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THE TRUTH ABOUT ENTREPRENEURSHIP

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Let's tell the truth about what it really takes to succeed as an entrepreneur.

Over $530 billion, yes billion, is spent on launching startups every year. Most of that money comes directly out of the entrepreneurs' pockets, or from the equity in their houses, or from debt. Much of it also comes from gifts, loans, or investments from friends and family. Only 10 to 20 percent of this money, depending upon the year and the state of frenzy in venture investing, comes from complete strangers and professional investors. Most of this money is wasted by ill-prepared entrepreneurs who have virtually no chance of success. And it will continue to be wasted, along with the time and effort that many hard working people put into these doomed enterprises, unless we can introduce them early on to the truth about what it takes to create and sustain a new business.

There Are Two (And Only Two) Kinds of Entrepreneurs

We can start by dispelling some widely held fantasies about entrepreneurship that have discouraged many capable people from becoming entrepreneurs and encouraged many aspiring entrepreneurs to choose paths that lead to failure. There are two—and only two—entrepreneurial mindsets that lead to successful business creation. I call these two divergent paths bedrock and high-risk entrepreneurship. Entrepreneurs who confuse the two are likely to fail.

Over 99 percent of all entrepreneurs in the US are bedrock entrepreneurs. Typically, they start their own businesses to achieve highly personal goals—to please a disapproving parent, gain community respect, turn an avocation into a vocation, among others. Because they largely fund their businesses out of their own pockets and the pockets of their family and friends they try to minimize losses and avoid failure. They start small, seek profitability early on, and plow their profits back into the business, methodically growing their businesses over the long haul, sometimes to great size after years of patient toil.

High-risk entrepreneurs could not differ more from bedrock entrepreneurs. They are typically motivated by a desire to achieve great wealth and recognition. With the help of venture capital, they create companies that are intended to grow fast to make good on those investments. So they “shoot for the moon,” trying out big ideas quickly, tolerating “fast” failures, and pivoting to new business models until they find the formula that yields explosive growth. Think Mark Zuckerberg with Facebook, Larry Page and Sergei Brin with Google, and Elon Musk and Peter Thiel with PayPal.

Neither approach to entrepreneurship is superior to the other. But the high-risk path is for the very few. Every year hundreds of thousands of aspiring entrepreneurs try to launch one of these hyper-growth businesses, but only 1,400 of them, on average, succeed in attracting VC funding. And because many of these VC-backed startups chase the same business opportunities, only a small fraction of these VC funded startups have any real chance of achieving their all-or-nothing aspirations. Almost all successful entrepreneurs, including many tech entrepreneurs, correctly choose not to emulate them.

Nevertheless, breathless media accounts of overnight billionaires seduce aspiring entrepreneurs to shoot for the moon. Instead of embarking on a business rooted in their motivations and interests, they look for a "killer" idea. Instead of getting their business to positive cash flow as early as possible, they pin their hopes on the Silicon Valley model. Alternatively, other would-be entrepreneurs may be discouraged by the long odds of the high-risk approach and simply give up the idea of starting their own businesses when in fact they could build highly successful businesses if they started with the appropriate model.

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Entrepreneurs Are Made Not Born

We've been conditioned by media hype and our love of heroic stories to see "real" entrepreneurs as geniuses. Entrepreneurs like Mark Zuckerberg, Bill Gates, and Steve Jobs—young when they succeeded, untrained, and inexperienced—are simply born with special traits. Or their brains are wired differently from those of their more cautious peers. There are several things wrong with this view.

First, researchers have been unable to find characteristics that correlate with entrepreneurial success. Their research to date shows that the correlation between success and any characteristic or even any group of characteristics is so small as to be irrelevant to anyone's decision to become an entrepreneur. The average entrepreneur is no smarter than the rest of us. Given the large numbers of people in the entrepreneurial and the employee worlds, this is not surprising. If entrepreneurs had any distinguishing characteristic we would have learned long ago how to identify them.

Second, this view can lead to dangerous self-delusion. It's tempting to think that you are one of those special people. You need no coaching, no special skills, just room and money to let your singular vision grow, powered by your extraordinary traits. Even if such traits existed and you were endowed with them, they would be of little help in leading the people you need to make your vision a reality, in making good decisions about how to commercialize the products or services you develop, or in shepherding your organization through the required different stages of growth.

