

BUSINESS PLANS

The Billionaire Next Door

BY EDWARD O. WELLES

Have you ever wondered whether some people are just born to be entrepreneurs? Meet David Koretz, a 21-year-old businessman hoping to be a billionaire by 25.

Twenty-one-year-old David Koretz has been thinking, eating, sleeping, and breathing business since he was a kid

Outside, it's a gray January day in Rochester, N.Y., but inside, David Koretz is on fire. He is standing on his office futon, which frequently doubles as his bed away from home, scrawling figures on a whiteboard on the wall.

As Koretz speaks he lays out the strategy behind his business, BlueTie Inc., an application service provider. BlueTie, seeking to deliver Web-based software applications to business customers, offers programs that enable users to share files, E-mail, contact lists, and calendars. In fact, BlueTie is taking dead aim at some of Microsoft's most popular products, notably Exchange Server. (The ASP market is estimated to be worth some \$11 billion in the United States alone.)

There would be nothing unusual about this scene of another young and energetic Internet entrepreneur posing as dragon slayer -- except for one thing. David Koretz is all of 21 -- and BlueTie is his fourth business. Even in an age of bright young dot-com founders, Koretz is a kid who has "prodigy" stamped all over him, complete with all the attendant superlatives and baggage. With a business plan that projects that his company will reach breakeven this year and \$1 billion in sales five years out, Koretz is a kid worth watching. He has already raised more than \$10 million from sophisticated investors and angels, and he's savvy enough to know that just raising -- and spending -- more money won't necessarily get him where he needs to go. Two years ago Hewlett-Packard sought an equity stake in BlueTie, but Koretz turned HP down. He didn't need the money badly enough to dilute the equity. The venture arm of a major New York investment bank also has approached Koretz. It wants to put more than \$100 million into the company in exchange for a 20% stake. But Koretz might pass on that deal. He and his board believe he can build more of a company with less capital.

One of those in on the ground floor is Walter Turek, vice-president of sales for Paychex, a

Rochester-based company that provides payroll and human-resources services. "I find him a pretty intriguing young person," says Turek, who, along with Paychex founder and chairman Tom Golisano, has invested heavily in BlueTie. "The amazing thing about David is that no matter what you call him on, he knows exactly what he's talking about. I've gone back later and verified that. I don't know where he gains that knowledge."

One answer might be that unlike so many of his peers, who see starting companies as some kind of learned game or sport, Koretz seems to have been born with a full array of entrepreneurial genes. His first business idea emerged when he was seven, when he began selling seashells from a table set up at the foot of his driveway. David collected the shells during visits to his grandfather, who was then living in Florida. The older man, seeking to educate his grandson about business, went so far as to have his lawyer draw up a "contract" regarding a proposed partnership: the grandfather would send seashells to David, who would then sell them in Rochester; the two would split the proceeds. David dutifully read the document -- and then tore it up. "I'll get my own shells when I visit you next Christmas," he told his grandfather. "That way I can keep all the profits."

After David stiffed his grandfather, his mother said, "Someday you'll grow up to be a millionaire." David replied, "By the time I'm grown up, \$1 million won't be that much money. I want to be a billionaire."

That anecdote speaks volumes about David Koretz. Upon meeting him, one is unsure whether to regard him with awe or dread. Probably a mixture of both would make sense. We admire him for his entrepreneurial precocity -- but then we also wonder if he is the living, breathing embodiment of our recently fevered economic times, which elevated success to the state religion.

For Koretz's part, he is clear about his self-image -- and secure in it. "I'm a very competitive kid. All I care about is winning, to be honest," he says. "Everything that does not further BlueTie is frivolous. I'd do anything to make sure it's successful." That pursuit comes through not just in Koretz's 90-hour workweeks but also in the very real possibility that removing his fingers from the keyboard of his ever present laptop would require surgical intervention. Koretz, meanwhile, has papered the walls of his office with pages describing -- milestone by milestone -- BlueTie's progress. Their title: "How to Change the World."

