

Jobless MBAs opt for entrepreneurship

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B-school graduates are giving up on the job market and starting their own businesses instead. Funding is scarce, but schools are offering support.

Lindsay Giovachino was feeling frustrated as she approached her business school graduation this past May at the University of Miami School of Business (Miami Full-Time MBA Profile). Like many of her classmates, she had cast a wide net in her job search, applying for management jobs in fields ranging from the nonprofit world to the music industry, with little luck. The final blow came when people started suggesting that Giovachino, an aspiring singer and songwriter who goes by the stage name Lucia, take an unpaid internship with a record company. "To hear that was like a nail in heart," Giovachino says. "I just spent all this money getting my MBA and I couldn't deal with starting at the very, very bottom."

Instead, she focused her energy on developing a business plan she'd written in her entrepreneurial class this winter, with the help of a friend who owns a Miami-based recording studio. By the time graduation rolled around, she had launched an independent record label, Burning Tongue Publishing Company, which she hopes will be a new model for promoting and distributing musicians' work. Family, friends and artists interested in recording and working with the company are helping her fund the project. Plans are already in the works for albums recorded by a Slovenian band and an Italian rock group, as well as Giovachino's debut CD.

"With this I'll be unpaid for a while, but at least at the end of the day I'll have something to show for it," she said.

Post-grad startups

Giovachino is not alone in her entrepreneurial ambitions. The new business bug has bitten both graduate and undergraduate business school students hard this year. Typically, only a handful start businesses after graduating, with most choosing to go the more conventional route by securing a full-time job offer. This year, the number of business students launching companies after graduation, or even while still in school, has skyrocketed. Business schools from Harvard Business School (Harvard Full-Time MBA Profile) to NYU's Stern School of Business (NYU Stern Full-Time MBA Profile) are reporting a surge of interest from students who have decided to strike out on their own.

The upsurge in entrepreneurship comes at what is in many ways the worst possible time. In the first quarter of 2009, venture capital activity plummeted to just \$3 billion—a new 12-year low—according to a new report from PricewaterhouseCoopers and the National Venture Capital Assn., raising the possibility that many student ideas might never proceed beyond the business plan stage, says Kip Harrell, president of the MBA Career Services Council, an umbrella group for MBA career services officers: "Students recognize how bad the economy is and how hard getting capital is."

In response, schools are ramping up the support they offer to aspiring entrepreneurs, creating summer business incubators, launching new curriculums in the subject, and giving them additional counseling on how to start a business in challenging economic times.

Scarce jobs propel launches

"Students are looking out over the horizon and saying, 'You know what, there may be no job waiting for me when I graduate,'" said Bernhard Schroeder, director of the Entrepreneurial Management Center at San Diego State University's College of Business, who said

membership in the school's entrepreneurship club tripled this year. "This recession is showing them that they can't trust anyone with their career,"

That was the case for Crystal Reibel, a recent graduate of the part-time MBA program at Pepperdine University's Graziadio School of Business and Management (Pepperdine Graziadio Part-Time MBA Profile) who was laid off this fall from her job as a sales manager for the automotive industry. She took an entrepreneurship class at Pepperdine in January, where she developed a plan to launch an olive oil store and online retail site. With the help of her husband Chip, also a Pepperdine student, Reibel will open a store, Beyond the Olive, this August in Old Pasadena, Calif.

"Even if I did find another job in the automotive industry, who's to say I wouldn't get laid off in two, three, or five months again," said Reibel, who will run the store full-time. "This gives me a way to control my destiny and, ultimately, control my own path."

Business plan competitions

Another way students are testing the waters is by entering their ideas into business plan competitions, which have gained in popularity in recent years as interest in entrepreneurship has burgeoned. These competitions are generally sponsored by companies, which finance the awards. The competitions are typically judged by angel investors or venture capitalists and offer students the chance to win a large monetary prize, as well as the chance to get feedback on the viability of their business plans.

