

Carl Schramm: I've been on your show.

Bill Walton: Yeah, I've had him on a couple of times.

Carl Schramm: He's great fun to me.

Bill Walton: John's a friend he's-

Maureen: You know what? We might want to take a live call because people are walking past.

Carl Schramm: Yeah.

Maureen: Yeah.

Carl Schramm: Yeah, just-

Maureen: Yeah, because someone just walked past.

Bill Walton: I don't know do we care?

Maureen: Well I-

Carl Schramm: All right here are your options Maureen okay, I can sit there or I can sit there.

Maureen: That's probably-

Carl Schramm: Or I can sit there.

Maureen: I like where you are, you're good.

Bill Walton: Yeah, it's good, I think if somebody walks by that's okay. I mean we're I've got one of my terriers that's usually down here and she walks through the screen every once in a while. Let me-

Carl Schramm: [inaudible 00:01:07] entrepreneurs back there so you know.

Bill Walton: Yeah, they're entrepreneurs, they're real live entrepreneurs.

Carl Schramm: Yeah, I can fully see it.

Bill Walton: Here's the way we're set up, I'm looking at you on my MacBook. The camera's right there and I've got another camera over here because we're in the studio where we usually do this live. And so I've got a computer, I've got a camera here that's the main one we'll use and I've got a teleprompter here and I've got about a two minute opening.

And I'm gonna open with the teleprompter and then I'm gonna turn to you and what I'm doing is setting it up talking about my belief that entrepreneurs are a lot more important than politicians. And then I'm gonna close it out and I don't go into your biography and the tale because I found that getting into the shows is more important than going through the whole list. And your achievements are legend and I think I'll probably bring those up through the show to reference certain things.

But where your opening comes in. "With me to explore these issues is Carl Schramm. His recent book *Burn the Business Plan* opens with the statement, 'How real practical information can help entrepreneurs.' Carl ran the Kauffman Foundation a \$2 billion endowment dedicated to promoting entrepreneurship. Kauffman was the first to inject intellectual empirical rigor into research, about how new firms are created.

Carl has started companies, managed small, large organizations and has been a venture investor, consulted with big firms and governments and innovation throughout the world. Welcome Carl." And then you'll say, "Hi." And then I'm gonna open with this and I want you to be prepared just where I think it would be fun to kick it off.

"Carl you said that, 'Entrepreneurs are too valuable a natural resources to be subjected to a potpourri of unsubstantiated aphorisms dressed up as good business advice.'" And that's our opening. I think that should launch us and then we'll just do what we did yesterday, just talk about all the stuff. I've gone through the book, I've got talking points here outlined but I'm not gonna follow a formula, I'd rather just follow the flow of the conversation.

And I think the message here for this show is, my takeaway is that entrepreneurship innovation is critical to everything and that it's entrepreneurs who bring this about. And while there's no magic formula you can go to business school and learn, there are certain things you can understand if you're going to be an entrepreneur and here's some of those things.

Here what you can trust and what you can't trust. We may get into mentors, we may get into incubators, it's wherever we want to take it. We may get into business school professors and you've got great stories in the book, so if you wanna tell some stories to amplify that would be great. With that-

Maureen: Hold on.

Bill Walton: With that let me get my prompter teed up.

Maureen: I'm recording. I'm gonna start the count down in three, two-

Bill Walton: Let's wait just a second, I gotta get my phone off. I didn't remember to do that.

Carl Schramm: I just turned mine off.

Bill Walton: [inaudible 00:04:40] phone call?

Carl Schramm: Yeah.

Bill Walton: Is it on?

Carl Schramm: I turned it off.

Maureen: Bill, do not put it on.

Bill Walton: Oh yeah, I got to keep the teleprompter.

Maureen: Just turn the thing on the side of your phone off.

Carl Schramm: I just did that now.

Bill Walton: Got it okay. All right. Oh my goodness Maureen, I think I've lost my teleprompter.

Maureen: Okay go back to restart it.

Bill Walton: Okay. I'm gonna let you do this.

Maureen: All right.

Bill Walton: Yeah, John's a friend, we've gotten very close. He's staked out the far reaches of the intellectual landscape.

Maureen: [inaudible 00:05:27].

Bill Walton: Talked to him about, I'm sure you have about ... Okay we're still not finding a script here. Okay.

Maureen: I'm gonna choose a script.

