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host of other start-ups  
want to make

# PRIVATE SPACEFLIGHT

a reality - are you ready  
to go where only few  
have gone before?

## BLACK CATS, BEAR MARKETS

Despite the sophisticated nature of markets and the rationality of its consumers, firms are discovering that superstitions continue to have tangible consequences for their performance.

## COPYCAT COUTURE

Think that the street vendors in Chinatown are Louis Vuitton's biggest problems? Think again - copycat couture might be closer than you realize.

## DROP-OUTS

The real common denominator between these "successful dropouts" is not the absence of a diploma, but instead the presence of talent, uncommon instinct, and determination.

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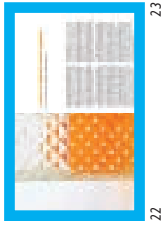


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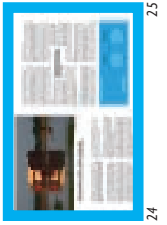
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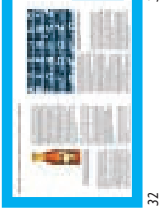


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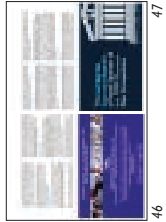
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# “Ahhhh.”

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## LETTER FROM THE EDITORS

Dear Reader,

With these words, we are proud to welcome you to the fourth issue of the *Yale Entrepreneur*. This issue also marks the third year since the return of the YE as the official publication of the Yale Entrepreneurial Society.

In 2006, *Time* picked "You" as its Person of the Year, indicating how much Web 2.0 has changed the average person's ability to define his or her own world. Along the same vein, the theme of this issue is "Ideas into Motion" as it addresses the idea that the process of entrepreneurship is an accessible project for many. Our feature article on Private Spaceflight demonstrates exactly how an ambitious multi-tiered project—turning space travel from the sole property of NASA into a business—can be pulled together with the right talents and the right mindset.

But what does this have to do with college students who are more focused on their next paper about Prague Spring than about the latest development in Silicon Valley? With the resources provided by new technology, an increasing number of college students and recent graduates are becoming successful entrepreneurs. According to a recent *BusinessWeek* article, the number of 25- to 34-year-old entrepreneurs quadrupled from 2000 to 2004, and investors have made significant capital available to match the enthusiasm of our generation. Furthermore, the skills of entrepreneurship carry over to many other endeavors that require a certain amount of risk-taking. Our interview with Christina Park '09, for example, shows us that even a venture like authoring a book can take place with very little entrepreneurial experience but a lot of ambition.

Just as our modern world is making the process of entrepreneurship easier, the significance and effects of starting businesses are also changing. From Victor Yuan, a World Fellow who started the first public opinion research company in China, to Acumen Fund, which helps women in Tanzania make high-quality bed-nets, the opportunity of entrepreneurship has provided people with much more than just financial security.

As the forces of globalization and personalization continue to evolve, it is more likely now than ever that one single idea can change the world. And chances are, you've already seen this happen (unless, that is, you've never heard of Mark Zuckerberg or searched for anything on Google).

As you head into Spring '08, keep in mind all the young, dynamic entrepreneurs that make your next paper on Prague Spring possible, and we hope that one day we will be interviewing you in turn.

Sincerely,

Janet Xu and Danny Friedman  
Editors-in-Chief



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Thinking New Perspectives.

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## MORE THAN JUST A BUSINESS PLAN

TO CONVINCE ANGEL INVESTORS, STARTUPS NEED MORE THAN JUST A COMPELLING BUSINESS PLAN

Angel investors, that rare breed of people, are wealthy individuals (or increasingly, networks) who invest money in startups in exchange for either bonds or equity. Unlike venture capitalists, who invest money that comes out of a pooled fund, angel investors typically put in their money. In other words, they are the middle way between asking your parents and presenting in front of a multimillion-dollar company.

The term originated in England, where "angels" are people who fund theater productions. The first use of the word "angel" to describe investors appeared in a 1978 study by William Wetzel, a professor at the University of New Hampshire.

So what do these individuals look for when deciding when to invest in a business? Recently, Micah Baldwin, an entrepreneur-turned-"failed CEO"-turned-angel investor living in Colorado, wrote an entry

### the investor *check list!*

- 1 The company has to have a "real leader/CEO." This person needs to be somebody that he thinks he can trust in running a company.
- 2 The company has to have a plan regarding a revenue stream and an exit strategy. In short, Baldwin asks, "Where's the money?"
- 3 He needs to be able to provide hands-on support.
- 4 No convertible debt. If Baldwin is investing, he wants a piece of the company.
- 5 The other investors have to be "quality."

on his blog about the five requirements he takes into account when looking at investment opportunities. (See table above)

In particular, Baldwin outlines what he wants to see in a CEO: they have to be able to engender trust, they have to be confident, they must be risk-aware and they need to have a presence. In other words, people should want to follow this person.

He explains, "I recently got into a discussion with a friend about leadership. She considered herself a leader; which in many regards she was, but I explained you can only be a leader if people are willing to follow, you cannot self appoint yourself leader. Many times in a startup the founder becomes the de-facto CEO. So the question is, as the company grows beyond a couple of people, do you have 'it' that will engender people to follow you?"

According to the blog, Baldwin would not invest in a company if it failed any one of his five conditions. If it failed two, he is "100% out."

- JANET XU



MY JOB OFFER SAYS  
SOMETHING ABOUT  
“COLA?”

COLA usually stands for either Cost of Living Adjustment or Cost of Living Allowance. The former usually refers to Social Security, since payouts have to be adjusted based on inflation. The latter is usually applied to salary.

COLA is heavily tied to “cost-of-living,” which basically comes down to the question, “What does it take to maintain the same standard of living?” Cost-of-living is frequently tied to an index such as the Consumer Price Index (CPI), which is calculated by the U.S. Bureau of Labor Statistics (BLS). The CPI is a measure of the change in prices paid by urban consumer for a “basket” of goods, such as: housing, food, clothing, gas, transportation, college, etc. Prices are collected from 23,000 establishments in 87 different areas of the US. Each category is then “weighed” according to how important it is in a consumer’s budget.

Of course, the CPI has many faults. For example, in the 1970s, gas prices were skyrocketing (sound familiar?), so people simply drove less. However, the CPI calculations had assumed that people would consume the same amount of gas, so the overall cost-of-living was widely exaggerated. Also, it is difficult for the BLS to calculate changes in quality. For example, people used to get their music from vinyl records, then from cassette tapes, and then from CDs. Now they download music straight to their computers. How do we measure the fact that the quality and availability of music has changed so much over the last 50 years? Lastly, cost-of-living also changes depending on geographic location (see graph).

Source: Paul A. Samuelson and William D. Nordhaus, *Macroeconomics*, 18th Edition, Boston: McGraw-Hill/Irwin, 2005.

-STAFF WRITER

Source: Paul A. Samuelson and William D. Nordhaus, *Macroeconomics*, 18th Edition, Boston: McGraw-Hill/Irwin, 2005.

SALARY IN NEW HAVEN \$40,000

To maintain the same standard of living you would need in...

Chicago	\$36,956.35
Detroit	\$33,450.94
Honolulu	\$52,880.25
Las Vegas	\$35,382.49
Miami	\$37,362.82
Manhattan	\$67,415.66
Phoenix	\$33,135.52
Providence	\$40,611.33
Salt Lake City	\$32,472.16
San Francisco	\$55,641.00

Source: CNNMoney Cost of Living Calculator

MONEY IN THE BANK

WHY IS YALE’S ENDOWMENT SO, AHEM, HUGE?

Next time you enjoy one of Yale’s newly updated facilities like the Bass Library or Siliman dining hall, remember David Swensen, the chief investment officer at Yale. After having obtained a Ph.D. in economics here, Swensen worked as a senior vice president at Lehman Brothers in the early 1980s. He left Wall Street to return to Yale in 1985 at the age of 31. At that time, Swensen worked to broaden Yale’s endowment portfolio from its narrow focus on stocks and bonds, beginning to invest in such financial vehicles as hedge funds, private companies, and commodities. Swensen’s approach transformed Yale’s endowment—and the investment approaches of other major universities. Since that time, Swensen has grown Yale’s endowment from \$1.7 billion to over \$22.5 billion, an increase of 1,194%. By comparison, in the same time period, Harvard’s endowment grew from \$3.4 billion to \$34 billion, a growth of 916%.

What is perhaps most special about Swensen, however, is his refusal to embrace the materialistic ethos of many other money managers. With all the success he has had, he refuses to cash in and go work for a private



COURTESY OF THE YALE INVESTMENTS OFFICE

firm where he could make a lot more money. In an interview with the NYTimes this past year, Swensen said that he would stay at Yale “as long as they are willing to have me” and that “I feel privileged to be in a place where the resources that we generate are applied to the world’s problems.”

To learn how to apply Swensen’s strategies in your personal portfolios, check out his 2005 book *Unconventional Success*, a handbook for the individual investor.

-STAFF WRITER

HEDGING YOUR BETS

SPEAKING OF WHICH, WHAT IS A HEDGE FUND?

Hedge funds are basically pooled investment vehicles, meaning that the investors entrust their money to a manager, and they invest in publicly traded securities. In these two respects, they are like mutual funds, but unlike mutual funds, which seek to outperform their “benchmark,” hedge funds seek absolute returns. This means no matter how the market is doing, hedge funds are expected to offer up a certain return.

That sounds great, you might say. How do I get on the hedge fund action? Unfortunately, as a mere college student, your hedge fund days are probably pretty far off in the future. The first concern with hedge funds is the fact that they’re pretty illiquid, meaning that you can’t withdraw

money at will. The second is that they’re also really expensive. In addition to a “management fee,” hedge fund managers also charge a “performance fee.” Finally, because hedge funds need to be “liberated” from traditional rules in order to pursue their returns, they are not registered with the Securities and Exchange Commission (SEC). They escape this registration by demanding that their investors be “accredited”—meaning that they have either a net worth of \$5 million or a minimum annual income of \$200,000. Hedge funds also cannot advertise to the general public.

So, how about waiting for a few more years?

-STAFF WRITER

5 million dollars, the minimum net worth one must have to invest in a hedge fund



tomkai/SHUTTERSTOCK.COM

D.I.Y.

INVESTING 101

BY MATT BOZIK

Few Americans choose to save for their futures, and young adults are among the worst offenders, according to recent surveys by ACNielsen. While it is difficult to think about saving for the long term when you are barely getting six hours of sleep a night, one of the best decisions you can make is to start investing right now. Almost everybody understands the concept that the sooner you start investing, the more money you will have when the time comes to buy a home or retire, but few college students comprehend the enormous value of compound interest.

Compound interest means, simply, that when you put money in any interest-earning account and leave it there for a certain amount of time, the interest itself will also start earning interest. For example, if you start investing \$2,000 dollars every year at an interest rate of 12%, you will have about \$2.2 million when you retire at 60. However, if you wait until you are thirty to start saving, you will have only about \$660,000 at the same age. So start investing and take advantage of what Einstein called “the most powerful force in the universe.”

Even if you do not have time to follow macroeconomic trends or individual stocks, there are still plenty of investment opportunities for you. Exchange-traded funds (ETFs) are one of the best investment vehicles for those with busy schedules or those who feel

that they are unable to outperform the market. ETFs track indices like the Dow Jones Industrial Average, or they can track emerging markets. When you buy into these funds, you are purchasing a small stake in a wide variety of companies. Not only do you immediately reduce your risk, but you also tap the earnings potential of wide sectors of the market.

For example, an ETF called Standard & Poor’s Depository Receipts (SPDRs) tracks the S&P 500 — an index of 500 of the largest companies in the U.S. Buying a SPDR means that you are buying a stake in all of these companies. If Walt Disney Co. suddenly goes bankrupt, for example, your investment would not suffer a great deal since there are 499 other companies whose earnings factor into your portfolio’s overall performance. This diversification of risk allows investors to rest assured knowing that their savings are growing with the overall market and, therefore, largely unaffected by the few underperformers. In the last two decades, the index has climbed over 200%. There are also funds that track smaller markets, like the energy sector; for those investors who believe that certain sectors will grow faster than others.

ETFs are especially appropriate for college students because they are cheap and their expense ratios — the fees firms charge to manage the funds — are very low. The Vanguard Total Stock Market

ETF (VTI), for example, attempts to mirror the performance of the entire body of American stocks. Barclays also offers a Europe, Australasia, and Far East ETF (EFA), which tracks thousands of stocks around the world. Funds like these offer low expense ratios and exposure to enough companies to grow your money while protecting it as well.

