

# ENTREPRENEURS

Entrepreneurs and the Economy



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An entrepreneur is a person who comes up with a new idea or

an innovator an

and capital) to take the idea to the marketplace. Entrepreneurs

tries a new way

improve established products and services, or they create new

one who develo

In a free market economy, one of the strongest incentives

processes and or

earn a profit. To flourish, entrepreneurs need an economic

resources to pl

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invention and brings together a country's resources (land, labor

and risk taker who

manage and assume the risk of a business enterprise. They

are responsible for the success

of doing things; ones. Entrepreneurs, like everyone else, respond to incentives.

of developing new products and

services that drive entrepreneurs is to please customers and thereby

organizes economic

activity in an environment that encourages private property and free markets.

to satisfy the needs and desires of customers.



## What Is an Entrepreneur?



Everyone loves a hero—a person whose values we revere, whose accomplishments we respect. We admire and appreciate people who venture forth to try something new and end up benefiting a host of other people. These qualities describe the essence of entrepreneurship. An entrepreneur is one who asserts, “There is a better way, and I will find it.” Being entrepreneurial means charging down a new path, staying alert to opportunity and taking risks to seize the opportunity. It means having energy, vision, optimism and daring to try something new. An entrepreneur is anyone with both an idea and the willingness to take the idea to the marketplace. Creativity and risk taking are two essential elements of entrepreneurship.

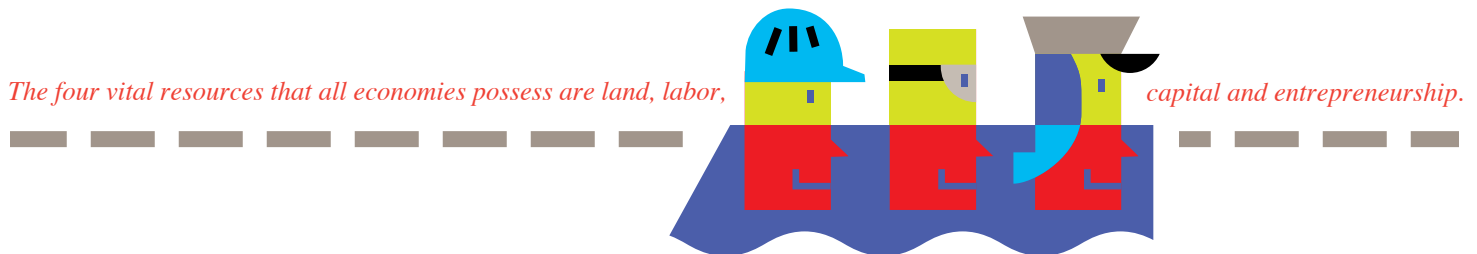
AMBITION

## Entrepreneurs as Vital Resources



All of the economies around the world possess four major resources: land, labor, capital and entrepreneurship. Land represents natural resources—the soil, food crops, trees and lots we build on. Labor represents the farmers, accountants, cab drivers, dry cleaners, assembly-line workers and computer programmers who provide skills and expertise to build products or offer services in exchange for wages and salaries. Capital represents the buildings, equipment, hardware, tools and finances needed for production. Entrepreneurship represents ideas, innovation, talent, organizational skills and risk.

Entrepreneurs concoct the recipe, design the machine, develop the process and organize the workers who create and package the delicious chocolate bar on the grocery store shelf. In most cases, all we see is the final product, and thus we take entrepreneurs for granted. But entrepreneurs play the crucial role in the marketplace of making something that others will value. They are like the spark in an engine, igniting new ideas and discoveries that move the economy forward. They seek ways to improve current products, processes and services, and they create entirely new ones. They are willing to take risks to make things better.



Entrepreneurs can be found everywhere, doing just about everything—from starting a new restaurant to creating a new technology or invention. These people often put their money or their reputations on the line. Some wish to become rich and famous. Others wish to make themselves, their families or their

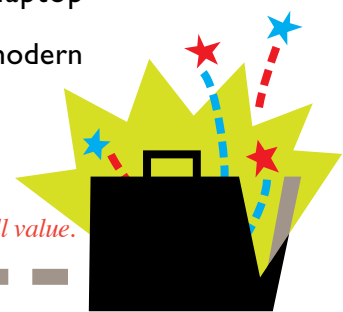


communities better off. And some seek pure adventure—to challenge the limits of their capability. Regardless of motive, the entrepreneur’s goal is to improve things. In 1926, Henry Ford, the inventor of the Model T, said, “It’s strange how, just as soon as an article becomes successful, somebody starts to think that it would be more successful if only it were different.” That somebody is an entrepreneur, someone who has a vision of what might be.

