

Notes to a Friend who is Planning to Start a Business

or

How a good idea can become a costly ~~failure~~ **lesson**

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A failed business is an extraordinarily unpleasant experience -- hard on one's finances, career, relationships, health, and self-esteem. But however unfavorably failure compares with success, there is at least one respect in which it seems to hold its own: lessons from which to learn.

I felt very confident in starting up my first business: I had a great idea, intelligence, ability, energy, and education -- and I was chomping at the bit: I would work harder at this than anything else I've ever done. So what could go wrong? I have tried to lay out the key reasons for my own failure here. I would hope that it might save at least some of you some very expensive lessons.

I. About the Business

My business, the Co-op & Condo Connection (CCC), is a computer data-base service that theoretically provides people with a very efficient way to buy and sell homes and thereby save a great deal of time and money. There are many reasons why such a service is attractive, and my partner, P., and I laid them out in our first brochure (item 1). Despite the problems of our company, I believe that the idea is sound and that within a decade such a service may be the principal medium for real estate transactions. I still hope to play a part in this revolution, but now I will wait until I am part of a team that is up to the task.

We set up in Manhattan with its large market (more than 10,000 annual transactions) of reasonably homogeneous housing. A Manhattan apartment can be described reasonably well in a good one-page report (see item 2). Our pricing -- \$200 for buyers and \$100 for sellers -- is nominal in comparison with a normal broker's commission, especially in this market (\$14,000 on average prices of \$200,000). Manhattan also has no Multiple Listing Service for brokers, which means that we would be the *only* centralized source for listings.

Financially, we felt the company had the following advantages:

* *Low startup costs.* The only up-front costs were rent, telephone, a computer, some labor to build up the initial database, and then some small advertising to get the thing going.

* *High profits:* Despite the low prices, we would only need to sell only one buyers or two sellers per day to cover costs, and only twice that much to make the thing click. This, I thought, would be easy: housing is one of the few real **needs**, and at such a modest price that it should be an easy sell.

* *Enormous growth potential:* Manhattan sales could be very profitable in themselves, but that would be only the beginning. There is no reason the service couldn't work in any geographical location and for houses, rentals, entire buildings, commercial property, and undeveloped land as well. In essence, we would be setting the foundation for an entire real estate exchange that would help ameliorate the one great disadvantage of real estate as an investment -- its illiquidity.

* *Related services:* We should be able to make a small fortune on advertising (Mortgage bankers, lawyers, insurance companies, and many others would be very interested in targeting advertisements to our customers), general information, and especially through real estate investment. As a listing agency, we receive first notice of prime properties for sale and through shrewd investment should be in a position to make a killing.

* *Natural Entry Barriers.* Being first in this field would mean several significant advantages over any potential competition. We would be entitled to free publicity for the novelty of the idea and we would have the opportunity to get our name associated with the service so that people would call us to list their apartment and by virtue of that, buyers would use our service to buy.

Everything sounded good so we planned it out and ran a test: two tiny classified ads in the NY Times. It went well beyond expectations. The phone rang off the hook, and the response was very positive. Unfortunately, we couldn't actually ask them to pay us, but only if they would be willing to pay. Nevertheless, there were many people who were really high on the idea and said they would definitely do it.

We looked at all the natural problems: We supposed that real estate brokers would not like our service at all, and we spent a great deal of time thinking out what they might do, and preparing for expected harassment. We discussed our situation with lawyers and the appropriate state agencies, and sent in an application for Real Estate Publisher to head off any potential legal problems. We purchased a very secure lock and alarm system, and labored our first two-and-a-half months in privacy.

II. What went wrong? 12 Basic Mistakes

1. Only family. "We" -- P., myself, and our investors -- are all relatives. The advantages of working with family are obvious: Trust is there, we suppose we know and can work with each other, and the need to persuade is minimal. But the disadvantages should be recognized: One family forms far too narrow a base for a substantial enterprise. This base proves insufficient in three ways:

(1) Limited resources: P. had very little financial resources, and our investors nothing to contribute outside of their (relatively small) financial contribution. P. also proved to be unprepared for the sacrifices needed to begin a business, and very soon, the most of the burden of the company fell on my shoulders.

A new venture needs a great deal of motivated manpower. The few days or evenings my wife was there made a great difference. Had we several families involved, we might have been able to implement many more of the ideas that we had. We could have mailed those letters, made

those phone calls, put up those signs and billboards, put together that newsletter, and spread the word personally to attract customers, investors, and others to become directly involved.

