

ENTREPRENEURSHIP EXPERT

KARL H. VESPER

NEW VENTURE EXPERIENCES

By

Richard J. Goossen

School is limiting, in that it doesn't give you the most important learning tool you need for success in a venture, which is opportunity- and venture-specific knowledge. [The experienced, school-of-hard-knocks entrepreneurs] instinctively grasp that the key of entrepreneurship is to deliver something good enough that people are willing to pay a premium for it. [Then] you can make a satisfactory return.

**Karl H. Vesper
Interview with Rick Goossen**

INTRODUCTION TO KARL H. VESPER

KEY DATA:	
Name	Karl H. Vesper
Title	Professor of Business Administration, Mechanical Engineering, and Marine Studies
Affiliation	University of Washington
Education	PhD, Stanford University, 1969 MSME, Stanford University, 1966 MBA, Harvard University, 1960 BSME, Stanford University, 1955
Experience	U.S. Congress, gave a testimony on entrepreneurship and national policy; Westinghouse Electric, spearheaded intrapreneurship program; University of Illinois, started entrepreneurship program; Babson College, developed an entrepreneurship program and research conference.
Notable Publications	<i>New Venture Strategies</i> , Prentice-Hall, 1980; <i>New Venture Mechanics</i> , Prentice-Hall, 1993; <i>New Venture Experience: Cases, Text and Exercises</i> , revised edition, Vector Books, 1996.
Website(s)	www.bschool.washington.edu

Biographical Highlights

- Vesper is the world's leading chronicler of entrepreneurship research and education programs worldwide, as well as the designer and evaluator of entrepreneurship cultivation programs since their origins in the 1970s.
- He holds a joint appointment in the Faculty of Business and the Faculty of Engineering, a feat which is rarely achieved or permitted, and this gives him a unique interdisciplinary perspective.
- He founded the entrepreneurship division of the Academy of Management.
- He is the first professor to hold a chair in entrepreneurship studies at Babson College, Wellesley, MA.
- He generated the idea of the annual "Frontiers of Entrepreneurial Research Conference" at Babson College in 1981, which has now evolved into one of the leading conferences in the world.

12.1 THE EXPERIENCE: FAILURE, SURVIVAL, & SUCCESS

An individual embarking on an entrepreneurial venture must realize that the experience involves the emotional implications of differing levels of failure, survival, and success throughout the growth process.

Vesper asserts that the entrepreneurial life is an emotional roller-coaster of failure, survival, and success. Like professional athletes, entrepreneurs must learn to be both good losers and gracious winners—equally magnanimous in victory and defeat, knowing that on any given day the outcome could be reversed.

Consequently, while some professionals' main source of value is their technical competence, entrepreneurs have to develop both specialized skills and emotional resilience. Traits such as determination, enthusiasm, hard work, energy, and passion are important components of an entrepreneur's success. Moreover, he/she should be prepared to face many emotional risks throughout the course of each venture.

Vesper recognizes that one dominant emotional risk for the entrepreneur is the frightening possibility of failure. He writes, "The price of [pursuing the entrepreneurial career path] can be high. If the venture fails, the entrepreneur may lose everything."¹ In many cases, the entrepreneur has the added stress of taking financial risks that require a personal guarantee, and the pledging of all assets, as security for his/her undertaking.

While estimates vary, the failure rate among entrepreneurial ventures, especially start-ups, is significant. According to Vesper, recent studies indicate that failure rates for new ventures average around fifty percent each year following inception, and that the rate depends greatly on the line of business.² He cites a study claiming that, while it is difficult to explain the

direct cause and effect of failure, there are certain directions of the causality: first, rapid growth tends to propagate structural errors; second, due to limited resources, a few bad decisions can be fatal; third, training can be very expensive; and fourth, the early days of the venture may not allow one the luxury of learning how to succeed.³ Yet, despite the reality of failure, a number of start-ups do stay alive.

At the same time, mere survival (while a short-term relief) is not a sustainable status for a company. Thus, the entrepreneur must also endure the emotional challenge of overcoming this stage. To aid a company's growth, and avoid unnecessary stress, Vesper recommends eliminating possible competition by establishing appropriate barriers early in the venture. First, a company should have the foresight to stake its claim to an idea—before other companies catch on. Patenting a desirable product or process, or having a trade secret, will create a high level of return. Second, an entrepreneur should use experience or special knowledge about his/her venture to the company's advantage. Third, proper capitalization of the enterprise, through staying power, economies of sale, and production expertise, is critical to a venture's success. Lastly, the company must be able to persist until its wares are established in the marketplace. Taking these steps will help an entrepreneur minimize the emotional unpredictability of a company's journey.

At any rate, the tension between failure, survival, and success is like the "circle of life" for the entrepreneur, a pattern similar to "the thrill of victory and the agony of defeat" in the former ABC show "The Wide World of Sports." And, as one could expect, the resulting range of experiences involves a strong emotional component. The entrepreneur has little room for theorizing; all decisions hit close to home.

