THE UPSTARTS ARE HERE!

What Can You Possibly Learn from Entrepreneurs in Their Twenties?

Plenty.

Donna Fenn

WE'RE SMACK IN THE MIDDLE of "perfect storm" conditions for young entrepreneurs, which means that if you haven't already noticed that the CEO down the road may look more comfortable at the local skate park than in a board room, you will soon.

And if you have noticed the trend, you may be asking yourself who these young people are, why they seem to be starting companies at an accelerated rate, what kinds of companies they're starting, and if they're really so different from the young entrepreneurs of the past couple of decades. As it turns out, the entrepreneurs of Generation Y (those born between 1977 and the mid-nineties) are really quite extraordinary. So if you dismiss business owners in their twenties as self-centered, arrogant dilettantes who approach the start-up process like a teen with a new video game, better think again. Humor me for a few minutes, and consider that you may even have a thing or two to learn from them.

GenY entrepreneurs, who I call "Upstarts," are dead serious about their companies, and the way in which they approach the start-up and company-building process is fundamentally different from their predecessors. I'll go light on the sociology here, but there are a few reasons for this that have very little to do with hard wiring and everything to with the times in which we live.

First, consider that GenY is the first generation to grow up with entrepreneurial role models. This is a bigger deal than you might think. Those of us who are Baby Boomers remember very well the days when the word "entrepreneur" had a negative connotation. At best, it meant you were unable to get a real job at a big corporation; at worst, it conjured up images of guys selling watches on street corners. But all that began to change in the 1980s, when entrepreneurs like Steve Jobs, Bill Gates, Anita Roddick , and many others made starting a business look cool, important and potentially life changing. It was a mind-set that was refreshingly new and inspiring to many, many Baby Boomers, and one that their GenY children simply took for granted. A couple of years ago, Junior Achievement Worldwide polled 1,155 teens and found that 69% of them wanted to start a business. “Generation Y will emerge as the most entrepreneurial generation ever,” stated a recent report by Intuit and the Institute for the Future.

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Wanting to start a company is one thing; actually doing it is quite another. But over the past ten years, advances in technology have helped close the gap between intention and action. Computers became more affordable, Web-based software was widely accessible, and GenY embraced it all and used it to build Websites and create stores on eBay. Fifteen-year-olds were being paid by elderly neighbors to set up Internet connections. “I’ve got my own Web development company” took the place of “I’ve got a lemonade stand” and “I’m in a band.”

And when GenY made the move to college, no one expected them to put their entrepreneurial ambitions on hold. According to the Kauffman Foundation, 2,100 U.S. colleges and universities now offer classes in entrepreneurship and there are more than 400 endowed chairs in graduate and undergraduate entrepreneurship programs! Increasingly, students take advantage of those programs not only to learn how to start companies, but to manage and grow existing ones. A growing number of colleges and universities now have business incubators that advise and nurture fledgling student companies; business plan competitions provide start-up funding; professors sign on as advisors and sometimes even as angel investors and; fellow students constitute both a willing workforce and, very often, a captive market.

All of the above pulls GenY into the world of entrepreneurship. At the same time, they've been pushed away from corporate America, initially by the massive layoffs of the 1980s which impacted their Baby Boomer parents, then by the first round of corporate scandals (Enron, WorldCom, and the like), and finally by the collapse of the financial industry and the ensuing recession. The result: the belief that having a job at a large corporation is the ticket to financial security, along with the fabled gold watch at retirement, is gone for good. Starting your own company, managing your own destiny, suddenly looks a lot less risky and a lot more promising than being someone's hired hand. The recession, of course, is an added incentive. Jobs are scarce, but resources are often cheaper, talent is more widely available, and big companies struggling to survive let service and quality slide, opening the doors for smaller, more agile upstarts to step in. Historically, we've seem bumps in the business start-up rate in recessionary times, but I believe that the combination of a recession and the conditions I've described above are setting the stage for a true entrepreneurial revolution. And it is a youth revolution.

So what does that mean for the rest of us and how will this influx of young entrepreneurs impact the larger entrepreneurial community?

I've spent the past two years interviewing GenY CEOs and teasing out the DNA of their companies; I found enough fascinating material to write *Upstarts! How GenY Entrepreneurs Are Rocking the World of Business and 8 Ways You Can Profit From Their Success*. In it, I introduce readers to 64 young entrepreneurs whose stories illustrate the ways in which I think this generation distinguishes itself.

The most important of these characteristics is not what you think it is. We hear over and over again that GenY's skill with technology is what gives the generation their mojo. But that's entirely missing the point. It's what they're using technology for that's important. Technology is GenY's humble servant and they use it to connect and collaborate with their peers, co-workers, employees, business partners, customers and, yes, complete strangers. So it's not the technology that's important, it's the relationship and community building that's facilitated by technology that matters. In many ways, this is the characteristic that mitigates the most oft-sited flaw of young entrepreneurs: they lack experience. It also informs just about everything they do, from how they start their companies, to how they raise money, to the kinds of corporate cultures they build and how they make the transition from start-up to high-growth. The "lone wolf" style of entrepreneurship holds very little appeal to them and, these days, that's a good thing. We live in a collaborative economy and those business owners who know how to build tribes and create communities of invested business partners, customers and employees are the kinds of companies that will have a long-term future. Here are three ways in which Upstarts are doing exactly that—and why you should too:

1 › Expanding the definition of "team."