Bill Walton: Okay thank you.

Maureen: Which one you want? Tell me when you're ready.

Bill Walton: Okay I'm ready, Carl you good?

Carl Schramm: Mm-hmm (affirmative).

Bill Walton: Great okay. Business people, Steve Jobs, Bill Gates, Sam Walton, Martha Stewart, Jeff Bezos and other entrepreneurs like them have created far more value for society than any of the thousands of politicians put together who are telling us they can make our lives better. Think about it, can you name a government program that has brought us more delight and usefulness than the iPhone or more ease of shopping than Amazon?

Innovative businesses bring us never before imagined products and services, create most of the new jobs in our economy and are the most important forces driving growth and expanding human welfare. A continuing stream of new enterprises is critical to society's growth and advancement, so it is vital that we understand the essential role these businesses play.

Is there a formula for success? Are there women or men who are born to be entrepreneurs or could every person do it? With me to explore these issues is Carl Schramm, who's recent book *Burn the Business Plan* opens with the statement, "How real practical information can help entrepreneurs."

Carl ran the Kauffman Foundation, a \$2 billion endowment dedicated to promoting entrepreneurship and Kauffman was the first to inject intellectual empirical rigor into research about how new firms are created. Carl has started companies, managed small and large organizations, been a venture investor, consultant with big firms and governments on innovation throughout the world. Welcome Carl.

Carl Schramm: Good to see you Bill. Thanks for having me.

Bill Walton: Carl you said that entrepreneurs are too valuable a natural resource to be subjected to a potpourri of unsubstantiated affirmations dressed up as good business advice. Carl let's start there.

Carl Schramm: That's a great place to start. In a sense the reason I wrote this book was having run the Kauffman Foundation for 10 years and having seen the potpourri of books and advice and courses that people have laid in front of people who would be entrepreneurs, aspiring entrepreneurs. I just became so frustrated that these books pass along mythology and I think what marked my 10 years at Kauffman is in setting reproduction, I was really focused on trying to get to the empirics of what happens.

Before we began our research I'm happy to say we do this now, we count this in the government but if you can imagine just often too when I went to Kauffman there was no federal statistic that told us how many new businesses were being started in the United States. And as your introduction properly said it's these new businesses that fire up or regenerate or refresh, whatever way you wanna look at it, our economy.

You can imagine that economists had no interest in this, not enough to push the government to measuring startups? It seemed difficult for me to comprehend and in a sense what I saw was it's business professors who tell stories. They don't have a systematic view that would be helpful to somebody who's thinking about starting a business.

There's a lot of aspiration out there, certainly now with the hype about entrepreneurs, people think oh this is what I wanna do. In a sense what I'm trying to do in the book is basically say look, before you take that first step understand how this process works. Manage a cookbook okay, this is real statistical facts.

One of the very first things you might point out is colleges are loaded with this view that we're gonna teach every graduate in the idealized entrepreneur's 21. But in truth the average entrepreneur in the United States starts his or her first business when they're 39.

Bill Walton:

Yeah, you burst the bubble a bit, not a bit, completely on the idea that it's usually a 19 old kid who dropped out of Harvard who started something in his dorm room and in fact that's by far the exception rather than the rule. I mean most of the entrepreneurs you point out are middle aged and they've been in businesses, they worked for other people, they've got a lot of scars on their back before they launch their own venture.

And I'm glad it is romanticized because it does put a spotlight on entrepreneurship. Not everybody is Mark Zuckerberg or Bill Gates, it's what you call in the book, "Every man."

Carl Schramm:

Yeah. This is a book for every man entrepreneur in the sense that almost 95% of people who start businesses are what a famous economist once called "Replicative, they're copycat entrepreneurs." The notion that you're gonna be Mark Zuckerberg, there are Mark Zuckerbargs that happen, we have a special award for it we now call them, "Unicorns." But we used to call them gazelles so I don't know which animal is appropriate but the fact is that's a tiny, tiny fraction.

And the structure of your career if you're a 19 year old in college that you're gonna learn how to be an entrepreneur, you're gonna take a major in that. Becoming an entrepreneur is like an occupation like becoming a dentist or an accountant it's just so unreal. Going back to the point you made earlier, I wrote the book and disturbed this mostly to save people from wasting a huge amount of time for some fantasy that we don't actually have sketched out for everybody in a cookbook way.

