuit or just one part of your career.8 Some people, called serial entrepreneurs, start, grow, and sell several businesses over the course of their careers. In any case, to be successful, you must develop the appropriate skill sets, strategic plans, and management team to enhance your possibilities of survival. We return to this topic in Chapter 2.

There are several different approaches to identifying entrepreneurial types. Ray Smilor in his book Daring Visionaries recognizes three kinds of entrepreneurs: aspiring, lifestyle, and growth entrepreneurs.7

1. Aspiring entrepreneurs dream of starting a business; they hope for the chance to be their own bosses, but they have not yet made the leap from their current employment into the uncertainty of a startup.

2. Lifestyle entrepreneurs have developed an enterprise that fits their individual circumstances and style of life. Their basic intention is to earn an income for themselves and their families.8
Growth entrepreneurs have both the desire and the ability to grow as fast and as large as possible. These firms are the most dynamic job generators in the economy.8

One of the major mistakes aspiring entrepreneurs make when starting out is not to closely question what they want to be “when they grow up.” Choosing the path of a lifestyle company creates certain advantages and disadvantages that must be carefully considered. If the goal is to employ maybe twenty or thirty people, to create a comfortable lifestyle for yourself and family members, and to retain control of the company, then the lifestyle path is for you. However, this imposes certain limitations on how you can fund the company. This path eliminates the possibility of selling part of the company for cash to pay for growth. A lifestyle company will not provide a way for investors to get a return on their investments through the sale of their ownership positions in the company. Not being honest with yourself at an early stage about the control and lifestyle issues will lead to serious and unpleasant conflicts with investors if you take money from them and do not provide them a way to “exit” their investment.

Growth entrepreneurs, on the other hand, are much less driven by control or lifestyle. They recognize that to grow quickly, they will have to sell parts of their companies to raise cash. These investors will apply various levels of control. The aspirations of the founder and the investors are aligned; they both want to build a valuable company and sell it either to an established company or to the public via an IPO (initial public offering). The entrepreneur is willing to trade control for growth and wealth creation.

There is a third route, however—a lifestyle company that manages to grow fairly rapidly without taking in outside investors. These companies are a hybrid between the lifestyle company and the high-growth equity-financed company. We call these “growth bootstrapped” companies. In most cases entrepreneurs do not plan it this way. They may start off as a lifestyle company and find that they can generate enough interest for their products or services that they can grow using the cash that they generate from sales. Or they may be in a place where there is little or no access to equity funds or their business does not match the industry knowledge and interests of investors.

It is important for you to think carefully as you decide if control and lifestyle are what drive you or if it is growth, visibility, wealth, or perhaps fame that fuels your ambition. Moving between these two different paths is difficult for reasons explored further in Chapters 7 and 8.

**The Need to Control**

The first decision that an entrepreneur should make is whether personal lifestyle and control are more important than growth and eventual wealth creation. If you believe
that the idea for a new business is “your baby,” identify with it, believe you are the best person to grow the opportunity, and cannot conceive of handing the reins over to someone else, then a lifestyle choice is best. On the other hand, if you wish to grow the opportunity into something that is “going to change the world” and share the responsibility rather than control the venture, then a different set of options are open. Understanding how important control is will affect your willingness to share the management responsibilities and fundamentally impact your financial options.

Many problems that occur in entrepreneurial companies can be traced to conflicts over who controls what. Be completely honest with yourself on this issue before involving others.

Partners: Many well-known and highly successful companies were started by two or more partners: Jobs/Wozniak at Apple, Hewlett-Packard at HP, Brin/Page at Google, Allen/Gates at Microsoft, and others. Studying successful companies shows that there is a lower chance of failure when there is more than one founding partner. This is not surprising, as one person is unlikely to have all the experience or personal attributes that are required to meet all the challenges. As we will see in the Neoforma master-case, Wayne and Jeff complement each other in ways that enable them to weather some heavy storms. On the other hand, having a partner who turns out to be incompatible can be fatal to the company. Also, right from the beginning, any value that is created is immediately halved if there are two founders. There is a balance between increased likelihood of success and dividing the eventual wealth or cash flow. You should carefully consider on which side of this divide you feel more comfortable. Exercises at the end of this chapter and Chapter 7 will help you think through this process. If you feel that sharing the opportunity with a partner is best, you must carefully consider what personal values and ambitions are needed in a partner. Once an outline profile is prepared, the chances of meeting the right partner increase.

