Investing in Entrepreneurs:
A Strategic Approach for Strengthening Your Regional and Community Economy

A Presentation by:
Gregg A. Lichtenstein, Ph.D. and Thomas S. Lyons, Ph.D.

To:
North Central Regional Center for Rural Development
Sponsored by Dr. Scott Loveridge, Michigan State University
Wednesday, October 27\textsuperscript{th}, 2010
1:00 p.m. – 2:30 p.m. EST

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Outline of this Talk

1. How do we segment the marketplace of entrepreneurs in a *useful* way?
2. Why do we have to do it?
3. How do we benefit from segmenting the marketplace of entrepreneurs and enterprises?
Opening Remarks

- Who we are
- Where we’re coming from: **three key values**
  - A focus on the entrepreneur, not the business
  - A commitment to development / transformation (of individuals as well as communities)
  - A dedication to creating systems where the whole is greater than the sum of the parts
The burning question for practitioners as well as policymakers:

- What are the crucial differences among entrepreneurs and how do we work with them?
Three dimensions of the Pipeline

1. The vertical dimension represents the rungs in the skill ladder and sorts entrepreneurs into five skill levels.

2. The horizontal dimension represents the six life cycle stages of the business.

3. The depth dimension represents the quantity of entrepreneurs and/or enterprises (capturing volume and flow).
The Entrepreneurial Skill Ladder
Business Life Cycle Stages

<table>
<thead>
<tr>
<th>Stage 0</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
<th>Stage 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-venture</td>
<td>Existence</td>
<td>Early Growth</td>
<td>Expansion</td>
<td>Maturity</td>
<td>Decline</td>
</tr>
<tr>
<td>Interest</td>
<td>Launch</td>
<td>Breakeven</td>
<td>Profits</td>
<td>Size</td>
<td>Complacency</td>
</tr>
<tr>
<td>Opportunity</td>
<td>Sales</td>
<td>Customers</td>
<td>Financing</td>
<td>Stability</td>
<td>Competition</td>
</tr>
<tr>
<td>Offering</td>
<td>Potential</td>
<td>Viability</td>
<td>Growth</td>
<td>Diversification</td>
<td>Profit Pressure</td>
</tr>
<tr>
<td>Launch</td>
<td>Breakeven</td>
<td>Profits</td>
<td>Market Share</td>
<td>Market Saturation</td>
<td>Revenue Decline</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Size</td>
<td></td>
<td>Close/Reinvent</td>
</tr>
</tbody>
</table>
The Pipeline of Entrepreneurs and Enterprises: 2 Dimensional Representation
The Pipeline of Entrepreneurs and Enterprises: 3 Dimensional Representation
# Pipeline Dynamics

<table>
<thead>
<tr>
<th>Skill Level</th>
<th>Stage 0 Pre-Venture</th>
<th>Stage 1 Existence</th>
<th>Stage 2 Early Growth</th>
<th>Stage 3 Expansion</th>
<th>Stage 4 Maturity</th>
<th>Stage 5 Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Leaguer</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>AAA</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AA</td>
<td></td>
<td></td>
<td>Stuck Point</td>
<td>Crash Point</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td></td>
<td>Stuck Point</td>
<td>Crash Point</td>
<td></td>
<td>Acquired / Inherited: Weak Point</td>
<td></td>
</tr>
<tr>
<td>Rookie</td>
<td>Stuck Point</td>
<td>Crash Point</td>
<td>Acquired / Inherited: Weak Point</td>
<td>Acquired / Inherited: Weak Point</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Performance Differentials by Skill Level
Sales Revenue by Skill Level for Clients Participating in the Entrepreneurial League System® of Central Louisiana
Data Reported as of 6/30/09, N = 109

<table>
<thead>
<tr>
<th>Skill Level</th>
<th>Average Sales Revenue</th>
<th>Ratio Between Levels</th>
<th>Median Sales Revenue</th>
<th>Ratio Between Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA (13)</td>
<td>$5,114,762</td>
<td>4.9</td>
<td>$3,616,748</td>
<td>7.14</td>
</tr>
<tr>
<td>A (43)</td>
<td>$1,042,913</td>
<td>2.3</td>
<td>$506,375</td>
<td>2.1</td>
</tr>
<tr>
<td>Rookies (53)</td>
<td>$456,745</td>
<td>1</td>
<td>$242,665</td>
<td>1</td>
</tr>
</tbody>
</table>
# A Comparison of the Developmental / Skill Level and Annual Revenues for 13 Entrepreneurial Professional Ophthalmologists