Bill Walton:

Well I think you were part of the work that developed the knowledge that where the really great jobs come from and you mentioned, "Gazelles and now we call them unicorns." But gazelles are basically those high growth, tend to be technology oriented companies but it doesn't have to be technology. But those

growth companies that in the old went public, the gazelles and that's where the action is in terms of high paying jobs.

And then now we have the unicorns and I guess the only basic difference there is they don't go public anymore because of the state of the public markets.

Carl Schramm: Yeah, there are a couple issues surrounding that that are interesting. One is that a lot of these gazelles or unicorns don't in the end create that many jobs if you really think about it.

Bill Walton: Really.

Carl Schramm: Yeah.

Bill Walton: I thought that was the-

Carl Schramm: No, no. That's not the companies that do it, it's the folks who actually start a franchise. That comes to mind there's a fellow in the book called Bob Carluchi. He has a fantastic story, his father died, he had to drop out of college. He was at the New England Conservatory he was going to become a musician. He got a part-time job in a pool room and he bought two cigarette vending machines.

His full-time job he was working night shifts at General Electric up around Boston because he was supporting his mother and three younger brothers. But it's those two vending machines that got him started and the next thing you know he tried to get a franchise, a Taco Bell in Boston. People said, "Taycos." Taco was not eaten in Boston, people forget this and Boston's not that old.

But he finally got Taco Bell to give him a franchise in Maryland and long story short he now employs 16,000 people. The issue is with some of the high tech companies the core at Google that really manages the search engine is something on the order of 35 to 60 people. If you strip away everything else that's the core of Google. Facebook doesn't employ that many people, so there is this shift in the weather.

Entrepreneurs are still really vital to the creation of new businesses but it's not necessarily the gazelles. We estimated at Kauffman, first time these estimates were ever done Bill if you can imagine, that 80 to 85% of all the new jobs in the United States are created in firms less than five years old. That's how important they are to job creation.

Bill Walton: Okay, I think that was a statistic I was thinking about and you also point out that you talk about franchises. Roughly 40, 45% of the new businesses created every year are franchises?

Carl Schramm: Yeah. And if today we just transplanted ourselves to you name the business school you won't find a course on franchising because professors think about franchisees. They can't bring themselves to believe that there are entrepreneurs. Let me tell you, you or I go out tomorrow if we're lucky enough to get a Chick-fil-A franchise, you'll know what it feels like to be an entrepreneur. You left your job, you've taken loans to buy the franchise, you've got the mortgage on the building.

I've dealt with the contractor, you know what the city requires on your parking lot. You've become an entrepreneur and one of the most amazing things about this is exactly Bob Carluchi's story. He starts with one franchise and then the next thing you know he had 60 restaurants with 60,000 employees and part of that is the same reason we watch success go up with age. Once he ran one franchise he knew what the ropes were, and then adding the second, third, fourth, sixteenth were much easier. He was a scale entrepreneur if you will.

Bill Walton: Well I think when I ran Allied Capital when I was CEO of Valley Capital, we owned several franchisors, [Minikee 00:16:25] and some building cleaning franchise wars and also helped finance the franchisees. And yeah, that's right, we created hundreds and hundreds of entrepreneurs through these franchisee operations and I think you're right. They're lying awake at 2:00 in the morning worried about stuff the same way every Silicon Valley entrepreneur's worrying about stuff.

I mean taking responsibility for an enterprise large or small is a very big deal and it brings me to the question, who is an entrepreneur? Are they made, are they born? Can anybody be an entrepreneur? What are the barriers? One of the things you point out that it's certainly not college. Most of the people that started businesses didn't even go to college and so what is that thing we call the entrepreneur?

Carl Schramm: Well I got three answers, the first one is most entrepreneurs who start their businesses if it's not a franchise. If you ask them it's amazing how consistent the answer is, they were surprised, they surprised themselves that they're an entrepreneur because they working in early middle age. They were working in a factory, they saw something could have been done better.

Maybe they've talked to their boss in the company about these improvements. Companies don't like to make changes in things, so these are guys who left. There's a huge amount of people who basically are called spin out entrepreneurs in my book.

Bill Walton: Well is not that how Sam Walton started Walmart, he was working with Woolworth or one of the other big chains and said, "Look I've got an idea that we can serve these rural communities with low cost goods and it will be a real winner." And they said, "No, that's not our business."