I found that Upstarts have a strong tendency to start businesses with partners. In a survey I conducted of the young CEOs I interviewed for the book, 64% said they had started their businesses with one or more partners. That probably doesn't come as a huge surprise to anyone who's even vaguely familiar with this generation. They tend to socialize in groups, and they work well in teams (chalk it to pee wee soccer, group school projects and multi-player online games). More and more, ideas for companies are born in college dorms when friends ask each other "what if?" But that's only the beginning of an Upstart team.

College-based founders often tap their professors and school resources for advice and support. Business plan competitions compel entrepreneurial-minded students to clarify their ambitions, write business plans, research markets, and convincingly pitch their ideas—a process that's often more valuable than the cash that comes with winning. The exposure often results in long term advisory relationships with professors, like it did for Siamak Taghaddos and David Hauser, the co-founders of Grasshopper, a provider of web-based phone systems. The former Babson classmates still consult with Joel Shulman, their former professor, for financial advice even though Grasshopper now has more than $10 million in revenue.

Yale University graduates Miles Lasater, Mark Volchek, and Sean Glass founded their company, Higher One, nine years ago when they developed a technology that would allow universities to disburse financial aid payments through a card-based system. They sent letters to 100 or so Yale alums explaining their idea and simply asked for advice. It was a move that may have tipped off a competitor or encouraged a copycat. Instead, it resulted in over 50 meetings from alum eager to advise and invest; Higher One landed $600,000 in capital from its letter-writing campaign. It's now a $44 million company.

But the community building doesn't end with graduation. When Houston-based Brian Adams decided to start a dry cleaning business specializing in mold, fire, and water damage restoration, he knew only that the niche was profitable because insurance companies were covering losses. But he knew nothing about the dry cleaning industry. In typical Upstart fashion, he identified his knowledge gaps and aggressively filled them: he hired a consultant to hunt down a dozen top players in his niche, but in non-competitive markets. And he convinced them to help him start a peer group so that he could shorten his learning curve. The result: everyone benefits from the collective knowledge of peers; and Adams' business, Restoration Cleaners, is now a $5.6 million company.

The bottom line: these young entrepreneurs are very good at finding creative ways to expand their start-ups teams far beyond the four walls of their fledgling companies. It takes honesty and humility to admit what you don't know and to seek out those who can help, and sometimes a good bit of chutzpah to do the asking. But the rewards are clear. Assemble a world-class team out of starting gate and you have a far better chance of ramping up your company to go the distance.

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2 › Building communities of customers.

In this economy—in any economy, really—you don't just need customers, you need evangelists. These are people who love not only your product or service, but also the way in which you do business. They love your company. The great thing about the Web, for better or worse, is that now you can make customers fall in love with you without ever setting eyes on them. The very best way to do this is to instill in them that they are part of a larger community of like-minded people, or that they're on the cutting edge of something new and exciting. Mark Zuckerberg did exactly that with Facebook; Kevin Rose did the same thing with Digg. And Upstarts are learning and applying the lessons of these peer role models.

Threadless, a Chicago-based t-shirt company has a business model so unique that it's the subject of a Harvard Business School case study. The company was founded in 2000 by Jake Nickell and Jacob DeHart as a simple online t-shirt design contest but, over the past nine years, has evolved into a social network of over 700,000 members. T-shirt designs are submitted, the community votes on its favorites, and the winners go into limited production and are sold online. Winning designers get $2,000 and a $500 Threadless gift card; Threadless gets great designs without actually have to pay a staff of designers, plus a highly receptive market for its shirts. But this is not mere commerce. The Threadless community routinely communicates with staff and with one another, offering support and weighing in on designs. The company also uses its community for viral marketing. Members who link to Threadless via a website or email receive “StreetTeam” points when those clicks result in sales. The points can then be used toward purchases on Threadless. Today, the company racks up over $20 million in annual revenues, but Harvard assistant professor Karim Lakhani, who wrote the case study on the company, thinks of it a little differently: “Threadless is a platform for community involvement that happens to sell t-shirts,” he says. The implications of that statement are incredibly powerful: tend to the needs of the community first, and the revenue will follow.

That's certainly what happened to Genevieve Thiers, founder of Sittercity.com, an online service that matches parents with babysitters. Thiers, who babysat her way through Boston College, experienced her "aha" moment in 2001 when she saw a pregnant woman struggling up a long, steep stairway at BC to post flyers in search of a babysitter. Thiers offered to post the flyers for the mom, and had a thought that's been the starting point for countless entrepreneurial companies: "There must be a better way." The teenager down the street wasn't always reliable and employment agencies were wildly expensive. Thiers predicted that a web-base matching service would fill a huge market need. Potential investors didn't think so back then: they scoffed at Thiers' "babysitting service." That was a costly miscalculation, though. Today, Sittercity.com is a $4.6 million company that landed $7.5 million in venture capital in the middle of a recession.