Once you have a better idea as to what funds you want to purchase, you should decide which investment accounts to open. Most investors have regular, taxable brokerage accounts, but should also open government-sponsored individual retirement accounts (IRAs) as well. IRAs are great investment vehicles because they enable anyone who earns money to invest a portion of their salary in an account that offers lower taxes or none at all. If you open a traditional IRA, you can make contributions which are not taxed until you withdraw your funds. A Roth IRA offers individuals the opportunity to make contributions that will never be taxed. There are, however, a few details to watch out for: For the Roth IRA, one may only invest if his or her annual salary is less than \$114,000. Furthermore, if you attempt to withdraw funds before age 60, you will face high tax penalties. Even so, IRAs offer great opportunities for young people to start saving and investing.

Having settled on funds and the accounts in which you will hold them, you will also need to decide which broker you will use to make your investments. There are three basic kinds of brokers: full-service, premium, and discount. Full-service brokers include

companies that you have probably heard about – Merrill Lynch, UBS, Wachovia, and Morgan Stanley. These firms give you all the investment advice you could want and will personally manage your accounts for you. At the same time, however, they charge a great deal for the service – it can cost several hundred dollars just to execute a single trade – and for most beginning investors, these fees are prohibitively expensive.

Premium brokers – ETrade, Fidelity, Charles Schwab, and Vanguard – offer some of the amenities of full-service brokers while charging much less. You still get access to great investing resources and research but you do not get the individualized treatment that you would at a Merrill Lynch. But even what you pay for a premium broker is probably unnecessarily high for a college student; instead, most beginning investors should think about going to a discount broker like TradeKing or Scottrade. These brokers still provide some access to research, and they charge very little for trades.

New investors should also take care to look for any hidden fees – some brokers will charge you if you do not maintain a sufficiently high balance or will penalize you for transferring funds between accounts. You should also keep in mind the incentives brokerages offer to new clients, such as certain amounts of free trades.

The best way to learn about investing is to learn through experience. However, as is the case with interest, it is best to accumulate that experience as soon as possible. **ye**

# CRUNCH THIS!

MAPPING OUT THE WAYS IN WHICH ALGORITHMS AND STATISTICAL ANALYSIS HAVE CHANGED THE LANDSCAPE OF MEDICINE, ADVERTISING, THE INTERNET, AND EVEN BASEBALL RECRUITING. **BY DANIEL FRIEDMAN**

In *Super Crunchers*, Ian Ayres maps out the ways in which algorithms and statistical analysis have changed the worlds of medicine, advertising, the Internet—and even baseball recruiting. A law professor and econometrician at Yale, Ayres provides insight into the ways in which companies have utilized the power of statistical analysis to increase the accuracy of predictions, productivity, and certainty of expert claims. Ayres' anecdotes are as shrewd as they are pertinent: examples range from matchmaking in online dating services to assessing the quality of a Château's vintage. Each illustration deals with the fundamental debate: do we rely on observational expertise or quantitative data?

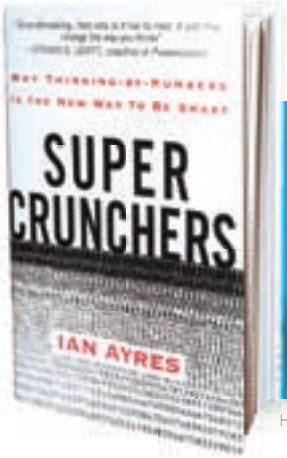
To start, Ayres explains how “Super Crunching” is used. Super Crunching, or “the statistical analysis that impacts real-world decisions,” affects everything from policymakers’ implementation of certain legislation to online book purchasing decisions. The analysis that informs these decisions requires large randomized samples and competing hypotheses to validate or reject.

Rather than boring the reader with econometric proofs of unbiased estimators, Ayres illustrates the power of Super Crunching by offering examples of the power of statistics. One in particular involved Credit Indemnity, a micro-lender in South Africa. While the company hypothesized that offering lower interest rates would attract the most customers, they tested additional factors as well. Using randomized trials to determine the most effective means of attracting profitable customers, their results indicated that subliminal factors could induce customers to accept lower interest rates.

In 2004, the company performed its own Super Crunching and sent over 50,000 mail solicitations, with offers varying from 3.25% to 11.75%. In addition to varying the interest rates offered to customers, Credit Indemnity concurrently randomized other factors, such as adding a photo of a smiling woman in the corner of the letter; or calling recipients to ask them various questions. Surprisingly, the small image increased the male response rate to the equivalent of a 4.5% drop in the interest rate, and the customer service call was equivalent to an even larger rate drop.

While readers might not plan on applying to a South African micro-lender anytime soon, Ayres provides other fascinating and perhaps more relevant examples of applications of Super Crunching. For example, Ayres discusses how algorithms are used in flight booking: when a flight is cancelled, airlines immediately consult an algorithm to determine which customers’ continued patronage is most at risk. Using the algorithm results, the airline may award these priority customers the next available seats before first class customers, early ticket purchasers, and frequent flyers.

In the latter half of the book, Ayres shifts gears and discusses the ways in which Super Crunching has been used in evidence-based medicine (EBM), and how physicians have adjusted. Without a doubt, the Internet has provided doctors with the ability to easily retrieve information and expert opinions on diseases and treatments. However, EBM informs doctors of the quality of evidence in these opinions and whether multiple randomized trials have produced the same results. If multiple randomized trials have corroborated the results, the opinion receives a high score. If a study receives a low score, doctors know the recommended treatments are based only on expert judgment. EBM informs doctors not only of recommendations but also the degree to



**SUPER CRUNCHERS:**  
WHY THINKING-BY-NUMBERS  
IS THE NEW WAY TO BE SMART  
(HARDCOVER)

**AUTHOR** IAN AYRES  
**PUBLISHER** BANTAM BOOKS  
**PAGES** 272PP  
**RETAIL** \$25 (AMAZON.COM)

HAN XU/STAFF PHOTOGRAPHER

which the treatments have actually worked over large samples, and doctors have grown to favor opinions corroborated with data.

Interestingly, some physicians have resisted EBM; according to Ayres, this resistance stems from the basic fact that change is rarely accepted easily. As Super Crunching transforms industries to favor equations over experts, traditional experts of all kinds fear being replaced by computers.

Much like Thomas Friedman’s *The World Is Flat*, Ian Ayres’ *Super Crunchers* informs readers of a changing landscape that continues to recognize creativity as the competitive advantage of the developed world. Friedman looks to globalization as a phenomenon that forces the United States to create and innovate in order to maintain its competitive edge. Ayres, on the other hand, emphasizes the power of statistical analysis in a rapidly evolving economy, assuring us that algorithms do not actually replace the creativity we so highly value. Super Crunching does not substitute human creativity for mathematical computation, but it does force humans to focus on creativity and let math enter the equation. **ye**

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# THIS YEAR'S BEST

OF THE HUNDREDS OF INNOVATIVE PRODUCTS INTRODUCED IN 2007, HERE'S A FEW OF OUR FAVORITES.

COMPILED BY GARY DYAL, MY KHANH NGO AND JONATHAN THOMPSON

## BEST NEW DEBIT CARD: Your driver's license

**WHAT?** A new start-up called National Payment Card (NPC) allows car owners to pay for gas with their driver's licenses and save money while they're at it.

**WHY?** Why not? No more plastic is added to your wallet and you can save money at the pumps while you're at it. Larger interchange fees due to the rising price of gas have recently hurt gas stations. While a \$36 credit card purchase could cost a gas station 86 cents or more, the NPC charges a flat 15 cents fee for each transaction. Thus retailers using the NPC system are happy to pass along a discount, such as the 3 cents per gallon cash rollback when you use it at a participating gas station.

**WHERE?** By entering your driver's license number and bank account information online with NPC, you are given a personal identification number and can use your card in up to 26 states and over 74,000 gas stations.

**HOW MUCH?** Nothing – just the time it takes to sign up!

[www.nationalpaymentcard.com](http://www.nationalpaymentcard.com)



## BEST ALTERNATIVE TO MICROSOFT: Google Apps

**WHAT?** Google Apps is a new package offered by Google that wraps together Gmail, Google Docs and Spreadsheets, Google Calendar, Google Talk, and a number of other services.

**WHY?** Google boasts that their new applications coordinate easily with many of the services that people already use, such as Gmail, Google Talk, and Google Calendar. It does not require downloading either hardware or software and the applications let users share files and collaborate in real time.

**HOW MUCH?** The basic version of Google Apps is completely free. The premier edition sells for \$50 a year and includes 10GB of storage (versus 2GB in the free version), a basic website designer, access from mobile devices, and 24/7 tech support.

## BEST FACEBOOK APP: iLike Music Application

**WHAT?** The iLike application is the most popular music service on Facebook. Users can add music and music videos to their profiles from artists that they like, dedicate songs to friends, and look up when and where concerts will be held.

**WHY?** Once users enter their preferences, iLike offers free mp3s that match their music taste. iLike users can buy songs directly from iTunes, check out other users' iLike preferences, and listen to any of the songs that they have recently added. iLike provides concert details and a map, and shows concerts other people are attending. It also allows artists to create their own pages where they can upload information about upcoming concerts and new music.

**HOW?** Add the application, choose the artists or songs you like, and you're set!



## BEST NEW ELECTRONIC: LG Blue-Ray Disc/HD DVD

**WHAT?** The LG BH 100, released in February of 2007, boasts the impressive ability to play movies in both the Blue-Ray disc and HD-DVD format.

**WHY?** In 2005, the developers of Blue-Ray discs and HD DVDs failed to reach an agreement that would have unified the two formats. The LG BH 100 ends all uncertainty about which format to select by allowing movie-watchers to purchase and play discs in the format of their choice.

**WHERE?** The LG BH 100 was made available at most electronic stores starting in February 2007.

**HOW MUCH?** The player comes with a hefty price tag ranging from \$699.99 to \$999.99.



**LG BH 100** Now you don't have to make a choice between Blue-Ray and HD DVD formats. The LG BH 100 reads both. This freedom doesn't come cheap though. The player starts at \$699.99.

[www.lge.com](http://www.lge.com)

## BEST NEW FOOD CRAZE: Kashi Company

**WHAT?** In 1984, the company patented its claim to fame - the "Kashi", an original mix of seven whole grains and sesame with no artificial ingredients. Since then, the company has been steadily expanding. Kashi now offers over 50 products including cold and hot cereals, granola bars, cookies, and even frozen pizza entrées.

**WHY?** The Kashi Company's mission is "to provide great tasting, all natural, and innovative foods," and that it does. Kashi's Organic Promise cereal line was one of the first items to be approved with the "USDA Organic" symbol indicating that it is at least 95% organic. Best of all? Bars and cereals come in a lot of flavors. If you could care less for Peanut Butter & Chocolate GOLEAN Chewy bars, try Chocolate Almond Toffee, Cookies N' Cream, Malted Chocolate Crisp or Oatmeal Raisin Cookie.

**WHERE?** Retail places like the Law School cafeteria and SOM Donaldsons Commons stock up Kashi granola bars and small packages of the oatmeal. Gourmet Heaven also offers Kashi products.

**HOW MUCH?** Cereal (\$2.99-\$3.39), Granola bars (\$3.49), Frozen entrées (\$4.19)

[www.kashi.com](http://www.kashi.com)





# YES WORLD

ENTREPRENEUR, TRANSLATED FROM ITS FRENCH ROOTS, MEANS “ONE WHO UNDERTAKES.” AS ENTREPRENEURS, WE ALL SHARE A SPIRIT OF CREATIVITY, RISK-TAKING, AND PERHAPS MOST OF ALL – INDEPENDENCE. WE LOOK AT PROBLEMS IN THE WORLD TODAY AND SEEK TO UNDERTAKE OUR OWN, BETTER SOLUTION.