Carl Schramm: Yeah, yeah, I mean look I can't tell you there are tens of thousands of entrepreneurs.

Maureen: What happened.

Bill Walton: I don't know we're doing great. He's there, can you hear me? I think we froze up.

Carl Schramm: Who owns the base? Lowes, Lowes too like at Home Depot from the back office they blow cash over the cash register machine. That technology is well over 100 years old, they put a system into Harry's in 1903 it's the same technology. Debo bought that company, was called Lansen.

Maureen: His Wi-Fi is going in and out. Can he hear you?

Bill Walton: Hi Carl can you hear me? We're experiencing an unstable Internet connection.

Carl Schramm: His healthcare has grown hugely, branch banking is actually shrunk hugely because we do it all on our telephones now, right? He took this company that gave it to him and gave them to all his customers, he didn't have to pay for the company. And I interviewed him for this book and it was amazing because at one point he looked at all his success he said, "You know I love Debo, Debo could have had all this."

It was almost as if he was still loyal to Debo and sorry that they let him start this business because that's how deeply, he worked for Debo for 25 years.

Bill Walton: I mean you've been looking at this for a long time, is there a single characteristic of a person that decides I'm going to be an entrepreneur or is it a mosaic?

Carl Schramm: Yeah, it's a mosaic, I never found it. There are a lot of professors who say, "Oh I can smell them, it's their personality, they're great sales people." I've known thousands at this point in my life, if you run the Kauffman Foundation it's a constant parade and some success. I have people in mind who are the mousiest personalities and they run huge international companies.

Other people are boisterous, right? Some people say, "Oh most of them get divorced." There's no statistics on this, there's all this mythology about it and again I think one of the things that I do see constantly is people who were surprised, as I was when I first started my first business. Other people have an aspiration to work for themselves.

In some cases they got to settle a score, that's the case with Mr. Kauffman okay? He was tremendously successful as a salesman and two years in a row the guy who owned the company cut his sales territory because he made more under the commission formula than the president of the company. And the

second time he did it Mr. Kauffman said, "I quit." And went out and figured out how to start a business because he had these words in his head, "I will never work for somebody else in my life."

Bill Walton: Well that happened to Walt Disney. Walt Disney created a cartoon character Oswald the something, I can't remember what the creature was. Very successful, then the syndicator was in New York and he traveled to New York expecting to cut a new contract and the distributor said, "Well I've decided it's so successful you don't need to make as much money, so I'm gonna cut you by 80%." And he said, "Okay, I'm gonna get on the train, I'm gonna go back to California and by the time I'm in California I'm gonna have a new creature." and that new creature was Mickey Mouse.

Carl Schramm: We could put Walt Disney who is also from Kansas City and Ewing Kauffman from Kansas City in the same box. I'm gonna settle a score right? What they're really saying is A, I have a lot of confidence in my idea to do something. Second, the best boss I'm ever gonna have is me and somehow in there because the third thing that people often fixate on but you can't measure it.

And that is those two forces are such that they're ready to take a risk and bet on themselves that they could somehow feed the family for a couple of years and go to town and make a company. And if there's something that's elusive it needs to be a part of entrepreneurs but it's not everybody [inaudible 00:23:03]. Mark Zuckerberg his parents, look at Bill Gates his father is very successful. These are not folks who if they stumbled they were gonna be on welfare.

Bill Walton: What strikes me there may be another attributed work, which is you point out the entrepreneur's journey is essentially that of self education.

Carl Schramm: Yes.

Bill Walton: And that we'll get into the business plan or the need for or not but it's essentially you get into a business and it's a discovery procedure where you're learning about yourself and you're learning about what works and what doesn't work. And you also talk about something in the book called, "The OODA loop." where I guess it was initiated to a great deal with fighter pilots in the Korean War.

And an entrepreneur never really knows but you're trying to discover all the time what works and that's an attribute and I think most successful entrepreneurs share that attribute whether they're tall, short, fat, small, black, white or brown.

Carl Schramm: That's right, well the essence of the book is distilled into one sentence and it comes from Ewing Kauffman and I repeat it again and again and that is, "The only way to learn how to be an entrepreneur is to start a business." And the point you were making is in the course of starting that business you begin to

teach yourself a huge amount about yourself as well as learn an entirely new business. At the moment I happened to be at JLABS in New York City, looking at a company in which I-

Bill Walton: JLABS is Johnson and Johnson?