Third, the genius-hero view discourages potential entrepreneurs in communities where such role models may be lacking. Describing entrepreneurs as people with extraordinary innate traits is particularly harmful to aspiring women and minority entrepreneurs and is an insidious form of discrimination.

Bedrock Entrepreneurial Opportunities Are Everywhere

Because the media focuses on high-risk entrepreneurs, many of whom are in the tech world, it can be hard to appreciate how varied entrepreneurial opportunities are. The US government's well-established system for collecting data about businesses recognizes over 1,000 different industries, each of which includes many different types of businesses. For example, the US Census Bureau lists 31 different kinds of construction-oriented industries that include 1,270,691 distinct businesses. There are nine different types of retail industries listed just for the things we wear every day.

In every one of these industries there is room for improvement and innovation. Every industry is undergoing change, every industry has weak players, and every industry has disgruntled or unsatisfied customers ripe for the picking. The openings for startups are almost infinite.

This almost infinite number of new opportunities start out as niche products or services. The entrepreneur can develop skills, assemble teams, and confirm profitability as the niche demand develops, while often not being perceived as a threat by the entrenched players in the broader market. This then positions the entrepreneur to enter "adjacent" markets once the company has become profitable as well as reliable in the eyes of customers.

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All Successful Entrepreneurs Ultimately Do the Same Thing

Bedrock and high-risk entrepreneurs may take starkly different paths to success, but both ultimately succeed because they make their customers so happy that the customers gladly give them money in return. Entrepreneurship is often seen as the ability to think up entirely new businesses or come up with ideas that disrupt existing industries. But Henry Ford didn't think up the combustion engine or automobiles, Thomas Edison didn't think up incandescent light bulbs, Larry Paige didn't think up search engines. These great entrepreneurs succeeded by working tirelessly to tune existing ideas and inventions in ways that made vast numbers of new consumers happy enough to open their wallets.

Ideas are not the keys to entrepreneurial success. Even a once in a lifetime, unprecedented, world changing, patent-protected new idea won't guarantee success. The key is doing something different that makes customers so happy they gladly give you money. But that difference that customers look for to choose who they'll do business with is rarely ever patent protected. It is usually improved service, convenience, or some variation on an existing product or service that wins initial customers to buy from a new company.

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Entrepreneurs Need Five Core Skills

Entrepreneurs who successfully lead the process of turning ideas into valuable, tangible realities are able to do five things uncommonly well:

Maintain self-awareness. This is the ability to forthrightly acknowledge what you know and don't know, what skills you have and don't have: no illusions about your abilities, no faking it, no pretending a particular skill doesn't matter. As soon as you realize you have a gap, such ruthless self-knowledge should spur you to acquire and practice the skills you need. And because self-awareness is a skill, not something you're born with, you can learn it—learn how to identify your capabilities and your personal modes of learning and self-improvement.

Build relationships. Entrepreneurial leaders virtually never act alone in getting the world to adopt their ideas—they build strong relationships with people who will help them achieve their vision. This, too, is a skill that can be learned, even by someone who is an introvert.

Motivate others. Entrepreneurial leaders don't need to be charismatic. They need to focus on making people feel good about themselves in the context of the work they are being asked to do. That means creating tasks that make people feel autonomous, masterful, and purposeful, and not controlled, insecure, or inconsequential.

Lead change. Going from fine-tuning an offering to expanding the customer base to becoming a profitable, self-sustaining enterprise requires constant, sometimes sweeping, organizational change. But people don't like change and often will passively-aggressively or covertly resist it. They must be led to understand why each change is important, what is expected, and how they will benefit from it. They must be assured that they will have the resources to make the changes happen. And when change is delineated, communicated, and supported in this way they will view it as low risk and embrace it.

Understand enterprise evolution. In addition, ideas and the enterprises that house them go through stages of maturity, like infants becoming children, then adolescents, and then adults. In brief, those stages are: 1) validating a "customer" for the idea, 2) validating the value proposition around the idea, 3) scaling up to deliver that value widely and reliably, and 4) becoming a self-sustaining enterprise capable of innovating to stay competitive. Each stage requires applying a different mix of the skills described here to take the enterprise forward.

