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# Dos and Don'ts for Entrepreneurs, from Those Who Have Actually Done It

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Fortune 500 companies claim to be "entrepreneurial," as do charities and government agencies. Members of many Washington think tanks dub themselves "policy entrepreneurs." Even children who mow lawns and run lemonade stands get the "entrepreneur" label.

But as the term has come into wide use, its meaning has gradually eroded, leaving open the question of who entrepreneurs really are and what distinguishes their ventures from conventional ones. After all, a startup can look a lot like a regular old small business. The recent 2006 Wharton Entrepreneurship Conference, organized by the school's Entrepreneurship Club, took on this issue, inviting a group of, well, entrepreneurs to discuss their backgrounds and business philosophies and offer advice to those interested in taking the plunge.

Raffi Amit, academic director of Wharton's Goergen Entrepreneurial Management Programs, set the tone for the discussion by noting that academic research has debunked much of the conventional wisdom about entrepreneurs.

"There's a myth that entrepreneurs have special traits that distinguish them from other people," he said. "But research shows no unique characteristics. There's a myth that entrepreneurs are risk takers. But research has shown that they try to manage risk. They outsource it where they can. And there's a myth that entrepreneurs have some sort of secret method that they can apply to venture after venture. But many second-time entrepreneurs fail."

What's left? The dozens of speakers and hundreds of attendees at the conference debated the issue as they tried to find an answer. Their discussions resembled a concert by jazz great Duke Ellington's famous orchestra -- improvisational and occasionally circuitous. Ellington named one of his most famous compositions "Money Jungle," an apt moniker, perhaps, for this year's conference and the complicated, often wild world occupied by entrepreneurs.

### $25,000 Credit Card Debt

According to Sam Hamadeh, founder and chief executive of Vault.com, a New York publisher of job information, being an outsider increases the likelihood that someone will want to start his own venture. "The more you are part of the establishment, the more you are giving up to start a business," he said. "Minorities, immigrants, gays and lesbians are all more likely to start businesses than other people."

Hamadeh, for his part, sacrificed the securest of establishment jobs -- an offer from a prestigious law firm -- to start Vault. Having just graduated from a dual-degree program at Wharton and the University of Pennsylvania Law School, he figured he had to plunge in then, or risk never making the effort. "When you graduate is as good a time as you'll see to start a business," he said. "The negative is you're broke. But the positive is you're broke, so you've got nothing to lose. I talk with my friends in investment banking who claim they want to try something entrepreneurial, and it's always, 'Just one more bonus season....'"

Hamadeh, a conference keynote speaker, also touched on a topic that would become a theme for the day: The trials of working with venture capitalists. "There's too much emphasis today on venture capital as a funding source," he said. "Historically, most businesses are funded using friends and family, credit cards, Small Business Administration loans and second mortgages. Very few companies are venture backed. I started Vault with $25,000 in credit card debt."

Venture capital, he added, "makes sense for very few companies. When you're in something that requires a lot of money to start or where time-to-market is critical, then maybe it makes sense."

John Tedesco, president and CEO of Santa Monica, Calif.-based Guardian Mobile Monitoring Systems, agreed with Hamadeh's assessment that socially established, financially secure individuals tend to be the least willing to quit their jobs and start companies. "The more wealth and prestige you accumulate, the more risk averse you become," he argued. That makes sense: Failure costs more if you have more to lose; it's the difference between securing a loan with a $1 million house and a $100,000 condo. Yet Tedesco also pointed out that people with money, credentials and connections are, in some ways, best situated to bounce back from business setbacks. If their ventures fail, they can tap jobs that might not be open to others. "The traditional corporate job is like a train," he quipped. "There's always another one coming."

### "I Was Just Solving a Problem"

Farhad Mohit's parents immigrated from Iran to the United States, where he grew up. Yet he still retains some of the outsider point of view. After graduating from the University of California at Los Angeles, he worked as a computer programmer at Andersen Consulting (now Accenture). "I hated it," he recalled. "I hated the bureaucracy and the suits." He applied to Wharton in the mid-1990s, mainly to escape. "I figured I would get an MBA and then maybe a PhD. I thought I would be a perpetual student."

Once in school, he avoided the investment banking and consulting jobs that attracted many of his classmates. He had done the corporate route and knew that, for him, it was a suffocating option. "Then I ran into the Internet and saw an opportunity. Nobody knew what an Internet entrepreneur was supposed to look like and dress like," said Mohit, who has long hair and a full beard and jokes about owning exactly one suit, which he calls "the fund-raiser" since he only wears it when he meets with potential investors.

While in school, he and two Wharton friends organized Shopzilla, a website that helps consumers find bargains and also rates online retailers. After graduation, one friend quit. Mohit and his remaining partner moved the company to Los Angeles and, in 2005, sold it to E.W. Scripps for $525 million. "I had no interest in shopping," Mohit said. "I was just solving a problem." Offering up a bit of his personal philosophy, he added, "Opportunities are all around you. Luck is everywhere. Just look around."

One shared quality among the entrepreneurs who came to the conference was their optimism. For them, entrepreneurship doesn't require dreaming up an idea as obscure and knotty as Einstein's theory of relativity. Rather, it entails snatching one of the many opportunities that, if you are paying attention, you will encounter through your job or through your experiences -- and frustrations -- as a consumer.