(2) Limited connections: a new business requires all kinds of connections: to find professionals, for general advice & assistance, for hiring people, etc... One painful example was that we were unable to get credit card billing privileges. American Express and the banks that handle Visa and MasterCard all claimed that they didn't even want to consider an application from a company less than six months old. This was a crippling factor. We lost many sales because we were unable to simply take someone's credit card number over the telephone (rather than asking them to put a check in the mail). Had we known a banker or a company that would vouch for us then we could have avoided this handicap.

CCC had tremendous needs and tremendous opportunities for growth. More people involved could have created a multiplier effect to allow us to develop our property investment arm (one customer made over \$30,000 on an apartment obtained through our service) and other services, to cover each neighborhood more comprehensively. If we attracted even more people, we could have spread geographically to possibly more lucrative areas in the boroughs.

(3) Limited objectivity: I had concerns about the partnership before we started and said to my wife that I would not have gone into the business with P. had he not been family. Clear business thinking is difficult enough without the complicating factor of family ties and obligations.

Family may be too trusting and unsophisticated. Maybe we didn't want to bother to have to persuade people, but maybe that's what we needed. In retrospect, it's clear that we needed to be asked some tough questions. Outside participation provides a critical test. It's fine for someone to say the idea sounds good, but would *they* get involved? Perhaps you don't think you'll need any help, but you may need it later and if no one else wants in, there may be a good reason.

2. Insufficient Principal Time. Both my partner and myself were working at the time, and although my work commitment was only 20 hours/week, this was based in *Philadelphia*. We thought we could hire people at low cost to run the operation, and basically we could just do what we had to. If that sounds vague, it's because it was. That we could hire cheap labor to direct this venture was perhaps our most obviously foolish assumption. Within two months I had to leave my job and assume a full time commitment in New York. Because this was unplanned for, it created real family difficulties as well as leaving a rewarding job without full consideration of the consequences.

Yet even this "full time" commitment proved inadequate. In a new business, one must be there *all the time*. There are always things to be done, and it's almost irresponsible to leave at all.

3. The importance of marketing. Everyone who has attended business school is aware of the fundamental place of marketing, but I valued my subjective assessment more than all the established wisdom and overwhelming evidence to the contrary.

I personally have never liked advertising; the more a product is advertised, the more I assume it's an intrinsically weak product. I buy a product that makes sense. But what I do (I now know) is entirely beside the point. Others buy for other reasons; advertising and name association clearly play key roles.

We developed an excellent report format (item 3) with a large database of listings and promises of more to come, and advertised sparsely, with the expectation that the service could spread by word of mouth. This proved to be a terrible assumption: Operations, in retrospect, proved relatively simple and straightforward; marketing was where the real challenge lay. This was where we needed the energy, experience, time, money, and planning.

Whatever the size of one's advertising budget, one absolutely must inform and convince one's market, and such work cannot be relegated to one's spare moments. In a consumer service business, one needs a way to spread the word broadly, and to keep spreading it. Our business *especially* in that (1) it is a new service that requires some consumer education and (2) its value as a service depends on its use. Only if we are able to sell our service to buyers, does it provide value to sellers and vice-versa.

By the time I recognized the paramount importance of marketing, I was too occupied by day-to-day operational demands to adequately address the problem. It would have been possible to find good people to hire, but we couldn't afford that. I personally was hindered by working in New York, a city I didn't know well and whose sheer size is overwhelming. We would try this and that, but we honestly hardly knew where to begin.

4. The importance of sales. Similarly, we should have had a professional salesperson with us from the beginning. This may very well have been the greatest failing of the company. At first my assistant handled the phone calls, although he, like me, neither liked nor appreciated sales work. When sales lagged, I handled it -- without significant improvement. Who knows how many sales we rookies lost? We had a part-time salesperson (not particularly experienced) who only got leads after an initial impression was made. Maybe we did fine, but it's hard to know; in Real Estate, about 10% of the brokers make 90% of the sales. Maybe if we had one of those 10% we could have been successful.

Even more fundamentally, we lacked a sales orientation. We were oriented towards operations, and put together a database that was potentially of great value, but we never isolated a market niche for which we could develop an effective marketing orientation and provide a service of clear, easily demonstrable value.