Carl Schramm: Yes. [inaudible 00:24:40] accelerator that they run here in New York and they have four or five other installations around the country. And I'm here visiting with a fabulous entrepreneur with whom I have a small investment. And this is really the third iteration of her company. I've been in this company as an investor probably seven or eight years and she had to reinvent it once, reinvent it twice and now she's on a trail blazing path to growth.

But as an investor I learned a lot one more time that first of all businesses aren't great successes in one or two years like college professors like to tell kids. The average as I say in my book is statistical, it's empirical, it's going to take you seven or eight years before you actually know whether or not the business is gonna survive.

When we think about these unicorns and stuff, if you actually look at the average time from the start to the day investors and the public invest in them if they go public it's 13 years.

Bill Walton: Well a couple things that you and I, many more than a couple things but one of the things is that we know an awful lot about what doesn't work. And we talk about universities teaching entrepreneurship. I think you point out that 1980 we had maybe 10 professors of entrepreneurship around the country. I happen to know one of them, it's a guy named Bill Hayberly at Indiana University who typified by he wore an orange jumpsuit the whole time.

I think this is before the prisoners had that but he was quite a character but he stood out as being different from everybody else and he wasn't really part of the crew. But business schools, business plans, incubators, accelerators, mentors, you get into all this in the book.

Carl Schramm: Yeah, it's professors with time on their hands and they're not really sure they make anything happen. I mean very few university programs can take, let me point to our 15 gazelles or our unicorns or our great successes. And if you pointed at them it's not clear what happened. What is Harvard responsible for on Facebook? They take in a so-so looking kid who wants dates that Harvard contributed to that? I don't think so, they gave him a dorm room.

Later by the way, Harvard being Harvard at one point had a prohibition on running businesses in dorm rooms if you can believe it. If these successes were happening they worked very hard not to have more of them. But professors being professors, one bad idea should follow another bad idea, so now we have

this ecosystem because people look at the Silicon Valley and they say, "Hmm, people weren't taking formal courses. What's in the water out there?"

Well they had mentors and they all had little garages so maybe we could build a big garage and we'll call it an incubator and then being entrepreneurial incubator got tired so we called them accelerators. And then they'll have [crosstalk 00:28:04]-

Bill Walton: Incubators were too slow so we're going to accelerate. Yeah, okay.

Carl Schramm: Yeah, and by the way just another statistic, we have now about 1,400 incubators around America. Every time you get a city that's failing, so I won't mention any but think of any major city in the Northeast, they're not as big as they used to be. Detroit had two million people once, it's got 700,000 and now it's got about eight incubators because mayors are gonna save Detroit.

But if you look at the 1,400 incubators that are about 10 years old on average, over half of them never had a company that has survived to five years. Nevertheless it looks as if we do this maybe we can make Silicon Valley happen right here in Elmira, New York.

Bill Walton: Well this is the place you need to tell your cargo cult story because we've got this ritual where we're gonna sprinkle some things into Peoria and we're gonna have an incubator and we're gonna have mentors, we're gonna have accelerators and we're gonna have all these things. Garages, we're gonna have garages in New York too. Tell the cargo cult story.

Carl Schramm: I've actually been in incubators where they have a garage in the middle of the room just in case nobody gets the formula. Yeah, the cargo cult story is actually told, I found it again in Richard Feynman's book, the great physicist at Caltech and essentially what it boils down to is a story anthropologists tell of we had in the course of the war in the Pacific in World War II we developed a South Seas island with an air force base.

And when Americans got there the aboriginal people got addicted to the inflights of all the food and candy bars and cigarettes and all that stuff and of an air base right? And then we withdrew quickly as the war moved closer and closer to Japan but after the war in the 1950s somebody visited and people were going through the rituals of keeping the control tower. They had people in the control tower, they were fooling around with broken instruments.

Somehow on this very, very remote island, very aboriginal people didn't understand English but the cult was they had a religious cult that they did all the things. And they marched around with sticks like soldiers doing drills and somehow the Gods who brought candy bars and cargo to them would return some day. And I use that because it's the same thing, these seem to be things

that work in the Silicon Valley, so if we go through those motions we can make Elmira look like Palo Alto.

Well no, just like once upon a time Cleveland was a bubbling St. Louis, huge Chicago railroad cities that's their essence right? But when airplanes came their future was gonna be different.

