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Venture prone

:: By Zak Stambor

:: Art by M. Glenwood



Successfully taking an idea and turning it into a fledgling business requires a leap of faith.

For at least five generations, Alexandre Penet's family has grown grapes in Verzy-Reims, a small village in France's Champagne–Ardenne region. For three generations, the family has produced its own high-end, artisanal Champagne Penet-Chardonnnet Grand Cru. The Penets use part of their grape yield to fill about 10,000 bottles a year, roughly 833 cases, which they distribute throughout France. The rest they sell to larger, high-end champagne makers such as Mumm, Pol Roger, and Duval-Leroy, which incorporate the Penet's grapes into their blends.

While the roughly 15-acre vineyard is fruitful, says Penet, a first-year student at the Graduate School of Business's London campus, it's not optimized. In fact, he believes that the business could eventually produce up to 400,000 bottles a year of its unique champagne, which he says displays terroir, a wine's expression of its particular soil and climate. To expand both the vineyard's output and brand, he's working with Teresa Bonner, a Chicago-campus GSB student with a background in marketing and branding, whom he met last June at an Executive MBA Kickoff event in Chicago. The two soon sketched out a plan to distribute the champagne to the American and Asian markets, which are increasingly interested in independent grower–produced champagne.

Penet's ability to find a new path for a business whose operations have been virtually unchanged for more than a century epitomizes the entrepreneurial skill needed to foresee beneficial changes, says Linda Darragh, director of programs at the GSB's Polsky Center for Entrepreneurship and an adjunct associate professor. "It's an entrepreneur," she says, "who can see opportunity in what's missing from the marketplace."

With 15.2 percent of GSB alumni organizing, managing, and assuming the risks of their own business at some point in their careers, says Darragh, the path is hardly unpaved. But it does require considerable risk. That's why a number of researchers and entrepreneurs themselves note that they share several common personality traits—a love of creation, an ability to find and develop ideas that add value to people's lives, extreme self-confidence, optimism, resilience, and an aching desire to win. But whether those traits are innate, taught, or some combination of the two remains to be seen. "Entrepreneurs are very much like artists," says Scott Meadow, clinical professor in the GSB and a partner at Edgewater Funds, a Chicago-based private equity firm. "So the question becomes, 'Was Mozart born or was he taught?' It's a little bit of both. First he had to learn the history and structure of music. Then when he could play with complete ease, his own creativity came to bear, and he could create his own music and recognize talent in others."

Since meeting, Penet and Bonner, along with four other students at the Chicago and London campuses, have been collaborating as part of the Global New Venture Challenge (NVC), an annual GSB



business-plan competition that this year expanded to include the London and Singapore campuses. In December their group was one of eight overseas teams that a five-judge panel chose, based on business-feasibility summaries, to take part in the NVC. Throughout January and February, faculty and industry executives coached those overseas teams, via webcam and in person, on topics such as potential regulatory concerns and financial modeling. After the groups completed their business plans at the end of February, judges selected three to present their ideas in Chicago. Faculty then chose one to compete with Chicago-based teams in the competition's finals.

At the same time, a group of professors and judges were selecting about 25 to 30 teams to take part in the Chicago-based NVC, which includes enrolling in a spring course, Developing a New Venture. In the class, teams develop their summaries into full-fledged business plans with help from faculty, industry professionals, and other students who critique presentation skills and examine hypothetical legal considerations. In March the judges will select about eight Chicago-based teams to compete in the finals, which take place in May.

The New Venture Challenge began in fall 1996 when students approached Steven Kaplan, the Neubauer Family professor of entrepreneurship and finance, wondering why Chicago didn't have a business-plan competition that offers some funding, similar to those at the Massachusetts Institute of Technology's Sloan School of Management, Yale School of Management, and Harvard Business School. "I said, 'You do all the work, and I'll find the money and judges,'" recalls Kaplan. The students took control, and Behavioral Solutions, later renamed Epotec, an Internet-based behavioral health services company, won second place and \$5,000 in the May 1997 contest.

While Workplace Options, a work/life development company, acquired Epotec's content in 2004, the company itself no longer exists. Neither do fellow winners eFx and Scan-DX. To help spur more viable ideas, the next year Kaplan built a course around the competition, teaching students how to develop both financial and management structures. The plan worked, and the competition, whose teams must have at least one GSB student, receives about 75 applications annually. Moreover, since 1997 the NVC has helped guide or launch more than 40 companies that continue to exist. Several of those teams pursued their businesses regardless of winning or losing.

Penet plans to follow that model, drawing inspiration from companies like Flyswat, a free Web browser add-on that identifies and automatically hyperlinks existing words or phrases in Web pages. NBC Internet Inc. bought Flyswat in 2000 for approximately \$100 million. "The [NVC's] mechanism is as an organizing principle," says John Rodkin, MBA'05, JD'05, founder of Flyswat, which finished fourth in the 1998 competition. He has also had two other businesses place second in the NVC. "It's helpful to have realistic deadlines. When you start a business when you're in school, you could do nothing with that business and still get your degree. But having a deadline helps you make that business happen."

Entrepreneurs are naturally unafraid of risk, says Meadow, who's observed such self-starters in action at both the GSB and at Edgewater Funds. For instance, Bryan Johnson, MBA'07, CEO of Braintree Payment Solutions, an electronic-payment products and services company, saw several businesses fail—including a real-estate business that ran out of money and a voice-over Internet protocol company, similar to Vonage, for which he had raised \$500,000 when his investors' funds dried up—before enrolling at the GSB in 2005. Yet he doesn't worry about the failure of Braintree, which won the 2006–07 NVC's \$25,000 first prize. "If this doesn't work, I'll be on to the next thing," he says. "Our society tends to laud and praise successful entrepreneurs, so I think there is a desire to be in that position. ... But many factors play into a business's success, like timing and funding."

