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The Dream Factories

By Roya Wolverson

Logan Sears isn't sure if he has what it takes to be an entrepreneur.

But he wants to find out. The 22-year-old tech nut tried his hand at launching a computer-repair company four years ago. When he hadn't turned a profit after a few years, he scrapped the venture and took odd jobs doing tech support and software development at big IT firms like IBM and UniFocus. Sears thinks he's destined to be a software programmer or maybe the founder of a sexy Internet start-up like Airbnb or Uber. Like many people, he thinks an education will help him figure it out.

So this year Sears shelled out $20,000 in tuition--but he isn't enrolling in business school or getting a computer-science degree. Instead, he's going to a start-up school. He'll take computer-programming classes in a historic building in downtown Denver and hang out with venture capitalists, angel investors and successful techies who are plugged into the digital-start-up scene. "Having a university degree doesn't prove your worth anymore," says Sears. "There's a whole new paradigm I need to learn."

The allure of launching a high-tech start-up has never been more powerful. Some would-be entrepreneurs go the risky route of dropping out of college to start new ventures on their own dime, while others slog through four years of college and then get a business degree to burnish their credentials. But now aspiring CEOs are being offered a tantalizing shortcut: start-up school. New programs are popping up from San Francisco to Chicago to New York City, with names like Galvanize, General Assembly and the Founder Institute, promising specialized training and access to all the trappings of the techie lifestyle--cool open workspaces, cappuccino bars and mentoring sessions with industry icons.

It's an ambitious effort aimed at nothing less than standardizing innovation. A start-up education doesn't always come cheap. These courses, workshops and mentoring sessions can cost from a few hundred dollars to tens of thousands--and some programs even demand an equity stake in businesses they help nurture.

The jury is out on how many start-ups launched by these endeavors will ultimately succeed. So far, the Founder Institute says 42% of its participants have been able to attract investors in their first six months in business; 9%, meanwhile, have failed. And in a sign that there's a market for the concept, more traditional educational institutions--including the University of South Carolina and Harvard--are responding with their own entrepreneurship centers, coursework and connections to venture funding.

Start-up school puts a new twist on some already daunting choices for the hopeful entrepreneur. Does it make sense to skip college to pursue start-up ambitions? What's more valuable in the long run--education or training? But there's a bigger question: Can you mass-produce the serendipity that forms the core of so many breakthrough ventures? "Trying to mass-produce start-ups is like trying to manufacture musicians or painters," says Steve Blank, a serial entrepreneur and a lecturer who teaches entrepreneurship at the University of California, Berkeley, business school. "It's a hot industry right now, but a lot of people aren't built to be entrepreneurs."

A New Model

Jim Deters is an idealist. the angel investor who founded Galvanize, a 30,000-sq.-ft. start-up school and workspace in Denver, talks more like a tree hugger than a guy working in finance. The words community, ecosystem and sustainability come up repeatedly as he describes his goals. Deters, 37, came of age during the first dotcom boom and got hooked on the tech world right out of college when he went to work for a slew of software companies in Denver. His crowning achievement is Ascendant Technology, the business-software-development company that he launched in 2003 and sold to Avnet for $50 million last year.

Deters used his acquisition booty to become an angel investor but says that after 18 months, he felt a calling. "I was looking for a better way to be a venture capitalist," says Deters. "I didn't want to just be writing checks to entrepreneurs." Galvanize was the answer. Deters says there's a disconnect between the skills that wannabe entrepreneurs need and what universities can offer. "In most cases, people are wasting their money on traditional education," Deters says. "The future of employment is small businesses that will be forced to figure things out for themselves."

Even if start-up school can't turn all its pupils into future employers, Deters thinks it will at least give them a better shot at a good job in start-up-land. It's well known in the tech world that many start-ups across the country can't find the computer programmers they need. So Deters roped in Jeff Casimir, a coder who had designed a developer-training program for the daily-deals site LivingSocial, to launch a computer-programming class at Galvanize's gSchool. He plans to roll out other courses in design and mobile development. The rest of the 30,000-sq.-ft. space at Galvanize houses rentable workspace for existing start-ups and seed investors. There's also a gym; a game room with ping-pong, foosball and video games; a restaurant and bar; and perhaps most important, designer coffee.

There's a benefit for Deters too: a steady stream of fledgling entrepreneurs and cash. Unlike many venture capitalists, who often wait five to seven years for their bets to pay off, Deters can supplement his income with cash from the school, the real estate and the restaurant. "The traditional route of raising a huge fund to pay a handful of partners off a management fee makes it hard to write small checks that help early start-ups," he says.