We did learn a lot as demonstrated by our revised brochure (Item 4). We found that people on the verge of closing a deal were far more willing to pay \$200 than those beginning a search, and sought to exploit that market, but because of our near-zero margin of error, it proved too little too late.

5. Free Publicity isn't free. Getting good publicity is like making a sale. We assumed that ours was an interesting service that would be of value to a publication's readers and that thereby we

would be given a certain amount of space. Before starting up, we spoke with a couple of reporters who expressed a great deal of interest and basically confirmed our assumption. A reporter from *New York Magazine* was all ready to do a story on us. Assured by this knowledge, we actually avoided publicity for the first three months because I wanted to make sure we would be ready and operationally sound by the time we were publicized. When the time came, we learned the truth: A reporter from *New York Times* said that his editor had no interest and suggested we call their advertising department. A *New York Magazine* editor didn't beat around the bush at all: she informed us that they didn't think it would be a good idea to do a story on us because their largest advertisers are brokers.

Other periodicals, perhaps with fewer vested interests, did note our service. The *New York Daily News* and the *New York Post* in particular were very fair. The *Post* writer, Carter Horsely, told us that there would be many people displeased by his story, but he eventually ran it over their objections because he liked the idea and he felt it was a service to his readers.

The point, however, is that getting publicity is like making a sale. We must convince the reporter of the worthiness of our service, of our commitment, and to make him want to write about us. It takes focus and persistence.

6. The importance of finance. The third missing leg of our one-legged chair was finance. We felt that talking with investors would be at worst dangerous -- giving people we didn't know all our ideas, and at best a waste of time -- they would want to see an ongoing operation, not an idea. Because we had money for initial expenses and three months operating expenses, we able to commit this *faux pas*. Be it frustrating, and perhaps dangerous, a *sine qua non* of business is the investor. A serious investor will make sure the enterprise is feasible and on course; if it isn't he won't put his money in. Courting and pleasing an investor or consortium of investors is a job in itself that requires skill, connections, experience and a reputation. It is a critical task -- one which I was clearly unable to do on my own with all my other responsibilities. But unless you can convince someone that your enterprise is worth the required investment, it probably isn't. At very least, you should know why they don't think so.

7. Build your alliances before going to battle. In truth, we knew we were undermanned and underfinanced before we started, but we believed it would be easier to attract allies once we got going. Nothing could have been further from the truth! Once we got started we were quickly overwhelmed with day to day affairs. We had no time leftover to speak seriously to potential investors, partners, and other allies. It was difficult even to make time for reporters and prospective employees.

In retrospect, an additional working partner or two or three were necessities. But other potential allies should have also been contacted: Even if investment in the company was premature, discussions would have been worthwhile for laying groundwork for future investment, getting the word out about our company, and in getting the benefit of their experience and advice. Many consumer groups should have been contacted earlier. Civic associations could have provided feedback and possibly support in helping to market and legitimize the service. Finally, our service could have brought major benefits to many related industries: Banks to draw

prospective mortgage buyers. Appraisers, insurers, mortgage brokers, attorneys, real estate investors, movers, financial managers, and possibly real estate brokers all have substantial interest in connection with a service such as ours that deals directly with a large number of home buyers and sellers. Even if no substantial agreement or commitment were made, at least we would have laid the foundation before we started, rather than once we were beyond help.

8. Minimize costs -- not maximize potential. In a new business it is extraordinarily easy to spend money, but very difficult to bring it in. You need everything but you have no established clientele. Without major financial support from a sophisticated investor there is only one place to start a business -- at home. We could have saved all the outrageous costs of rent, security, travel, phone installation, etc... It would have been a fraction of the cost. Even if the service is not economically viable in the home market, at least one's learning and development costs are minimized. One can always expand later when one is ready -- as an established, more legitimate, company, able to entice partners, credit, and investors.

9. Pay Attention to Your Projections. In general our projections were reasonably good, surprisingly so; the problem was not taking them seriously enough. In particular, we ignored a projection that we would need 170 man-hours per week. We ignored it because we figured we had to start small, and would make do with whatever we had. This was easily rationalized because our projections were, after all, just conservative guesses. But, as it turns out, for the business as conceived, these *were* the basic hours required. Before we started, we should have figured out how we were going get by with fewer hours, or how to get more help.

The crime of self-deception is a major offense, and no rationalization will reduce the punishment. For ignoring one's best estimate, one had better be prepared to pay a stiff fine; and if you don't have the money, you'll be serving time.