## Entrepreneurs and Creative Destruction



In 1899, the director of the U.S. Patent Office said that everything that could be invented had already been invented. Boy, was he wrong! Practically everything we use today would have been unthinkable in 1899—cell phones, laptop computers, digital cameras, debit cards and laser eye surgery. Most of the modern conveniences we take for granted today did not exist 100 years ago.



*Entrepreneurs are unique: they add the spark of creativity to the other three resources in hopes of creating something that others will value.*

The progress sparked by entrepreneurs’ ideas does not simply happen. A tremendous amount of work and a great deal of risk go into every new idea that eventually makes its way into the marketplace. And even though entrepreneurs create wealth and opportunity with their ideas, they are not always appreciated for what they do in the economy. One reason for this is that entrepreneurs can be extremely disruptive.

When entrepreneurs take bold leaps and break contact with the familiar, they often leave behind a clutter of obsolete products and processes. This force is called *creative destruction*. For example, manual typewriters used to be in great

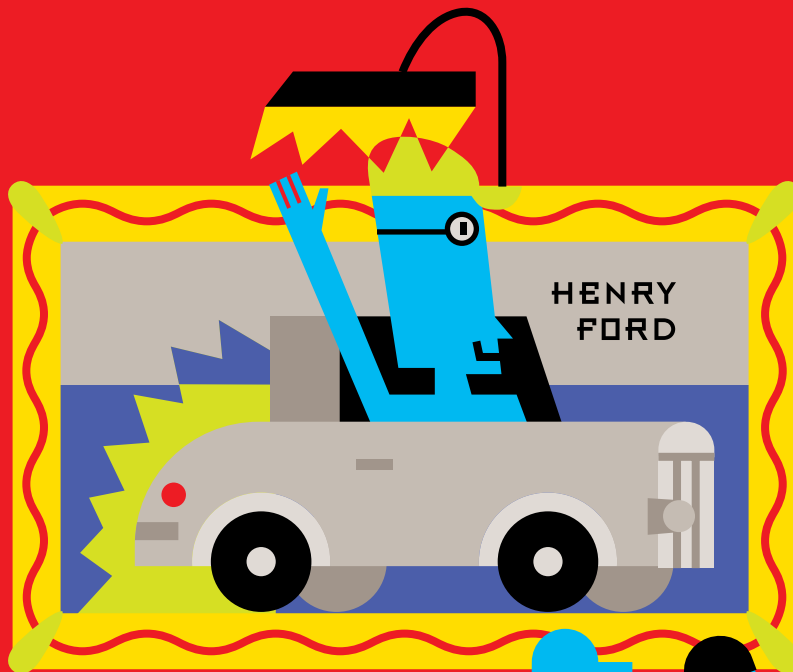




He was selling milkshake equipment in the 1940s when he bought a small drive-in owned by Mac and Dick McDonald. He turned it into McDonald's Corp., which today has more than 30,000 local restaurants in more than 119 countries serving nearly 50 million people every day.



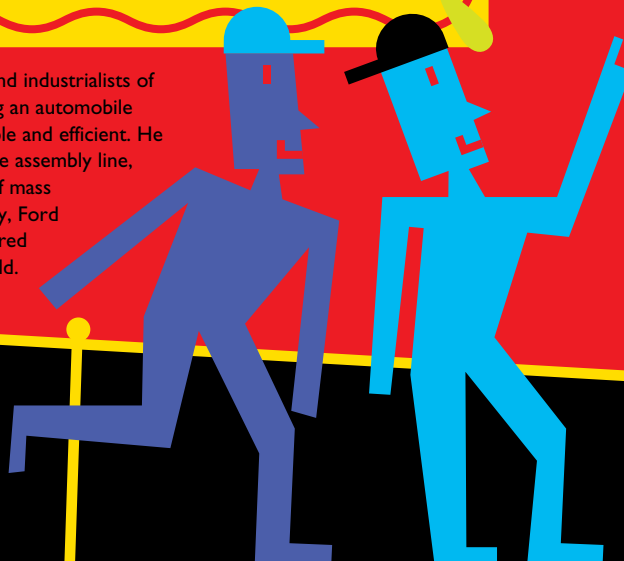
He began writing songs as a teenager in the 1940s and earned a living as a professional boxer and autoworker. In 1959, he borrowed \$800 from family and friends and started Motown Records, creating the "Motown sound" with such artists as Smokey Robinson, Marvin Gaye, Diana Ross and the Jackson Five.

