

The Four Secret Numbers for Entrepreneurship in St. Louis

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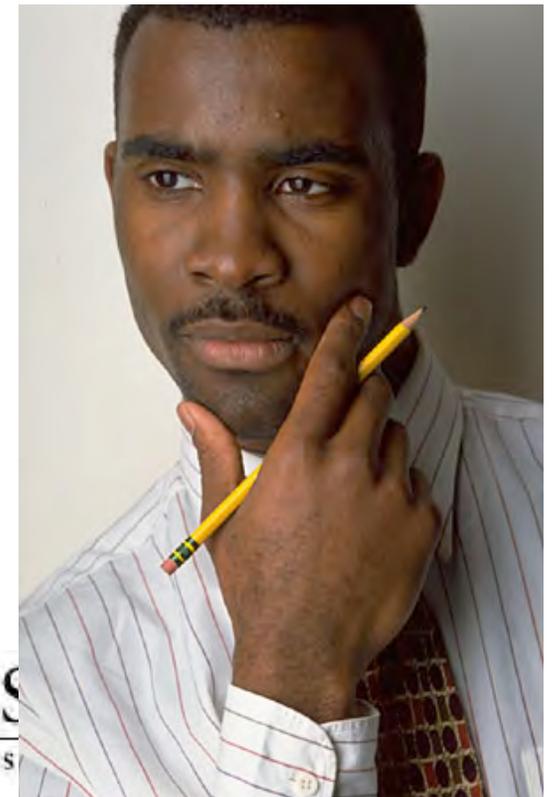
ZIGGY / By Tom Wilson

THE
Worst
Case
Scenario



The Solution? *Entrepreneurship*

- Policy Question
 - *How to promote it?*



How Much Entrepreneurship IS There in St. Louis?

- How many small businesses are there?
 - 30,000?
 - 70,000?
 - 120,000?
 - 180,000?
 - 210,000?
 - 250,000?

The Answer

- 67,354 Employing Firms
- 142,150 Nonemploying Firms
- **209,504 Official Firms Total**

- 30,000 Estimated uncounted

Secret Number #1:

Birch's 4%

- Gazelles power the regional economy
 - Esp. in down cycles
- Only 4% of firms qualify as Gazelles
 - Another 15% are smaller job generators
- Most gazelles started by folks with MBAs or tech degrees (often employing MBAs)
- What do *they* know that makes them so successful?



Secret Number #2:

3I's 5.5%

- 3I Venture Capital (per year)
 - Review over 5000
 - Check into 500
 - Work-up 100
- Invest in 18 firms/year
 - 3-5 market returns (10%-20%)
 - 1 “winner” (10x investment)
- *Best MBAs in the business have a 5.5% hit rate in picking winners!*
 - AND no check for winners they missed

Lesson So Far?

- Gazelles are great
- But it is nearly impossible to pick them!

