Creating the Entrepreneurship Infrastructure

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There are Two Major Types of Infrastructure in Creating an Entrepreneurial Community

- **Hard**
  - Road systems
  - Utilities
  - Broadband
- **Soft**
  - Education system
  - Social services
  - Entrepreneur service system
How We Typically Approach Entrepreneur Service

• In a fragmented and categorical way;
• In a manner that focuses on the business, not the entrepreneur;
• In a way that grows but doesn’t develop;
• By creating and distributing a “list” of service providers; or
• By organizing service providers without regard to the important differences between entrepreneurs and between businesses.
An Entrepreneur Service System Infrastructure Should:

- Be Systemic, where the whole is greater than the sum of its parts;
- Focus on the Needs of the Entrepreneur, not the business; and
- Be committed to Development / Transformation (of individuals and communities).
The Secret to Developing Such a System Lies in...

- Looking at our entrepreneurs and their enterprises as the *business assets* of our community/region;
- Treating our entrepreneurs as *customers* of our entrepreneurship service activities; and
- Appropriately *segmenting our market* of entrepreneurs and enterprises.
Questions to be Answered

1. How do we segment the marketplace of entrepreneurs in a useful way?
2. Why must we do it?
3. How do we benefit from segmenting the marketplace of entrepreneurs and enterprises?
How *should* we segment the marketplace of entrepreneurs and their enterprises?
This begs the question: What are the crucial differences among entrepreneurs?
The Three Dimensions of the Pipeline of Entrepreneurs and Enterprises

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
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>
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</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>
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<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>
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<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>
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<td>AA (3)</td>
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<td>A (5)</td>
<td>$1,300,000</td>
<td>3.9</td>
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<tr>
<td>Rookie (5)</td>
<td>$330,000</td>
<td>1</td>
<td>40</td>
<td>14</td>
</tr>
</tbody>
</table>
Business Life Cycle Stages

- **Stage 0**: Pre-venture
  - Interest
  - Opportunity
  - Offering
  - Launch

- **Stage 1**: Existence
  - Launch
  - Sales
  - Potential
  - Breakeven

- **Stage 2**: Early Growth
  - Breakeven
  - Customers
  - Viability
  - Profits

- **Stage 3**: Expansion
  - Profits
  - Financing
  - Growth
  - Market Share
  - Size

- **Stage 4**: Maturity
  - Size
  - Stability
  - Diversification
  - Market Saturation
  - Complacency

- **Stage 5**: Decline
  - Complacency
  - Competition
  - Profit Pressure
  - Revenue Decline
  - Close/Reinvent
The Pipeline of Entrepreneurs and Enterprises: Two-Dimensional Representation
The Pipeline of Entrepreneurs and Enterprises: Three-Dimensional Representation
How can the Pipeline be Used by Community Economic Developers?
## Understanding 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>
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</thead>
<tbody>
<tr>
<td>Major Leaguer</td>
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<tr>
<td>AAA</td>
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<tr>
<td>AA</td>
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<td>Stuck Point</td>
<td>Crash Point</td>
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<tr>
<td>A</td>
<td></td>
<td></td>
<td>Stuck Point</td>
<td>Crash Point</td>
<td></td>
<td>Acquired / Inherited: Weak Point</td>
</tr>
<tr>
<td>Rookie</td>
<td>Stuck Point</td>
<td>Crash Point</td>
<td></td>
<td>Acquired / Inherited: Weak Point</td>
<td></td>
<td>Acquired / Inherited: Weak Point</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
- 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 the 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 for them
Still More Observations:

• 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.
• To be effective, economic development strategies must be targeted to a specific part of the Pipeline.
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
Performance Improvement Strategies focus on improving business outcomes within an individual cell in the pipeline.

The structure of the business and the skills of the entrepreneur are left unchanged.

10 firms change profitability from 5% to 15%.
Incubation strategies are designed to change the stock by improving the flow or movement of entrepreneurs and enterprises between sections of the pipeline.

<table>
<thead>
<tr>
<th>Lifecycle/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>
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<tbody>
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<td>AAA</td>
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<td>Rookie</td>
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Selective attraction strategies are designed to add new players (i.e., stock) to the pipeline – e.g., plastics

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</table>

“X” represents the addition (i.e., attraction) to the region of a plastics company with complementary capabilities that fits in this segment of the pipeline.
What are the benefits of mapping the Pipeline of entrepreneurs and enterprises to 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 (a highly customized approach).
Policy 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? How does this affect the way we think about “necessity” entrepreneurs?

• The 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 of the Pipeline
Service Provider Pipeline

LIFE CYCLE STAGES

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<thead>
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<th>Stage 5 Decline</th>
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</thead>
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<tr>
<td>Major Leaguer</td>
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</table>

Notes: Non-Weighted totals
The Entrepreneurship Infrastructure as an Economic Development Operating System
Major Design Principles for an Entrepreneurship-Based Operating System

1. There are three major systems – one each for developing entrepreneurs, providing services, and governance – and each has a different function.

2. The three major systems functions must be separated from each other and performed by different organizations and people.

3. Each sub-system must specialize and complement each other.

4. All sub-systems must be linked (this takes place at the interface between systems) and in balance, with none dominating.

5. Ability to achieve results arises from the appropriate distribution of power to various levels – local and global (neither centralized nor decentralized).
An Entrepreneurship-Based Economic Development Operating System Model
Your Questions and Observations
Contact Information

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