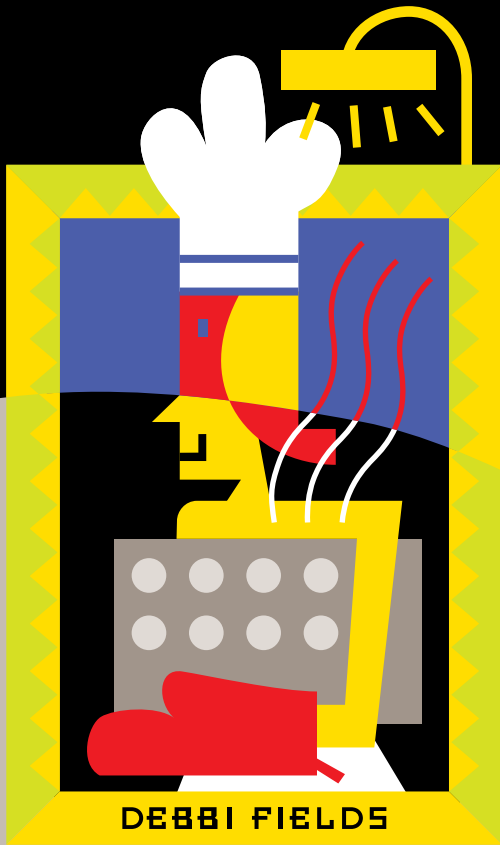


One of the greatest innovators and industrialists of all time, he dreamed of producing an automobile that was reasonably priced, reliable and efficient. He pioneered the development of the assembly line, greatly increasing the efficiency of mass production of automobiles. Today, Ford Motor Co. employs several hundred thousand people around the world.



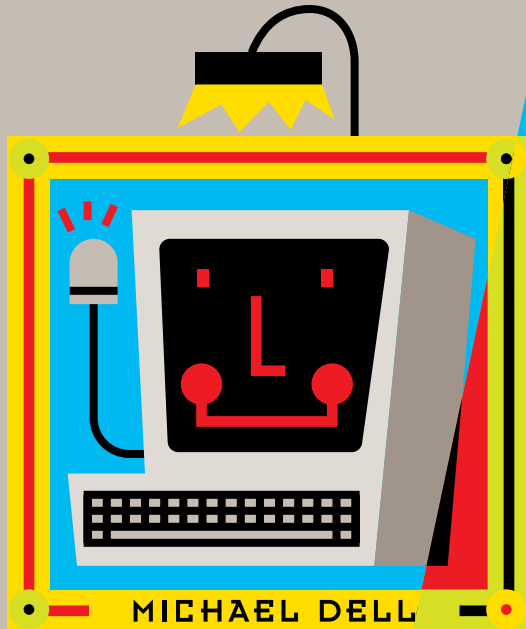
He dropped out of high school in the 1950s to join the Navy but later went to college on a football scholarship. After college, he started performing stand-up routines, such as Fat Albert, depicting life in the Philadelphia neighborhood where he grew up. After so many years of Cosby's kind, warm-hearted comedy, this entertainment entrepreneur has become for many young comedians the man who wrote the book.





**DEBBI FIELDS**

She got a loan at the age of 20 (despite opposition from husband, friends and bankers who said no with cookie breath and chocolate smears on their lips) and sold \$75 worth of cookies to passersby on the street on her first day of business. Now, Mrs. Fields Famous Brands has more than 2,600 franchise locations in the United States and some 30 foreign countries.



**MICHAEL DELL**

In 1984, he began a computer business in his dorm room at the University of Texas with \$1,000 and an idea: to buy computers from local stores, upgrade their components and sell them directly to the customer, thus bypassing the middleman. Dell Inc. is now a premier provider of information technology products and services worldwide and has been recognized by *Fortune* magazine as America's most admired company.