That may not have been the case had Thiers simply built a transaction-focused web-based service. Instead, she expertly branded the company by positioning herself as a babysitting expert on iVillage and The Today Show, and she held "speed sitting" events for parents and sitters to meet face to face. She wrote a book (*Love at First Sit*) and recorded a CD of children's songs ("Sittercity Sings"). To the website, she added screening and background check tools, and a way for both sitters and parents to rate one another online. Like Threadless—and so many other Upstart companies—Sittercity's success lies in its ability to meaningfully connect large communities of people with common interests to the company and to one another.

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3 › Tribalizing employees.

There's a lot of buzz these days about how hard it is to employ members of Generation Y. While that's not my core area of expertise, I can tell you that this generation of entrepreneurs doesn't seem to have a problem employing their peers; they're very good, in fact, at building dedicated tribes of employees. Is it because all Upstart workplaces allow employees to wear flip-flops, bring their dogs to work, and play Wii in the break room? To be fair, many of the companies I visited and that were described to me look and sound a lot like that. But don't mistake "casual" for "relaxed." These are high-energy workplaces where employees may not arrive until 10 am, but remain until 10 pm; where a ski enthusiast may take off a Friday afternoon to hit the slopes, but then work all day on Sunday. For this generation, work and life are often a 24/7 mash-up.

Upstarts typically do a great job of accommodating that mind-set and of integrating fun and flexibility into the workplace. Cyndee Sugra's $8 million technology and marketing company, Los Angeles-based Studio 7 Media, has a soundproof room with instruments plus recording, mixing, and editing equipment for the musicians on staff; PopCap, a Seattle-based casual video game maker, has a break room with so many electronic games that the postman often hangs out there on his lunch hour. But these aren't just toys. They give employees a way to blow off steam, to take a mid-day break that gives them the energy to stay a little later, and to interact with one another in a different way. The team that plays together also works better together.

It isn't all about play, of course. Upstart CEOs tend to build company cultures that reflect their own workplace needs. So traditional hierarchies are rare, frequent feedback and short-term rewards are popular, and training is viewed not as a luxury but as a necessary recruitment and retention tool. Talia Mashiach, the CEO of $9 million Eved Services, even started Eved University at her company, which hires and manages vendors for corporate events at hotels. All employees are required to earn 15 credits a year by taking classes at the company (often taught by fellow employees, including

Mashiach), going to conferences, reading business books, or taking online courses. Mashiach told me the program, which is especially popular with younger workers, helped boost customer retention to 99% and revenue per employee 67%.

You may think that all of this sounds a lot like coddling, particularly in recessionary times when many employers seem to think their employees ought to be happy just to have a job. If you're one of them, I have two words for you: good luck. Now is the time for companies to do whatever it takes to create the loyal tribes of employees they'll desperately need to take advantage of an economic recovery. And yes, there will be one. Upstarts will be ready for it; will you?

I started researching and writing Upstarts! before the economy tanked, so I was naturally concerned that some of the 64 companies I profiled might not make it through these challenging times. But I was pleasantly surprised; only one company had shut down! Last May, I also conducted a broader survey of the 150 or so people whom I had interviewed and asked them about the impact of the recession on their companies. A surprising 20% said the recession had actually been good for their companies; 32% reported very little impact; 44% said revenues would be lower in 2009, but that their companies were stable; and only 5% said they had taken a big hit and were barely hanging on. It was good news to me that these young entrepreneurs were surviving—even thriving—in an economic environment that was far different from anything they had ever experienced. Many even expressed gratitude that the recession was teaching them how to make tough decisions, run leaner organizations, seek out new markets, and keep their employees motivated. **They are supremely confident in their ability to succeed; and I'm equally confident that the next crop of great companies will emerge from their ranks.**

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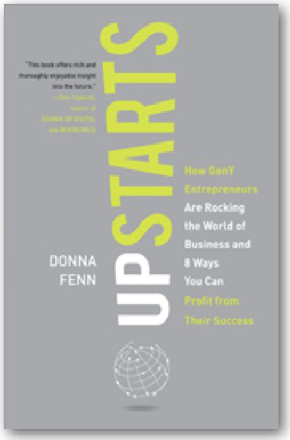

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Get more details or buy a copy of Donna Fenn's *Upstarts*.

ABOUT THE AUTHOR

Donna Fenn is an internationally recognized author and journalist who has been writing about entrepreneurship and small business trends for more than 20 years. In 2005, she wrote *Alpha Dogs: How Your Small Business Can Become a Leader of the Pack*, which was translated into Chinese, Japanese, Hindi, and Vietnamese. She is a contributing editor at *Inc.* magazine. In 2001, she was a co-recipient of the Women's Economic Round Table Entrepreneurship Prize. She has worked as an AP correspondent, and her work has appeared in the *New York Times*, *Newsweek*, *The Washington Monthly*, and many other publications. She lives in Pelham, NY with her husband and three dogs, and is also the proud mom of two amazing GenYers.

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