10. The Problems with a Shoestring Budget. It is easy to romanticize the notion of starting with nothing, but it takes money to get going. A serious project requires a serious initial investment -- especially in New York! Our poverty debilitated us in three ways:

(1) Cramped offices: Corporations don't award nice offices and general comforts simply for prestige and luxury. A pleasant, quiet, private office allows one to work at greater efficiency for a long period of time.

New York rents being what they are, we got a studio apartment that I would also be able to sleep in. While this yielded great productivity in the early stages, it proved unsustainable.

Living and working twenty-four hour days in a studio apartment rapidly begins to interfere with one's ability to do one's job, especially with other people also working there nearly every day and evenings. Both for living one's life and running a business, one needs a place to get away and hold a private conversation, to quietly analyze matters, to collect one's thoughts and relax. But I lacked the solitude necessary for writing, which could have helped promote the company. In this way and others, the lack of space severely interfered with the critical tasks of marketing

and ally-building. In my few "free" hours, I had to take care of finances and getting things organized. A space shortage is especially difficult for a basically introverted person, accustomed to a certain degree of privacy.

(2) Advertising. A service like ours needed massive advertising, not only to attract customers, but also to legitimize our service. Sellers, especially, were unprepared to pay to list without some confidence that buyers would be attracted. Prominent advertising could have demonstrated that we were indeed a marketing service. Buyers, also, could have been more assured of our comprehensiveness had they seen more of us. Although marketing expertise would have allowed us to spend more wisely, money could have made up for lack of experience, and considerably more money was needed regardless of how wisely it was to be spent.

(3) Retail location. I also believe our location in a fringe area (the East 20s) hurt us in several ways. A retail location in Midtown would have been a major means of company promotion. Delivery of information would have been much easier and faster. Most important, a prime retail location would have generated a great deal more customer contact. Personal sales, we learned, were far easier than telephone sales. When we were able to demonstrate how the search works, the extent of our database, the type of report generated, and the kinds of deals available, customers were generally impressed. It was not easy, however, to get people to come 25 blocks to the beat up private apartment we used as our office. Through closer contact with customers, we could have learned a great deal easier of specific resistance and received their suggestions. We could also have been able to work out deals; sometimes people unwilling to pay cash were would have been able to barter goods and services that we needed. Finally, a retail location would have made the job immeasurably more appealing. Just as our customers could have been convinced that we were for real we could have been dealing with real people, rather than a nameless, faceless, inordinately suspicious mass.

11. Timing. Our operation really did not get going until the summer. This proved a double tragedy. First, it meant that we were locked up in cramped quarters. The business of marketing and making contacts was crippled by an exceptionally hot and humid New York summer. Going out in a suit and tie was enough to sap all one's strength.

Even more important: New York, unlike Long Island, has a terrible drop off in transactions over the summer. Perhaps nothing is more indicative of our lack of preparation than unawareness of this fact. I also had no idea just how unpleasant the city can be during the summer. Everyone with sense and money would be away every chance they had. The only ones left were bargain hunters, and bargain hunters, we learned, had little interest in paying us \$200. If we had been able to hold on until the spring, the slow season preparation might have proved valuable, but this was not the case. When one's margin for error is small, timing is absolutely critical. The slightest error can mean death. By the time cool weather arrived, the gig was up.

12. Build Your Army Before Going to Battle. This is especially critical in a small company: With only a few employees, a bad one can sink a company. I was unprepared for the difficulty in hiring. Previously I had found it relatively easy to hire quality workers at low wages while running projects at the University by providing interesting work and a good atmosphere. But

people expect a great deal more in a private company, especially in New York, and there is no captive supply of students. Hiring good people in an economically strong area is very difficult -- yet one more reason to start-up at home where one presumably knows at least a few competent hands. Good people are hard to find, and who is good or weak is not readily apparent. To find even one passable employee, one must answer 50 telephone calls, and hold 20 interviews. One more severe drain on the entrepreneur's time.

In retrospect, I don't believe a new enterprise can be forged by cheaply-hired hands. If you need help, you need hungry partners who are attracted by equity and opportunity and are determined to work to make the enterprise succeed.

III. Two Fatal Follies

All these mistakes, bad as they are, foundational as they are, are basically correctable. I might have to slow down for awhile, reorient the business, spend a few months meeting people, writing articles, trying to persuade others to join, or narrow the focus to just condominiums or lofts or Brooklyn Heights or Wall Street clientele, but two absolutely fatal follies prevent this.