Innovation Pipeline

In some ways, start-up schools are just the latest in a line of efforts over the years to bring some structure into the freewheeling world of technology. During the first dotcom boom, there was a proliferation of incubators, organizations that offer services like office space and accounting help, and accelerators, which typically trade a small sum for a cut of the fledgling business. The Internet gave rise to a new kind of small business with big growth prospects that proved too risky for big banks to fund. Venture capitalists filled the void, but even they couldn't keep up with the number of start-ups taking root.

In the late 1990s, Blank, the Berkeley lecturer, stepped in with research suggesting that the process of cultivating and investing in start-ups could be made easier. His 2005 book, The Four Steps to the Epiphany, mapped out a set of rules for successful start-ups. Eric Ries, who studied under Blank and is now an entrepreneur-in-residence at Harvard Business School, expanded on the notion, describing a template for standardizing the production of these ventures in his 2011 book, The Lean Startup.

Unlike venture capitalists that bet millions of dollars on a smaller number of more established start-ups, incubators and accelerators invest significantly less in very young start-ups. Often, in exchange for an equity stake in the business, these seed investors supply scrappy ventures with intensive advice, technical support, introductions to bigger investors and connections to a community of other start-ups. For-profit accelerators like Silicon Valley's Y Combinator, launched by start-up guru Paul Graham in 2005, and TechStars, based in Boulder, Colo., and co-founded by serial entrepreneur David Cohen, have become inspirations for people like Deters who want to crank out start-ups en masse.

But Deters and others developing the start-up-school concept face some competition: traditional universities that see this kind of training as critical in attracting students with an entrepreneurial bent. For example, Harvard and George Washington universities now operate offices of entrepreneurship. Among other things, they host business-plan competitions and offer mentoring services.

The idea of practical training appeals to people like Raphael Weiner. The Denver-based mechanical-engineering graduate first contemplated starting his own company four years ago, when he landed his first job out of college at a social-media-gaming start-up called ScoreLoop. As one of the company's first 10 employees, he helped it grow to 50 people in two years and had his hand in everything from marketing to technical support to traveling the world to pitch new clients.

Before long, he found himself addicted to reading entrepreneurial-success stories on TechCrunch, Hacker News and VentureBeat and watched with envy as colleagues and clients made millions of dollars launching applications for the iPhone and Android. When BlackBerry bought ScoreLoop in 2011, the job got boring fast, he says. "The narrower range of responsibilities didn't excite me."

He thought about leaving to start a company immediately but realized he wasn't ready to be his own boss. Instead, he enrolled in Galvanize's gSchool to be a start-up groupie and acquire the skills needed to join the club. Even better, he says, the $20,000 six-month crash course in computer programming comes with a guarantee: a $60,000-a-year job at a start-up on graduation. (Deters says he knows so many companies begging for programmers that he didn't think twice about promising job placement.) For Weiner, that made the gSchool proposition "a no-brainer."

It shouldn't be, some critics say. Luke Williams, an entrepreneurship professor at New York University's Stern School of Business who heads its innovation and entrepreneurship center, says start-up schools can't compare to the experience of being in business school. "There's a big difference between jumping in and out of random courses and going through the journey of an MBA," says Williams. "We give students access to masters of the discipline, and our network is far deeper than what accelerators like TechStars or a start-up course can offer." Blank agrees that universities provide a more rounded experience. "If you fail at coding, then you could be without a degree for the rest of your life," says Blank. But he cautions traditional educators that these alternatives are cropping up because "universities tend to lag what's going on in the tech industry by five to 10 years."

There are other reasons that start-up-school students could wind up disappointed. Venture-capital funding of Internet companies dropped 42% in the first nine months of 2012 from a year earlier, according to research group VentureSource. So while the number of early-stage seed funds, incubators and accelerators has grown, there may be less money available to help start-ups grow into bigger companies. "There's a mismatch between angel money and venture capitalists. When the music stops, someone isn't going to have a chair," says Ed Barrientos, a Silicon Valley--based angel investor. More large companies like Facebook and Google are acquiring fledgling start-ups before venture capital steps in. But some experts worry that the start-up factories are encouraging cookie-cutter thinking. "The Y Combinators of the world are all focused on consumer tech companies," says Blank. "There are much bigger ideas going on elsewhere."

Weiner says he doesn't worry too much about all that. He just likes the energy of the people working at Galvanize and the chance to interact with founders of successful start-ups like Uber, a Web-based car-service company, and Forkly, a foodie application for restaurants, which both rent workspace in the building. Even if Weiner doesn't launch his own start-up after he finishes gSchool, he thinks just being in the building will help land him a job at a cool start-up. "And if that burning idea comes to me," says Weiner, "I'll be a better founder."

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