Applications for the Rice University (Rice Full-Time MBA Profile) business plan competition were up 40% this year, with 350 teams applying for 42 spots and the prestigious \$325,000 top prize. "It was the toughest year ever," said Brad Burke, managing director of the Rice Alliance for Technology & Entrepreneurship, which helps run the competition.

Perhaps even more telling, a far greater number of contestants launching businesses after competing at Rice, Burke said. Back in 2001, the year the competition started, only 13% percent of entrants went on to start their own companies. By 2008, 69% of the teams had started their own businesses and Burke predicts that 80% will go on to do so this year.

"I think we're going to see a real spike in entrepreneurial startup companies as a result of the economic situation," he says.

At Babson College's Olin Graduate School of Business (Babson Olin Full-Time MBA Profile), the number of MBAs planning to start their own businesses after graduation is up about 50% over last year, said Tracee Petrillo, director of the MBA Career Development Office.

That number could creep even higher, because many students actively job hunting are simultaneously working on a business plan and haven't made up their mind yet which path they will pursue, she said.

Expanded b-school offerings

The school has responded by offering students additional support. Dan Marques, the manager of Babson's Arthur M. Blank Center for Entrepreneurship, created a new program called Summer Ventures, which gives 23 teams of entrepreneurs with business plans—both undergraduate and graduate students—free housing, work space, coaching, and access to mentorship from experienced entrepreneurs. At the end of the summer, the teams will get a chance to pitch their ideas to a group of angel investors and company executives.

One of the students participating in the program is Raul Pellerano, 21, a recent Babson graduate who is spending the summer with two teammates developing BongoBing.com, a new product search engine for shoppers. Pellerano conducted a job search before graduating this May, but none of the opportunities that surfaced excited him.

"It was definitely a big leap to tell my parents, 'Oh, yeah, I think this is a good time to start a business,' " Pellerano said. "But the way I reasoned it out, it is hard enough to find a job anyway, so it just made sense to do it now."

Other schools are also reporting an uptick in interest from recent graduates and current students. At Harvard Business School, 27 MBAs who graduated this June are starting their own businesses, according to a school newsletter. At Pepperdine's Graziadio School, students have been clamoring to get into entrepreneurship classes and counseling sessions, said Larry Cox, an associate professor of entrepreneurship. In response, the school is revamping its entrepreneurship curriculum to make it more cutting edge, Cox said. "I expect that when we roll out the new curriculum this fall we'll be oversubscribed," he said

At NYU's Stern School of Business, the Berkley Center for Entrepreneurial Studies is providing more technical assistance and skills-development programs for students and alumni who want to start businesses, from additional on-site counseling to workshops on legal issues and networking. The center is also developing a workshop tentatively called "Reinventing Yourself as an Entrepreneur" aimed primarily at alumni.

Indeed, many alumni who have been battered by the job market are returning to their business schools to seek advice and guidance on how to launch a business. That was the case for Belinda DiGiambattista, a 2005 graduate of Stern's executive MBA program, who turned to the school after she was laid off in February of last year from her job as a project manager at Moody's (MCO). With the help of the school's entrepreneurship center, she launched Butter Beans, a startup which provides organic, homemade, hot lunches to school-age children.

DiGiambattista's business plan won the first prize in Stern's annual business plan competition this year, and she and her two business partners recently landed their first lunch contract with a school, Poly Prep Country Day School in Brooklyn.

"Everyone asked us if it was scary to launch a business in this environment. It was a little risky, but we decided to go for it," she said. "It's been a true bootstrapping experience."

Even the most determined entrepreneurs will face numerous challenges getting their business plans to materialize in this economic climate, said San Diego State's Schroeder. One of the biggest problems they're facing is obtaining financial backing and seed money, he said. Most angel investors and venture capitalists are reluctant to invest in startups in the current climate, leaving the burden of financing on students' shoulders. He's advising students to take advantage of resources like free computer software, coaching, and business plan competitions, which can provide students with seed money and valuable connections.

"We've told them there is no funding, so they have to operate in an environment where their costs are almost zero," he said. "It's the macaroni-and-cheese mentality."

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