Bill Walton: Well at this point I think you mentioned Silicon Valley and probability of its success I think it's fair at this point to talk about what the track record is in Silicon Valley in terms of if they invest in 10 companies what's the track record?

Carl Schramm: Yeah, well I know this personally because I'm an investor through some funds in the Silicon Valley and they're very famous and everybody raves about them because they've had some fantastic hits, unbelievable hits. But what we don't talk about are in every collection of 10 in any given fund, 7 don't make it, 3 or 4 die immediately and then you have the walking wounded some place, 3 or 4 others and then there's a hit or two.

But the reason I tell the story is these are professional investors, these people work every single day at finding companies and then providing them money and providing them advice. These are professionals, these are the best of our venture investors and what's their track record? Usually 1 in 10 choices so the notion that and this happens all the time and it's tragic, so we choose a city like some place up in the Northeast let's say or in the Southwest where a government has created a venture fund.

We've opened up an incubator and they got mentors. Now those mentors are often retired dentists and retired lawyers, people who never worked in a startup. Venture funds are often unfortunately they're steered by cronies of the governor who may have made some money, may not have made some money, they're not professional investors. And then we run this big incubator which I talked to you about the statistics are appalling in terms of the non-success rate of local incubators.

But it's like the cargo cult, notwithstanding all the evidence that this does not work, we probably pay, we pour over \$3 billion of public money through the federal budget into supporting this local ecosystem in community, after community, after community, after community. In fact the reality is this is what happens and it might be public policy but we would never dare say it. The really smart kid from Utica who had a really great idea is going to Boston.

Bill Walton: He's going to San Francisco, he's going to Silicon Valley.

Carl Schramm: He's not gonna stop in Utica, notwithstanding that Governor Cuomo built a tech center. Once we had airplanes and we had absolute free and complete communications in our economy, in our society people go where the talent is and they will gravitate to places where they're gonna be more successful.

Bill Walton: Yeah, we talked about this in a couple of earlier shows. John Tamney is a mutual friend and John Tamney has coined the phrase, "Talent tops taxes." and his point was the tax rates are not that important to where companies decide to locate their business if they're in an industry that's high tech.

And you wanna be near other talented engineers or like minded people, you don't care what the tax rate is, you just gotta be where the action is. It's true in Silicon Valley, it's true in Hollywood, it's true in a lot of other industries where you gotta be near the other people like you.

Carl Schramm: Yes, for the most part that's right but there are places like California and New York and Illinois who are gonna test that hypothesis. These are high earning people who are technically you are allowed to collect a walk out of those states.

Bill Walton: We've got a long list of things that you and I agreed don't work particularly well, business incubators, the idea that we're gonna build garages and people are gonna find their way into those to build companies. And also the mentor, the idea that there's some mentors, some disinterested person who can tell you how it's going to work.

You point out that if you get a mentor you forget who's making the decision and most mentors don't know as much as you do about your business. And they may have economic motives that are different from yours, so you gotta be wary.

Carl Schramm: Very wary and I think in the book I think the sentence survives that you should think about using mentors like Kleenex. They are very useful for a period of time and then you've got to move to a clean mentor.

Bill Walton: Okay we're talking now about Carl's book Burn the Business Plan. Let's talk about why we need to burn a business plan and why there might be another thing that entrepreneurs do that isn't a business plan but is very helpful.

Carl Schramm: Sure. [crosstalk 00:36:21]-

Bill Walton: [crosstalk 00:36:20].

Carl Schramm: Yeah, I'm sorry.

Bill Walton: It's called thinking and planning but the business plan itself, let's take out that myth.

Carl Schramm: Right well the title, let me just start with the title. It came to me because I was giving a lecture at Georgetown in the graduate school of business and a student after I had given my lecture said, "You know you're an investor, what part of the business plan is the one that's persuasive to you?" I said, "I never read business plans are you writing them?"

I said of course they are and I'll get to that in a second because that's what's required in most courses to get your grade you have to write your business plan. And I just said, "Burn them, burn your business plan it makes no sense." and you could just see the professor and the students all gasp because they've been writing business plans. But if you look at this, the business plan is an idea was cooked up I think at Harvard about 1980 when we had students at Harvard wanting to become entrepreneurs, they were in the business school.