Marty Rod, President, Yale Entrepreneurial Society

## 2007-08 EVENTS

### Y50K

The Y50K, Yale's annual business plan competition, provides a year-long program of educational, networking, and mentorship opportunities for aspiring entrepreneurs, with the primary objective of new venture creation—getting great ideas out of the lab or dorm room and into the real world. Teams write business plans and compete for \$50,000 in cash. The competition is divided into three categories: For-Profit, Social Entrepreneurship, and Life Sciences. The Y50K kickoff event will be on Thursday, January 24, in LC 101. **For more information, please contact Joe Walker (joseph.walker@yale.edu).**

### COMMUNITY OUTREACH

The Community Outreach department has launched two initiatives this year to bring the entrepreneurial resources and spirit of YES to the New Haven community. The YES New Haven High School Initiative aims to create the environment and opportunity for a talented group of students to foster their potential as entrepreneurs and establish connections with local business leaders through this after-school program. We will work with them to develop their entrepreneurial skills and write their own business plans. The YES Small Business Consulting Program aims to help local business grow and prosper. Combining our insight into the student market with our vested interest in the community, we are seeking to find innovative ways in which local businesses can better market to and meet the needs of college students. **For more information, please contact Alina Yang (alina.yang@yale.edu).**

### YES New Haven

Held Nov. 15th at the AT&T building at 310 Orange. Our keynote speaker, Rex Adams, President and CEO of AT&T East, spoke about entrepreneurship in big business and incorporate video interview seg-

ments with YES board members. After Rex Adams we hosted “Venture Capital on Campus,” a panel of 5 students who are seriously pursuing new business ventures and funding for their ideas. The evening ended with small refreshments and an opportunity for the audience members to network amongst themselves and with the speakers.

### YES New York

To be held on Dec. 11, this year's topic will be “Entrepreneurship in Media and Entertainment.” We are very pleased to present an elite board of panelists who include new media venture capitalists, online marketing experts, record label directors, and a couple more speakers we are currently finalizing. The panel will be followed by a networking session focused on the bleeding edge of entertainment.

### YES Boston

To be held on Feb. 7, this year's topic will be “GreenTech -- Socially Responsible Entrepreneurship.” YES Boston will be a day-long event which will include a visit with a private venture capital firm, an exclusive opportunity to visit one of the companies in their portfolio, and a panel discussion followed by a networking session. YES Boston will be an exciting chance to take a close look at the decision process of a venture firm and who they think is the next big hit.

### YES Silicon Valley

To be held in early April, we want to duplicate the success of last year's YES Omaha. Stay tuned for new developments. **For more information, please contact Henry Finkelstein (henry.finkelstein@yale.edu).**

### INNOVATION

The Department of Innovation in the Yale Entrepreneurial Society is the creative backbone of YES. The Department of Innovation seeks to foster

entrepreneurship on the most basic level, to mold the entrepreneurs of tomorrow and connect the entrepreneurs of today. With a core team of YES staff members, the Department of Innovation will be working on a number of core projects this year to expand the Society's influence, brand, and innovative capacities. Our most prominent venture is YES World, a new initiative to connect Yale alumni entrepreneurs through self-sustaining regional affinity groups around the globe, giving Yale alumni the unprecedented opportunity to interact on local levels. **For more information on the YES World initiative, please contact yesworld@yale.edu.**

**If you haven't already, make sure to register and become a part of the yes network at [www.YesatYale.org/yesnet](http://www.YesatYale.org/yesnet).**

FEATURES  
IDEAS INTO MOTION

# CLAIMING VIRGIN TERRITORY

BY THOMAS POWERS >>> ENTREPRENEUR RICHARD BRANSON JOINED THE INFAMOUS "MILE-HIGH CLUB" WHEN HE WAS NINETEEN. THIRTY-THREE YEARS LATER, THE ECCENTRIC BILLIONAIRE IS ATTEMPTING TO FIND A NEW KIND OF EXCITEMENT IN OUTER SPACE. IN 2008, BRANSON'S VIRGIN GALACTIC, ONE OF OVER 360 COMPANIES IN THE VIRGIN EMPIRE, WILL BEGIN LAUNCHING CUSTOMERS IN GROUPS OF SIX INTO SPACE. AND WHILE BRANSON'S ENTERPRISE WILL PROVIDE PASSENGERS WITH ONLY SIX MINUTES OF WEIGHTLESSNESS, OTHER COMPANIES HAVE ALREADY LAUNCHED PROTOTYPES OF PRIVATE SPACE HOTELS AND HAVE BEGUN PLANNING TOURIST TRIPS AROUND THE MOON BY 2010. >>>



Ever since Sputnik was first launched, governments have long dominated travel beyond the Kármán line, the internationally accepted boundary of space. Today, however, private entrepreneurs are finally entering the game. In doing so, they are subjected to common trials of entrepreneurship: developing revolutionary ideas, acquiring funding, partnering (or franchising), and overcoming regulatory hurdles. The space industry is dealing with these challenges in an innovative way. Private space operators are building close-knit teams of aerospace engineers to conjure up original spacecraft designs, and funding has flowed from prizes, mega-rich space tourists, and tech-boom billionaire investors. In addition to all this, space entrepreneurs must still battle with the government in the form of the Federal Aviation Administration (FAA).

#### GREAT IDEAS, GREAT PRODUCTS

If you were to pick one breakout entrepreneur from the private spaceflight industry, it might have to be Burt Rutan. While Branson has given space tourism his brand, money, and charisma, Rutan has personally designed spacecraft for his company, Scaled Composites. He has also worked on a number of record-breaking ventures, such as his 1986 "Rutan Voyager." Flown by Rutan's brother and his brother's girlfriend, the Voyager was designed to be the first plane to fly around the world nonstop. Indeed, it circumnavigated the globe without refueling or stopping from December 14 to December 23, 1986.

Entrepreneurship, especially in the space industry, would be far more limited without innovators like Rutan. In his own words, Rutan achieves his success through a radical design philosophy: fun, a word that Rutan calls "the 'F' word at most other firms." By encouraging a risk-taking, entrepreneurial culture within a very small firm of only fifteen engineers, Rutan has been able to develop radical new technologies for private spaceflight. One of these, for example, is the "feather landing," a maneuver in which the wings of his spacecraft change orientation during flight in order to create a smoother atmospheric re-entry.

Rutan holds a deep-seated belief that "a true creative researcher has to have confidence in nonsense." In his view, the biggest breakthroughs in history have been regarded as impossible—impossible until non-conforming innovators achieve them. He looks for this trait in his engineers, and he couples it with a strong desire for personal responsibility. According to Rutan, "nobody looks over your shoulder" at Scaled Composites. This means that Rutan's employees can expect to be rewarded for their successful drives against consensus—an attitude that encourages them to take the risks necessary to beat the much bigger and established competition within the military-industrial complex. As Rutan puts it, "We proved [designing a spaceship] can be done by a small company operating with limited resources and a few dozen dedicated employees." Innovators and idea makers like Rutan, driven by a love of risk and accomplishment, form the basis of most entrepreneurial activity, particularly in the sciences.

#### LAUNCH MONEY

The second stage in the innovation process is financing. Generally, even the most brilliant ideas cannot materialize without funding. One significant aspect of the development of private spaceflight is the extent to which prizes and few-strings-attached funding from

tech-oriented millionaires and billionaires have encouraged entrepreneurship.

Like many other developments in the history of exploration, such as the invention of the chronometer in 1737 and Charles Lindbergh's flight across the Atlantic in 1927, the recent space rush was incited by a prize—in this case, the X PRIZE. Proposed by Dr. Peter Diamandis in 1996, the Ansari X PRIZE was awarded to the first non-governmental team to launch a manned spacecraft into space twice within a two-week period. After a multi-million dollar donation in May 2004 by Iranian-American entrepreneurs Anousheh Ansari and Amir Ansari, the prize fund reached \$10,000,000.

Twenty-six teams participated in the prize competition, many backed by private, wealthy technology enthusiasts. In short order, three teams emerged as front-runners: Canadian Arrow, run by Ontario entrepreneurs Geoff Sheerin, Dan McKibbin, and Chris Corke; Rutan's Scaled Composites, funded by Microsoft co-founder Paul Allen; and Armadillo Aerospace, run by John Carmack, developer of the first-person shooter games Quake and Doom.

For the X PRIZE, Burt Rutan developed "SpaceShipOne," a spacecraft to be launched from a companion plane, which he called "White Knight." Scaled Composites began testing out of a spaceport in the Mojave Desert in 2004 and flew SpaceShipOne into space for the first time that June. By October, it had flown twice within two weeks, winning the X PRIZE outright.

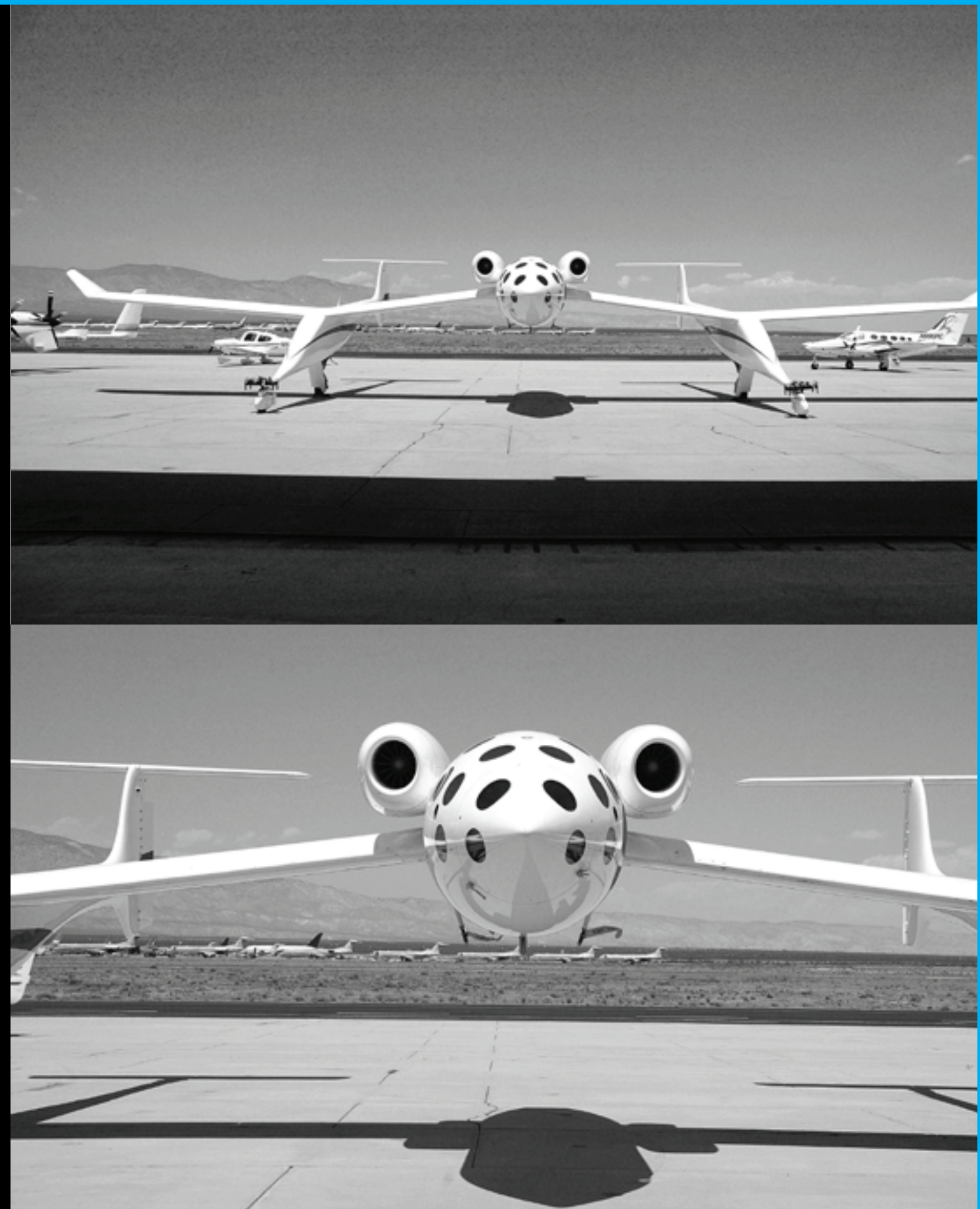
While entrepreneurship has traditionally relied on a particular funding sequence, private spaceflight has walked its own path. Instead of relying on "angel" investors and venture capital funding, spaceflight is funded mainly by super-rich, tech-oriented businesspeople and prospective tourists. Aside from funding the X PRIZE, Anousheh Ansari put up several million dollars for a flight with Space Adventures (see sidebar) to the International Space Station.

#### PARTNERING WITH BRANSON

Many innovative enterprises soon find themselves bought out by another company. In fact, many venture capitalists consider this a valid and viable business plan: the sellout. When an entrepreneur wants to avoid selling out, however, he can enter into a partnership or perhaps franchise out his operation to extend it. Rutan's Scaled Composites happens to have done both.

Since the time Rutan won the X PRIZE, avid explorer and tycoon Richard Branson has entered the picture. In spite of his dyslexia, Branson, a self-made billionaire, launched his first successful business at sixteen and had already started a charity by seventeen. He then made his big break in the record business selling "cut-out" LPs—essentially discount bin records.