Koretz's sense of mission is on display as he heads from BlueTie to a nearby shopping center for lunch. As he maneuvers his BMW through the parking lot, he cuts off a pair of older women trying to negotiate a crosswalk. Then he guides the car to a space with a sign reading 10-Minute Parking Only.

Over an hour-long lunch, Koretz describes BlueTie's genesis. He got the idea for the business in late 1998, after dropping out of college. (Koretz went to college for all of a semester before getting bored.) He got the business rolling with one phone call to his de facto mentor, Tom Golisano. Golisano is a gruff and inveterate skeptic who has grown Paychex into a multimillion-dollar publicly held company by taking nothing for granted. "If Tom doesn't see it," says Walter Turek, "he doesn't believe it."

In Koretz, Golisano saw the real thing. "He's a kid who knows more about business than 95% of the people I deal with," says the Paychex founder. When Koretz came to him, Golisano had one question for him: "David, is this the best idea you've got? Because I'm not investing in a business. I'm investing in you."

The bond between the seasoned company builder and the driven but inexperienced teen resulted from what amounted to the entrepreneurial equivalent of a stalking. During his freshman year at Rochester's Brighton High, Koretz's class had a "Shadow a Professional" day. His teacher suggested he follow around a local professor. Koretz wanted no part of a day with an academic. He was interested in business. "I told my teacher, 'I want Tom,'" he says. When the teacher replied that Golisano, a Rochester legend, was all but untouchable, Koretz rejoined, "Never mind. I'll call him myself."

Koretz pestered Golisano to the point of calling him daily at the office. "I tend to be persistent. If I want something, I get it," says Koretz. Finally, he wore down Golisano, who personally phoned Koretz to propose a round of meetings at Paychex that would last the better part of a day. Golisano, scarcely believing that any 14-year-old would want to sit through such a schedule, figured that that was a good way to lose the kid. "So, David, let me know if this is what you want to do," he said.

Koretz blurted back, "This is *exactly* what I want to do."

Their bond has since solidified. Golisano not only has invested in BlueTie but also serves as its chairman. He makes few angel investments but got involved with BlueTie for two reasons: the potential market is huge ("It's got to be in the billions," he says); and the kid, with all his smarts and energy and chutzpah, was worth the bet.

The latter was in evidence soon after Koretz, just 19, had started BlueTie. He realized that his strategy was wrong, and yet he had just taken \$10 million from his investors to pursue that stated strategy. Now he had to convince the board that a dramatic strategic change was in order. "I scared the hell out of them," Koretz says. But he bulled his way forward. "I told them, 'If I don't have the guts to change, then I risk losing all your money,'" he says. "I was so impassioned. I was absolutely positive that it was right."

Turek recalls that meeting and Koretz's thoroughness as well as his passion. "He had a very analytical approach, showing all the companies that were in the space and what he saw as happening in the market," says Turek. "When he laid it all out, I thought it was brilliant. I wondered to myself, 'Why hasn't anyone else thought of this?'"

Rochester is a study in contrasts, a medium-size city that seems to sit astride the fault line where the new economy grinds up against the old. The city has attracted its share of New Age telecommunications, Internet, and fiber-optics companies, but it also has become a tar pit for such faltering giants as Kodak and Xerox.

The medical-arts building downtown is redolent of old Rochester. Its striking art-deco details clash with the dim and musty air that fills its corridors. The second floor is home to the C&C Adjustment Bureau, the business run by David Koretz's parents, Elliot and Karen. It is a collection agency, a business you might think of as the polar opposite of one like BlueTie that raises funds from billionaire entrepreneurs. The Koretzes do what they can to shake a few bucks out of people who too often turn the rent money into their own brand of venture capital.