Rob Poor, founder and president of Cambridge, Mass.-based Adozu, a maker of wireless networking systems, put it this way: "I've come to view the world as a place of intellectual abundance." He studied music at Oberlin College before becoming a computer programmer. Then he worked under Apple founder Steve Jobs and film director George Lucas. About a decade ago, he returned to school for a doctorate and wrote his dissertation on the ways in which a wide variety of independent electronic devices can beam data to each other. That eventually led to his founding of Adozu.

Jeff Citron also sees a world full of business opportunities. When he tries to decide which one to act on, he seeks out "disruptive technologies" -- ones that fundamentally alter the ways of commerce in a sector of the economy. His first efforts came in the securities industry, with Island ECN, an electronic trading network, and Datek Online, a web-based brokerage. Now he's chief executive of Vonage, a New Jersey-based provider of Internet telephony.

Disruptive technologies, Citron said, enable startups to jump into large, lucrative markets where established leaders have become complacent. "When faced with a technological decision, these old guys don't know what to do. Their response to new ideas is often to say, 'It won't work.'" Lazy orthodoxies can allow new entrants to thrive in niches that seem full of capable incumbents, as Dell did in personal computers and Southwest did in airlines.

Yet Citron also pointed out that aspiring entrepreneurs shouldn't assume that a disruptive technology alone will propel a startup to profitability. Execution and even luck matter, too. "Plenty of disruptive technologies never actually disrupt a market," he noted. "For a lot of different reasons, they never get adopted. Look at the Betamax video format. It should have won out, but VHS did a better job of getting to the market." Betamax provided higher quality video reproduction, but Sony, its maker, initially limited the length of tapes to an hour, while VHS recordings ran as long as three hours.

Likewise, a low price alone won't roil a market, although entrants often focus, to the exclusion of all else, on lowering prices, he said. "What disrupts is higher quality at a lower price." Take web-enabled commerce. People often rave about the savings created for consumers, which are huge, but just as important is increased convenience. Online shoppers don't battle crowds at the mall during the holiday season, nor do they have to shop during conventional business hours.

## The KISS Rule

According to both Poor and Citron, another pitfall for aspiring entrepreneurs is spending too much time thinking about all the gee-whiz features they might add to their products. Instead, they should bang out prototypes and put them in consumers' hands as quickly as possible. "Remember the KISS rule: 'Keep It Simple, Stupid,'" Citron said. "Give your product to your mom. Can she use it without any problems? Then you're ready to go." Or as Poor put it: "Fail early and learn." Plus, once a company starts attracting customers, many of the other obstacles facing new ventures, like finding investors, will begin to work themselves out, both men said.

That was Punita Pandey's experience when she launched San Jose, Calif.-based netCustomer, which provides software support and services for large companies. Initially, Pandey spent significant time pitching venture capitalists on her idea of outsourcing computer services to India -- and getting nowhere. "I realized that what I should do was go out and look for customers," she said. "I had thought that I didn't pitch well. But once we had customers, we suddenly got the attention of VCs."

The role of venture capitalists sparked nearly as much talk at the conference as the challenges that entrepreneurs face. Indeed, several panelists argued that venture capitalists*are* the main challenge for entrepreneurs. "Did anyone ever notice how rich VCs are?" quipped Lucinda Duncalfe Holt, chief executive of Commerce360, a Plymouth Meeting, Pa., online marketing firm. "That money comes at your expense if you're an entrepreneur."

The conferees' consensus: Venture capitalists aren't the vultures that some entrepreneurs portray them as, but they're not entrepreneurs' friends, either, and they shouldn't be the first place one turns for money. The best ones bring valuable industry expertise and contacts, but all of them demand a lot in terms of equity and control in exchange for their money.

For that reason, Holt puts venture capital as number seven on her list of funding sources for new companies -- and she has led three startups. Before turning to venture capital, she will try to tap personal savings, debt, angel investments, government loans and grants and even financing from potential vendors and customers. Mousimi Shaw, for her part, increased her student loans to help start Sikara & Co., a jewelry maker.

More so than other types of investors, venture capitalists insist on telling you how to run your business, said Rodger Desai, chief executive of New York-based Rave Wireless. Their recommendations can seem shortsighted, even wrongheaded. "A lot of VCs have never managed anyone or worked in an operating company. So as a founder, you do have to fight for what you believe in. You're the only one who really knows."

Plus, VCs are necessarily impatient. They need to see a return on their investment -- or at least salvage what money they can -- within about five to seven years so they can give a return to their investors. If a company hasn't been acquired or sold stock to the public by then, and most startups never do, then the VCs will push for a sale or merger.

These realities have prevented Thomas Knobel from looking outside for money for his startups. He has opted to bootstrap them, including his current one, Carlsbad, Calif.-based Nobel Co., a seller of prepaid international phone cards. "Not everybody can bootstrap their company, and getting money from the outside can be easier than working it internally," he said. "But it's also more expensive in the long run. It's easy to give equity and very expensive to get it back, and equity is really the only thing you have in your business."

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