**Knight in White Armor**  
Virgin Galactic's White Knight II has a twin boom with two jet engines per hull. At liftoff, the White Knight is coupled with SpaceShipTwo.







COURTESY OF VIRGIN GALACTIC

WHO ELSE IS IN SPACE?

Many companies besides Virgin Galactic are developing spacecraft. Let's look at some of the most prominent companies in the race to make their mark in space tourism:

BIGELOW AEROSPACE

Founded by Robert Bigelow, who made his fortune in hotels, Bigelow Aerospace develops inflatable space stations. Successors to NASA's cancelled Transhab project, Bigelow's Genesis I, Genesis II, Galaxy, Sundancer, and BA 330 may vastly decrease the cost of extended stays in space. So far, Bigelow has only launched the unmanned Genesis I and II missions. Genesis II carries a payload of scientific experiments, hissing cockroaches, scorpions, and seed-harvester ants.

SPACE ADVENTURES

Space Adventures is well-known for sending private citizens to the International Space Station. Among these "researchers" were Anousheh Ansari, major donor to the X PRIZE; Mark Shuttleworth, Ubuntu Linux's "dictator for life;" and Dennis Tito, arguably the founder of Wilshire Associates, a well-known investment management firm. In 2005, Space Adventures announced an initiative called "Deep Space Expedition-Alpha," which will send tourists around the moon in a Russian Soyuz spacecraft. Tickets are expected to cost at least \$100 million and to be available before 2010.

Flying high

SpaceShipOne and SpaceShipTwo's flight profile.

Knighted in 1999 for "services to entrepreneurship," Branson also gained a number of world records and "firsts" of his own before getting involved in spaceflight. In 1986, he broke the record for fastest solo crossing of the Atlantic Ocean. The next year, he became the first to cross the Atlantic in a hot air balloon; in 1991, he crossed the Pacific in a balloon, breaking speed records in the process. In 2004, he broke yet another record for fastest crossing of the English Channel.

Branson's interest in the transportation industry and penchant for record-breaking do a lot to explain why he founded Virgin Galactic, his company dedicated to private spaceflight. Interestingly, both Branson and Rutan were record-breakers before entering the spaceflight industry. Perhaps this is more than a coincidence—risk-takers can be more likely to succeed in entrepreneurship, and an interest in exploration and travel can quite literally open one's mind to new horizons.

DEALING WITH THE GOVERNMENT

Entrepreneurs in the pharmaceutical industry are no strangers to government regulation, which usually drives the cost of developing a blockbuster drug above \$1 billion. However, one might be surprised to learn that there is regulation of spaceflight, since no one lives in space (i.e., it's not clear who has jurisdiction over the moon). Any accident that occurs would appear to affect only the pilots and employees of risk-taking firms. The U.S. government, however, is finding it very easy to adapt its airline regulatory apparatus to spaceflight regulation, an expansion of a mandate that it sees as salutary.

Burt Rutan does not see it this way. While the airline industry was supposedly "deregulated" in the 1980s, the FAA continues to exert extensive regulatory control over who is allowed to fly, when and where they are allowed to fly, and how safe their crafts

must be to fly. But Rutan argues that current regulations in place fail to answer any of these questions responsibly or in a timely fashion. In an interview with Space.com, Rutan said:

"[Regulation] resulted in cost-overruns. It increased the risk for my test pilots. It did not reduce the risk to the non-involved public. It destroyed our safety policy of always question the product, never defend it... [the regulatory process] was grossly misapplied for our research tests. And worse yet, is likely to be misapplied for the regulation of future commercial spaceliners."

It is understandable that a risk-taker like Rutan would be opposed to excessive regulation, which unquestionably raises costs. But perhaps some regulation is necessary. Earlier this year, an accident at Rutan's Mojave spaceport killed three of his employees. One might argue that Rutan's employees should be allowed to expose themselves to danger so long as they accept the consequences, but perhaps regulation could have saved lives. A cost-benefit analysis of space regulation is needed if America is to form a consistent policy on policing space.

WHAT'S NEXT?

So far, we have outlined a number of developments that will allow humans to enter space en masse within the next decade. But who exactly will reap the benefits of this major breakthrough? Given the large price tag of any spaceflight, perhaps all of Branson's and Rutan's work serve only the super-rich. After all, their partnership is charging \$200,000 per person for the first series of flights into outer space (a price "low" enough that the run has been oversubscribed).

While it looks like only the rich will be able to enjoy the fruits of spaceflight for the next few years, it is certainly arguable that the "trickle-down" effect will soon allow regular consumers to take an once-in-a-lifetime trip into space. Branson already has plans to dramatically cut costs to about \$30,000.

Henry Ford brought cars to the masses. Perhaps Branson, through his business savvy, will make space travel a plausible activity for the average human being. Or perhaps Rutan, through his innovative designs, will be the primary cost cutter. In any case, the world has much to look forward to from this current crop of entrepreneurs, whose ambitions have been nothing short of sky-high. **ye**

BLUE ORIGIN

Jeff Bezos, founder and president of Amazon.com, founded Blue Origin in 2000. The company has released few details about its plans, though they are said to include a spacecraft called the "New Shepherd," which will be able to transport three people to the boundary of space. Science fiction author Neal Stephenson is a known advisor.

ROCKETPLANE KISTLER

Rocketplane Kistler may offer Virgin Galactic its most direct competition, as it plans to offer flights by 2010 that will include four minutes of weightlessness for a price of \$200,000.

EADS ASTRIUM

Executives at EADS Astrium, the company that designed the acclaimed Eurofighter Typhoon—Europe's next-generation super-cruising fighter plane—have announced that they will invest over \$1 billion in developing a spaceplane much like Scaled Composite's and Rocketplane Kistler's. Burt Rutan has expressed skepticism, saying that the enormous cost to essentially replicate what he has already done is unnecessary and unjustifiable.



## IS THAT MY PERFUME YOU'RE WEARING?

JANET XU LOOKS INTO CELEBRITY ENTREPRENEURSHIP

It used to be that a celebrity's only business experience was signing a movie contract or endorsing a line of makeup. In today's entertainment industry, however, many celebrities are becoming influential entrepreneurs whose rapidly growing business interests often transcend the celebrity's personal reach. Like more ordinary entrepreneurs working in a dorm room or at an office, celebrity entrepreneurs start businesses to solve problems. They depart from the rest of us, however, when it comes to the amount of capital to which they have access and how they use the profits.

Celebrities often react to shortcomings they find on the set or on the field. For example, Iman, one of the world's first supermodels, found that makeup artists rarely brought makeup that matched her skin tone. Years later, she built upon this experience and started her own makeup company, Iman Cosmetics, Skincare and Fragrance, which sells products specifically formulated for women of color.

As stars build their own businesses, they take advantage of their wealth and visibility to promote their brands and expand their consumer base. Celebrities often have capital and resources that the common entrepreneur lacks, and if their own funds don't cover the start-up costs, their status can grant them access to additional financial support. Stars have also been quick to realize the entrepreneurial advantages of remaining constantly in the public eye — rapper Sean “P. Diddy” Combs, for example, made use of his own name to launch the Sean John clothing line, as did actress Jennifer Lopez and singer Gwen Stefani. If anything, just being photographed wearing their own designs is a surefire and inexpensive way for superstar entrepreneurs to publicize their apparel lines.

The instant recognition that comes from celebrity names has paid off handsomely for those with business acumen. Jennifer Lopez, for example, hasn't made many memorable movies since 2003's infamous *Gigli*, but she still manages quite well with an annual income of \$350 million from her clothing and perfume lines. She even went on to launch her own line of limited-edition wood-grain flash drives. Similarly, Jay-Z presides over the \$200 million apparel label Rocawear, and fellow hip-hop superstar 50 Cent

recently received \$100 million for his stake in Vitamin Water after it was sold to Coca-Cola.

Not only do celebrities have innovative ideas and novel products, but their positions can also grant them a unique perspective on the market. A recent article in *Inc.* magazine pointed out an analogy between Magic Johnson's skill on the basketball court and his success as an entrepreneur: Johnson was a great point guard because he had a broad vision of the court and saw opportunities that others didn't; likewise, he also saw business prospects in places that other people neglected, such as Harlem and South Central Los Angeles. With his business savvy and charisma honed as an experience celebrity entrepreneur, Johnson has built up a \$700 million portfolio based on urban real estate and development. In addition to making him money, these business pursuits have helped the world realize that America's urban centers are also worthy of investment.

Since celebrity entrepreneurs usually start businesses after they've already made a fortune, they tend to be more inclined to use the millions of dollars their brands produce for benevolent purposes. One of the most notable examples of charitable celebrity entrepreneurs is Paul Newman. As a co-owner of Newman's Own, a food and beverage company that started off selling salad dressing, Newman has been known to break every rule in the book — especially with what he does with his profits. All of the company's earnings are donated by Newman and his partner to charities they support. To date, Newman's Own has donated over \$200 million to charities in the United States and abroad.

Today, celebrity entrepreneurship is something that most of us take for granted. From Paris Hilton hawking perfumes to Moby opening tea shops, celebrities have not only infiltrated our television screens and desktops, but also the products we use, the services we buy, and the places in which we live. Yet celebrities, just like everyday entrepreneurs, must also live with failure. After all, Frank Sinatra has made slews of profitable movies, but could not find a market for his own brand of neckties. Needless to say, there are some things that even fame cannot sell. **ye**



COURTESY OF ACUMEN FUND

# VENTURING INTO NEW WORLDS

ACUMEN FUND AND NEW APPROACHES TO FOREIGN AID **BY EVAN LEITNER**

*“What Africa needs most today is more ‘patient’ capital to spur its would-be capitalists. Patient capital has all the discipline of venture capital – demanding a return, and therefore rigor in how it is deployed – but expecting a return that is more in the 5 to 10 percent range, rather than the 35 percent that venture capitalists look for, and with a longer payback period.” - Thomas Friedman, New York Times, April 20, 2007*

The rise of the global information network and subsequent economic boom has ensured that the West can no longer claim ignorance (or even a lack of funding) as justification for collective inaction towards developing nations. Charitable giving in the U.S. has jumped 23% in the past four years and the EU has recently promised an extra \$25 billion in foreign aid by 2010. These two trends are arguably the direct effect of an explosion of information flowing from the periphery to the center; the Internet has flung the developing world's problems in the faces of wealthy nations. The advent of technology has also changed the face of poverty itself. A global economy demands skilled workers, thereby further increasing the gap between developed and developing countries. The most pressing question now is how to best utilize funds to address these increasingly prevalent international poverty.

While both the public and private development communities are rife with proposals and strategies, Acumen Fund, a non-profit global venture fund, has proven most effective at providing the “patient capital” that developing countries need.

### From the Top Down

One approach to development, spearheaded by economist Jeffrey Sachs and pop-philanthropist Bono, holds that top-down planning is the best way to attack the problem. In particular, Bono's ONE campaign is centered on earmarking one percent of US GDP for foreign aid, an ambitious goal considering that our current contribution is less than a tenth of one percent. But simply giving handouts to foreign leaders leaves them essentially unaccountable for their actions, and history has proven that to be very problematic. Early critics rightfully decried giving aid to Congolese President Mobutu, whose houses on the Riviera and fleet of Mercedes-Benzes caused public skepticism. Experts have cited countless other examples of African leaders bleeding their country into Swiss bank accounts. However, most African nations, the Congo included, do not have the resources to support their leaders' lavish lifestyles. Instead, the American taxpayer ultimately supported these politicians' opulence.

In 2000, a report by Burnside and Dollar analyzed this conundrum, concluding, “...aid has a positive impact on growth in developing countries with good fiscal, monetary, and trade policies but has little effect in the presence of poor policies.” Swept up in a storm of media attention, the Burnside and Dollar report became the catalyst behind the next half-decade of aid policy. The novelty of the report was enthusiastically extolled by the Financial Times, the President of the World Bank and President Bush. In response to Burnside and Dollar, Bush announced a \$5 billion increase in foreign aid as well as the creation of the Millennium Challenge Corporation (MCC), which would administer the increased funds based on 16 indicators of country performance. The White House's website stated that new aid policies were motivated by the idea that “economic development assistance can be successful only if it is linked to sound policies in developing countries.”

Two years later, a report published by the Center for Global Development, an independent think-tank, checked the facts that had driven such a revolution in the development community. Authors Easterly, Levine and Roodman, conducted the same studies as Burnside and Dollar; however, they utilized primary instead of secondary sources and included newly available information. Ultimately, their report found little support for the hypothesis that “aid works in a good policy environment.” Despite its far reaching implications, their report went widely ignored in influential circles. American aid continues to employ the MCC in determining aid candidates.