1. Too short a time horizon. In the business plan, we gave ourselves three months. I felt we would know by then whether the business would fly or not. The problem is that we only just began to offer the service at the end of those three months, and did not even begin to seek publicity until that time. It had taken the three months to develop the software, to develop our procedures, and to build up the original database of listings. Thus, before we had even given the service a chance we had used up our original commitment. At that point one is faced with two unpalatable alternatives: Giving up or raising the stakes. I saw no choice but to dig into my personal reserves and keep plugging away, while continuing to lose money. Three months later, when I think I may finally know how to run this business, I have already spent far more in time and money than I feel comfortable with, and would need a bundle more to proceed.

It is easy to say that one will give something three months, but if you have worked your heart out and not yet given a business a chance, it is heart-wrenching to quit. What we did was mislead ourselves about startup cost and commitment. This made it easy to get going but impossible to continue. Everyone knows that businesses take time to develop -- the more novel the business, the more time it takes. Very foolishly I had thought that I was smarter than the average businessman and would not therefore need so long. In truth, we needed much more time -- not only was our service new and unfamiliar, but we also had no real related experience. In truth, we were not so much working as learning on the job.

One pays a dear price for a lack of commitment: there is probably no more painful way to lose a wager than to be unable to wait to see how one has fared.

2. Incompatibility with one's life. This, I suppose, is what it all boils down to. Several people who have seen the business and what has been accomplished believe that it is doing reasonably

well and that all it really needs is time and energy and money. Money for a promising enterprise can be raised if one has confidence and commitment, but the commitment can come only if it is not in severe conflict with other aspects of one's life. And this is not the case. The problem above all is that I'm isolated and separated from my wife, and with the business, we face a future that is difficult to reconcile.

In retrospect, I had given all too little thought to each of the following:

(1) The nature of the work, and what I, specifically, would have to do. The real heart of the job -- I had no idea -- is telephone sales! Selling is the critical task; all other tasks either support sales or are extraneous. Because of our price structure and set up, sales are telephone sales: Thus the real job is a constant explanation and pitch for an unfamiliar product to a faceless mass.

None of the pleasantries of repeat business develop. When you have regular customers, suspicions begin to subside, loyalties and friendships develop, and one can get additional satisfaction from work. Our job, however, is to explain the service over and over again. Since we don't know the people and are not developing a relationship, any extra talk or advice is wasted time and money. They regard us with suspicion, and we regard them with suspicion. One overlooked side effect of taking on an industry, was the damage done to legitimate customer relationships. We couldn't offer money- back or unlimited listings because brokers would abuse them. Brokers did in fact call us frequently and harass us on occasion, and we never knew whether or not a caller was a serious buyer or not. Perhaps a retail location could have meant a significant improvement in the quality of work life (see section II.10), but regardless, the priority job was neither coming up with good ideas, nor executive decisions, nor even computer work -- it was one- shot sales.

(2) The difficulty of travel from Philadelphia to New York, even if it was *only* to be for 10 months until my wife could relocate. I usually stay over, which places a great stress on my wife and our new marriage. To return to Philly, I must follow a strict timetable. If something happens at the office five minutes before I'm scheduled to leave -- and it invariably does -- I either miss my train or I deal with the problem inadequately and rush to Penn Station, which in the summer is possibly the worst place on earth -- a mass of sweating humanity in very smoky 100+ degree heat where I wait for the train, which is generally late, and ride back in the evening to arrive home in a state beyond exhaustion. At the end of my journey there is little time to relax; mostly I feel pressure to get organized and get to bed early: I have a long train ride back in the morning followed by a busy day. The morning travel is worse: it takes over 2 hours of the sharpest and most productive part of my day.

(3) My actual life in New York: The days I don't travel are more productive, but not much better. I live very poorly in New York. I work all the time, sleep in the office, and have little to do outside the business. This yielded great productivity early on, but it has proved unsustainable. In a small business run by oneself, one is not surrounded by colleagues, and is more reliant on past acquaintances for friendship and support. Making new friends is not easy when one must do telephone sales all day. Normally, socializing for my wife and I consists of having guests for

dinner. Not only did we forsake this as an advantage in developing business contacts, but we were unable to carry on any social life whatsoever.