**GREAT  
AMERICAN  
ENTREPRENEURS**

*Entrepreneurs come in all shapes and sizes and from all walks of life. The one thing they all have in common is an idea: for a new product, a unique service, a new way of selling or even an alternative form of entertainment. The great American entrepreneurs featured here are all products of the U.S. free enterprise system, one that fosters innovation, encourages risk taking, protects new ideas and allows entrepreneurs to profit from their successes.*



She retired in 1963 after a 25-year career in direct sales to write a book about women's challenges in the workplace. Instead, she wrote a business plan, took \$5,000 of her own savings and started Mary Kay Cosmetics. Today, Mary Kay Inc.'s independent sales force exceeds 1.3 million in more than 30 markets worldwide.



demand, because they served a useful function. Now, one would be hard-pressed to find a manual typewriter, or even an electric one, at work in a business. The same fate awaits countless other products, processes and services. New technologies replace old ones, and entrepreneurs spark the change. A healthy economy is one that allows creative destruction to occur because, overall, more people benefit than lose. Each act of creation brought about by entrepreneurs more than offsets the losses associated with products or processes becoming obsolete.

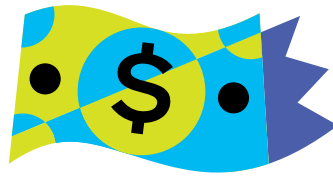
## Entrepreneurs in the Marketplace



A market system—one in which individuals, not the government, make decisions about how to use most of the economy’s resources—provides entrepreneurs one of the best environments in which to flourish. In a free market, the potential to make a profit supplies a huge incentive for entrepreneurs to come up with new and better ideas.

Profits are essential signals to entrepreneurs that they are on the right track. They reward the entrepreneur for doing things that customers value and prefer. Profits are an important sign that people are reacting positively to what the entrepreneur has to offer. Likewise, an economic loss tells the entrepreneur that a product or idea may not provide enough value to the customer. In this light, the market can be a harsh critic and a sound judge.





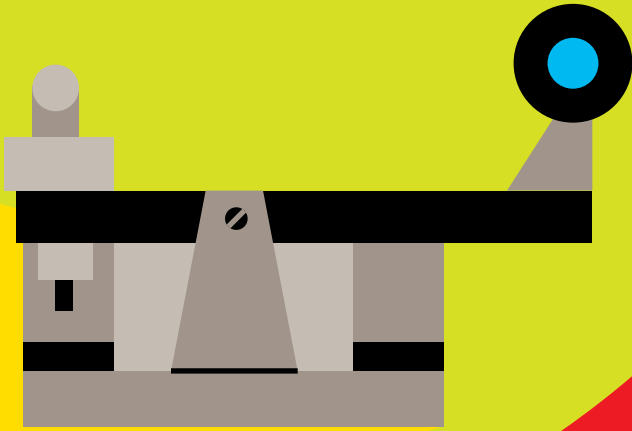
The market system rewards those who create opportunities for employment and further innovation. When new products, processes and services are introduced by the entrepreneur, and when customers vote favorably with their dollars, even more opportunities arise. New products or service lines develop to further enhance the recently introduced products. The computer, for example, paved the way for the Internet, which, in turn, paved the way for search engines and software to explore the World Wide Web, which, in turn, created a new way for people to shop, bank, pay bills, get information, and on and on. A wealthy economy is one teeming with superior contributions and the entrepreneurial opportunities created by them.

It is impossible to know in advance which entrepreneurial adventures will lead to more economic development. This is why the risk taking of entrepreneurs is so important. Entrepreneurs must listen to market signals of profit or loss to tell them whether they are on the right or wrong path to customer satisfaction. The market allows customers to be sound judges of the entrepreneur's contributions.

The free market demands that people be accountable for their actions. A good decision will be rewarded with higher profits, whereas a bad or poorly timed decision will result in loss. For each decision in the marketplace, something has to be given up, and people soon learn that nothing is free. Even the good things come with a cost. Entrepreneurs are those willing to risk the cost hoping to achieve a profit. The beauty of the free market is that entrepreneurs will only earn a profit if they do something that other people value.



