

Economic and Business Dimensions Entrepreneurship During a Slump

A contrarian's perspective on how entrepreneurial opportunities and innovation can thrive during an economic crisis.

This installment of Economic and Business Dimensions is written by Tim Draper, the founder of Draper Fisher Jurvetson (DFJ). Located in Silicon Valley, DFJ has funded over 500 firms since its founding in 1985, including Hotmail, Baidu, Skype, and many others. Draper is known for first successful use of "viral marketing" while funding Hotmail and travels the world giving speeches about entrepreneurship, from which this column is derived. Draper revels in being a contrarian about entrepreneurial opportunities during the current economic slump.

—Shane Greenstein,

Viewpoints section board member

NOW IS THE time for the true entrepreneur to shine. As economies worldwide collapse and firms retrench, people look for alternatives: cheaper alternatives, faster alternatives, easier alternatives, and smaller alternatives to what they are using now. To some observers this is a crisis. To an

entrepreneur this is an opportunity.

Let me say it to all the entrepreneurs: If you are not taking advantage of this economic crisis, you are missing one of the greatest opportunities of your life. Where do you want to be in the near future?

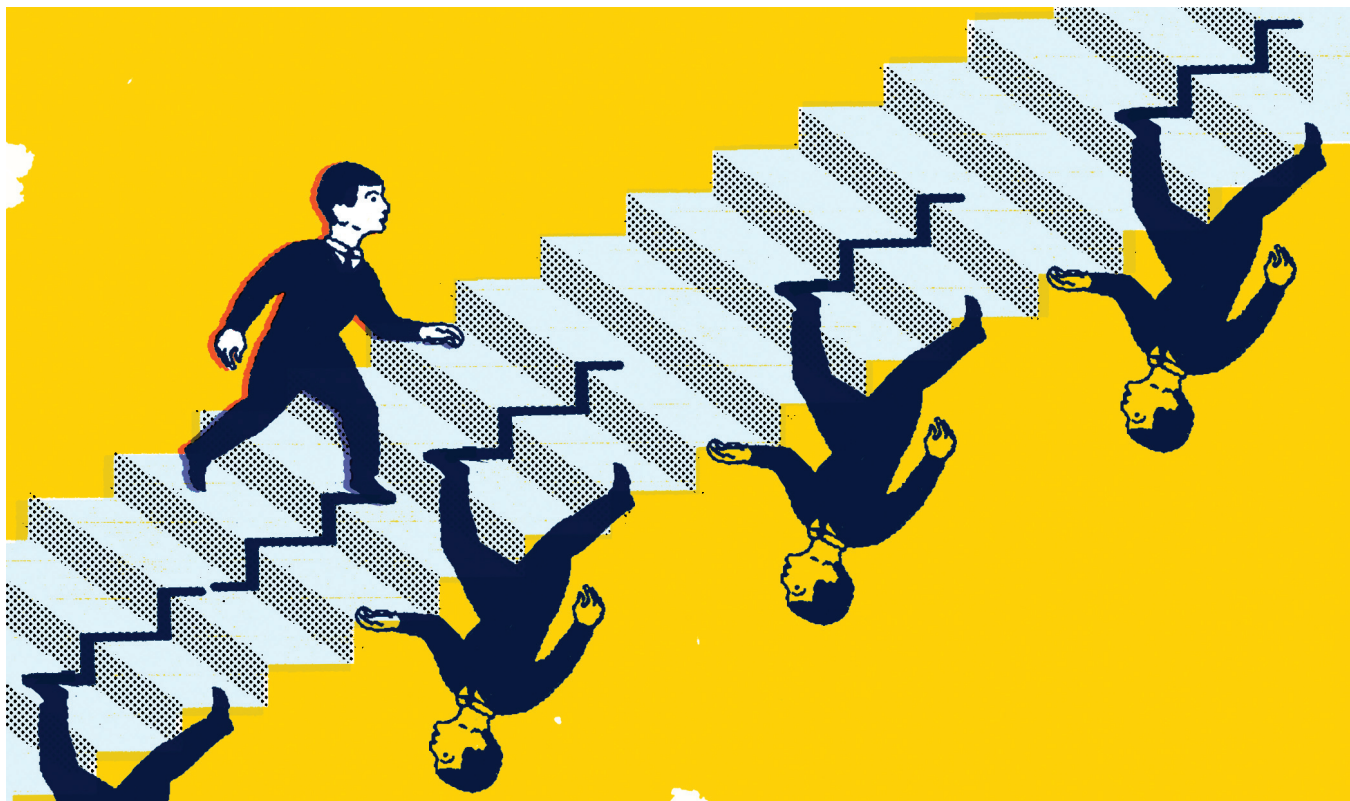
Those of you who have lost your jobs have had the decision made for you. With no other alternative, and companies not hiring, you are forced to become an entrepreneur of one sort or another. At the very least you must reinvent yourself, perhaps go back to school, and emerge with a new mission in hand.

