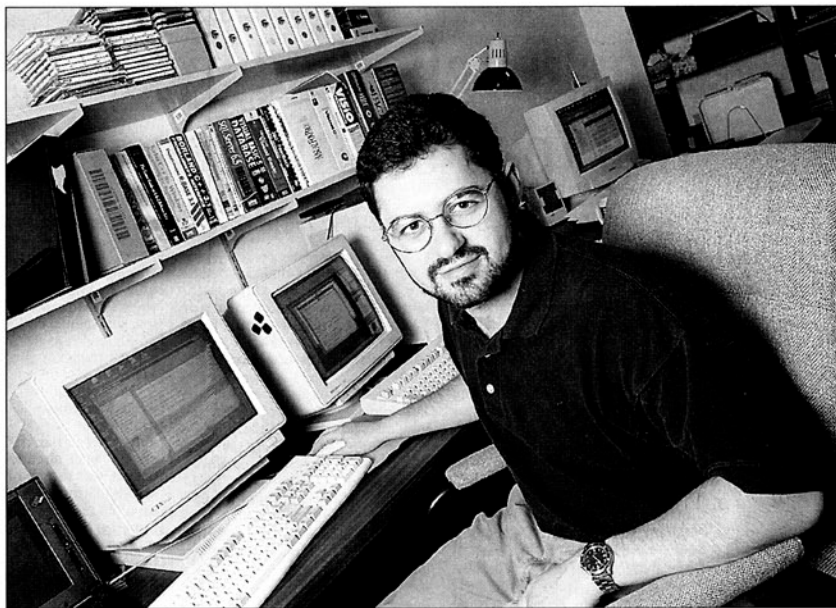




## HUMAN CAPITAL

DAWN WALTON  
IN TORONTO

*Many students burst out of school full of big ideas for a new business, but soon hit obstacles that other entrepreneurs don't encounter. Youth combined with no proven track record to show potential customers or investors can quickly sidetrack a startup.*



Gene Goykhman is the sole owner of 18-month-old software venture Indigo Technologies after his six partners became 'antsy' about the company's financial situation and moved on.  
HEATHER MACKINNON/The Globe and Mail

# Grads learn the business ropes

Gene Goykhman doesn't want to be thought of as just some guy in a basement.

Mr. Goykhman, in fact, used to be one of seven guys in an office complex. But his university classmates departed, leaving him as the sole owner and employee of software company **Indigo Technologies Ltd.**

"You've caught us in a bit of a transition period," admits Mr. Goykhman, surrounded by seven computers and several telephones in the basement of his family's north Toronto home.

Mr. Goykhman's situation reflects the plight of young grads as owners. Student pals burst out of school full of big ideas. Many are Internet-savvy and are convinced they can turn this into a business. But outside of university walls, these dreamers discover a harsh reality.

Indigo was founded 18 months ago by Mr. Goykhman and six other engineering and computer science graduates fresh out of the University of Waterloo in Ontario.

They met instant success, then cash flow problems sapped the early enthusiasm. Mr. Goykhman, 24, finds himself alone and operating a \$400,000-a-year enterprise, although he still plans to hire some designers and developers, move into an office and retool his business plan.

Student entrepreneurs come up against obstacles that others don't encounter, says Elspeth Murray, a professor at Queen's University School of Business in Kingston. "Number one is their youth and obvious inexperience."

They may have a gee-whiz idea, she says, but they have no proven track record — something that's a really big deal for potential investors and customers.

"People don't take them seriously," says Rob Henderson, business development director for the Association of Collegiate Entrepreneurs.

Indigo got off to a good start. The partners secured a roomy Toronto office and each contributed \$8,500 to the upstart operation to cover equipment, furniture and salary expenses.

In its first two months, Indigo cleared \$40,000 in profit. The company developed an innovative software program called TaskMaster as a result of the partners' own time management troubles. Sales took off after one of Inc. magazine's technology issues carried a favourable feature.

But new business slowed down and Indigo underestimated its expenses. The company charged clients based on projected costs, but misjudged how much time it actually spent on each project.

Mr. Goykhman says his colleagues got "antsy" about the financial situation — "and I don't blame them."