Matt Maloney, SB'00, a current GSB student and CEO and cofounder of Grubhub, a food-delivery search engine that was another NVC winner (\$25,000 in 2005–06), agrees. "You can't be afraid of your idea," he says. "You need a strange degree of confidence and energy." Maloney's business grew out of one night in 2004, when he and Grubhub cofounder Michael Evans were working late at Chicago-based Apartments.com, a national apartment and relocation search engine. Maloney was a software-development manager and Evans a lead developer. Their jobs were demanding, and as usual they were about to order in dinner. Tired of the same nearby pizza and Thai restaurants, over a game of ping-pong they decided to do something about it. Between points, they thought up a search engine to find every restaurant that delivered to their Loop office. Within a week they posted a beta version of the site. Maloney and Evans spent nights calling restaurants and explaining that they didn't want to sell anything, but rather wanted to create a reference that would help draw more people to the establishments. Listing each restaurant was long and sometimes grating, but also essential to making Grubhub work. "There are a lot of good ideas out there," says Maloney, "but the fact that we sat down in a room and pounded out the idea in the course of a night helped us succeed."

Karan Goel, AB'04, MBA'06, CEO and cofounder of PrepMe, a company that offers customized tutoring for high schoolers facing the SAT and ACT—and which won \$20,000 in the 2004–05 NVC—has been an entrepreneur most of his life, even though his parents are non-business-minded physicians. “From an early age I’ve tried to find and fill needs that weren’t met,” he says, noting that he started his first such project in junior high school, when he convinced his parents to buy him boxes of gum from Sam’s Club. He broke the boxes into individual packs and sold them to classmates. “There wasn’t a vending machine,” he explains, “so I didn’t have much competition.” After a few months his principal put a stop to the venture. But Goel continued to find new business niches.

In high school—when most of his classmates either hired a private tutor or took an SAT or ACT preparatory course—Goel persuaded his parents to give him the money they would have spent on those options, and he’d study on his own. He scored 1530 on his SAT I and a perfect 800 on four different SAT II exams, better than many, if not most, of his classmates.

When Goel decided to tutor high-school students for the tests while in the College, his own experience sparked a brainstorm. “The classes were universally bad because they didn’t have the right incentive structure to teach well,” he says. “The teachers were paid by the hour, and they got that wage whether you were successful or not.” Tutors, for the most part, operated the same way. Rather than follow that model, he would focus on results. “I’d say, ‘If your scores don’t go up, don’t pay me.’” He wanted to pursue the idea as a business but didn’t think it was scalable—until he and cofounder Avichal Garg, a Stanford alum, realized they could extend the reach by shifting the idea online.

Students using PrepMe first take a diagnostic test to examine their strengths and weaknesses. Then the company designs a personalized course around those areas. The program is composed of lessons and quizzes, based on the tests’ essential elements—critical reading, math, and English. “We didn’t want to focus on test-taking tricks,” says Goel. “We actually try to improve [students’] math or English skills.”

Since PrepMe’s launch in 2005, more than 37,000 students have used it, and more than 100 high schools have incorporated the program into their curriculum. Key to its success has been its business model, says Goel, fine-tuned in the competition. “Whenever an entrepreneur gets an idea, it’s easy for him to sit down and think it’s great,” he says. “You don’t necessarily have a high level of criticism and analysis. But the NVC forced us to go out and talk to customers and investors and find out what questions they want answered.” Goel aims to expand the model to include other standardized tests like the LSAT and MCAT—but he won’t do so until he knows that the resulting product will be what he considers to be “the best” on the market. “We don’t want to jump into something else,” he says, “unless we know that it’s incredible.”


Being unafraid of failure is not the same as a disregard for failure, cautions Meadow. An entrepreneur must analyze the market, the potential scale of the product compared to what it will replace, the management team, and that team’s background in the industry. Moreover, businesses should have realistic figures that show how they will work on a national or international level. “It’s interesting to have a business with a potential \$500 million market,” he says, “but if you assume that you’ll get a 10 percent market share, that isn’t that high a ceiling. You need to find a \$3 million, \$4 million, or \$5 billion market size that is substantial enough so that your innovation, even if you only participate in a small manner, will have a profitable marketplace.”

Potential profit analysis has its place in figuring out whether to pursue an idea, says Rodkin, who has started four businesses to date, but it should not make or break the decision to pursue an entrepreneurial career path. “Money is not the reason to [become an entrepreneur],” he says. “We work a lot and often don’t make a lot of money. You do have freedom that comes from working for yourself, but my companies have always had customers and investors that I work for.”

Last September Rodkin received a call from a Law School student trying to decide whether to drop out to join a startup—the same route Rodkin took before reenrolling at Chicago. The student asked how to develop a cost-benefit analysis to make the decision. It’s not that simple, Rodkin replied. “If you’re trying to decide which will pay off more, maybe you should just work at an investment bank.” Entrepreneurs need to be willing to take a plunge that can—and often does—result in failure: “The piece that is innate to being an entrepreneur is a general dissatisfaction, having a solution mind-set, and the will to do anything. Those types of things cannot be taught.”



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