Those of you who still have your jobs, now is the time to rock the boat. When things are going smoothly, nobody wants to rock the boat. *Now* is your time. You should make sure you are breaking old systems, inventing fresh concepts, and seeking out new customers for your existing business. Use a crisis like this to change those things in the organization you always wanted to change.

A Big Crisis Should Not Go To Waste

Consider this list of companies: GE, IBM, Microsoft, Shell Oil, AT&T, Merck, Johnson & Johnson, Sun Microsystems, Skype, Kodak, Polaroid, HP, and Adobe. What do they all have in common? They all were started during an economic downturn, some during the Great Depression.

Why do recessions give birth to some of the greatest, longest lasting, and best-run companies of the world? There are a number of reasons. First, many managers think more creatively if circumstances push them into it. That is what happens as the economy approaches the nadir of the cycle (they also think creatively at the zenith, but that is a different story). In downturns managers will question old assumptions. The old ways don't work anymore. No concept is too crazy. They explore with new directions. Anything is possible. That leads to bigger bang for the buck. It leads to new experiments.



Second, companies that start in downturns build long-lasting frugality into their cultures. During recessions people are willing to work for less. Managers are conscious of every penny they spend. And the frugality lasts once it is built in. For example, I began my career working at Hewlett-Packard. One day I took a few extra pencils from the box and was reminded by my peers of “profit sharing.” Frugality was ingrained into every employee at Hewlett-Packard. The firm is one of the greatest companies of the world, and it has lasted for 60 years. Companies that last this long (or more) are always this frugal.

Third, managers in many established companies become shortsighted during downturns, and often their governing boards do too. These companies make shortsighted plans for product development, for research projects, and for company road maps. What do they do? They forget that the downturn will not last forever. They cut expenses today that would have helped their future. Then the future arrives and they find they have not prepared for it in advance. Worse, they are behind those who did prepare.

Fourth, during recessions entrepreneurs are not subject to what has be-

come known as “venture fratricide.” In the boom times, for example, my firm would fund companies and then discover that 20 competitors were funded by venture capital brethren. The companies would all fight over market share and spend tremendous amounts of money to win the market. This happened in the dot-com boom, where anything dot-com got funded. The new market was enormous, but enormous amounts of money were lost in the process.

To survive venture fratricide young firms specialize. Then markets became too narrowly defined to amount to anything big. For example, after

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someone started a flowers.com someone else started a roses.com, further segmenting an already small market. Established firms also specialize, but with their own versions of me-too divisions. This also happened with the dot-com boom. Every pure play online retailer eventually faced one or more branded retailer.

Today’s recessionary markets do not have problems with fratricide or me-too divisions. Very few other groups are starting up with money, or going after anything new. Here is the message for a true entrepreneur: Since funding is not readily available, by necessity, an entrepreneur has to create a business model that works and is sustainable. If you start a business now, today it is an open green field.

Moore’s Law Does Not Slow Down for Economic Downturns

Many commentators believe big ideas crop up once a decade or so. That is just wrong. Moore’s Law marches on. The potential for innovation is growing exponentially and globally. The innovations and changes that occur in the next 10 to 15 years will change our lives as much as all the innovation that’s happened in the last 50 to 100 years. If you are a technologist, the innovations

you create today may well be the basis for enormous companies in the future. So work harder now. Now is the time. In a recession/depression, people need new directions. They need new directions politically, and they need new directions scientifically. Open your mind to new possibilities. Those possibilities can take the world in new directions that can enhance our lives economically, socially, and spiritually. Take a risk when no one else is trying, and you can set the path that others will follow for generations to come.