Hired Managers: Unfortunately, many companies fail because the founders do not confront their management limitations. It is one thing to have an idea, a passion, and the ability to get to the first sale of a product; it is another to build a strong organization with all the trappings of a larger company—human resources policies, structured training, international cash management, distribution channel development, and so on. The personal attributes of those who create the original idea and have the risk profile and passion to get a company off the ground are usually very different from the skills that are required as the company matures. It is rare indeed to find a first-time entrepreneur who can take it all the way. It is so rare, in fact, that most venture capitalists refuse to invest in companies where the founder is not open to the idea of stepping aside at the appropriate time. You need to be brutally honest about your own limitations. First-time entrepreneurs have little or no experience and are often too optimistic about their own capabilities. In many cases they can provide the vision and passion for a new opportunity but soon become overwhelmed as the company begins to take control of them, rather than the other way around. Bringing in new managers with more experience can often be a painful but necessary step; learn when to hand over to others before it is too late.
So Why Become an Entrepreneur?

In the master-case, Wayne and Jeff accept from the very start that they are not the ones to take it all the way and, in fact, work hard to find their replacement. Even so, they have a really hard time handing “their baby” over to a stranger. There are two issues here: (1) Can you personally accept that it is time to step aside? and (2) Can you do this without undermining your replacement? We have seen many companies fail from the inability of the entrepreneur to confront these issues. They take the company down with them still in the captain’s cabin. Certainly, if you are someone wanting to retain control, you should pay careful attention to your abilities to manage growth and seek guidance when the time calls for it.

Financing Options: If control is more important to you than wealth creation through sharing, you will have to limit your financing options to so-called bootstrapping methods and bank loans and forgo using true investors to provide funding for your company. This limitation may well restrict the growth rate of your business but can retain your ability to make all the key decisions, both good and bad. These two fundamentally different financing options are so important that we devote two chapters, 7 and 8, to them.

Opportunity Selection: If control of your own company is important to you and you are somewhat risk averse, you would be better off starting with a smaller opportunity. If, on the other hand, you are someone who is comfortable with sharing decisions and ownership, you may follow a more ambitious plan where you intend to grow your company quickly with the help of one or more partners, outside investors, and advisers.

Entrepreneurship Roller Coaster

Of course, life is not so predictable that you can follow each step in this book without being confronted with surprises, challenges, and disappointments. Indeed, one of the most important attributes of a successful entrepreneur is the ability to keep going under duress. Figure 1-1, adapted from Commercializing New Technologies by V. K. Jolly from an original chart from R. J. Skaldic, shows the ups and downs typical of a start-up from the original vision or idea through to commercial success. The challenge for the entrepreneur is to manage the periods of despair as well as celebrate the ecstatic events. As you follow the Neoforma story, you will be able to clearly identify many “ups and downs.”

SO WHY BECOME AN ENTREPRENEUR?

With such a roller-coaster life, you might ask, “Why undertake such an uncertain journey?” People become entrepreneurs for many reasons. Some people are attracted to the perceived independence and freedom from the politics and restrictions of corporations. Being able “to do your own thing,” make your own decisions, and exert greater control over your working environment are attractive alternatives to the
conformity—real or imagined—associated with life in a big company. Some may hit a plateau, see that they are blocked from further promotions, or recognize that they are not progressing as rapidly as they would like, and these conditions become motivating factors. We even tell our students that they should view being fired not as a negative, but as the trigger to start something exciting. Other people believe that building a company can provide them with opportunities for sustained growth and mobility. For others, starting their own company provides them with the flexibility they seek in their lives. And of course, for many, entrepreneurship offers a vehicle for creating huge financial rewards.