(4) Commitment to New York: I could get an apartment and set up a household, but to do so would deplete what remains of our savings and we would still live far more poorly than we could anywhere else in the country. My wife dislikes New York very much, and we had always discussed for a quieter, less acrimonious life in a nice place where we could live comfortably. While a stay of a few years could be tolerable, settling down and raising a family is not: especially without a reasonably secure high income. I did not know New York well, but from my vantage point the noise, pollution, crime, overcrowding, and exorbitant costs are the city's dominant features.

At first, I could convince us both that I would make a lot of money quickly and move on to the business expansion phase where we could live anywhere we would like. Now the truth seems to be that building the business will be a long, hard haul. The business itself may not even be the beautifully sensible original vision that would revolutionize an industry. Rather, it will require some tinkering so that it may resemble other businesses more, even the traditional real estate brokers which I had felt were such parasites. And to establish such a business, we must buy into the city, make our connections, learn its intricacies, and grind it out -- in short to build our life here.

(5) What it means to be a family. I honestly had no idea of the changes wrought by marriage. I had confused my former family with my present one. Separation from my wife was very difficult for both of us and threatened the marriage. Why, after all, does one start a business, if not for one's family? Building a business, making money, and raising a family at some point all meld together. An enterprise should build, not destroy, a family.

There are probably millions of great business ideas floating around. The question is not merely if it is a viable business, or even a very good business, but is it a viable business for **you**. The Co-op & Condo Connection in New York may or may not be viable, but it should have been more clear that it was not particularly viable for me.

IV. It's Easy to Make Mistakes

I suppose that if I were reading this account, I would wonder how it is possible that someone capable of writing it could be so stupid as to have made all these mistakes. Indeed, when the bottom started falling out, I did an awful lot of wondering. But this is basically how I was able to make such errors.

1. The Need for Speed. We felt that speed was of the essence. Somebody was going to make a fortune on this service, and if it was to be us, we had better be first. By being first, we would attract the publicity and we would own the bandwagon that everyone would want to jump on.

Once we become known as **the** place to list, we have an important barrier to competition. Because of our desire to be the first, we skimmed on research and in getting opinions of our plan. We did take the trouble to write the plan, but the people who could have helped us are busy people who would have to make the time to read the plan and think about it.

In retrospect, speed may be important, but it is meaningless unless one can finish the race. A business is a marathon, not a sprint. And the marathoner needs not only stamina, but also a great deal of training before he is ready for competition.

2. Secrecy. We did not want anybody stealing our idea so we hardly talked about it. In fact, prior to our start-up, we coincidentally learned of someone who had basically the same idea, but we did not contact him because we saw him as a competitor. In this respect, we seriously miscalculated relative needs and risks. We could have saved a great deal of effort by learning what he and others had done and possibly acquired the partners we so badly needed in return for exposing not very much.

One should not give away valuable ideas, but one can hardly do business without at least a modicum of discretionary trust.

The question of secrecy is an important one, which I believe deserves serious speculation and study. After all, there are packs of wolves out there waiting to pounce on you if there's something to be taken. On the other hand, in order to survive in such a harsh environment, one should probably join up with a strong pack of wolves oneself.

There are legal ways to protect oneself from having an idea stolen, albeit difficult and expensive to enforce. But there are two additional points to keep in mind:

1. Only a small percentage of the people that hear a good idea will understand its strategic value. A considerably smaller percentage of that group will have the resources and wherewithal to pull it off. Finally, only a tiny percentage of that small group will have the required time, availability, and interest to do so.

2. If one is both capable and reasonable, then there is no good reason someone else should want to steal your idea. It would be in their interests to work with you in development. Emphasis on secrecy betrays, perhaps, a lack of trust in one self: the value of one's own abilities and one's ability to judge others, to negotiate with them, and then to work as a team.

3. Ivy League (over)confidence. We badly underestimated the effort required. In retrospect, I would say that we suffered from severe egocentric narcissism (an intentionally redundant description to indicate its severity). The whole notion is crazy: Two people with limited business experience expect to revolutionize a multi-billion dollar industry in which they have no experience working part time with a shoestring budget, and me, living in Philadelphia and not even really knowing New York -- and do it all within three months.

I accept principal blame for all this, but I believe academia deserves at least a piece of the credit. I developed the cockiness of many that inhabit privileged places in Ivy League academies. I think it may be a widespread assumption of the academic that we are an elite: not only are we much smarter than the average bear, but that those brains are sufficient for most anything. In reality, this attitude is an insult to everyone who has ever started up a business or who has worked their way up the ladders in established business. And again, we didn't just err; we erred colossally, for we tried this in perhaps the most business-oriented, intensively competitive city in the world.