"I think the expectations for the company were reasonable. But I think people were surprised at just how hard going it was going to be and how long it would take [to become established]."

By June, 1998, two partners took jobs in the United States, two others landed positions in Toronto and the other two have also left to pursue other interests. Indigo bought out all of their stakes in the company. The sublease ran out on office space and Mr. Goykhman moved the business to his family home.

Another Indigo co-founder, Chris Law, 25, is now a program manager working on software development for Trilogy Software Inc. in Austin, Tex. — a company it-

self founded in 1989 by a 21-year-old Stanford University dropout.

"Nobody goes into it thinking it's not going to work out for them," Mr. Law says about leaving Indigo.

He doesn't regret launching the company, but with daunting student loans, he couldn't pass up Trilogy's offer of money and opportunities to develop new products that a startup just can't match.

"It's a tough thing to say no to," Mr. Law says.

One of the biggest problems all entrepreneurs face is cash flow shortage, says David Shaw, a professor at the Richard Ivey School of Business at the University of Western Ontario in London. Student entrepreneurs without business school experience are particularly vulnerable.

The mortality rate of all small businesses is high. A study by a doctoral student at the University of British Columbia found that among the 500,000 Canadian businesses started between 1983 and 1986, only 20 per cent were still in operation by 1993.

Still, student-founded companies are resourceful. Computer science types Chris Piché and Mitchell Ngai, both 27, met in residence at the University of British Columbia in 1990. They set up **Infra-net Solutions Ltd.** five years ago, bridging

the cash flow gap with credit cards.

To start up, they each put \$250 in a bank account, ordered a few business cards, set up a makeshift office in the basement of a dilapidated house they shared near campus. They've managed to expand their Vancouver-based software development company into a 17-person operation with annual revenue of \$1.5-million — and remain friends.

Their goal for 1998 is to become a company worth \$10-million in assets and revenue — and "right now, we're pretty close," Mr. Piché says.

One factor that can make or break student-run companies is the quality of know-how around them, says Prof. Murray of Queen's University. Upstart companies should be surrounded with credible advisers or partners who believe in the company.

Tom Kubik and Chris Trauzzi set up an advisory board which included an accountant, a business consultant and a proven high-technology business leader when they dropped out of McMaster University in Hamilton to launch **Web Front Communications Inc.** in 1996.

"We had to prove we were not just two kids working out of a basement. That it is a living, breathing company," says Mr. Kubik, director of development.

The Toronto company, which designs applications for electronic commerce on the Internet, was the brainchild of Mr. Kubik, a computer engineering student, and Mr. Trauzzi, who studied commerce. Web Front now employs 20 full- and part-time staff, and has annual revenue of less than \$1-million.

Paradoxically, one of the greatest barriers to students — being young — is also a big selling point in the high-tech industry. Indigo's Mr. Goykhman says being new is a competitive advantage.

He excuses himself to check the fax machine. A Waterloo company has signed on for a number of TaskMaster licences, which are sold over the Internet for \$169 (U.S.) a user.

"Things are starting to pick up again."

### WHIZ KIDS

**College Pro Painters Ltd.** was founded in 1971 by university student Greig Clark to cover the cost of his tuition. He created a business plan while studying at the University of Western Ontario in London, Ont., and turned his idea into a lucrative franchise operation that was acquired by Toronto-based FirstService Corp. in 1989. College Pro operates in 32 states and nine provinces.

**Federal Express Corp.**'s story is the stuff of business school legends. Fred Smith outlined his plans for an overnight delivery service in a Yale University term paper that, so the story goes, was not well received by his professor. Mr. Smith eventually founded Memphis-based FedEx in 1973 — an empire worth \$13.3-billion (U.S.) in revenue in fiscal 1998.

**Microsoft Corp.** is the fairy tale most computer young wizards hope to emulate. The company was founded in 1975 by a 20-year-old Harvard University drop out and his childhood pal who together had the single vision of "a computer on every desk and in every home." Bill Gates and Paul Allen established the giant computer and software development company, based in Redmond, Wash., which reported revenue of \$14.48-billion in fiscal 1998.