USE THE MASTER-CASE TO DEVELOP MANAGEMENT SKILLS

The failure rate of start-ups is very high. According to Timmons and others, the failure rate of new companies is 24 percent within the first two years and 80–90 percent within the first ten years. However, most companies fail not from focusing on a bad idea or even having insufficient funds; they fail because the founders are confronting complex management decisions without experience or knowledge of the tools to make them. Throughout the book we include sections on management issues that are aimed at providing you with an understanding of the unique personal challenges that an entrepreneur faces, especially in their first company adventure. You will examine your own strengths and, yes, weaknesses and learn management skills to deal with the major decisions you will have to make.

Starting a company can be very stressful, with tremendous demands on your time and energy. This can take a toll on your personal life and affect friends and family in ways that are painful. You need to be honest with yourself and those near you so the appropriate balance between your personal lifestyle and your new company can be struck.
Exercises

You will acquire key management skills by studying the master-case for this book and working on exercises. The appendix to this chapter provides a brief synopsis of the master-case.

SUMMARY

The definition of an entrepreneur has evolved over time as the surrounding economic structures have become more complex. Today entrepreneurship is defined as the process of creating something different by devoting the necessary time and effort; assuming the accompanying financial, psychic, and social risks; and receiving the resulting monetary rewards and personal satisfaction. Entrepreneurs can be classified as aspiring, lifestyle, or growth. Different personal values, ambitions, and attributes separate these classes, yet there is a set of personal attributes that seem to be common to all types. Before embarking on an entrepreneurial journey, you should take some time to reflect on your own attributes, particularly your need to be in control. This will help you identify an opportunity and create a plan of action that is suited to you and increase the likelihood of success.

STUDY QUESTIONS

1. What are the three types of entrepreneurs? With which do you most identify?
2. Describe five common entrepreneurial personal attributes.
3. Name four reasons to choose an entrepreneurial career. What is your main one?
4. If you start a company, will you expect to always be in control, or will you be willing to share control with others if that will help the company grow and make all the participants wealthier? Describe your reasons for your choice.

EXERCISES

1. Some argue that entrepreneurship is largely based on chance and many people do not become entrepreneurs because they are never lucky enough to be in the right place at the right time. Alternatively, entrepreneurs are believed to create their opportunities by engineering situations that heighten the chance they find an opportunity. What is your view? Give examples to illustrate your answer.
2. Entrepreneurs often use networks to extend their “opportunity space.” You never know when and how a network will be valuable or what sort of network you might need. Indeed valuable networks can be created only when you are not looking for immediate benefit. How can you develop your own network before it may be useful?
3. Incompatible partners can destroy a company, yet good partners are invaluable. Taking a partner as an equal when you start a company immediately halves your potential upside. Is this worth it? You are considering starting a company. How would you find the ideal partner, and what would be his or her experience, personality, ambitions, and values?
4. Master-Case Exercises: Read the appendix to this chapter and go to the book’s Web site to read the diary entries Prequel and Months 0, 2, 19, 29, 57 and view the first video selection, “The Mindset, the Passion: Do You Have What It Takes?”
   Either as a team or individually, produce a presentation on each of the following questions for class discussion. Only one or two slides for each are required to state the key points, which will then be expanded in the class.
   Master-case Q 1: There are two well-known theories of entrepreneurship. Schumpeter postulated that entrepreneurs strive to “creatively destroy” the status
Chapter 1 What Is an Entrepreneur?

quip; any company that does not continually innovate will eventually be destroyed by someone who is more “entrepreneurial.” Kirzner, on the other hand, claims that there are always disequilibria in markets. Entrepreneurs are good at uncovering and exploiting these. Did Neoforma fit one of these theories better than the other, or can both be invoked when trying to understand this company?

Master-case Q 2: Entrepreneurship is sometimes discussed as the ability to deal with these apparent conflicts:

● Ambiguity—Planning. Start-up companies are usually exploring new opportunities where data, details, and the environment may be largely unknown. Yet without a plan, managers do not have a basis on which to make decisions. The discipline of a business plan is required yet is rarely followed.