### From the Bottom Up

While some aspects of a functional society, such as the rule of law, undoubtedly must come from the top down, grassroots market development-based strategies should be the future of American aid policy. One cause of the problems associated with American aid is our insistence in holding on to lofty expectations. The West can't expect the injection of our relatively modest sums to launch the take-off into self-sustained growth as is often postulated. To quote Easterly, our goal instead must be “simply to benefit some

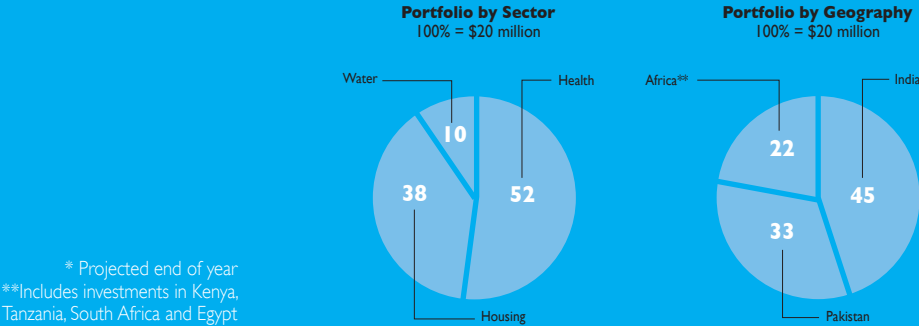
poor people some of the time.” Acumen Fund is one of the few robust groups desperately trying to fill the holes in current foreign aid policy. Spearheaded by pragmatic visionary Jacqueline Novogratz, Acumen is self-described as “a non-profit venture fund that uses entrepreneurial approaches to solving the problems of global poverty.” Ensnared in the Google building on the Lower West side of Manhattan, their US headquarters feel like a strange world nestled somewhere between high-powered corporate finance and bygone societies for British explorers. Having already raised \$35 million and with eyes on reaching \$100 million by 2011, Acumen Fund is a venture capitalist fund for the 4 billion people living in extreme poverty. Although it does invest in lucrative opportunities, Acumen does not measure its returns solely in financial terms. Investments have indirectly produced 7 million bed-nets and 2,000 jobs in Tanzania,

provided 3.5 million poor Indians with access to global opportunities and secured stable housing for thousands of Pakistani urban squatters. . C.K. Prahalad's bottom of the pyramid theory discusses the “great untapped market potential among the 4 billion people who make less than \$2 a day,” accounting for

monetary yield linked to social advancement. Having developed business models that measure both social and monetary benefits as returns, Acumen Fund symbolizes a new wave in global philanthropy. Unsurprisingly, Acumen is constantly inundated with investment opportunities from around the world, but its project selection focuses on entrepreneurs in East Africa and South Asia concerned with the water, health, housing and energy industries. All projects must have the drive to change lives through a business model, ensuring self-sustainability, and concentrate their efforts on serving Acumen's market of those living on less than \$4 a day. Acumen is successfully dealing with poverty in the only natural, logical way – by helping to develop markets with feedback mechanisms that respond to the needs of community members. Novogratz often talks about why top-down planners will always fail and why Acumen is successfully changing the world: “No organiza-

**Simply giving handouts to foreign leaders leaves them essentially unaccountable for their actions.”**

### ACUMEN FUND'S 2006 PORTFOLIO\*







COURTESY OF ACUMEN FUND

tion or institution can talk to as many people as needed to know what kinds of solutions might work. This is why markets are so powerful. But by affixing price to the delivery of critical services like housing, finance, water and health, they allow a person and a community to tell us so much about what they want, need and can pay for. Markets reveal information.”

Acumen is also able to develop markets efficiently because of its philanthropic definition of success. The Fund fills a capital need where others aren't interested and builds up the investment to a level that draws attention from private equity firms. Their success is proven by the injection of commercial capital in a number of their ventures.

Unlike traditional philanthropic enterprises, Acumen's goal is not to provide food, water, sanitation and healthcare, but instead give the developing world the ability to demand these things for themselves by granting them a voice in the global economy. The Fund completes similar objectives as conventional philanthropy, but in a manner that preserves dignity by eliminating dependency. Also, by catalyzing the beginning of markets, Acumen builds an essential foundation of early stage economic development – employment.

There is an overwhelming amount of support for budding entrepreneurs in developing markets, but entrepreneurship is a huge responsibility that requires great risk-taking, often leaving the less enterprising behind. For many people, a steady salary from a factory job is far more attractive than venturing into the unknown, a phenomenon evidenced by the American labor force, of which only 7% are self-employed. Acumen's investments create employ-

**SECOND CHANCES** A Pakistani woman takes a break with her child in one of the homes that Acumen Fund helped her purchase.

ment opportunities that appeal to the majority of the population more so than any entrepreneurial financial assistance.

Lastly, part of Acumen's achievements can be traced to its foundation in sound investments and careful due diligence. The investment group boasts resumes riddled with MBAs and stints at Goldman Sachs, McKinsey and Credit Suisse. They leverage their investments enormously, resulting in impacts four to forty times their invested capital. For example, a \$1.25 million investment in a low-income housing project in Pakistan created \$50 million worth of services for the poor.

In *The End of Poverty*, Jeffery Sachs states that the eradication of extreme poverty is possible by the end of our lifetime. He is absolutely right, but only if the current map to getting there is redrawn. The first step is realizing that global poverty will not be solved by a single prescriptive “plan.” Instead, we must encourage the development of feedback responsive markets allowing the populations of the developing world to pull themselves out of destitution. By learning from initiatives like the Acumen Fund, the development community has the ability to combine ingenuity and economic foresight to universally extend the benefits of the global economy. **ye**

## COPYCAT COUTURE

THINK THAT THE STREET VENDORS IN CHINATOWN ARE LOUIS VUITTON'S BIGGEST PROBLEMS? THINK AGAIN - THE ANSWER MIGHT BE CLOSER THAN YOU THINK **BY MY KHANH NGO**

Think imitation is the highest form of flattery? Gwen Stefani doesn't. Neither does Diana von Furstenberg, nor 18 other designers who have sued Forever 21, a retail store that offers inexpensive, trendy apparel, for allegedly copying their designs. These suits, however, are sensational cases that barely scratch the surface of the story of intellectual property—or lack thereof—within the fashion industry.

Among apparel knockoffs, there are three “levels” of counterfeit—the “direct copy,” “overrun,” and “self copy.” In most of these levels, the cheaper alternatives may actually benefit both consumers and designers.

Surprisingly to many, the least economically harmful knockoffs come from fashion pyramid's bottom rung: direct copies that use the same trademarks and designs from another company. Since the vendors do not hide the fact that the products are outright knockoffs, the original manufacturer is not foregoing significant revenues. Chances are, the consumers who purchase these copies would not buy the originals.

The second level of counterfeit consists of overruns, or copies made from leftover material. These products usually have a small defect or were discarded by the company; they typically end up in outlet centers such as Marshall's or Clinton Crossing Premium Outlets. Slightly above this level are “self copies”, which result when fashion houses turn out products at different levels of the fashion pyramid. Some of these lines are sold directly from the company, such as Dolce & Gabbana and their more affordable D&G brand, while others, like Karl Lagerfeld for H&M or Simply Vera, are distributed through other outlets.

So where does Forever 21 fit into this set of levels? The chain store, which provides trendy clothing for young women at a fraction of designer prices, has become a magnet for lawsuits and the best example of the “condoned copy,” which doesn't really belong to any of the above categories. Here, designers use the same or similar patterns and designs of others, but sell their products under a different trademark. For example, Seema Anand is an extremely successful New York fashion designer who transforms other designers' catwalk looks from runway shows into less expensive versions for stores like Forever 21, Macy's, and Bloomingdale's. According to a recent New York Times article, a gold sequined dress by high-end designer Tory Burch would cost \$750; Anand's version for Bloomingdale's cost \$260.

The “condoned copy” concerns major designers because there is no protection against this type of counterfeit. To make matter worse, designers fear that many of these products are taking away from their consumer base. This is where the lawsuits come in.

But what kind of threat does condoned copies pose? On one hand, some argue they are the driving force behind fashion—the competition that pushes designers to create new looks every season. Others argue that the threat is legitimate. Before the popularity of Internet shopping, the lag time before knockoffs hit the market gave original designers a chance to reap their profits while they could. New technologies now allow these copycat companies to instantaneously send their designs to cheap manufacturing places like China and even launch products before the originals hit the stores.



HAN XU/STAFF PHOTOGRAPHER

**INSPIRED OR COPIED?** Lookalike fashions emulate new trends each season, calling into question which designs are truly creative and original.

This new Internet-driven environment creates a dilemma for small designers who cannot handle such hits to their profits. It has become increasingly difficult for these designers to compete with larger companies that enjoy economies of scale or popular brands that are shielded by market appeal. A 2005 New York Times article tells the story of Lisa Zampolin, a jewelry designer who experienced this challenge first hand. Within a few months after actress Jeri Ryan was spotted with one of her creations, Zampolin learned that a local accessories distributor was selling nearly the same necklace for much less. Her monthly revenue dropped from \$50,000 to \$10,000.

At the other levels of knockoffs, there is an obvious distinction between the original and the copy. However, with condoned copies, it is much harder to draw the line. When is something copied and when is something “inspired”? Allen B. Schwartz is a fashion designer whose A.B.S. line copies Oscar gowns for mass consumers. In the same article that described Zampolin's plight, Schwartz said, “When you are talking about fashion, lose the word original . . . All these designers are getting their inspiration from things that were done before.”

Though plausible, this philosophy glides over nuances of creativity and the sensitive situations of small designers. Whether the proposed copyright bill will pass in the House, forcing Forever 21 to discontinue its current practices, remains unclear. Considering the multi-level dimensions of counterfeit within the fashion industry, however, it is unlikely that a piece of legislation could completely overturn the well-established copycat culture. **ye**



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# DROPPING OUT, OR TAKING THEMSELVES TO NEW HEIGHTS?

BUCKING THE TREND, SOME DROPOUTS BECOME HIGHLY SUCCESSFUL PEOPLE, BUT THE REAL COMMON DENOMINATOR BETWEEN THESE "SUCCESSFUL DROPOUTS" IS NOT THE ABSENCE OF A DIPLOMA, BUT INSTEAD THE PRESENCE OF TALENT, UNCOMMON INSTINCT, AND DETERMINATION **BY LYNN WANG**

Most people would consider the phrase "successful dropout" an oxymoron, Bill Gates being one of the few notable exceptions. But this phrase actually represents a group consisting of dozens of Oscar winners and best-selling authors, many Nobel Prize and Olympic medal winners, more than twenty billionaires, and even a few U.S. presidents. So is dropping out of school the key to success? Hardly. Even though these successful dropouts all left school either to pursue promising careers, avoid their suffering studies, or respond to family concerns, their successes have little to do with quitting school. Instead, their remarkable achievements reflect an innate talent, uncommon instinct, and courageous determination necessary to turn an empty diploma frame into exceptional success.

Of course, these successful celebrities, athletes, and tycoons are not your average dropouts. Many left school not because they didn't enjoy learning, but because they were ready to start working. For instance, actress and humanitarian Angelina Jolie attended New York University, but left to pursue her acting career. Bill Gates, the computer visionary and founder of Microsoft, famously dropped out of Harvard because he felt it was more important to develop his revolutionary idea than to earn his college diploma.

Now consider British businessman Richard Branson, the founder of the Virgin brand, who currently boasts a net worth of nearly \$8 billion. As a student at the Stowe School in Buckingham, he set up a charity and a magazine, but left for London at age 16 to launch the Student magazine nationally. Only a few years later, he founded the record retailer Virgin, built a recording studio, and sold 5 million copies of the first album it produced. Branson went on to turn Virgin Music into one of the top six record companies in the world. Branson eventually expanded the Virgin Group into other industries, including air travel, drinks, hotels, comics, and, most

recently, a health bank. The Group now includes more than 360 companies in 30 countries.

While many successful dropouts did genuinely enjoy school, others found it inadequate and stifling. Agriculture mogul John Simplot, who grew up on a farm in Iowa, left school after eighth grade and began working on a hog farm. He eventually started his own farm that sold potatoes to the U.S. Army. When one of his company's chemists developed the processes to produce frozen French fries, he capitalized on the circumstances by obtaining a patent. Simplot's later contracts with McDonald's made him the fast food chain's primary potato supplier and a billionaire. His accomplishments had little to do with academic knowledge. Rather, Simplot's keen vision allowed him to seize an opportunity.