There were no courses and so over night the faculty had to plunk together two things. Mensa capital was brand new, you had the finance faculty with a whole new area of investment and you had the strategic planning faculty that does strategy. And the company when you do strategy you right plans, so bang there's the fusion. You write a plan about how you're gonna start a business with the audience is going to be venture capitalists.

Right from the beginning the notion of why you would want to do this on paper is because you want to convince an investor. Well that's dandy except the statistics tell us that over 90% of businesses are self-funded by the individuals or put this on its head and really be more dramatic. We start about 500,000 businesses every year that [inaudible 00:38:21] in their first year.

Fewer than 4,000 of those businesses have a formal mentor investor, so it's a fraction of startups ever get to see a venture investor. Yeah, we do this whole formalized plan to get an idea in front of a venture investor. Now one of the reasons I argue you shouldn't go through this, you have to get out there and just see it work because as a professor myself and a person who goes and now judges business plan competitions.

Just I do this mostly to keep my blood boiling, there's a time that I invent in these competitions so kids are out there and they tell you about a brand new idea, brand spanking new idea that I've heard 10 times before. And there have been times when I wanted to basically jump up in an audience and say, "You mean to say a professor told you this was worth wasting all this time on?"

One of my favorite, I don't think I tell it in the book but I think it's in the book actually. I must have heard eight times with such enthusiasm you couldn't believe it, that some innovator had connected an electric frying pan to a phone app so that when you crack your eggs in the morning and turn this gizmo on your phone will beep when the eggs are finished.

I've seen that at least eight times, each time students present nobody else in all of history thought this up and I'm sitting in there thinking people have been cooking eggs on hot plates for millennials, thousands of years. Do we need this? And one of the tragic things about this Bill, is that we have something on the 3 to 6,000 professors and you would think guys who are really interested in this, carefully interested in this, we have an inventory of ideas.

In medicine one of the reasons we know we're making a huge progress like in cancer is 40 years ago professors of medicine actually created tumor registries. We know on certain cancers how frequent it is, the life cycle is a cancer, where it metastasizes. We know that because people were so curious they kept registries.

Nobody's at all curious about how many people are cooking up another idea about how to wire up a frying pan to a cell phone app and if we had a registry some professor let's say in Indiana University would say to Mary or Joe, "You know this has been tried before and tried before 37 times it turns out in the last year. You can try it again but what's going to make yours more successful than the other 37 attempts?"

Bill Walton:

But you're talking about business plans. Here's a business plan I think that was at Harvard and there's a kid in the 60s. We may not be part of an entrepreneurship class but there was some sort of business plan and he had this idea that I'm gonna buy 50 jumbo jets and I'm gonna replace the US Postal Service. And he got a C- I think for the plan but he was a persistent guy, his name was Fred Smith and he invented Federal Express. At least there's one business plan when you right it down it sounds almost as preposterous as ...

Which gets us to a point where we know a lot about what doesn't work but you've also pointed out in the book the things that do work. And we're bot big believers that lines of action, doing things are the way you really learn and then entrepreneurship is about action not about word and you can only learn by doing. And so as you pointed out, Kauffman pointed out you have to start a company to learn how to start a company.

And there's no real generalization, I think about businesses as being they're all unique. You never step in the same river twice with the business, they're snowflakes and so it's hard to bring rules but you can learn in a specific industry about what works and what doesn't. And I think a lot of the innovation comes out of the fact that people have been in an industry.

They're seeing, are in a company they see what works, what doesn't work, they try this they try that. They either take it to their boss or they go off and that's where the innovation comes, it comes from some very specific thing that isn't being done or could be done. It does work if people do do it but you also point out that if you're gonna do it your chances of being successful creating a really significant company is better if you go to college and major in engineering rather than entrepreneurship.

Carl Schramm:

Yes absolutely because you've learned, first of all of engineering their daily job is developing innovations to solve real life problems. It's the rare professor at MIT for example who doesn't have a company. Because in the course of working on a problem in his laboratory or even on paper he's like a civil engineer, has figured out a better way to make steel trusses on bridges or improve the

[inaudible 00:43:57] on stadiums. And a company is born out of trying to solve a real problem.

It's the same thing for people who are 40 and have worked in a company for a long time, look at all their advantages. They know their industry backward and forward, they've seen big accounting systems in companies. I think one of the most important things is they've seen scale and their imaginations are stretched.