<table>
<thead>
<tr>
<th>Skill Level (n)</th>
<th>Average Sales Revenue (1987)</th>
<th>Ratio Between Levels</th>
<th>Average Age</th>
<th>Average Years in Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA (0)</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>AA (3)</td>
<td>$4,200,000</td>
<td>3.23</td>
<td>n/a</td>
<td>13</td>
</tr>
<tr>
<td>A (5)</td>
<td>$1,300,000</td>
<td>3.9</td>
<td>43</td>
<td>9</td>
</tr>
<tr>
<td>Rookie (5)</td>
<td>$330,000</td>
<td>1</td>
<td>40</td>
<td>14</td>
</tr>
</tbody>
</table>
Key Observations about the Pipeline

- Movement from one segment of the Pipeline to another requires a transformation – either the development of new skills or the evolution of the business to the next stage in the life cycle.

- The needs of entrepreneurs and enterprises in each segment of the Pipeline are different, as are the services and the infrastructure necessary to support them.

- Entrepreneurship and innovation is an issue at every cell in the pipeline.
Observations (continued):

- The ability to use technical and financial assistance is a function of entrepreneurs’ skill level
- Most economic development practitioners organize services by stage in the life cycle of the business
- Entrepreneurs at each skill level must be worked with differently
- To help an entrepreneur grow their business, you must often first help them develop their skills
Observations (continued):

- To transform your economy, you must create a pipeline that emphasizes both volume and flow.
- To achieve flow in pipeline, the individual segments must be connected.
- The ideal flow in the Pipeline is up and to the right (higher skill levels and later stages in the business life cycle).
- Understand who your customers (the entrepreneurs) are according to where they are located in the Pipeline, then you will know what you need to do with them.
Three Strategies for Managing the Pipeline

1. **Performance enhancement strategies**: designed to improve the quality of the assets or stock within each segment of the Pipeline

2. **Incubation strategies**: designed to change (i.e., transform) assets or stock by improving the flow or movement of entrepreneurs and enterprises between segments in the Pipeline

3. **Selective attraction strategies**: designed to add new players or stock to the Pipeline
Additional Observations

- To be effective, economic development strategies must be targeted to a specific part of the Pipeline.
- The Pipeline illustrates the critical differences between growth and development.
- A system of service provision needs to be created in which everyone plays a specific role.
What are the benefits of mapping the Pipeline of entrepreneurs and enterprises in your community or region?

1. The business assets in our communities are larger than we think.

2. We now have a concrete basis for making strategic decisions about how and where to invest our limited resources – and for how long.

3. We can avoid the two limited approaches to working with entrepreneurs: treating everyone the same (one size fits all) or treating everyone differently.
Other issues in enterprise development that the Pipeline enables us to see more clearly:

- Most community and regional Pipelines have a serious bifurcation: the missing middle – no bridge
- Everyone starts as a Rookie, which means that all successful, serial entrepreneurs came from somewhere. What is our responsibility for creating more? What are the equity issues?
- Entrepreneur and the business are not the same thing. The big policy question is not whether to invest in the business, but how to invest in the entrepreneur.
Bifurcation in the Pipeline

LIFE CYCLE STAGES

Stage 0: Pre-Venture
Stage 1: Existence
Stage 2: Early Growth
Stage 3: Expansion
Stage 4: Maturity
Stage 5: Decline

SKILL LEVELS

Major Leaguer
AAA
AA
A
Rookie

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Questions & Answers
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- Contact:
  Gregg A. Lichtenstein, Ph.D. President
  Collaborative Strategies, LLC
  411 N. Exeter Avenue
  Margate, NJ 08402
  P: (609) 703-1008
  Email: gregg@entreleaguesystem.com

  or

  Thomas S. Lyons. Ph.D., Management Professor
  Lawrence N. Field Family Chair in Entrepreneurship
  Baruch College, City University of New York
  Zicklin School of Business
  55 Lexington Avenue, Room 9-246
  New York, NY 10010
  P: (646)312-3633
  Thomas.Lyons@baruch.cuny.edu