Tool #4

What Do Entrepreneurs Create: Implications of Four Different Types of Ventures

© Michael H. Morris.

Four Types of Ventures and Why They Matter

It is important for a poverty entrepreneur to understand what kind of business he or she is trying to create. While it is true that entrepreneurs create a large array of different kinds of ventures, their businesses generally fall into four categories. These four types have critical implications to how venture creation is approached. The four types can be briefly described as follows:

- ***Survival Ventures*****:** Provide basic subsistence for the entrepreneur and his/her family, in effect allowing for little more than a hand-to-mouth type of existence. The business may or may not be formally registered, and typically has no premises, very few assets, no business banking relationship, and operates on a cash or barter basis. As the business exists to provide for basic personal financial needs, once costs are covered there is generally no capacity to reinvest into the venture. Launch of the business is often necessity-driven, and the business generally operates in highly competitive, price-based, and largely undifferentiated markets.
  (Examples: lawncare service, handyman, mobile car detailer, roadside fruit stand, small craft maker, personal trainer, Uber driver, hot dog vendor, dog walker, Airbnb hos,t home-based childcare or laundry service)

- ***Lifestyle Ventures*****:** Provide a relatively stable income stream for owners based on a workable business model and a maintenance approach to management. Relatively modest reinvestments are made to maintain competitiveness in a local market where the firm is embedded. The venture typically has premises, usually a single location, and employees, but does not seek meaningful expansion or growth. The number of employees remains relatively constant. Given limited capacity, it is difficult for the venture to achieve economies in operations.
  (Examples: local bar or restaurant, hair salon, hardware store, auto repair shop, toy store, independent movie theatre, small accounting firm, local taxi company, owner of a single franchise)

- ***Managed Growth Ventures*****:** Has a workable business model and seeks stable growth over time, as reflected in occasional launches of new products or new lines of business, periodic entry into new markets, a steady expansion of facilities, locations and staff, and development of a strong local and regional brand. Ongoing reinvestment in the business and continuous but controlled growth guide ongoing business development.
  (Examples: custom boat manufacturer, third-party logistics company, charter jet business, multi-location walk-in medical clinics, or regional law firm, real estate company, marketing agency, auto dealership)

- ***Aggressive Growth Ventures*****:** Referred to as gazelles, these are often technology-based ventures with strong innovation capabilities that seek exponential growth and are funded by equity capital. Launch of the venture is opportunity-driven, with the founders (often a team) seeking to transform industries and create new markets. The focus is typically national or international and the firms often become candidates for going public or being acquired.
  (Examples: Amazon, Applied Optoelectronics, Avedro, Baidu, Eventbrite, FITBIT, Facebook, LinkedIn, Nexeon, Restore Health SpaceX, Under Armour)

While the percentages vary by country, and accurate data in general is not easy to come by, survival and lifestyle business constitute approximately 85% of start-ups, while managed growth ventures represent between 12% and 15%, and aggressive growth ventures are less than 1%. So most ventures start small and stay small. With the poor, they have an even greater tendency to create survival and lifestyle businesses, so intervention or assistance efforts might want to focus more the needs and challenges of these types of businesses.

As we move from the survival to the aggressive growth venture, we can generally observe the business transform from being:

- highly labor intensive to less labor intensive
- reliant on simple, physical resources to employing complex, intangible resources.
- undifferentiated to well-differentiated, and
- less entrepreneurial to more entrepreneurial.

Some of this is due to technology, which plays a distinct role in each type of venture. With the survival venture, technology has at best a nominal role, and it largely absent from most facets of the business. Alternatively, the products or services of aggressive growth ventures often represent technological breakthroughs, while process technology is instrumental in making possible the scalability of the business. However, these four types have important implications for a whole range of decisions to be made and approaches taken by the entrepreneur. These decisions and approaches include:

- Time horizons
- Critical resources needed
- Managerial focus
- Management style employed
- Management skills required
- Entrepreneurial orientation
- Technology investment needed
- Liability of smallness
- Source of finance available
- Company structure
- Economic motives of those involved
- Nature of the rewards to those involved in founding and building the business
- Exit approaches relied upon

The table below further contrasts the nature of these four types of ventures and how they are approached by the entrepreneur.

Implications of the Four Types of Entrepreneurial Ventures

	Survival	Lifestyle	Managed Growth	Aggressive Growth
Annual growth rate	nominal	< 5%	10-15%	> 20%
Time horizon	day to day	weekly, monthly	1-3 years	2-5 years
Key resources	few, physical, simple, formative	simple, physical, utilitarian, robust	complex, physical & intangible, robust	complex, intangible, instrumental, robust
Management focus	selling whatever I have	maintenance of working business model	incremental strategic growth	scalability
Management style	reactive	tactical	strategic	strategic and proactive
Entrepreneurial orientation	very low	low	moderate	high
Technology investment	none	limited	moderate	high
Liability of smallness	significant	significant	less significant	not significant
Source of finance	self	self, family & friends, bank	self, family and friends, bank, private investors	bank, angel investors, venture capital and private equity firms, public markets
Exit approach	shut down	shut down, sell, transfer	sell, merge, transfer	sell, merge, go public
Management skills	making, selling	operational skills, basic management	planning, strategizing, delegating, leveraging	planning, innovation, cash flow management, negotiation
Structure	little to none	simple	functional, centralized	functional; product and market-based
Economic motives	sustain oneself, one's family	income substitution	wealth creation	wealth creation
Reward emphasis	weekly income taken from business	salary, bonus	salary, performance incentives, equity	equity, capital gain