

Business 101

College entrepreneurs take the ultimate hands-on class

by Alison Rice

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Fifteen years ago, driving a Princeton University nighttime shuttle bus to earn the money for his first computer, college senior Andrew Florance never could have predicted what his college startup would become.

He was just an econ major with a techie dream, spending hours on his now-ancient Compaq to program and print what would become the CoStar Group's first computerized commercial leasing information form. "It wasn't that I wanted to make a fortune [with CoStar]. It was more of an intellectual exercise: 'Could I improve the way things work? Could I find some truth that no one else has found before?'" recalls Florance, now 38.

Apparently, he did. The CoStar Group, an online real estate information company in Bethesda, Md., now has 1,000 employees, 25 offices from San Diego to Boston, and nearly \$60 million in annual revenues. It astounds even founder Florance, whose classmates rib him at class reunions. "I can't believe you're still working on that thing you were working on in your dorm room," they say.

Some days, neither can he. "I wish someone had told me in college that this is what the business would look like one day," says Florance. "I worked a decade of 70 hours a week to make CoStar the successful company it is today. That is like inching your way up a mountain. You spend years at the base, years midway up, and years approaching the summit. You are so long at each point that you have a tough time picturing clearly the prospective you had when you began. Only the person who began this journey, the me as I was back in college, could fully appreciate the exhilaration of reality exceeding such an ambitious dream."

Starting a business represents a risky venture for entrepreneurs of any age, but it seems particularly dicey for college students, whose lack of real-world work experience and usually limited bank accounts would seem to make success rates scarce. Yet even in the dot-com downturn, optimism reigns among these young people, establishing what might be considered the ultimate startups.

Of course, even the successful ones look back and wonder what the heck they were thinking. Robert Parker, who founded Digi-Net Technologies [digi-net.com] while a University of Florida undergrad, certainly does.

"If I knew [then] what I know now, I'm not sure I would have done it," says Parker, whose Gainesville, Fla., company develops Java-based chat software. "It added a few wrinkles to my forehead and lots of stress. But going in, you have that youthful enthusiasm and you're not jaded about things. You're going to go in and change the

world.” Starting on a shoestring

There were no Aeron chairs or modern sculptures in Digi-Net’s first offices. “We didn’t have enough money for a desk, because I’d put up all the money for the deposit on the space. So we bought two filing cabinets at WalMart and put a big old barn door on top of them,” recalls Parker, now 28. “A friend’s computer was our first Web server, and when he’d come over to type a paper or play a game, the Web server would stop. We’d get e-mails from our clients saying their Web sites weren’t working, but we couldn’t say anything to him because it was his computer.”

Such humble beginnings often are home to great ideas, according to David Lane, general partner and managing director of VC fund Diamondhead Ventures [dhven.com]. Based in Menlo Park, Calif., Diamondhead focuses on Internet ventures formed on university campuses, whether by professors, undergrads or grad students.

Lane says students in particular are full of fresh perspectives. “They don’t have all the paradigms established in their minds, such as how you do a certain procedure,” he says, and that’s great for new ideas. “Innovation doesn’t come from large companies. It comes from outside the framework where people are telling you, ‘You can’t do that.’”

That’s what happened with CoStar’s Florance. As an undergrad at Princeton, he spent his summers working in a variety of firms: a construction company, an ad agency, a real estate development firm, and a stock brokerage.

It was the contrast between Wall Street and commercial real estate that got him thinking. While stockbrokers could draw on a wealth of detailed information before making a decision, their real estate counterparts essentially had to guesstimate key variables about new office buildings. “It was a ludicrous way to do business,” Florance says and starts to laugh. “Of course, at the time, it was very naïve of me to think, ‘Oh, I see a better way to do something,’ and change it.”

But change it Florance did, creating CoStar, a company that essentially acts as “the NASDAQ for commercial real estate,” processing more than \$200 million in commercial leasing transactions annually and providing extensive databases of tenant and building information for the industry.

Not bad for someone who, after graduation, based his company in D.C. “because my parents’ basement had the cheapest rent.” Caught between classes and capitalism. Even for students who work in the campus cafeteria, balancing school and a job can be a challenge, especially around exam time. It’s even tougher for young collegiate entrepreneurs, who are juggling academics, part-time jobs and their startup responsibilities on a few hours’ sleep and a diet of overcooked ramen noodles.

“It was a great experience, but it tired you out,” says Dylan Vaughn, a Stanford University[stanford.edu] grad who started College 411.com, a personalized university news and community site (“like my Yahoo! for college students,” he says) with his

roommate, Travis Bowie, the summer before their senior year. “It was all that we did. Our whole life was the company. From when we got up in the morning to when we went to bed, all we did was the company.”