However, some did not even have the choice to continue their education. Li Ka Shing, the richest man in Asia, was forced to quit school at age 15 when his father unexpectedly died. To support his family, Shing found a job in a plastics trading company where he worked 16 hours a day. Eventually, he founded Cheung Kong Industries, a plastics manufacturer, and expanded the conglomerate by acquiring other companies in industries as diverse as real estate, plastics, mobile phones, and electric power. The Cheung Kong Group is now one of Hong Kong's leading property development and investment companies, operating in 55 countries and employing 250,000 people around the world.

As impressive as these feats may be, it is important to keep in mind the overall picture of dropout performance. According to the United States Census Bureau, the estimated lifetime earnings of a professional degree-holder is \$4.4 million, compared to \$2.5 million for master's degree holders, \$1.2 million for high school graduates, and \$1.0 million for high school dropouts. Statistically, education clearly pays off. Of the more than nine percent of students who drop out of high school in the United States each year, only a small fraction become celebrities or millionaires.

The accomplishments above reflect individual circumstances and unique vision, not a general trend among dropouts. Quitting school, therefore, does not correlate to professional success—cases like those of Branson, Simplot, and Shing merely demonstrate that a formal education is not necessary to lead a thriving career, as helpful on average as it may be. The common denominator in each of these individuals is not their lack of a degree, but rather uncommon talent, instincts to seize opportunities at the right time, and perseverance to overcome ordinarily insurmountable obstacles. They had enough courage to stray off society's accepted path and pursue their dreams, and it is precisely this same courage that ultimately led them to success. **ye**



**THE CLASSROOM** Is going to school the only way to be successful?



# THINK BIG START SMALL & SCALE SMARTLY

WHAT ARE THE STEPS TO BECOMING A SUCCESSFUL ENTREPRENEUR? HERE ARE THREE STEPS, ACCORDING TO JEFF A. RUSSELL, A M.B.A. STUDENT AT THE YALE SCHOOL OF MANAGEMENT, AND HIS BROTHER, MARK L. RUSSELL. FOR THEM, SUCCESS FIRST COMES FROM THINKING BIG...

**JEFF A. RUSSELL AND MARK L. RUSSELL**



If quick money is an entrepreneur’s motivation, he or she will soon be out of the game.



**SODA KING** Soda giants like Coca-Cola and Pepsi have aggressively expanded their product lines in order to compete with newly established premium brands. Gold Peak, a Coca-Cola brand, fills in the premium tea niche in the company's product line.

Occasionally, there are entrepreneurs who just don't think big. Usually, these are "job replacement" entrepreneurs who start a business in hopes of becoming independent. To these people, entrepreneurship is simply meant to provide them with a steady source of income. The logic behind this is simple—the chances of failing at a goal are much smaller if the bar wasn't set very high to begin with.

However, according to Jeffrey Timmons, professor of entrepreneurship at Babson College, these types of start-ups usually do not end up being successful. Simply stated, these entrepreneurs do not generate the movement and energy necessary to sustain a profitable enterprise. For a start-up to be successful, it must think big—at least bigger than simply serving as a job replacement.

For many entrepreneurs, though, thinking big is not a problem at all. Taking a route separate from the six-figure income on Wall Street, these entrepreneurs look to Steve Jobs, Bill Gates and Sam Walton as role models. The climb-the-ladder career path of corporate America is simply too small and slow for these people.

But just as not thinking big can be a pitfall, so can overreaching your limits. One important issue is often an overemphasis on money. While riches and fame serve as powerful motivating forces foundational to the free market, many entrepreneurs fail to realize that these endeavors take time to generate that dream income. Frustrated by the slow cash flows earlier in the process, many big-thinking entrepreneurs forfeit the race even before they begin. Unwilling to accept a salary lower than their friends on Wall Street, many become discouraged and forego their dreams of running a successful start-up. In other words, if quick money is an entrepreneur's motivation, he or she will soon be out of the game.

A second problem arises from many big thinkers' failure to distinguish between vision and fantasy. Fantasizers have no problem envisioning leading a self-created conglomerate. They are commonly called "serial entrepreneurs," referring to those who continually start new businesses—promising each one to be the next big thing—in hopes of toppling the Apples and Cokes of the world. These businesses never take off. The reason is that fantasizers can create the vision, but they fail to ascertain the risks involved, the time needed, or the steps necessary to get the job done.

Visionaries are similar to fantasizers in that they, too, have a big vision. But unlike fantasizers, visionaries recognize that entrepreneurship is an immense undertaking. Visionaries do not try to impress people with how big they think; rather, they focus on creating a viable plan and generating real value.

Start Small

Almost every entrepreneurial endeavor starts small. Whether by necessity or by choice, venture capitalists and other lenders usually start their investments small in order to minimize risks. However, for many of them, this could actually turn out to be a good thing, as too much seed money can impede the growth and success of the start-up.

Timmons and others have found that starting too big with too much capital creates an atmosphere of poor performance. Start-ups might get away with excessive expenditures in the beginning, but costs eventually do add up. Companies that start too big often fail to generate high enough returns to meet their costs. Desperate to meet costs, these firms often lose sight of the key elements that make start-ups profitable: strategic focus of energy, careful analytical thought, and optimal use of resources.

Thus, companies that grow slowly in the initial stages learn to develop and expand without significant outside loans; those which start big lose focus before the start-up has sustainable means to generate this diversified outlook.

Scale Smartly

Thinking big and starting small may seem like obvious advice for many entrepreneurs. Plenty of people can come with "think big, start small, scale fast" business plans. We find, however, that even if you get the first two steps right, you may just trip on the third. Instead of seeking to scale fast, entrepreneurs would be wise to focus on scaling smartly.

Consider a comparison between Lazy Town Entertainment and



Tischenko Irina/SHUTTERSTOCK.COM

Big Ideas Productions. Lazy Town, founded by Icelander Magnus Scheving, is a children's entertainment company that educates children about healthy lifestyles. Big Ideas Productions, founded by Chicagoan Phil Vischer, is also a children's entertainment company that seeks to teach children important life lessons. The latter was an industry leader in computer animation in the early and mid-90s. Both Scheving's and Vischer's companies quickly became successful and garnered a large, loyal, and emotional following. But what they did next made all the difference.

Vischer, with a dream of becoming the next Disney and creating a media company that would compete with NBC, CBS, and ABC, continually pushed for growth. The results were promising: they rolled in eight-figure annual profits and transitioned from videos to full-length motion pictures. However, the day after the grand opening of Jonah, a film that netted a very respectable \$15 million in its opening weekend, Vischer's company had to lay off half of his staff to meet current and projected costs.

Scheving, on the other hand, resisted running with his initial popularity. Though he had grandiose dreams similar to those of Vischer, he knew he had to learn about the children's entertainment industry first. Instead of quickly expanding to more lucrative foreign markets, Scheving focused on his tiny homeland of Iceland. He wanted to test his products on at least two generations of preschoolers before seeking to grow. After more than a decade of honing his craft and forming his brand, Scheving and Lazy Town have soared through the international markets.

What happened to Big Ideas? The short answer is the company pushed too hard. In order to retain their top talent and attract talent from other top studios, Big Ideas doubled their pay scale and

**Everyone's got a dish** Paid television is becoming more popular. As a result, satellite TV giants like DishTV are making greater efforts to increase their market share.

simultaneously doubled their staff. In one year, they quadrupled their expenses. Despite tremendous growth, profitable licensing agreements, and expanding opportunities, Big Ideas was left with too little in the coffer to sustain itself. Finally, it went bankrupt when faced with a lawsuit from a distributor. Though still in existence, the company is now a subsidiary of Entertainment Rights Plc. Vischer, the company's founder and creator, has been relegated to the role of contract consultant for the new owners.

Scheving, on the other hand, was patient—and his patience paid off. Lazy Town is present in more than 100 countries, carries number one ratings among pre-school viewers, and has won a batch of industry awards since making its debut in America in 2004. Scaling smartly certainly has its advantages.

Entrepreneurship requires more than just an idea: it requires foresight, commitment, and a strategy for growth. Entrepreneurs must have a goal that transcends the avoidance of a menial job — their vision must compel the continuous growth of their projects. However, they must also understand the vital role of pacing. As grand as their ambitions may be, entrepreneurs should be aware of their businesses' limitations and the effects of excessive growth. Thinking big, starting small, and a strategic pace of growth lie at the heart of successful entrepreneurship. **ye**





Zdorov Kirill Vladimirovich/SHUTTERSTOCK.COM

## SUCCESS, TRADITION AND ... FREE MESSAGES?

YALE'S STELLAR STUDENTS DRAW COMPANIES FROM ALL OVER THE WORLD. INCREASINGLY, HOWEVER, THESE CORPORATIONS ARE FINDING OUT THAT THE BEST WAY TO RECRUIT THESE TOP-NOTCH POTENTIAL EMPLOYEES IS INNOVATION **BY JAMES JIANG**

Ask any employee at Google for a list of what appeals most to them about their work and one is unlikely to encounter any mention of salary or the potential for upward mobility. Instead, employees are more likely to point to intangibles such as the firm's prevailing culture or sense of community and the kind of lifestyle that these qualities foster. In terms of human resources, Google is on the cutting edge.

Now, more than ever, potential employees – especially young people who are about to graduate from college – have a vastly different view of what they want out of work than their parents did decades earlier. Employers have not been blind to this shift from salary and benefits to corporate culture and the work-life balance. This has resulted in innovative recruitment strategies that

have placed renewed emphasis on just what life is like inside the office walls.

One of the foundational maxims of marketing is “know your audience.” This is as true for recruiters at Google as it for the marketing team at Abercrombie or Apple. Take for example, Google's billboard campaign, which broadcasts the somewhat esoteric message: “{First 10-digit prime found in consecutive digits of e}.com” all over the country. Advertising a mathematical puzzle on a billboard certainly isolates a specific niche of the labor market. Such a recruiting strategy not only provides a material benefit insofar as it streamlines the application process, it also fosters an incipient sense of community. By bringing what might otherwise be a nerdy in-joke between math majors into the public sphere, Google effec-

tively facilitated identification between prospective employees and its own brand – all before a single resume was sent.

Recruiting sits at the core of Google's corporate philosophy, and the effort has been funded by senior management on an unprecedented scale. The results are staggering: Google's occasional ratio of one recruiter for every fourteen employees more than quadruples the previous record set by Cisco at 1:65 during the first real recruitment drive in the late nineties. When we consider that the typical ratio of human resources professionals to employees rests at about 1:100, Google's performance on recruitment is simply unrivaled.

Well-established firms with more conventional corporate cultures have caught on to this phenomenon and they've also begun to tinker with their own recruitment strategies. Goldman Sachs, for one, has begun targeting specific pools of applicants, heavily recruiting at the Ivy League and other top schools without business programs. Janet Raiffa, who graduated from Columbia with a BA in English and now works in Goldman's HR department, epitomizes this new ethos in which academic performance and capacity for team-work have more currency than course of study or technical knowledge. By virtue of a recruitment strategy that is exclusive yet non-selective, corporations like Goldman Sachs are able to capitalize upon the expanded skill base of a more diversified employee body.

This fresh emphasis on recruitment may be the only similarity between these two marketing strategies, which are otherwise worlds apart. On the one hand, there is Google, a firm that self-consciously dissociates itself from anything reminiscent of corporate conventionalism. The web-page for job seekers proclaims: "Google is not a conventional company, and we don't intend to become one." Cultivating an image of youthful audacity, much of Google's appeal to employees derives from its position at the forefront of information technology.

Goldman Sachs, on the other hand, is to Google as a three-piece suit is to skinny jeans: one a tried-and-true vintage, the other

brash and chic. Founded in 1869 and now one of the titans in global investment banking, Goldman has over the course of its history established a distinct corporate culture. And therein lies its draw: the power and prestige of tradition. Whereas Google markets itself as the avant-garde of corporate culture, Goldman Sachs highlights its traditionalism and history of success.

The difference in appeal between two companies like Google and Goldman Sachs is reflected in the contrasting lifestyles of the two firms' employees. At Google, employees are encouraged to have the confidence to confront challenges with their unique ideas. The

flexible hours and relaxed atmosphere reveal a management psychology in which productivity is equated with employee morale. As Tony Wu, Google employee and graduate of Stanford Business School puts it, "People work hard, but not because things are strict, but because it's so chill and relaxed."

When asked what he enjoyed most about working there, he nominates the variety of food outlets, funding for employee events and free merchandise. Of course, these "fringe" benefits are not trivial. They cultivate a sense of loyalty and trust in an industry notorious for its high turnover rate.