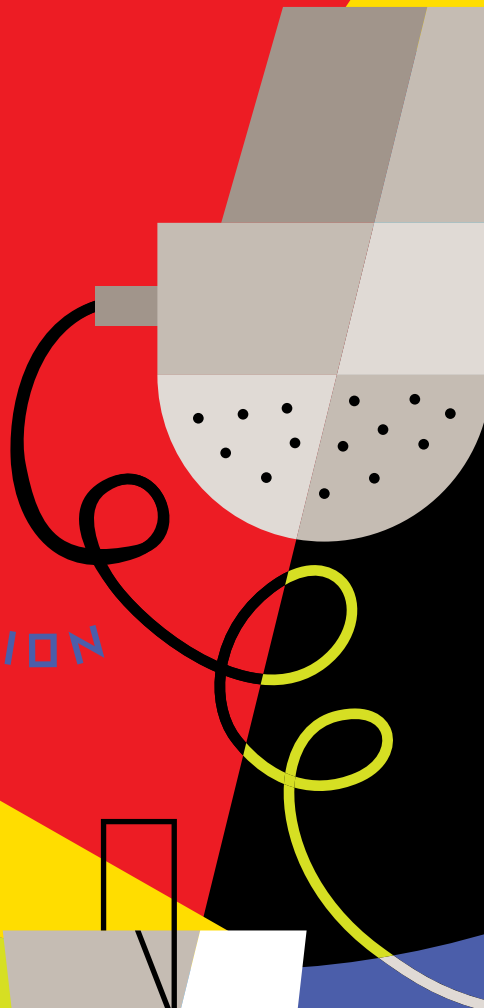
# TELEGRAPH



*On March 10, 1876, Alexander Graham Bell invented the telephone, a great entrepreneurial achievement. The telephone eventually rendered an earlier achievement—the telegraph—obsolete.*

*When a new innovation, achievement, business or idea replaces an old one, we call the process creative destruction. For those in obsolete industries, the destruction part of innovation can be painful. For example, until they were able to acquire new skills, workers in the telegraph industry probably had a hard time adjusting to Bell's new invention. In the long run, however, we all benefit from the progress entrepreneurs spark.*

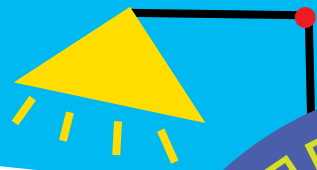
CREATIVE  
DESTRUCTION



REPAIR



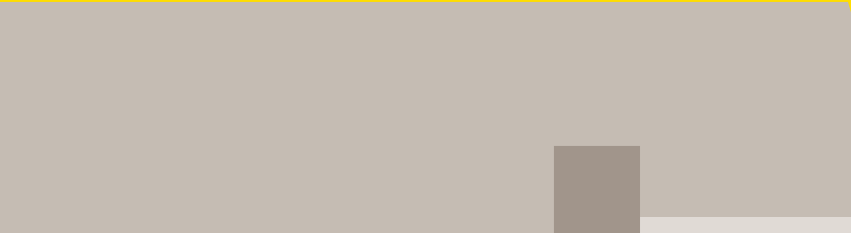
MANUFACTURE



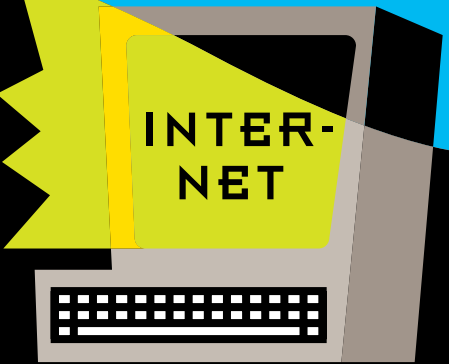
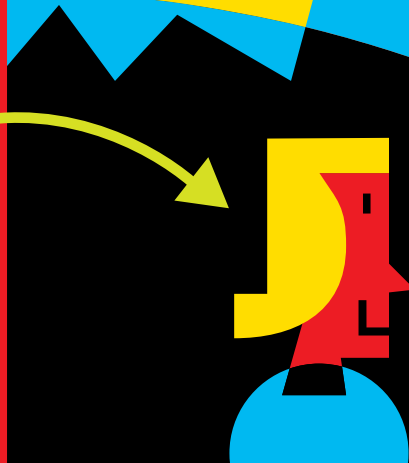
PRODUCT