Money Is Last On the List of Things a Bedrock Entrepreneur Needs

Every business needs some amount of time to set up, to develop a product or service, and then enough time to get some minimum number of customers happy enough to buy the product so the business becomes profitable. That time takes money. But not as much as you might think.

You can decide how much money you need only after you understand how much of everything else you expect to be able to put in place and how much time you have. In many cases, once you've thought about how best to put the other prerequisites in place you don't need much money.

In fact, money is rarely ever the critical issue and is often a distraction. A highly motivated, competent leader who has assembled a good team working toward making lots of people really happy will find the money. In fact, once you demonstrate how you and your team can make lots of people happy the money often finds you. In any case, you should plan your business based on how much money you have immediate access to rather than plan the business and then look for the money.

You Can Still Think Big

Being a bedrock entrepreneur does not mean slow growth, low aspirations, or small enterprises. It means control, low risk, and patience. Walmart is now one of the most valuable companies in the world, but it didn't get that way overnight. Neither did the companies built by Ray Kroc, Walt Disney, or Estée Lauder—bedrock entrepreneurs all. Their success didn't depend on "network effects," venture capital, technology, or breakthrough innovation. Sam Walton was proud that he borrowed ideas from wherever and whomever he could. He created enduring value by making an existing type of business better, not by shooting for the moon and failing fast. Instead he conducted controlled experiments to learn what worked, all the while taking care to avoid losses. And at each successive stage of company growth he worked hard to master the skills that he needed to see it through. Bedrock entrepreneurs like Sam fail much less often than high-risk entrepreneurs, yet have the same potential for impact and wealth creation in most markets.

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Why The Truth Matters

Unfortunately, the hype around high-risk entrepreneurship is making our society less entrepreneurial, not more. Entrepreneurship is in long-term decline. Thirty years ago, about 800,000 new companies in the US were being formed per year, and in some years there have been as many as 13 million people aspiring to start their own businesses. Today only about 600,000 businesses are being formed per year and the number of aspiring entrepreneurs has dropped to about 10 million.

The hype discourages many competent people from starting businesses because they have been led to believe that the high-risk road is the only way to go and they understand that it is largely closed to them—they don't have access to big pools of capital; they lack a breakthrough idea, they aren't in Silicon Valley; they're not tech savvy, and they are self-aware enough to know they aren't geniuses. Conversely, the hype encourages many other people to pursue the high-risk path, where they are failing quickly and in ever-larger numbers.

We can stop the carnage. Armed with the truth, aspiring entrepreneurs could choose the appropriate entrepreneurial path, acquire the skills they need to succeed, waste less money, time, and effort and stop straining their families—often to the breaking point. Instead of sending thousands upon thousands of entrepreneurs to almost certain failure, like lambs to the slaughter, year after year, we could develop better education in entrepreneurship and create more effective business incubators and accelerators. And with greater chances of success, more entrepreneurs could create many more viable businesses, reverse the recent decline in entrepreneurship, create jobs, lift our economy, and contribute to the well being of all our citizens.

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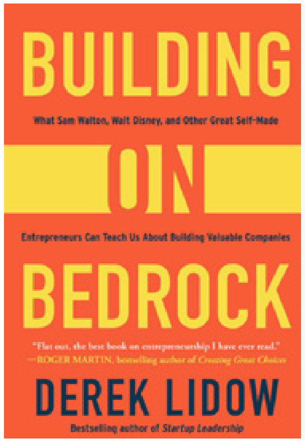

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About the author

Bestselling author Derek Lidow has long demonstrated the rare ability to operate successfully in corporate, entrepreneurial, and academic environments. He is an experienced and successful global CEO, a researcher, an innovator, and a startup coach. He currently is a professor at Princeton where he teaches entrepreneurship, creativity and innovation and was tapped by the University to inaugurate a campus-wide "design thinking" curriculum. Derek, who sold his last startup for $100 million, works with founders and Princeton's aspiring students to help them achieve their greatest levels of entrepreneurial success. In addition to *Building on Bedrock*, he is the author of the best seller, *Startup Leadership: How Savvy Entrepreneurs Turn Their Ideas Into Successful Enterprises*, (2014).

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