When I consider this, I thank God that I *did in fact* undertake this venture. For however much failure has hurt and however foolish I feel, it would be unthinkable that I should proceed in life continuing to carry such severe misperceptions.

4. Comparative Value of Talk and Action. America produces a lot of propaganda to the effect that talk is cheap and that real men don't talk -- they do. In academics, one becomes particularly sensitive to that charge. After a few years of boring lectures and abstruse discussions, I believe I was just too impatient. We skimmed badly on research. We did the library work for the project and the requisite analyses, but we didn't talk to people, and least not enough people and not the right people.

In part this is an underestimation of the value of others. We felt it was hardly worth talking to brokers -- that the real estate industry is too stupid and/or corrupt. Banks? Too conservative. Private investors? The serious ones will not be interested in a plan, but only an ongoing operation. Perhaps this is true, but at least we might learn something, and may set the groundwork for a future relationship. It may be true that no venture capitalist would be interested in investing before we even have space, but we might learn what space to get. It is almost certainly true that most banks would not give us anything tangible; but perhaps some working relationship could be established for six months down the road. It's certainly true that we would have to exercise discretion in speaking to brokers -- but all that does not say that talk is cheap. Cheap talk is cheap -- talk to people who don't know anything, talk to people who like only to talk, talk without listening and analyzing. But intelligent talk is absolutely necessary. Speaking, discussing, probing carefully, with the right people, be they people with power, knowledge, connections, or experience. Such talk **is** action, without which *activity* is worse than useless; it's downright dangerous.

5. Who needs partners? In *What They Don't Teach You at Harvard Business School*, McCormack says, in no uncertain terms, to avoid partners. The partner, after all, is the businessman's most common complaint. My father and his partner hated each other. More energy, they all say, gets spent in infighting than building the business. The number of partners who have supposedly screwed the other is exceeded perhaps only by the number of spouses who have done so.

Platitudes about avoiding a partner, I now believe, warrant the same attention as "Don't get married." Everyone complains about their spouse -- some complain incessantly -- and it's true

that marriage is difficult and that staying together requires compromise and occasional sacrifice. But it takes two to bear fruit and form a family. When we marry, we give up certain freedoms and desires to build something bigger than ourselves -- a fortress in which one partner guards the front door while the other protects the rear.

There are two ways to be an entrepreneur. One is to choose a very narrow focus; something that one can do on one's own, that doesn't threaten anyone big, that provides a good cash flow, i.e. a little store or a consulting service. The alternative -- an innovative undertaking of great potential value -- requires substantially more capability than any one mortal will normally possess. If one is unwilling to work as a team, or to go through the interviews and negotiations necessary to cement a relationship, one had better keep one's focus very narrow. Working as a team, however, is the most rewarding part of many an enterprise. Team-building cannot merely be seen as necessary; it simply must be relished. More than the idea, more than the specific tasks, this is what putting together a business is all about. In the case of both marriage and business, it is the sometimes painful process of compromise and sacrifice that can give rise to a system greater than the sum of its parts.

6. The Adventure of Starting a Business. I saw this business as an adventure: I wanted the challenge; I was also looking for an escape from Philly -- not a new life in New York, rather a transition to a new and better life somewhere else. But starting a business is not an adventure -- at least it's not *merely or even principally an* adventure -- it is a **commitment**.

Taking a new job in a new field in a new city requires risk and sacrifice: the costs include learning curves on the job and off, moving costs, and possibly reduced salary. These costs can be compensated for by the psychic benefits of starting fresh, meeting new people, and new experiences. Starting a business, however, is a quantum level increase in risk. The stakes are now such that it is no simple matter to say 'I made a mistake', 'I don't like the city', or 'I don't like the industry.' The moral is Move first, take a job, even an entry level job (if you're smart enough, get a high paying consulting position). Once you know it's something that you would like to do -- and continue doing -- **then** start up your business.

Starting a business is not an affair, not even an engagement. It is a marriage. One must be must be stable and know what one wants -- and it had better be that business.