● Creativity—Discipline. Many, though not all, start-up companies are based on a new idea or an innovative solution to an existing need. However, if everyone is creating new things all the time, then nothing will actually get done.

● Urgency—Patience. Entrepreneurs are driven people. Yet real advances take longer than planned—always.

● Flexibility—Organization. The need to respond rapidly to changing circumstances, new ideas, opportunities, and threats with limited resources requires a great deal of flexibility and the ability to change direction quickly. But as the start-up grows, it is impossible for the founders to control everything and make all the decisions. An organizational structure must be put in place, which inevitably begins to prevent just the flexibility that is needed for success.

● Risk Taking—Risk Management. Entrepreneurs are usually risk takers, yet too much risk does not create a successful organization and certainly may turn away investors.

● Short Term—Long Term. Every day presents a new challenge and possible change of direction, yet you must not lose sight of the ultimate goal.

How did the managers at Neoforma resolve these paradoxes?

Master-case Q 3: Managing a start-up requires a broad range of personal attributes, different from and more diverse than in a larger, more structured company. An entrepreneur must balance these often conflicting skills and traits. Pick eight from the list and show, with examples, how they were exhibited by Wayne and Jeff.

● Creativity
● Analytical Ability
● Imagination
● Networking
● Risk Taking
● Motivation to Achieve
● High Autonomy
● Leadership
● Initiative Taking
● Commitment and Tenacity
● Tolerance for Ambiguity
● Unconventional
● Optimism
● Intuition
● Passionate in Enjoyment of Life
● High Energy

APPENDIX: THE MASTER-CASE, NEOFORMA, INC.

Wayne McVicker kept a diary recording in great detail the management issues that he confronted in forming, growing, and eventually giving up control of Neoforma. The full diary can be found in McVicker’s book, Starting Something. An edited version is also on the Web site for this textbook. Wayne has agreed that we can use selections from his book to help you explore key management issues. He also graciously
allowed us to interview the main players in and around Neoforma concerning the tough decisions that the management team had to confront. These filmed interviews can be accessed on the book’s Web site. You will be asked to analyze their decisions and reach your own conclusions. As our students state, “It’s like actually being in the company and having the responsibility to resolve major conflicts, stresses, and make tough decisions.” The master-case is revisited in later chapters where specific management issues related to the chapter content arise. You will get to know the major players in and around Neoforma, identify closely with them, and anguish over the challenges the founders had to confront. Apart from actually starting your own company, there is no better way to experience the subtle management threats common to all new companies. This experience will undoubtedly increase your own odds for success.

The story of Neoforma, Inc., as reported by Wayne McVicker, is richly endowed with examples of many management issues that we will introduce throughout the book. We have found in our classes that students are better prepared for digging deeper into the master-case if they are acquainted with the story and many of the participants first. So here is a brief summary of the company’s history.

NEOFORMA—A SUMMARY OF THE MASTER-CASE

YEAR MINUS NINE: Wayne McVicker was trained as an architect. He never really had a career plan, working on and off for a large architectural practice where he was considered rather unconventional. A self-taught computer geek, he was frustrated by the lack of interest in technology in the office. One day he got a call from Dwight, a longtime architect friend. Dwight headed the planning department at Varian, a large, successful public company that made huge medical equipment such as radiotherapy machines for cancer treatment. They were looking to add some “technology” into their marketing department by using three-dimensional modeling of hospital facilities to show how their machines could be installed. Wayne was intrigued and decided to take the job.

YEAR MINUS FIVE: Jeff Kleck joined Varian and was not immediately impressed with Wayne’s work; there was some antipathy. Gradually, however, they gained mutual respect and developed a friendship that changed both their lives. Egging each other on, their software took on a life of its own as they expanded the concepts, usefulness, and capabilities. They even wanted to model competitors’ products too, thinking that would showcase Varian’s offerings in a better light.