In comparison, a firm like Goldman Sachs is more limited in what it has to offer. The time-sensitive nature of investment banking results in a more rigid schedule, though this is not to the detriment of all employees. Some thrive in a structured environment in which ambition, both personal and firm-wide, is the engine of productivity. For those people, the long hours, stress, and traditionalism pay off handsomely in terms of salary, bonuses and other perks. Furthermore, the prestige of having worked at Goldman Sachs carries on even long after one has left the company, much like the aura of repute that is conferred by an Ivy League degree.

Needless to say, in the wake of Google's radical transformation of the workplace, employee attitudes have shifted markedly. Working and living, in the minds of employees, are no longer mutually exclusive activities. It is this interpenetration of business and leisure that has pushed the entire practice of recruiting back into the spotlight. *ye*

**Fringe benefits are not trivial. They cultivate a sense of loyalty and trust in an industry notorious for its high turnover rate**

## google's *Little Problem*

{ first 10-digit prime found in consecutive digits of  $e$  }.com

Who needs a resume when you can show your intellectual wares by solving a mathematical puzzle? This is just one example of the recruitment advertisements Google plastered around the country. Prospective employees who were capable of solving this problem were then confronted with a series of numerical riddles before being solicited for their resumes. The notorious billboard challenge was the precursor to the Google Labs Aptitude Test, a standardized test with an emphasis on creativity and mathematical fluency. By the way, the answer is 7427466391.

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# TAKING ADVANTAGE OF A WORLDWIDE PERSPECTIVE

SOME PEOPLE  
GET STARTED  
WITH THEIR FIRST  
BUSINESS VENTURE  
ON CAMPUS.  
CHRISTINA PARK,  
ON THE OTHER  
HAND, FOUND A  
GROWING NEED  
AND WROTE  
ABOUT IT BEFORE  
EVEN SETTING  
FOOT IN A  
UNIVERSITY.

BY DANNY FRIEDMAN

*Christina Park, a junior in Saybrook College, wrote a book on gaining admissions to top US schools from the perspective of a Korean student studying abroad. The book has helped many Korean students studying abroad apply to and gain admission to top schools in the United States. YE decided to interview Christina Park because of her entrepreneurial spirit at a young age. Realizing her achievements as a student could help others, she imparted lessons she learned to other students in similar positions.*

**Writing a book on gaining admissions to top schools in the US seems like quite an accomplishment for a high school student. How did you get the idea to write your book?**

The opportunity landed after a few fortunate events. First, most foreign students have to take the International Baccalaureate Exam (IB exam) to apply to universities in the U.S. While I am originally from Korea, I went to high school in New Zealand. I did well on this exam, and a New Zealand paper wrote an article about me. A Korean reporter read the article, and he ended up writing an article for the Korean newspaper about me. This article focused on the theme of a student who left Korea, studied abroad, and succeeded. A Korean publisher then read the Korean article, contacted me, and asked me whether I wanted to write a book about succeeding in school and applying to American universities.

**What was the focus of the book?**

Well, the book is divided into two parts. The first part of the book deals with my life overseas as a Korean student studying abroad. I encountered racism, for example, and had to work hard to achieve recognition of my work. Teachers never gave foreign students a free lunch, and this motivated me to work and try harder. So the first part of the book was basically about how I developed motivation to be a successful student. The second section of the paper was about how I became a successful student and how one should go about applying to the U.S. The book does cover some of the general logistics of applying. Korea doesn't offer the SAT books we see so often in the US, let alone Kaplan books, and teachers rarely know how to write recommendation essays. I had to do everything from scratch, like making flash cards, studying tricks, and helpful diagrams. I incorporated Korean language and Korean culture to make the studying more interesting.

**What were some of the highlights of writing a book at such a young age?**

I definitely enjoyed taking part in the production process. I had consistent contact

with the head of the publication company, which was great. He allowed me to partake in the publication, promotional, and marketing processes, so I got a firsthand look of the publishing industry which I really appreciated. I also got to travel to promote the book and had many opportunities to interact with readers during Q&A sessions at different venues. It was great to get to tour Korea, and I also got to appear on TV which was a lot of fun too. It was also extremely rewarding to hear from students who had read my book and used it in applying to college. I often get emails from Korean students asking me specific questions or telling me the book has been helpful, which has been truly rewarding.

**The book has garnered significant attention in Korea. Why do you think this is so?**

There's actually a boom going on in Korea. More and more students are going abroad, and many students want education in the United States. Many students come to the states because of the reputation of schools. While the Korean schools are very good, students graduating from the schools have trouble differentiating themselves. To many students, if it is not Yale or not Harvard, then it isn't good enough. Because more and more students are graduating from the improving educational system in Korea, students are looking for that extra bit that will make them stand out in the job searching process after college.

**How did your parents react to the news you signed with a publishing company?**

I think it was very exciting for my parents to have a daughter get so lucky and at such a young age to have the opportunity to write a book and help other students. It's also been a huge help in terms of paying for college, and my parents are of course happy about that too!

**Will you stay in the states once you graduate?**

No, I intend to go back to Korea once I graduate from Yale. As I said before, I was a New Zealand student from Korea who applied to U.S. schools and wrote about succeeding as a foreign student. Though I now have perspective as a New Zealand and American student, I along with other students who study in the U.S. plan on going back to Korea to work. Most Korean students who study abroad do tend to go back to Korea upon graduation.

**What are you interested in doing once you graduate?**

I did get some exposure to the marketing process for the book, and marketing has always been one of my passions. As for the nearer future, however, I think I will go into law school, perhaps focusing on intellectual property law. **ye**

## BLACK CATS AND BEAR MARKETS

THE ROLE OF SUPERSTITION IN BUSINESS **BY RAYYAN KAMAL**

Superstitions—beliefs or practices associated with magic or fear of the unknown—have no place in the profit-driven world of business. Or so one might think. The truth is that superstitions continue to have very tangible consequences for many businesses today. Some superstitions have proven highly profitable for companies that have learned to exploit them; in other cases, superstitions have posed a formidable threat to their survival.

The superstitions most debilitating to business seem to exist in the developing world, where access to education is often scant, leading to a “fear of the unknown.” However, superstitions are also prevalent in developed economies like Japan and the United States. Whatever the case may be, many firms are increasingly taking the irrational eccentricities of their consumers into account when making important decisions.

For example, businessmen in South Asia often consult astrologers before signing a contract or striking a deal. Executives in North America might turn to feng-shui to configure the furniture in their offices to maximize harmony with the environment. These practices have produced a market where astrologers and feng-shui gurus can profit from business people's uncertainty about their own decisions and trust in the supernatural.

Though many academics argue that such belief systems do not qualify as scholastic science, more companies increasingly focus their research on local superstitions before entering a foreign market. Knowledge about the cultural customs helps businesses successfully tailor their product to the target country. Before launching a product in China, for example, it may be helpful to know that “four” is an unlucky number because it sounds like the word for “death” in many Chinese dialects. On the other hand, “eight” is a lucky number as it is often associated with wealth and prosperity. With some due diligence, companies can avoid the adverse effects of certain cultural beliefs and capitalize on others.

Some of the most widespread superstitions stem from religion. When Denver

Post staff columnist Al Lewis put up an investment property for sale, his mother bought a statue of Saint Joseph and buried it upside down in the front yard of the house to help him score the deal. This practice arises from the Catholic belief that finding housing for the “holy family” is one of St. Joseph's duties. Burying him upside down in the lawn of the property to be sold supposedly brings blessings and a swift, lucrative sale. Lewis's mother, though a Jew, assured her son that the property would be sold in no time now that the good-luck Catholic ritual had been performed. Like many others, she believed that St. Joseph did not discriminate on the basis of religion.

Indeed, Lewis did profit. He received a satisfactory offer within days of the burial. Lewis is not the only one to benefit from this ritual. Richard Weigang, the owner of a Catholic store in Colorado, sells more than one hundred St. Joseph statues a month. “Catholics, Jewish people, Protestants, atheists — everybody does this,” he told the Denver Post.

Superstitions, therefore, can lead to positive outcomes whether or not businesses deliberately exploit them. This was also the case with Japanese baby-related product makers last year when a male heir was born to the royal family for the first time since 1965. Because many Japanese believe that it is auspicious for a baby to be born in the same year as a member of the royal family, an unusually large number of babies were born in the country that year. Baby product sales subsequently increased. The biggest winners were baby-food maker Pigeon, whose stock rose a whopping 45%, and Combi Corp., a maker of strollers and buggies, which enjoyed an 11.7% increase in its share price. In preparation for this surge, all companies ratcheted up operations in advance to meet anticipated hikes in demand.

Some cultural superstitions, however, have adverse effects, which firms must anticipate when making big operational decisions. In 2005, Hotai Motor Company, Taiwan's largest auto maker and distributor of Toyota and Lexus models, reported



JIM COLEY/THE BOEING COMPANY

**“8” is for fortune** Boeing changed the name of its newest airplane from the 7E7 to the 787 because of influences from several Chinese airlines, whose culture believes the number 8 is lucky.





Rob Marmion / SHUTTERSTOCK.COM

a decline of over 40% in car sales during the first half of August compared to previous months, a phenomenon company officials attribute to the “Ghost Month effect.” This is a time when unappeased and dissatisfied spirits are believed to return to mingle with the living. Car sales in Taiwan during this time usually drag by as much as 30% since Chinese and Taiwanese consumers tend to avoid making big purchases. Anticipating such a response from their customers, businesses thus avoid undertaking new projects and usually wait until this month has passed before increasing prices and introducing new models.

However large we may perceive them to be, the effects of Taiwan’s superstitions are dwarfed in comparison to the utter economic collapse that can result from the superstitions of other nations. For an example of this, one may consider the case of Laa Bazaar, the principal city of Gujarat, India. The traders there, who are engaged in wholesale grain business, believe that the first person to reopen his shop after the weeklong holiday commemorating the Hindu festival of Holi will go bankrupt and lose someone in his family. This superstition may be traced back to these traders’ ancestors, who set up shop in Gujarat four generations ago. How such a belief has survived for this long, in spite of Gujarat’s increasing literacy rate and the superstition’s debilitating effect on business, is difficult to comprehend.

This year, twenty days passed before any of Laa Bazaar’s businessmen dared to reopen their shops. They finally did so only because some of the market’s prominent traders, alarmed at the losses incurred each day the market stayed closed, obtained an astrologer’s pronouncement guaranteeing that the suggested day of reopening was an auspicious one. In total, this superstition resulted in a loss of 50 million rupees (roughly \$1.23 million USD).

**Religious Realty** More and more realtors are turning to rights like burying statues of St. Joseph to make sure that nothing hurts their sales, even if they don’t truly believe in the superstition.

A caretaker at Laa Bazaar decried the affair, telling India eNews, “It is really disappointing that we believe in such superstitions in the 21st century.”

For the developed world, particularly in the West, it is particularly difficult to understand how people can cling to superstitions even when they are obviously deleterious. In the already unpredictable world of business, where efficiency and numbers are highly valued, does one need to create situations that are harmful to their livelihoods? However, some would argue that it is especially in fickle circumstances, such as the ever-changing business world, that traditions of the past become more important than ever.

It is an ironic twist of fate that in the midst of today’s globalizing economy, superstitions have, perhaps, become more relevant than ever. As multinational companies seek to expand into emerging markets, they cannot afford to ignore local customs and beliefs. Whether it’s affecting a baby-food maker in Japan or a feng-shui practitioner in Seattle, superstitious beliefs can certainly present a positive outcome for business. However, it is when superstitions are consistently harmful that we begin to talk of crushing them.

Whatever the argument, one thing is for sure – the seemingly irrational behavior, religious practices, and local customs of consumers can lead to a great deal of entrepreneurial opportunities. After all, how else would the saint statue vendors, astrologers and feng-shui experts of the world exist, if not for their clients’ illogical yet intrinsic attachment to superstitions? **ye**

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## KEEPING THE GATES TO SUCCESS

THE BUSINESS OF COLLEGE ADMISSIONS **BY ED WHITE**

With so many applicants for so few spots, how does a high school applicant distinguish herself from the rest of the pack? This is the one question that launched a thousand businesses—the business of college admissions.

For the Class of 2011, the schools in the Ivy League accepted an average of 12.8% of applicants, and that number is predicted to drop in the future. With more students honing their application “packages” earlier on, high GPAs and SAT scores have become less meaningful in the application process to Ivy-caliber schools. Students must now look for more unconventional ways of winning over admissions officers. Some feel that extracurricular achievement in music, art, or athletics is an important factor. Others argue that a strong personal essay is key. However, the way admissions decisions are made is never clear, and many students and parents, overwhelmed by pressure, feel the need to demystify and dissect the process.