12.2 THINKING THROUGH VENTURES

There are four types of knowledge: (1) generalized business knowledge; (2) general entrepreneurship knowledge; (3) opportunity-specific knowledge; and (4) venture-specific knowledge. Opportunity and Venture-specific knowledge, which are critical to entrepreneurial success, are primarily discerned in the marketplace rather than in an educational context.

What aspects of entrepreneurship can actually be learned? Vesper believes the difficulty in answering this question is that most people measure entrepreneurial success in a financial way, and there is no uniform method for attaining wealth. In fact, a person's own circumstances may even contradict any generalization offered. Though one entrepreneur may have benefited from an MBA with a specialization in entrepreneurship, another may have been a high-school dropout who pursued a particular interest and became financially prosperous. Then there is the school-of-hard-knocks entrepreneur who slowly clawed his/her way to success, against all odds, and cannot fathom learning the lessons of the marketplace in a classroom.

Along those lines, Vesper notes that experienced entrepreneurs “may be pre-occupied with their own knocks” and not appreciate that a generalized knowledge base is useful to an aspiring entrepreneur. He believes a variety of experience—in both the classroom and the marketplace—is beneficial:

I remember ... a group of highly successful restaurant entrepreneurs who combined their experience, brilliance, and creativity to come up with a killer restaurant—one that would feature the best of their know-how, talent, and gifts. It was a total flop! How does that happen? Partly because there is luck in the game, and partly because hard knocks teach you some things. But, while you are learning specific lessons, [entrepreneurs around you] are learning other ones [that you may not know]. So, [learning from] a variety of experiences is important.⁴

In order to make sense of the issue, Vesper identifies two broad categories of knowledge—the knowledge that can be learned in the classroom, and the knowledge that must be learned through experience.

General business knowledge, which is part of the first category, involves the conventional areas of business, such as marketing, finance, human resources, and business law. Individuals may have various levels of exposure to these areas, and their shortcomings can be remedied by hiring outside consultants or professionals. Indeed, issues will inevitably arise in these functional areas as the start-up venture grows, and the entrepreneur must learn to cope with these issues—either before the venture begins, or during the process. (Presumably everyone would recognize the benefit of doing some preparation before embarking on the process.)

Vesper points out the challenges of a “learn-only-when-needed approach” to business knowledge: “(1) to a person without knowledge, the need for it may not be apparent, and (2) when he/she desperately needs the knowledge, he/she may not have enough time to seek it out.”⁵ Thus, while such prior knowledge alone will not make a venture successful, it will lower the marketplace tuition involved in expanding the entrepreneur’s knowledge base.

A second type of knowledge entrepreneurs can learn in the classroom is “general entrepreneurship knowledge.” This is more specialized information within each of the functional areas of business, especially applicable to start-ups. For example, entrepreneurial finance is significantly different from traditional corporate finance. Entrepreneurial concepts involve innovation and breaking new ground, which are frustrating ideas for a significant group of financiers who expect to see a track record. Entrepreneurship, by definition, cannot provide comfort to the banking community.

General entrepreneurship knowledge teaches the entrepreneur how to stretch his/her resources, pursue bootstrapping, and fundraise. It also teaches the entrepreneur how to sell his/her vision, and who to sell it to. Since the entrepreneur relies on a different spectrum of financing sources, he/she needs to know where to look for funds—the local bank may simply be an exercise in frustration. Again, this specific entrepreneurship knowledge will not guarantee a successful venture, but it will assist the entrepreneur in focusing his/her efforts prudently and securing financial support.

Unlike the other two types of knowledge mentioned, “opportunity-specific knowledge” develops only through marketplace experience. Vesper affirms, “This is probably the most important knowledge for starting a company, and you can’t find it in a school.” He describes it as “business savvy related to the particular type of business you wish to start,”⁶ and notes that it is “possessed by a person who knows about the existence of a specific opportunity.”⁷ Vesper explains, “The school can’t give you [opportunity-specific knowledge,] because the opportunity isn’t in school—it’s out in the marketplace.”⁸ When experienced entrepreneurs discredit the possibility of entrepreneurial education on a university campus, they often have this type of knowledge in mind.

A second type of experience-based knowledge, “venture-specific knowledge,” is the other half of “opportunity-specific” knowledge. It is the know-how that allows people who recognize an opportunity to capitalize on it.⁹ Vesper explains that if an entrepreneur believes there is a market for a new radio station, he/she will need information on how to obtain a license—that information is the venture-specific knowledge.¹⁰

Vesper highlights three ways of acquiring venture-specific knowledge: first, take a job in the business you are interested in, and learn it as an insider; second, undertake a start-up venture

and learn the step-by-step requirements; or third, develop a business plan for the venture through study and analysis.¹¹

Vesper summarizes candidly:

Unfortunately, ...[opportunity- and venture-specific knowledge] are usually by far the least teachable in school, and usually little described in books or periodicals. Possibly they can be learned in advance of the venture through work experience or deliberate investigation. But often it is not clear in advance what must be learned. The need for these types of knowledge is idiosyncratic to the individual person, time and circumstance.¹²