YEAR ZERO: Eventually they questioned whether their software could become a profitable product in its own right—maybe even the basis for a new company. Realizing that Wayne’s boss, Evelyn, would block the idea of Wayne and Jeff doing something on their own, they went around her to Ed, the president of the division. Eventually he supported their idea to spin out the software into a new company, providing Wayne and Jeff would continue to work for Varian for one year.

MONTH THREE: Under pressure to find a senior marketing executive, Wayne hired a friend, Cassandra, who turned out to be not quite what was expected. After agonizing over what became an embarrassing and untenable situation, Wayne fired her and lost a friend forever. He then hired Isaac, who quit on the first day because “there’s too much to do here,” before finally hooking Dante, who turned out just fantastic.
MONTH TEN: Wayne and Jeff looked for a lawyer to draw up the legal documents. That’s how they found Jack Russo. Jack was a local attorney who had decided to leave the “big partnership” world of lawyering and started his own firm, specializing in start-up companies. Meeting Jack was fortunate for Wayne and Jeff as, in his new role, Jack got to know all the key people in Silicon Valley who were involved in some way or another with small companies. Jack worked with Wayne and Jeff to help them figure out what their business was actually going to do and coached them on how to present the opportunity to potential investors, mentoring them for several years. But finding investors and actually getting them to write checks took a long time, so in the meantime, Wayne and Jeff continued working at Varian, going to Neoforma’s new offices early in the morning, after supper in the evenings, and on the weekends. Family members were also involved in the company in different ways. Anni, Wayne’s wife, named the company and designed PR materials; Wayne’s son stuffed envelopes; Anni’s father lent the company some money.

At that time, the Internet was just emerging, so Neoforma’s first software product was mailed out on a CD-ROM. The company needed extra help on the software code and decided to subcontract some of the work to software developer Galatia, Linda’s company.

MONTH ELEVEN: Neoforma’s software, as it migrated to the Internet, created a much more transparent marketplace for medical equipment and supplies. It made product and price comparisons much easier. This was seen as a threat by the powerful medical product suppliers and their large customers, the GPOs (Group Purchasing Organizations) that act on behalf of hospitals and clinics. Neoforma was shining an unwelcome light on the cozy relationships that existed between them.

MONTH TWELVE: After one year the stress of doing two jobs was too much, and the founders left Varian, taking a significant salary cut. They had to tap their home equity and children’s college funds to sustain them.

MONTH FIFTEEN: Jack felt they were ready for outside investment. He tapped his network and brought in Shawn and Wally, who helped them with a check for $25,000 to get started. After a few months, though, they both seemed to cool on the idea of investing, and again Neoforma was short of cash.

MONTH EIGHTEEN: Jack brought in Alexander and JP, two rather flamboyant, rich private investors. After a rocky start resulting from underestimating the opportunity, both investors got excited but, for some vague reason, disappeared from the scene, again putting more financial pressure on the company. This coincided with Anni’s father getting nervous and asking for his loan to be paid back, so Wayne cashed in his retirement savings, which triggered a large and unexpected tax bill.

MONTH TWENTY-THREE: Jack introduced Wayne and Jeff to Denis Coleman, the founder of Symantec and several other companies. Denis suggests that Neoforma hires Sasa, a Stanford MBA, to write a “professional” business plan. Together with Wally, who came back onto the scene, they made an investment in Neoforma, not a moment too soon.

Just as things were looking good and Neoforma was about to sign an important contract with Baxter Healthcare, they were named in a frivolous lawsuit against Baxter, which destroyed the opportunity.

MONTH TWENTY-SIX: Suddenly Alexander and JP jumped back into the scene as Neoforma began to position itself as an e-commerce B2B company in the large health-care space. They smelled a big opportunity with a lot of the risk already removed and, together with some of their network including Bret Emery, quickly invested a million dollars in Neoforma. They promised to introduce the company
to top-tier venture capital firms they knew. They convinced Venrock, a New York–

based venture capital firm, to invest, and Bret joined the board of Neoforma as their

representative. Denis and Jack left, and Denis warned Wayne and Jeff of the negative
effect on both management and culture that Bret was likely to bring.