Enter IvyWise, Ivy Insiders, The Ivy Coach, and Ivy Success. These are all admissions consultants who market themselves as providers of the “insider information necessary” to understand the system. In fact, many are former admissions officers and students who claim to have intimate insight into aspects of the admissions process not available to the general public. Ivy Success’ advertisement is a good example of the marketing strategy these firms use to portray themselves and their services:

*“Getting into the right college is a matter of INSIDE KNOWLEDGE, EARLY PLANNING, and STRATEGIC POSITIONING. Ivy Success is an admissions strategy firm comprised of former admissions officers from Harvard, Yale, Princeton, Penn, Cornell, and Dartmouth.”*

Differences in the strategies employed and packages offered distinguish some services from others. Ivy Insider has made a niche for itself by focusing on the personal statement section of the application and by offering a unique game theory approach to the SATs. On the other hand, College Chances presents an online service that statistically calculates the chances for admission to various schools based on a student’s scores and achievements. Using the online analysis, their admissions consulting services then work to improve the application’s weak spots, aiming to increase the odds of acceptance.

Aside from offering freshman admissions strategies, companies like Ivy Success and College Confidential have more universal platforms, like transfer strategy, private tutoring, and even athletic recruiting advice. Most of these companies do not explicitly advertise prices—and probably for good reason. A standard program at College Confidential, one of the few companies to disclose its fees online, starts at a few thousand dollars, while the complete package totals \$10,000.

College Confidential’s program is spearheaded by a select group of experienced counselors whose credentials include graduate degrees, published books, and decades of experience in education.



Dawn Hudson/SHUTTERSTOCK.COM

Director Dave Berry and Senior Counselor Sally Rubenstone have published four books on college admissions between themselves, despite their lack of direct connections with Ivy League or other top-tier schools.

College Confidential posts no statistics about college admissions results from their program. They give some positive testimonials on their web page, but from an empirical standpoint, it is difficult to discern the true value of the program. However, the site does feature a stated “Commitment to Honesty,” which disclaims the company’s promise to honestly inform customers of their admissions chances.

While the benefits of College Confidential’s program are not always transparent, few within the admissions consulting industry would question the acumen of Katherine Cohen, founder and CEO of IvyWise. Her platinum package includes 24 sessions and an hour of phone time per week, typically spread over a student’s junior and senior years of high school. Her price tag: \$28,995. According to Cohen, she is already booked for the year.

Cohen has the professional credits to back up her lofty fees. After receiving a B.A. from Brown, Cohen received two Masters’ degrees and a PhD from Yale, as well as a certification in College Admissions Consulting from U.C.L.A. IvyWise seems to justify its price by the success it offers its customers. According to the company, in 2007 over 94% of its clients were admitted into one of their top three college choices, a slight drop from 100% in 2005 and 2006.

One wonders—is it all worth it? Some associate an elitist stigma with the business of admissions consulting. Others may feel that these companies deceptively increase the perceived value of their services by overemphasizing their ability to provide insider information. Despite those debates, one thing is clear—these companies are far from failing. As long as customers are willing to pay large sums to reach the Ivy gates, the admissions consulting business will likely enjoy a long, profitable, and successful future. **ye**



# SOMETHING NEW ON THE HORIZON

AN INTERVIEW WITH VICTOR YUAN BY BEN ALBRIGHT



In recent years China has experienced tremendous economic growth, fueled in part by the growing ability and willingness of government officials to satisfy the burgeoning demands of the populace. The government, however, still retains its intimidating aura, and it has proven difficult in recent years to determine the true needs of the people.

In 1992, a man named Victor Yuan stepped into this void and formed the Horizon Research Consultancy Group, an independent polling and research company that has been called “the Gallup poll of China.” Mr. Yuan is currently serving as a Yale World Fellow, and the Yale Entrepreneur had the chance to speak with him about his experiences in a country where entrepreneurship was virtually non-existent for over 40 years. Within minutes of meeting him, we found that Mr. Yuan was eager to share his unique story. With his ever-present smile and his gregarious personality, he offered insights into entrepreneurship with a perspective that few people have.

## Inspiration for an Idea

Victor Yuan began his career as a Secretary in the Ministry of Justice for the People’s Republic of China. His interest in research had led him to this position, but he found his work frustrating. “I was quite disappointed with my work there,” he explains, “partly because in any of the bureaucratic departments or government organizations, you had to follow the many rules set by the leaders.”

Entrepreneurship is best realized when one finds a need in society and addresses it with a solution. Through his job, Yuan quickly saw a glaring

problem in China: “We didn’t have enough quality data.” Often, when his superiors directed him to find data on a subject, Yuan could not produce the necessary information. As he recalled, “If we couldn’t find it, we made it up.”

In 1992, Yuan had the opportunity to meet with representatives of Gallup Polls US, and he quickly became interested in its business model. Yuan readily grasped how Gallup sped up the flow of information regarding the American consumer and realized that there was no equivalent in China. The process to create a similar Chinese company was daunting, but Yuan was unfazed: “Sometimes people would say, ‘You are idealistic. Your ideas will never be realized. You will never get the opportunity.’ But I felt that I had to find something I really wanted to do. I think that is the meaning of life.” It just so happened that the business world was about to be turned upside down at just the right time to allow his ideas to become reality.

## A Dramatic Shift

The same year that Yuan met with Gallup, the Chinese government began to turn from its old ways. Instead of suppressing private sector entrepreneurship, it started to send a clear message to the people encouraging entrepreneurial pursuits. “It was kind of in fashion, and many people jumped into business,” said Yuan. This new spirit of entrepreneurship changed the way Chinese people viewed what businesses could do, especially in the areas of research and development. Yuan said, “Before that, my area of work—polling and data collection—was not really regarded as a business. It was government work, university work, and it never could be done by a company.”



It was then that Yuan took a common entrepreneurial risk: he quit his regular job. “The only thing I really feared was losing all the social security you got from working in government, and at that time China didn’t even have a commercial insurance system.” Despite such risks, Yuan decided to take his chances, setting off on a new career in the midst of the new wave of entrepreneurship in China.

There were, however, more risks to take. While government support was in place, entrepreneurship did not come without its difficulties. “Because all the business areas were new, including my business, people did not understand what I did, and I could not find clients. It was really a new business era, with new ways,” he said. An arduous road lay ahead.

Starting from Scratch

Yuan’s new company was named the Horizon Group and it began with merely three staff members and a nine-year plan. The first three years were devoted to recruitment and raising funds to support polling. “We are the first company to provide independent data, and we were able to find many interesting things,” said Yuan. The first project was about the change in lifestyle for China’s newly rich.

The hard work paid off. Yuan said, “Within three years, at least 30 national news and media outlets created special editions just for us,

for public opinion polling.” Heightened interest led to increased investment. “Once our reputation was established, it became easier. People could see your results. It’s like a lighthouse effect: all you have to do is stand there and people will say, “Wow, that’s what I want.”” Horizon’s capacity to uncover the mysteries of the elusive Chinese consumer quickly became a powerful tool for other businesses. The Chinese government, however, was initially slow to embrace Horizon’s success.

Private meets Public

“When we first started working, many of our clients didn’t know who we were. They believed we were an organization created by the Chinese government.” Ironically, though, Horizon was also a bit of a mystery to the government. “At the beginning, the government did not really commission us to do any special projects, but they were interested in some of our studies.” Like his private clients, the government was also unsure of what to make of the public polling enterprise. “We built up our reputation without the government’s blessing, but we were doing something that was of value to them.”

When the government first asked for Horizon’s services, Yuan did not charge them; later, in response to his company’s rising popularity, he began increasing the fee incrementally. “If I exempted the government from paying the full amount, they had

to accept my requirements . . . That meant they had to accept the fact that I would release the data to the public.” Today the government is a regular client of Horizon, and Yuan believes his firm has changed the way the Chinese government works.

A Growing Government


Yuan described his company’s relationship with the government this way: “It’s like the government is the red, the non-government is the blue, and usually they do not work together. We are someone in the blue, but close to the red, so that we are someone they can trust.” He explains that it still takes a considerable effort to ensure a good relationship with the government, an effort that many potential competitors are not willing to put forth. Yuan clarified why his company had an advantage in working with the government: “They have their special terms, their special ways, and the typical commercial research companies do not have enough talent in that area . . . We have 30 people specialized in addressing the government’s needs.”

Horizon, with the mutual trust it has established with the government, has helped the government to better understand the needs of the people who “will very naturally associate Horizon with any research work,” stated Yuan. Furthermore, Horizon’s work has allowed the national government to get an independent third party to do assessments of the quality of life in different regions within

the nation as a whole. “They know we are really professional; we will not break the government’s way of keeping confidentiality. They know we will keep a good reputation for them and we would never make any trouble for them, or create any false data.”

Horizon has enabled the government to obtain a more accurate understanding of the perceptions of its people. “You need to pay more attention to the people sitting opposite from you . . . You must trust those people. The common people may be stupid individually, but as a whole they are quite smart,” he said. The government represents a certain way of thinking in China, but for it to truly reach the people, it must be willing to listen. “If you have 10 people, you have 10 angles, 100 people, 100 angles . . . Even if you are a very smart guy, you only have one angle. Maybe it’s a very big angle, but it’s just one. You can never achieve long term success with only that one angle.” Yuan believes that with the help of Horizon’s research, the Chinese government can now see the big picture.

In Conclusion

Although Victor Yuan is only one man, he certainly has used his “angle” to make incredible contributions to his country. His public polling company, Horizon Group, has altered the way the Chinese government functions. While Horizon continues to serve the government’s needs, it is also helping other companies find success in the untapped Chinese market. As Yuan said himself, “I see great potential for entrepreneurship in China.” 

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## LAST WORD BY JOE CITARRELLA

SILICON VALLEY, CA – It's a gorgeous day as usual, and the air is crisp with the smell of new money. Lots of new money.

Internet entrepreneur Gill Bates sits nonchalantly outside his stately mansion, coolly sipping a piña colada while basking in the sun. Only 28, his mannerisms and voice, both a remnant from his earlier days in New York, echo those of Christopher Walken. He's suave and charismatic, confident that his rapidly expanding website is the finest innovation since the computer itself. His site, called PooTube, allows visitors to share videos of themselves farting on camera.

"All I got to do is get people to cut da cheese, pass da gas, drop some potty bombs!," he shares. "I'd be damned if some no-fun chumps wouldn't want to spend time on PooTube."

Bates is a poster child of a new type of entrepreneurship, one in which popularity far precedes results, coolness beats competency, and eyeballs – not cash – are king. In the era of VWeb 2.0, all economic rules are suspended and no holds are barred. Get the visitor, get the glory.

Venture capitalist Ron Goerr, an early backer of PooTube, explains the basic paradigm. "It's an inverted Ponzi scheme, and it's brilliant. Come up with something ridiculous or awesome. Spend cash to get people to the site. When more and more people come, spend even more cash to cover dramatically increasing bandwidth, salary, and marketing expenses. Give visitors everything for free, and when you're burning enough cash, sell out at a premium to that search engine, Schmoogle!"

Indeed, it seems the Schmoogles and SchmEbays of the world have become the new heroes of the venture capital world. Both have been on a buying spree of late, piling up mounds of PooTube-esque businesses, none of them with revenue models and all of them burning huge amounts of cash, for billions of dollars. Traffic, it seems, has become a proxy for value in a world of increasing cash burn.

But why the utter lack of indifference to the financial details of such ill-conceived economic entities?

"It seems that in an effort to undermine their competitors, SchMicrosoft calibrated all SchmExcel spreadsheets so that negative numbers become positive," explains Goerr. "Thus, the more cash we burn, the better we look on acquirers' valuations!"

And if that's not great enough news for entrepreneurs and venture capitalists, it seems the acquirers have yet to notice. "I'm not really sure how they've missed it," giggles Allen Paul, a representative from SchMicrosoft. "It's just so obvious. God, I love screwing with them."

The result of the inter-corporate prank has been a slew of newly minted 20-something year olds like Bates who thrive on absurd cash-consuming businesses. As for when the insanity will cease, there appears to be no end in sight. To date, no one has dared tell Schmoogle or SchmEbay of their fatal error.

"It's a new era. All ya need is some farther traffic and a stupid buyer, baby," says Bates. "I'd be damned if I ain't gonna sell for at least \$3 billion." Mr. Bates' confidence may border on arrogance, but with offers already valuing the business at over \$1 billion, he has every reason to be cocky. While only time can tell whether economic realities catch up to the duped buyers of Web 2.0 businesses, Bates, in the meantime, is farting all the way to the bank. **ye**



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