Vesper explains this dynamic in relation to what experienced entrepreneurs appreciate instinctively. A School of Engineering can teach its students the principles that govern physical nature, but the school cannot teach the students how to have a financially viable engineering office. The students only learn this by going to work for another company, or by identifying a niche in the marketplace after years of work. In that sense, Vesper agrees, “School is limiting in not giving you the most important learning you need to succeed in a venture.”¹³

The experienced, school-of-hard-knocks entrepreneur discovers this truth very quickly. He/she instinctively grasps that “the key of entrepreneurship is to deliver something good enough that people are willing to pay a premium for it. [Then] you can make a satisfactory return.”¹⁴ His/her experience puts a university program in its proper context. An education can do many valuable things, such as provide a base of contacts, or give a vantage point from which to observe and understand before jumping in, but it cannot realistically offer opportunity- and venture-specific knowledge.

12.3 SELLING FOR STARTUPS

One of the core skills of an entrepreneur is the ability to sell a product or service to a consumer, or a business proposal to a venture capitalist. There are five ways to sell to an enterprise: respond to customer requests, advertise, open a store, personally “hit the road,” or pay others to do the selling.

Very few entrepreneurship courses include any instruction on selling. Vesper, however, teaches his classes a unit on cold-calling. He believes the ability to develop contacts will expand an individual’s potential for entrepreneurship: “developing contacts is useful, and being able to develop contacts with people you don’t know is even more useful. So I welcome the opportunity for students to practice that activity. It’s not easy for a class of students.”¹⁵

Marketing and research courses are not enough to give aspiring entrepreneurs exposure to one of the core skills of an entrepreneur—the ability to sell, whether a product to a consumer or a business proposal to a venture capitalist. Vesper classifies five practical approaches to sales: responding to customer requests, advertising, opening a store, personally hitting the road, or paying others to do the selling.¹⁶

The first approach is reactive: responding to a customer’s request. This has been the genesis of various ventures. People ask a business for a product that it doesn’t presently provide, and the business makes a move to satisfy the particular need.

The second way to generate sales is to advertise, whether in the Yellow Pages, through different internet-related options (such as Google searches or webpage ads), in a variety of newspapers, or elsewhere. Proactive sales in this category may utilize public relations techniques to develop a strategy for an advertising campaign.

The third sales method is simply to open a physical location. This can range from an independent retail location to a kiosk at fairs, shows and malls. When you have a physical location, customers can peruse your product line with relative ease.

A fourth, and challenging, approach to sales is to engage in personal selling. This is often a key requirement for getting a start-up venture off the ground. Personal selling is hard, but rewarding. In Vesper's words, it "calls for self-discipline and initiative...[I]t is vital to decide with care who to go after, what to seek from him/her, how much effort to apply in each attempt, and how to assess results [when you are] planning [your] next action."¹⁷

The last approach is to pay others to do the selling for you. Of course, resources will be limited in a start-up situation—and thus may not be available. In that case, it is doubly important for the founder to remain closely attuned to the process. The entrepreneur, rather than viewing it as a supplement for his or her own efforts, will need to coordinate the process. Paying people to sell the product/idea will involve a range of activities such as hiring salespeople as employees, engaging independent representatives, or selling to brokers, wholesalers, or retailers.¹⁸ Each choice has benefits and disadvantages. For many entrepreneurs in the early stages of a venture, however, close contact with the customer is crucial.

Vesper's Key Points

12.1 - An individual embarking on an entrepreneurial venture must realize that the experience involves the emotional implications of differing levels of failure, survival, and success throughout the growth process.

12.2 - There are four types of knowledge: (1) generalized business knowledge; (2) general entrepreneurship knowledge; (3) opportunity-specific knowledge; and (4) venture-specific knowledge. Opportunity and Venture-specific knowledge, which are critical to entrepreneurial success, are primarily discerned in the marketplace rather than in an educational context.

12.3 - One of the core skills of an entrepreneur is the ability to sell a product or service to a consumer, or a business proposal to a venture capitalist. There are five ways to sell to an enterprise: respond to customer requests, advertise, open a store, personally "hit the road," or pay others to do the selling.

ENDNOTES

¹ K. Vesper, *New Venture Experience* (Seattle, WA: Vector Books, 1996): 10.

² *Ibid.*, 11.

³ *Ibid.*, 11.

⁴ Vesper Interview #1.

⁵ Vesper, *New Venture Experience*, 21.

⁶ Vesper Interview #1.

⁷ Vesper, *New Venture Experience*, 22.

⁸ Vesper Interview #1.

⁹ Vesper, *New Venture Experience*, 23.

¹⁰ *Ibid.*, 23.

¹¹ *Ibid.*, 23-4.

¹² *Ibid.*, 24.

¹³ Vesper Interview #1.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ Vesper, *New Venture Experience*, 505.

¹⁷ *Ibid.*, 511.

¹⁸ *Ibid.*, 513.