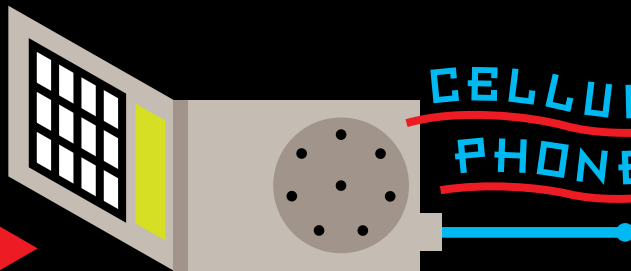
DESIGN



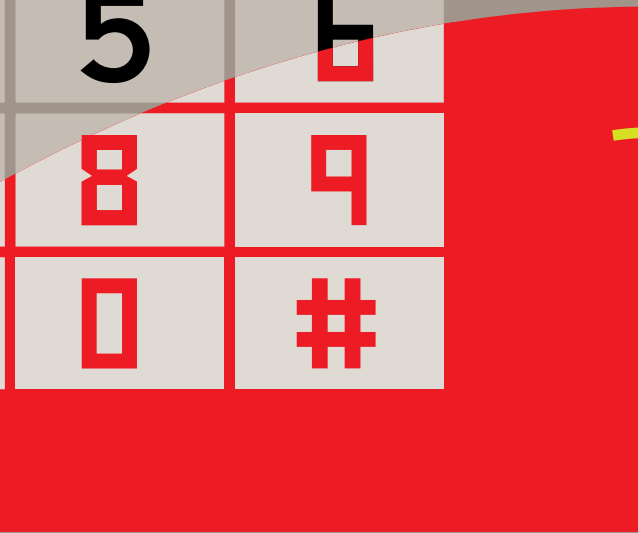
MAIL-ORDER



INTERNET



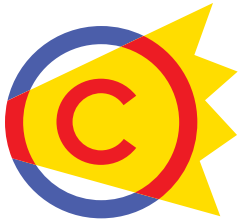
CELLULAR PHONES



## Incentives for Entrepreneurship



Every country in the world has entrepreneurs, people who are creative and willing to take risks. But not all economies encourage their entrepreneurs to succeed in developing new products, ideas or services and getting them to consumers. An economic system must provide incentives that encourage entrepreneurs to risk trying something new. The most important incentives for entrepreneurs are private property rights and a competitive market system—the cornerstones of a prosperous, sound economy.



*In the United States, we have laws to protect and encourage entrepreneurs.*



*Patent and copyright*

**Private property.** In a free enterprise system, one of the government's primary roles is to ensure that people can own and can make decisions regarding how they will use their property and ideas. Private property rights are essential to economic freedom and creativity. For example, in the United States, patent and copyright laws protect people from having their ideas and inventions stolen by others. This protection provides an incentive for entrepreneurs to create because they are allowed to benefit from their creativity.

In a system in which the government or some central planner owns the nation's resources and decides how they are allocated, entrepreneurs do not profit from their successes; thus, there is a much smaller incentive for them to be creative. In a free market economy, entrepreneurs can use their property and ideas in ways they think are best, and they can benefit directly from their successes in the form of higher profits or salaries.





*Allowing entrepreneurs to keep the profits from their creativity encourages them*

**Competitive markets.** A free market economy also allows for competition among producers of goods or services. Competition provides another incentive for entrepreneurs to be creative. Entrepreneurs flourish in an environment that rewards them for their success and keeps them looking around the corner for competitors who may be gaining on them. When customers have a wide array of choices available to them, there is a greater burden on entrepreneurs to constantly find new and better ways of doing things.

*people from stealing entrepreneurs' inventions and ideas.*

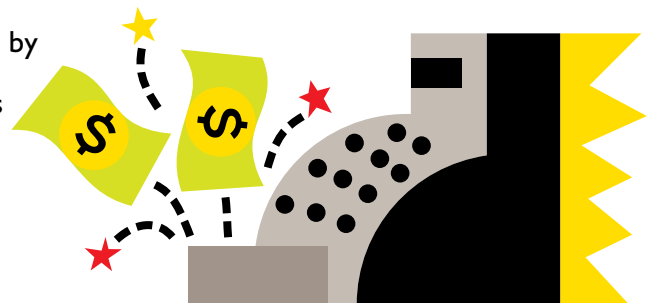
*to come up with new and better ideas.*

*laws prevent*

## Entrepreneurship and the Economy

Entrepreneurs are vital to economic growth and, consequently, to higher living standards. Thus, legislators and other leaders who create economic policies should strive to encourage the innovation and risk taking of entrepreneurs. Enforcing property rights through contract, patent and copyright laws; encouraging competition through free trade, deregulation and antitrust legislation; and promoting a healthy economic climate through Federal Reserve anti-inflation initiatives—these are all examples of policies that empower entrepreneurs to be creative and take risks.

The accomplishments of entrepreneurs in our modern world have been possible because of a climate of individual freedom that is so rare in human history. The society that does not honor entrepreneurial accomplishment will find fewer able people engaged in wealth creation. History has shown time and again that economies that appreciate the benefits created by entrepreneurs flourish, while those that devise laws and regulations aimed at seizing the entrepreneurs' rewards founder.





**EVERYDAY ECONOMICS**

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