MONTH TWENTY-SEVEN: Wayne was burning out. He hired Larry to take

over his responsibilities for software development and Emma to expand the Web site
content. Wayne had difficulties delegating his work, which created tension between
him and Jeff, which they eventually resolved.

MONTH THIRTY: In order to hire more software developers, Wayne went to

Buck's café in Silicon Valley, where much of the local networking was done over
coffee. He managed to coax Dave, Mitch, and Apar, part of a high-level team, to
join Neoforma.

MONTH THIRTY-TWO: Alexander hired Lori, a flamboyant PR executive,
without informing Wayne. Lori suggested that Wayne move into the background
and Jeff should be the sole public figure for Neoforma.

MONTH THIRTY-THREE: Wayne went into a deep depression, concerned
about the viability of Neoforma and the risk that he was imposing on his family.
His relationship with Anni had become distant. By chance he found an “executive
coach,” George Brodsky, who saw him through the bad patch and remained a mentor
to Wayne for more than a year.

MONTH THIRTY-SIX: Alexander and Bret raised some more funds for Neo-
forma under terms that significantly reduced the ownership and possible payout for
the early angel investors, as well as for both Jeff and Wayne. Jeff was outraged at
Wayne for giving in to the terms. The investors suggested that Wayne take over the
company. That almost destroyed the founders’ friendship.

MONTH THIRTY-NINE: Realizing that they had gone beyond their manage-
ment competence and the company was getting out of control, Jeff and Wayne hired
a headhunter to find an experienced CEO. With great persistence, they coaxed Bob
Zollars to join Neoforma to take over leadership.

MONTH FORTY: Sensing that the window of opportunity to sell the com-
pany was closing and at the urging of the board, Bob started preparing Neoforma
for an initial public offering. Bob hired Dan to be head of business development,
and Dan’s ex-employer immediately sued Neoforma. The courts imposed a restric-
tion on Dan. Jeff had to spend much of his time resolving that unexpected situa-
tion. Bob also hired Ajit, an experienced medical products engineer, to head that
function.

MONTH FORTY-ONE: Neoforma bought GAR, headed by Gino, a flamboyant
used medical equipment trader. The cultures were incompatible, and Neoforma later
sold GAR. Wayne found Pharos, a small, high-tech company, and Neoforma bought
it. The cultures matched and the acquisition worked well.

MONTH FORTY-TWO: The board suggested that some corporate investors
would enhance the perceived value of the company prior to going public. Bret offered
to negotiate those deals but asked for extra shares for doing so. That enraged Jeff,
who refused to agree and was willing to have the company fail rather than give in
to Bret’s demands. The board again suggested Wayne take over Jeff’s position but
he refused. Bob stepped in and calmed the situation at the last minute. Several of
the large companies cooled off during the negotiations, and there was concern that
they were just trying to learn more, but they really wanted Neoforma to fail as it was
viewed as a threat rather than an opportunity.

Neoforma appointed Merrill-Lynch as its investment banker.
MONTH FORTY-SIX: Despite a number of last-minute problems, Neoforma started trading publicly on NASDAQ. The stock surged from $13 to $52 on the first day of trading.

MONTH FORTY-NINE: Neoforma's stock declined significantly based on a failed merger and nervousness regarding the dot.com bubble. Tensions grew in Neoforma.

MONTH FIFTY: Neoforma cut costs and Wayne made difficult firing decisions.

MONTH FIFTY-FOUR: Wayne and Jeff felt like strangers in their own company and decided to sell some stock and leave.

MONTH FIFTY-SEVEN: After a rest from the stress, Wayne and Jeff decided to go back to the original dream of Neoforma, raised some angel money, and formed Attainia—"to do it right this time."

FOUR YEARS LATER: After struggling for a few years under the careful management of Bob, during which the larger companies tried to undermine Neoforma, the company was finally purchased by Global Healthcare Exchange, a consortium of major firms. Bob left Neoforma.