It's one of the things about Jeff Bezos that people don't quite understand. He was a Wall Street analyst and people don't know what that means. It means he was on planes every day and he was watching what he had seen there. This is an analyst, is he went to companies and saw massive warehouses. Now I teach in the university and if I send out any of my kids, I've done this in courses before. Have any of you really seen a big company, have you seen a huge factory, have you seen a huge warehouse? They've never seen them.

Well once you've seen one your imagination in terms of what scale could be, it's one of those things when you see something once for a nanosecond you can't think of the world differently in the same old terms, your brain's been changed. And that's the advantage of folks who are 39 or 40 or 50, they know the sales ways in the industry, they know what's necessary. They have a much higher certainty that the innovation they've had, how to do the same thing better or cheaper or faster or some new twist on things that will make things all different is in their head.

Bill Walton: Unfortunately we need to wrap up because we're covering things in a way that I think we could go for hours but we don't have hours. I wanna close. I've had a lot of experience but you've had even more in terms of assessing entrepreneurs. If somebody's 20 years old watching this, what advice would you give them?

Carl Schramm: Oh that's simple, if you're going to get a master's degree don't do it in business, get it in engineering, one of the technical systems. The only piece I feel absolutely certain about is take a job in a big company and take a job in a company that's moving into the future. That's hard to figure out what exactly that is but a huge logistics company, you mentioned FedEx, great place to go to work.

You see systems at work, you get to see scale, you get to see the choreography of complexity again at scale. And it's a great place to learn loads and loads and loads of stuff, so if you have it in your makeup, some day you wanna work for yourself, some day you wanna own a company. As I say in the book, "There are some people who know they have to be boss and they know even in a big company." It's the guy who sits there and watches the boss as he goes up or she goes up.

They get a window on the decisions that are going on and they go home and night and say, "You know I would have made that decision differently." They're developing their confidence for when they get to the corner office and the same thing goes on for entrepreneurs who've been in engineering companies and so forth. And they say, "You know I would have solved that problem differently and the way I would solve it is universal, it would apply every place and I want to start a company to solve this idea."

Bill Walton: Well one advice I'd give them is you're gonna pick a college you might pick Syracuse and you might go to this guy who's an entrepreneurship professor named Carl Schramm because-

Carl Schramm: No, I don't teach entrepreneurship.

Bill Walton: You don't teach it, that's great what do you teach?

Carl Schramm: I don't believe it could be taught. I can tell them my favorite, two courses I like they're great to me. Students do like them but I wanna be self-promoting. One of my courses is the introduction to innovation because my view is that's the trick is to even understand what an innovation is. Anybody can take a great innovation and if it's a great innovation your changes of having a successful business are a bit higher but we really don't understand innovation.

It's not that we know the process of starting businesses, so there's all these black holes out there in knowledge and I love probing this whole question of innovation. How do we innovate faster? It's a big concern in the United States we're not innovating as fast as we used to or the Chinese are innovating better than we do. But I think this is a critical issue and of course if students want to come to Syracuse University to take this course, great idea.

Bill Walton: I now have an idea for part B for our conversation. Innovation, we're gonna talk about that because I understand that your book is now on sale in China in the Beijing Airport and the Chinese are visibly trying to figure out how to innovate. We'll talk about that next time.

Carl Schramm: Okay that will be great.

Bill Walton: Carl thank you, this has been really, really fascinating and so thanks for joining me on the Bill Walton Show and you can subscribe to us on iTunes or YouTube or any of the major platforms. And Carl Schramm's book Burn the Business Plan: What Great Entrepreneurs Really Do if you're thinking about it or you wanna know how it works this is the book. Carl next time.

Carl Schramm: Great, super. Thanks so much for having me.

Bill Walton: Great. You were great.

Carl Schramm: That's nice.

Bill Walton: You've done this before.

Carl Schramm: Yeah, well I love to do this.

Bill Walton: We had a little technical glitch somewhere about 20 minutes in with one of our Internet. I've got super Internet here, I don't know what happened. We glitched out a little bit but that's something we can edit easily but this was great and we're gonna break it into chunks. We'll probably get this thing out next week. I'll be doing plugs for this on Facebook and YouTube and all the other places. What are you working on, what is your next book or project?

Carl Schramm: I'm gonna do a book on innovation and it's gonna be a handbook on innovation with a whole mess of exercises in addition to lots of observations about what goes on because that's what I do in my course as you know. It's really interesting I take kids to the university art museum and I make them look at pictures and I make them sit-