7. Too many changes. In our society, there is a lot of pressure to get on with things -- to get ahead, and do it while you're still young. I wanted to get on with everything **now**. I got married in San Juan the same week that I started up the business. That week, I also sold my house on Long Island, figured out what to do with all the money, and was working on school and work projects in Philadelphia. The marriage was critical: maybe some people could handle it, but I honestly didn't know what a marriage meant. It was a second (or third) commitment, none of which I was ready for. People are adaptable -- indeed that is our natural advantage over virtually all other animals and our own computers and robots, but we are not *infinitely* adaptable. For me this was a hard second lesson in human limits. The first was of physical limits on a cross-country

bicycle trip. This was more abstract and more difficult to digest: psychological limits imposed by competing commitments.

One change at one time is enough. I suppose that what they say for babies goes also for businesses: that a baby won't bring harmony to a family; but rather the baby must spring from a family's harmony. Likewise a business won't bring order and security to its founder, but rather must spring from a founder's basic order and security.

8. Passion over prudence. I wanted very badly to start up a business. It was a fever that ran hot through my arteries. My blood was heated by many desires: security, to be my own boss, to prove myself, to build wealth and prestige, a quick way to gain *entree* anywhere. I did research at an academic Entrepreneurial Center, and I had taken a course. I felt ready; or if not ready, then needy. I couldn't continue talking about business without doing one. In retrospect, it clearly seems an error of passion over prudence.

But on the other hand, perhaps some lessons had to be learnt. There are those who dream about such things all their lives and never do it. Sometimes they take what could have been their start-up capital and get their thrills instead at Atlantic City. I had thought out many ideas, and chose CCC for the reasons described in the introduction. I also had the ready-made partnership and it seemed both worthwhile and interesting. I don't feel that bad about the money: my experience at CCC was worth a year's tuition even though I worked about three times as hard and didn't receive any credits.

I had always been one to jump at adventure. This I treated like the others. In some ways it was not so different -- I had many of the same thrills and learning. But while starting a business may be an adventure, building it and keeping it going is something different. As an adventure, a business consumes a great deal of time, money, and energy -- much more than one is likely to suspect. The payoff for all this investment, however, is unlikely to come until well after the adventure has worn off.

V. Parting Thoughts

1. Contingency Thinking. A simple way we might have avoided a great deal of pain and suffering would be by asking properly, "What if..?" Very few experiments have preliminary results which are completely conclusive. We had only prepared for black and white cases of success or failure after three months. We did not ask "What if the company is still losing money but shows promise?" or "What if it takes a little longer to get going?"

Garrett Hardin, an environmentalist, in his book *Filters of Folly* theorizes three kinds of analysis: Literate analysis, which attempts to persuade through words, i.e. a database that saves transactions costs. Numerate analysis looks at numbers, i.e. an idea which saves consumers 97% of cash transaction costs and is 50% faster and which, as a business, has a potential market of \$2 Million/year with \$1 Million profit. The Co-op & Condo Connection did not overlook these

analyses. With regard, however, to Hardin's third type of analysis, ecological, we were deficient. Ecological analysis at its best will look at three areas: at how changes brought about by one's actions might impact those numbers, the assumptions behind the numbers, and what happens if our assumptions are wrong.

To be fair, we did consider our impact. In retrospect it may be said that we overconsidered it, since we didn't really make much impact. But we never really considered a slow start -- partially because we couldn't conceive of every potentiality, but partially also because we may not have wanted to consider it. But the reason why is immaterial; failure to consider an outcome just makes it all the more difficult to accept when expectations are not met.

2. On Being Your Own Boss. One of the reasons why I and many other people are attracted to the idea of starting up a business is that we want to be our own boss; we think we can do things better and don't want to be slowed down by the need to persuade or deal with idiots or committees or building consensus or abiding by the will of majority. Unfortunately, when one thinks big one does not get off so easily. If anything, the entrepreneur has more people to convince, impress, persuade, listen to, and abide by. To run our service properly, I must convince (1) customers, (2) investors, (3) partners, (4) the media, (5) potential allies such as banks (to distribute our materials and provide space) and, possibly, (6) governing agencies (if in fact brokers were to challenge our right to do business).

If one wants to play an important role in our society, there is no way to get around participation, co-operation, and persuasion. And one had better recognize this fact before one starts a business to avoid it.

Additionally, as an entrepreneur you must endure more, not less, of what you find demeaning or unappealing. Sales, for example, is unavoidable. No matter what your company function, as entrepreneur you must be selling the idea, if not to customers, than to investors or suppliers, and anyone else you meet. You must do a little of everything; if you don't do it, it doesn't get done, and it's your money, career, and life on the line.