Karen Koretz is a former elementary-school teacher with a caring manner who, nonetheless, seems tough enough for the task of collecting money from people who want no truck with her. She is, she makes clear, extremely proud of what her son has achieved. "He was really driven, and it intensified as he got older," she explains. "You just don't stop that kind of creativity. I know he'll be very successful and very happy." One can't help noting the order in which those two words are uttered.

Koretz knew that her son would be different when he was 14 and spent the summer writing a business plan. By the time he was 16, that business plan had blossomed into his first real business, Compucepts. It distributed computers and consumer electronics to small businesses countrywide. He built it through furious rounds of cold calling after school, not to mention a willingness to trade day for night. Because David had Asian vendors, he would sleep from 5 p.m. to 9 p.m. and then work through the night in order to mesh his schedule with the Asian business day. After going to school in the morning, he would rush home and begin calling customers stateside.

Koretz came by his mania for business naturally. Besides his parents, both of his grandfathers owned businesses, as did two of his uncles. He decided to get serious about business at age 13. By then, he says, it wasn't unusual for him to read up to seven business books a week. Koretz methodically broke business down into 10 "competencies," with one express purpose in mind. "I wanted to be better than everybody at all of them," he says.

One Saturday morning, as Karen Koretz recalls it, "the phone rang. I was brushing my teeth, and David was asleep." The person on the other line stunned her. Apparently one of David's overseas vendors was eager to demonstrate his connections and had someone important on the line. Karen had to wake her 16-year-old son to take the call. "I said, 'David, get up, get up,'" she says, recalling the surreal experience. "One of your vendors wants to introduce you to the vice-president of South Korea."

Koretz fields up to 15 phone calls a day from people who want to invest in his company. "Everybody wants a piece of me," he half marvels, half complains. "I walk down the street and people don't ask me, 'Hey, David, how are you doing?' They ask, 'How's BlueTie doing? When are you guys going to IPO?'"

That kind of celebrity just comes with the territory -- and Koretz seems to revel in it. The gifts of youth are simply too precious to be passed up for the possibilities they promise. Or as Koretz says, "Everybody wants to catch a rising star."

Koretz's drive is infectious -- at least to those who can handle its intensity. Steve Wong, now BlueTie's vice-president of partnerships, has been one of Koretz's closest friends since high school. At school, he recalls, David was "a pretty normal kid except that he walked around with a cell phone and briefcase."

Normal, of course, is a relative term. Koretz claims to love tennis, but he has scarcely played in the past year. Work is just too important. "I don't take any holidays off," he proudly announces. Nor does sickness seem to slow him down. One day in late February, Koretz's voice when he answered the phone was so hoarse he could barely speak.

Koretz, like his employees, often sleeps in his office. Going back to his apartment -- with its three pieces of furniture and empty refrigerator -- is generally a waste of time. Koretz has not worn a winter coat in five years. He simply does not interact with the elements.

In the bitter wake of the dot-com implosion, you'd think that the appeal of self-assured twentysomething entrepreneurs would wear a bit thin. But Koretz's existence -- at least thus far -- seems charmed. He has given presentations to technology companies from AT&T on down. And last fall he was the keynote speaker at a convention called ASP 2000 in Madrid, Spain.

Perhaps it's his relentless pursuit of the prize that makes Koretz hard to resist; he turns those around him into believers. Soon after starting BlueTie, Koretz called Wong at college, where he had just started his junior year. It was 9:30 at night and Koretz told Wong about the company. An hour into the phone call, Koretz said, "So what if I wanted you to leave right now?" Wong laughed and said, "Make me an offer." Koretz did, and the next morning Wong --

telling no one, including his parents, that he was disenrolling from college -- gave away half his furniture and drove straight to BlueTie to go to work. He arrived by midmorning and spent the next five weeks at the company, even sleeping there, to help get it launched.

Wong considers that decision a no-brainer. "I know how dedicated he is," he says, referring to Koretz. "It was inspirational. He was excited, and it got me excited. It wasn't a question of, Should I? Why *wouldn't* I do this?"