Players. (Those marked with * were interviewed for the video materials accompanying this book; those in bolded type are the most important.)

Founders:
Wayne McVicker*: architect, author, software engineer, and cofounder of Neoforma
Jeff Kleck*: marketing manager at Varian and cofounder of Neoforma

Executives at Varian:
Dwight: Head of the planning department at Varian, manufacturer of medical equipment
Evelyn: Wayne's immediate boss at Varian
Ed: president of Wayne and Jeff's business unit at Varian

Mentors and Investors:
Jack Russo*: Neoforma's first attorney, investor, and mentor
Wally*: heart surgeon, entrepreneur, and angel investor in Neoforma
Alexander: private investor in Neoforma
JP: Alexander's partner, investor in Neoforma
Shawn: successful software entrepreneur and angel investor
Denis Coleman*: founder of Symantec, investor in Neoforma
Bret Emery: private investor in Neoforma, partner in Venrock Venture Capital

Neoforma Employees and Subcontractors:
Cassandra: Wayne's friend, a problem hire
Linda*: CEO of Galatia, a software development subcontractor for Neoforma
Isaac: employee for less than a day
Dante*: early and great hire (known as Chuey in the video clips)
Larry*: software engineer and Olympic coach hired by Wayne to manage development
Emma: liberal arts graduate and ex-Oracle employee hired to improve Web content and quality
Dave*: Mitch, and Apar, software team hired by Wayne
Lori: PR executive hired by Alexander to promote Neoforma
George Brodsky: Wayne’s executive coach
Bob Zollars*: later CEO of Neoforma
Dan*: senior executive hired by Bob to strengthen the management team
Ajit*: senior executive hired by Bob to strengthen the management team
Sasa: business plan writer

Family Members:
Anni*: Wayne’s wife
Anni’s father: lender to Neoforma

ADDITIONAL RESOURCES

Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation
Ewing Marion Kauffman established the Ewing Marion Kauffman Foundation to pursue a vision of self-sufficient people in healthy communities. The foundation, with an endowment of more than $2 billion, is based in Kansas City, Missouri. It directs and supports innovative programs and initiatives that merge the social and economic dimensions of philanthropy locally and nationally.
For more information, visit the center’s Web site at www.entrepreneurship.org.

National Dialogue on Entrepreneurship
In the summer of 2003, the Public Forum Institute began work under a grant from the Ewing Marion Kauffman Foundation to develop a National Dialogue on Entrepreneurship (NDE) to improve awareness of the value of entrepreneurship. The project is building on the forum’s extensive background in national dialogues on economic issues and, in particular, a series of events and activities since 2000 focusing on women and entrepreneurship.
For more information and to sign up for the newsletter, visit the Web site at www.publicforuminstitute.org.

Resource Conference Centers and Research Facilitators
American Women’s Economic Development Corporation (AWED), New York.
AWED, a premier national not-for-profit organization, is committed to helping entrepreneurial women start and grow their own businesses. Based in New York City, AWED also has offices in southern California, Connecticut, and Washington, D.C. It has served more than 150,000 women entrepreneurs through courses,
conferences, seminars, and one-on-one counseling provided by a faculty of expert executives and entrepreneurs.

**Catalyst, New York.** This national nonprofit research and advisory organization founded in 1962 has a dual mission: (1) to help women in business and the professions achieve their maximum potential, and (2) to help employers capitalize on the talents of women. Under the leadership of Sheila W. Wellington, president, the Catalyst library at 120 Wall Street offers resources on women for background research.

**The National Association of Women Business Owners (NAWBO), Washington, D.C.** NAWBO propels women entrepreneurs into economic, social, and political spheres of power worldwide. NAWBO offers assistance in securing access to financial opportunities to meet, exchange ideas, and establish business ventures; educational programs, seminars, and leadership training; chapter programs, regional meetings, and national conferences; discounts on products and services; an international network of business contacts; visibility and clout in political arenas; and procurement opportunities.