

So You Want to Be An Entrepreneur?

Introduction

Many students are drawn by the allure of an entrepreneurial career. For them, the freedom and potential cash rewards outweigh the risks, the uncertainties and the long hours. The challenge for an entrepreneurial MBA student is, *Where do I start?* This note offers some suggestions.

There are three areas of knowledge that are critical for starting a successful business:

1. In-depth knowledge of the competitive structure of an industry and a network of contacts within that industry;
2. The skills to run the daily operations of a small, rapidly-growing company; and
3. The ability to raise money.

As you begin a new career, think of yourself as being on a scavenger hunt with three bags labeled “industry knowledge,” “running a business” and “capital.” In each bag is a list of the items you (or your partner) will need to improve your odds of becoming a successful entrepreneur. While others spend their time at their next job standing by the water cooler or having lunch with friends, you will be busy collecting the knowledge and relationships you need to launch your business. The more items you collect before you launch, the better your chances of success.

The Three Areas of Knowledge

Industry Knowledge

The world is too competitive to start a business without a deep understanding of your industry. This knowledge falls into two general categories: the competitive structure of the industry, and personal contacts with trusted experts.

Understanding the industry competitive structure means knowing the history and current status of customers, suppliers, competitors, product substitutes and barriers to entry. You must understand why people buy your product and what alternatives they have. You should understand the production process and the cost, value and volume tradeoffs within it. You should be familiar with the history of the competitive rivalry and how competitors are likely to respond to your moves. You should understand the barriers to entry and determine if you have skills that give you an edge. You must have a keen sense of the key industry trends and how they will affect your position. Studying an industry for several months is never enough preparation. Almost without exception, you must be immersed in an industry for years to pick up the nuances.

You also must build a network of personal relationships within the industry. Without these contacts, gathering accurate information is too costly and time consuming. You must know the good people from the bad – whom you can trust and whom to avoid at all costs. Industry contacts make vendor selection, marketing and employee recruitment much easier. In addition, a good reputation in an industry is one of the most important competitive advantages.

Day-to-Day Operations

Understanding daily operations is a must for entrepreneurs. Daily operations include many issues, from accounting, production, organizational and administrative dilemmas to general business philosophy. All of these must be woven into a consistent set of principles and procedures. If the company culture is flawed, almost any strategy is in jeopardy. A disorganized accounting system or poor physical surroundings can likewise take a heavy toll on profits.

Raising Money

Raising money is the least important and most generic of the three skills. Most worthy projects eventually are funded, though *eventually* can seem like an eternity when your creditors are calling. Money is the fuel for a start-up business. Fail to raise it or run out before the venture turns cash flow positive, and your business will die.

The Value of Each Area of Knowledge

Industry Knowledge

Industry knowledge is the most valuable of the three areas because it provides the ability to spot and seize an extraordinary opportunity. People with deep industry knowledge and sharp analytical skills ultimately *will* discover unique opportunities. Unfortunately, in my experience, extraordinary opportunities occur in an industry at best once every four or five years. This means you cannot be at the airport when your “ship comes in.” For instance, someone planning to start a family may find an opportunity surfacing at just the wrong moment.

Day-to-Day Operations

The ability to run a business is less valuable than the chance to seize an extraordinary opportunity, but successful operators are far from a commodity. If you are good at running and building a business, and willing to put in the hours and attention it takes, then you always will be able to add value while making a comfortable living.

Raising Capital

Money is a commodity. People who can raise money are often paid a commission, just like a real estate broker or used car salesperson. Being a money broker may allow (or force) you to wear fancy suits and stay in nice hotels, but money-raising knowledge is the least valuable of the three areas of knowledge.

How Do I Get the Knowledge I Need?

There are two ways to acquire the skills above: learn them yourself, or find a partner who already has them. The successful entrepreneur generally does both. Accumulating each type of knowledge requires a slightly different approach.

Industry Knowledge

The quickest way to gain industry knowledge is to find a “flowing deal stream” and wade into it. The more projects you review in a particular industry, the more strategies you can compare and the more contacts you make.

Deal streams exist close to investors with money. The most obvious position is with a venture capitalist, but these jobs are rare and often not industry-specific. Banks, insurance companies or acquisitive corporations are alternative choices.

A second alternative is to work for a consulting company. Consulting is an excellent way to hone analytical and presentation skills. Unfortunately, because consulting engagements often last six months or longer, many consultants participate in only a few projects. Time spent prospecting for new clients may also reduce the time available for industry analysis. It is better to fish alongside a buyer than a middleman or service provider.

If all else fails, pick an industry and jump into a position in sales or operations. If you are inquisitive enough, over time, any job will provide specific industry knowledge. Continue to observe, ask questions and make new friends, and the knowledge will come.

Daily Operations

The best way to acquire daily operational skills is to work in daily operations. Smaller businesses generally give younger people more responsibility, while larger companies expose them to a wider array of experiences. Which is best depends largely on the company and position, but smaller businesses normally provide a heightened sense of entrepreneurial reality.

People who can run a business have more readily transferable skills than those with industry knowledge. As a rule, they will have more opportunities to do something entrepreneurial. The difficulty is that without industry knowledge, a would-be entrepreneur has trouble differentiating between extraordinary opportunities and average ones.

Raising Money

To raise money, you have to be exposed to money, either by working for a person or a company with money to invest or by taking a position in which you are continually exposed to investors.

Sources of money come in all shapes, sizes and flavors. It is important to consider how much money you may need in the future and how risky the investment may be prior to developing your network. For instance, leveraged buy-outs (LBOs) generally require a great deal of mezzanine and senior bank financing, while start-ups require a smaller amount of riskier capital. The network needed for LBOs is far different than that for high-risk start-up ventures.

In all phases of entrepreneurship and especially in fund raising, reputation is everything. A good money raiser is part salesman, but that salesmanship is built brick by brick on a foundation of competence and honesty.

Your Partner

Few people have all three types of knowledge, so while you are developing your skill set, catalog people whose strengths supplement yours. This will give you a source of complementary partners when you are ready to go on your own. Two partners with complementary skills, contacts and chemistry are far more powerful than the sum of their parts.

Stages and Goals

Few MBAs find an entrepreneurial job straight out of school. The key is not to land the perfect first job but to use each position as a steppingstone.

With enough creativity and effort, any job can help you acquire new tools or contacts for one or more of the three skill sets. Always look at the next position as a way to put more items in your “bag” and check them off your list. This does not mean neglecting your current responsibilities. Rather, it means creating opportunities to analyze a strategy or industry; meet a new friend; or learn from co-workers. Preparing for your next step will not only develop entrepreneurial skills but will also make you a more valuable asset to your current employer.

Always keep your ultimate goals in mind. It will help you make the right long-term career moves. As a future entrepreneur, your reaction to a promotion, transfer or opportunity may be far different from someone who wants to retire as a vice president.

Summary

Very few would-be entrepreneurs will get their dream job straight out of graduate school. The secret is not to tilt at windmills, but to choose a position in which you can develop industry, operational and fund raising skills. If you keep your final goal in mind, work step by step to gain knowledge and take notice of people who might be a complementary partner, eventually an irresistible opportunity will appear and you will be prepared for the challenge.