Such demands often force students to make hard choices. Parker dropped out of the University of Florida [ufl.edu] in Gainesville in his junior year, much to his parents’ displeasure. “They were pretty upset,” he admits. But they’ve gotten over it. “Last year, Dad became our chief administrative officer,” Parker says. “He’s come full circle, from thinking this was not a very smart idea, to working for me.”

Others postpone the business for a diploma. “To us, school comes first,” says Gherald Aleman, CEO of Web development company Blazing Sites [blazingsites.com] and a senior at Seton Hall University [shu.edu] in South Orange, N.J. He spends a few hours each week on Blazing Sites; that’s all he can afford between his studies and his regular full-time job. The founder, Mario Urena, has made similar choices, serving as a consultant to Blazing Sites rather than its top manager.

Finally, some try a middle path, devoting their summers to the startup and the school year to studying, with the business continuing as a part-time job when classes are in session.

That’s what Eric Gilmore and Ryan Doherty did with Scholarshops [scholarshops.com], a Web site they created to allow parents, grandparents and others earn rebates for their college students by shopping online. During the summer ramp-up, the two high school friends worked 16-hour days, eating, sleeping and drinking side-by-side. Once the site was up, they took a seriously needed break. “For two weeks, I didn’t want to see Ryan Doherty’s face,” Gilmore jokes.

During the school year, though, Gilmore (a sophomore at Ohio State University [osu.edu]) and Doherty (a sophomore at the University of Dayton [udayton.edu]), make time for schoolwork, socializing and Scholarshops, although it’s tough to get a break from the business when everyone’s constantly asking about it. “I want to say, ‘I work so much on it, I wish you’d ask me instead what I had for breakfast!’” Doherty says.

Balancing all these demands requires discipline. “You have to set some sort of priorities,” says Gilmore. And for him, that means not sacrificing his college memories to the sleep-deprivation of starting a business. “My parents say, ‘Eric, you are 20 years old. You need to have fun in college.’” So he does, especially during football season.

“You can always make time for a Buckeye game,” he says. “That’s essential.” MBA-level lessons as an undergrad

Of course, while many of these young CEOs and CTOs will make it to their graduation day, not all their companies will, or at least not as their founders initially envisioned.

Digi-Net started out as a graphical online service – “sort of a mini America Online,” founder Parker says – and now develops Java-based chat software for the Web. Gilmore

has already made a similar move, shifting his efforts from the e-commerce model of Scholarships to specialized piece of software that he hopes to sell to AOL, MSN or Yahoo!.

Some of these university-based startups have already been absorbed by larger firms. After Student Advantage, a Boston-based marketing company that concentrates on college students, acquired College411.com, Vaughn and Bowie moved from California to Massachusetts, where they now work for Student Advantage. Vaughn says he has few pangs about going from co-founder to employee. "I'm working now on something that's bigger and better than what we were doing," he says. "We can help more students, and I have lots of resources behind me."

Other young entrepreneurs have already decided to move on from their startups, leaving their partners before millions in venture capital and hours upon hours of work makes breaking up the company difficult and rancorous. "It's easier to split \$500 in a company than \$500,000 when you don't know [what belongs to who]," says Villanova University [villanova.edu] sophomore Sean Brady, who left his spot as co-founder of a software startup developing electronic medical record systems.

Regardless of a venture's outcome, though, these undergrad entrepreneurs say they've gotten some MBA-level lessons in the process. "I know – like the back of my hand – what it takes to start a company," Vaughn says.

They also know how wild that ride can be. "It's an emotional rollercoaster," says Doherty. "You can be almost signed on a \$4 million deal from an investor and then it doesn't happen."

They try to tell friends what they've learned, hoping to save them some future job-hunting grief. "I invite friends to events, and they say, 'Oh, I've got something to do,'" Doherty says. "I just want to say, 'You don't understand. Whatever you're studying, this is a heck of a lot more important because the people that you meet – those are the ones who can help you get the resources you need, whether you want to start a business, get a job or get an investment.'"

But for these young techies who wanted to transform the world, sometimes the greatest discovery is found within themselves, as they realize the trust that their employees, investors, clients and, in Florance's case, his own parents, have placed in them. "You think you'll get it going in Washington, sell the business, and go to grad school. Then, one day, it changes you," says Florance. "When I began CoStar I viewed it as 'mine.' It was my idea. It was my intellectual economic game. As the company began to take shape and evolve into something real, it became 'ours.'"

Rice (arice@itrecruitermag.com) is senior editor at ITrecruitermag.com. Where did you start your business? Let us know at editor@itrecruitermag.com.