Big ideas crop up when scientists, engineers, entrepreneurs, and businesspeople go after big problems. A great entrepreneur with dedication, passion, and a grand vision has a good chance. Venture capital sees it over and over. Sometimes it is a by-product of taking a valuable first step. Sometimes the first step toward the grand vision yields enormous value. For example, yesterday's entrepreneurs sought the self-navigating cars and made GPS navigation affordable and accessible. Yesterday's entrepreneurs sought holo-decks and put virtual meetings within reach of the broadband world.

Sometimes it involves an unexpected bonanza. That is because a grand vision leads smart and dedicated entrepreneurs into new situations requiring novel solutions to challenging problems. That gives serendipity a chance to sparkle. What do electricity, penicillin, Velcro, Teflon, and microwave ovens have in common? They were all unexpected bonanzas. So was "viral marketing."

In 1996, I helped create an unexpected bonanza. An entrepreneurial team (Jack Smith and Sabeer Bhatia) came into DFJ with a proposal. They wanted to try something new: free Web-based email for the nascent and growing Internet. But it needed a way to attract new users. I recalled Tupperware's marketing from a case in business school, where one friend invites another. I suggested they put a line at the bottom of their email that made it easy for one friend to invite another. That was the start of viral marketing. Now viral marketing is standard practice for marketers everywhere.

Did we know it would work? We had a hunch, but it was a new situa-

tion and a novel problem. We could not be sure until a team of dedicated entrepreneurs gave it a try. Entrepreneurs who pursue a mission can find it leads to an unexpected bonanza. Jack Smith and Sabeer Bhatia were on a mission, which put me in a position to enhance their vision, which in turn drove a company to great heights.

Sometimes a third thing happens. Now and again, entrepreneurs do get what they wish for. There is a breakout winner that employs tens of thousands of people with very little investment dollars. It creates huge value and huge economies. If you are a technologist pursuing a vision, be prepared for innovations on top of your vision. The best technologies have taken many paths to get to market success.

In the future I expect to see a lot of valuable steps, unexpected bonanzas, and breakout winners. In fact, I am counting on it. Some recent investments of ours have brought on electric cars (Reva and Tesla), solar thermal generators (BrightSource), social networking for the enterprise (SocialText), iPhone GPS apps, new ways of communicating (Meebo), and nano solar panels (Konarka). Who knows what extraordinary businesses can be created in the future.

That is my advice for entrepreneurs in these times: If you take an entrepreneurial risk, make sure you go after something big. Extend your imagination. Think flying and self-navigating cars, holo-decks, brain enhancers, salt-water purifiers, fusion energy, and space travel.

Think Opportunity

I asked Warren Buffett what he thought we needed to do to get out of this economic quagmire. He said, "Throw a bunch of things up on the wall and see what sticks." He is absolutely right. Any experiment could pull us out this time too: A flying car, a cure for cancer, a better cellphone, brain-wave communications, entertainment on demand, fusion power, even a liquid stock market. Any of these could generate extraordinary demand and require a large work force.

Entrepreneurs and technologists will pull the economy out of the downturn, just as the growth of

businesses around the Web pulled us out of an economic funk in the mid-1990s. Even if the businesses are only reasonably successful, or even if some of them fail, they move technology forward. They employ people. They get things happening. Their energy begets other ideas.


This is not the common mantra today. Bad news is good news to the press. Recently, reporters have seemingly gleefully given one account after another pointing toward an increasingly grim future. Companies are laying people off, markets are down worldwide, lending is frozen, real-estate values have plummeted, consumer and capital spending appears to have slowed, and investors are confused.

That misses the point. The future rests—and has always rested—squarely on the shoulders of entrepreneurs. Entrepreneurs create new jobs, they build value from nothing, they make our lives better, and they rebuild the economy.

It may sound contrarian, but it is not. I travel all over the world. In China they're thinking "opportunity" now. Even in a down world economy they're thinking "where's the opportunity?" I see it elsewhere too—in Ireland, Israel, Indonesia, and many other places.

Entrepreneurs with an intense dedication to what they are doing—one that will overcome all odds—seek to change the world. Their companies offer significant improvements over existing technology that could, if there is a large enough market, change the world. Eventually those entrepreneurs will help the economy boom.

During every financial downturn, from the Vienna stock exchange crash in 1873 through the Great Depression of the 1930s, the cold war of the 1950s, and the dot-com collapse that occurred earlier this decade, great entrepreneurs have embraced change. That attitude drives innovation and the economy to new successes. This time is no different. There's nothing that can stop the true entrepreneur from changing the world.

If you are that true entrepreneur, your time is now! Go for it! 

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