Secret Number #3: **Stanley & Danko's 3.5%**

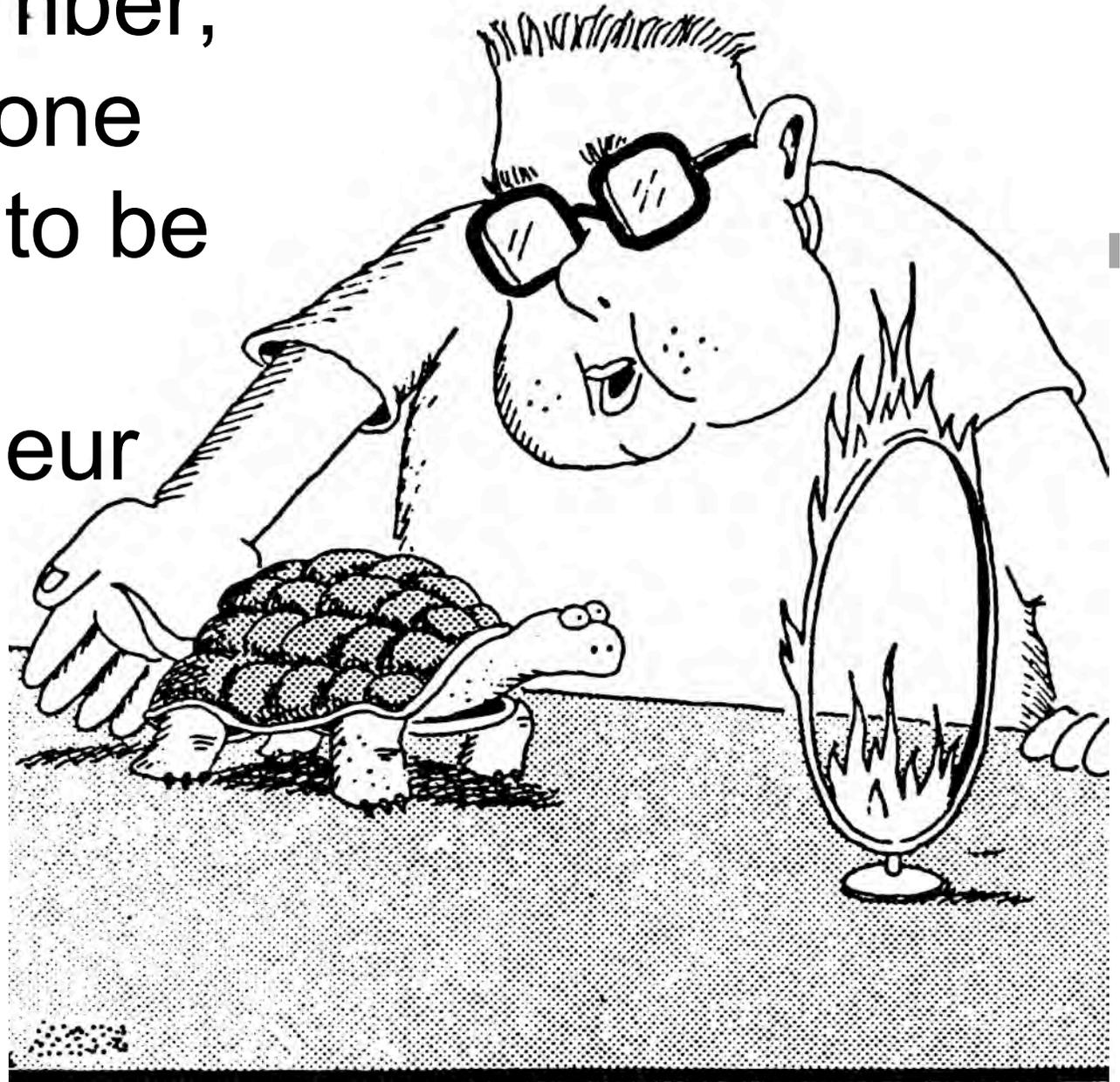
- Millionaires power the personal economy
- Represent 3.5% of households
- About half don't have college
- About one-quarter have professional degrees
- Produce stable, small to medium firms

Lesson So Far: Both Are Important

- **PSED Implication:** Water Metaphor



But remember,
not everyone
is cut out to be
an
entrepreneur



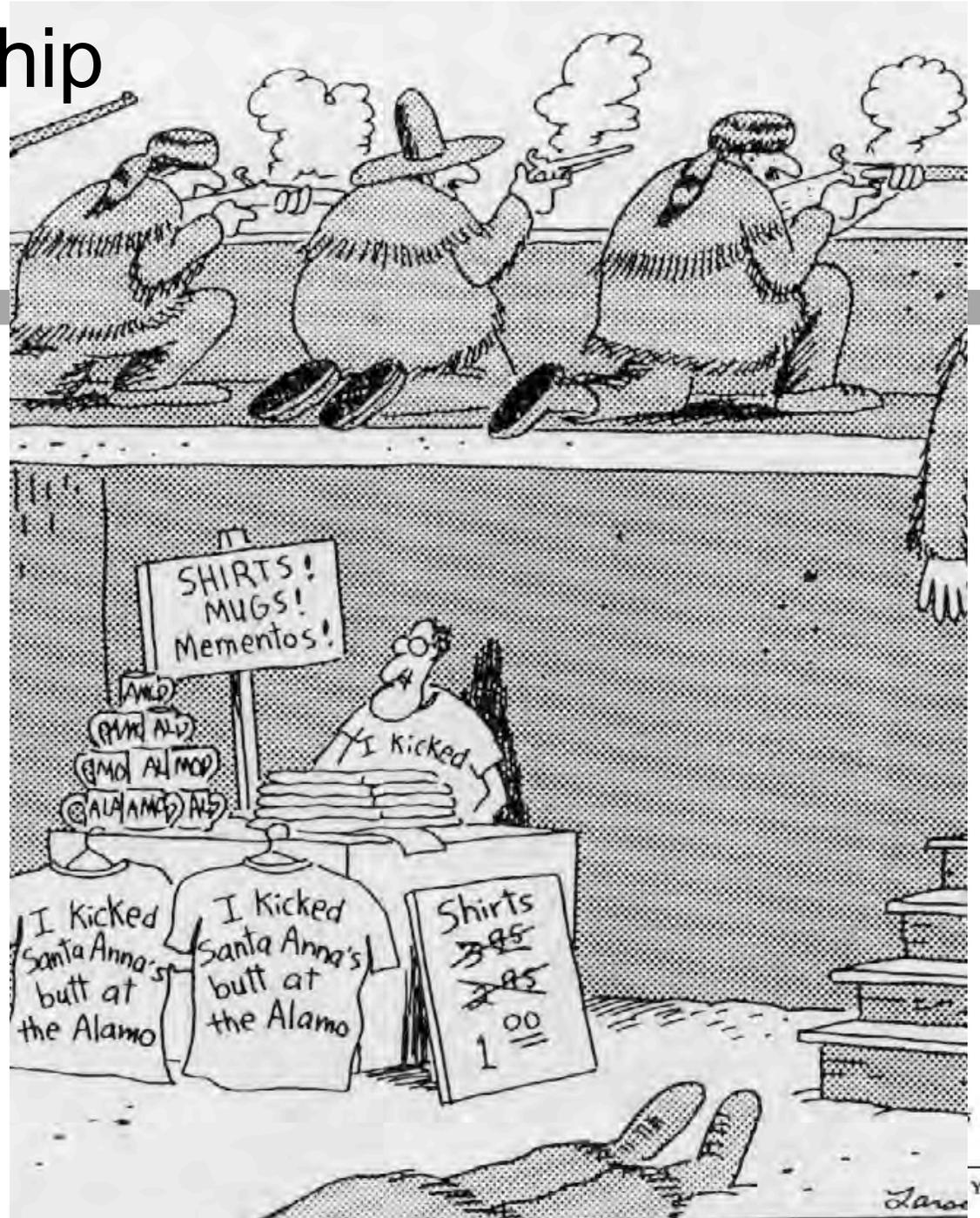
"Through the hoop, Bob! Through the hoop!"

Three Key Ideas For Policy

- Entrepreneurship *is* opportunity
- The public has the numbers wrong
- Help can help



Entrepreneurship
is opportunity



Entrepreneurship *is* opportunity

- Discovery > Adaptation > Invention
 - Discover needs from future customers
 - Safer survival, profit, & investment-wise
- Imitate With a Twist
 - Find a competitive advantage
 - Profits best when C.A. can't be copied
- Strategy: Be 1st, Be Better, Be Somewhere Else, or Begone
- Shepherd & Shanley, *New venture strategy*

The Public Has the Numbers Wrong

5
200~~X~~



Secret Number #4: Katz's 85%

5
200~~X~~

- Instead of 90% of all new businesses fail in 2 years, 85% of folks who prepare themselves survive 4 yrs!
 - *Examples*
 - SBDCs (see James Chrisman's works)
 - SCORE (see their website)
 - Incubators (see NBIA reports)
 - Microloans (look at ILO, USAID, UN programs)
 - University programs (Libecap & Charney, Sexton & Upton, others)

The Millionaire Myth

5
200X

- High-tech is the #1 route to high wealth
 - Around 70% of working millionaires are in low-tech “dull normal” industries ([*The Millionaire Next Door*](#))
 - Around one-quarter of working millionaires are self-employed professionals (MD, not IT)
 - About 3% made it through high-tech
 - *STL Millionaires Follow This Pattern*
- *Question:* What kinds of new business do you think STL millionaires are most like to fund?

Help
can
help



Early business failures

Help can help

- **Baumol, *Education for innovation***
(NBER, 2004). <http://www.nber.org/books/innovation5/baumol5-3-04.pdf>
- Education gets in the way of frame-breaking innovation
 - Jobs, Wozniak, Gates, Kemmons Wilson
- Education is essential to incremental innovation
 - Corporate R&D, Spinoffs, Spinouts

What's Missing

- Education is essential to converting frame-breaking innovation into sustainable businesses
- Examples
 - Microsoft – Steve Ballmer (Harvard Econ/Math)
 - eBay – Jeff Skoll (BSEE, Stanford MBA)
 - Wal-Mart – Sam Walton (Mizzou, Econ)
- Katz (2005), Education and Training in Entrepreneurship in *The Psychology of Entrepreneurship*.

And it only takes a little

- Effect rates for nondegree help
 - SCORE/SBDC consulting 45% show growth
 - SBI student project consulting (35% show growth)
 - Lowe Foundation Programs
 - FastTrack II Program
 - Professional Help: Incorporation & survival
 - Microloan advising
 - Katz (2005), Education and Training in Entrepreneurship in *The Psychology of Entrepreneurship*

Conceptual Implications

- Two Routes to Business Creation
 - Education/Technology Based (visible)
 - “Dull Normal” Based (taken for granted)
- Key Factor in Success
 - Getting help when starting
 - Finding the expertise to grow the business to the next level

Policy Implications

- Get the Real Numbers, Then Make Policy
- Promote ALL Entrepreneurship
- Support Expertise Infrastructures



"Mr. Osborne, may I be excused? My brain is full."

John Cook School of Business
Entrepreneurship Program

LOUIS UNIVERSITY