Wong is in awe of Koretz's "incredible drive, his stamina." He recalls the time Koretz kept him up for three days straight. Koretz's drive, hitched to a thirst for knowing everything about business, has turned him into a dynamo. "As a businessperson, he could go pound for pound with anyone," says Wong.

That may be, but a more cautionary note is sounded by marketing director Dan DeJoy, who at 35 is the graybeard at BlueTie. When DeJoy was being recruited, he spoke at some length to the board. (DeJoy knew some of the board members because he had previously worked at Paychex.) "I told them, 'You've got a 21-year-old guy here. How much does he realize he doesn't have a lot of experience, and how willing is he to listen?'" DeJoy says. He observes that a lot of people who lack experience don't realize that fact. "They are not open to feedback. They can blow you out."

Does Koretz do that? No, says DeJoy. "But that's not to say he doesn't challenge you. The first word out of his mouth is always 'Why?'"

Perhaps it's his own skepticism that keeps Koretz grounded, because at least on its face BlueTie does not seem like just another dot-com headed for the Dumpster. To begin with, the company does not burn money by the bale. "People thought we were crazy for not doing a \$10-million marketing campaign," says Koretz. In fact, the company did the opposite. It worked in total secrecy for 14 months until it had a product launched. BlueTie has never given away anything free, and it has just 25 employees.

Koretz intends to have a national sales force of 50 by the end of this year and expects to turn a profit within the next 12 months. He notes that the company uses basic sales and marketing methods such as focus groups and telemarketing. It is also seeking to build partnerships with major telecommunications and broadband companies, banks, and credit-card companies as a way of gaining access to the small- and midsize business market it serves.

Like everything else he does, Koretz hires in idiosyncratic fashion. He recruits mainly from nearby Rochester Institute of Technology, hiring graduates as software developers and giving them a series of brainteasers to gauge their intelligence. (See "Koretz Meets Einstein," at left.) His intent is simple -- stretch young creative people by giving them interesting work and a lot

of responsibility.

Meanwhile, Koretz keeps asking as much of himself as he does of his employees. On a recent morning he was sitting at his desk, rubbing the sleep from his eyes. He had gone home the night before around midnight. "At 1:30 I started feeling like working," he says. "I pulled out the laptop, but after a while I passed out." He woke up again around 5 a.m., with his head bent over the laptop and the machine buzzing at him. Koretz convinced himself that he couldn't fall back asleep and willed himself back to work. "It's hard to sleep when there's all this work I have to do," he says.

What strengthens Koretz's already considerable conviction about the viability of BlueTie is the fact that "BlueTie allows people to work anytime, anywhere," he crows. "You're always connected."

And that, perhaps, is the strange irony of David Koretz. He has created something perfectly in his own image. He is nothing if not technology's child, a creature of the 21st century in all its digitized, workaholic glory. One might admire Koretz for all his energy and ambition, but what price do they exact? Over dinner Koretz asks, "Why wouldn't everyone want to work 70 hours a week?"

That kind of utterance might sound heroic, but unconsciously Koretz seems to acknowledge its downside. "I'm probably one of the oldest 21-year-olds in the world," he's said on more than one occasion. One assumes he is alluding to his experience, but the statement might apply to his physical being. With a baby face set on a tall frame, Koretz cuts a strange and contradictory figure -- youth fast-forwarding into adult. Indeed, given his widening girth and flecks of gray hair, Koretz could easily pass for a decade older than he actually is.

One thing is certain about Koretz, no matter how old or how wise he may be. He is unshakable in his quest. "He's so driven, he'll make it work," says Walt Turek.

If energy indeed equals success, then Koretz has it made in the shade. If not, he's faced with undoing a lifetime's worth of assumptions.

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Portrait of the Entrepreneur as a Young Man

Age 7

Koretz starts his first business, selling shells gathered during visits to his grandfather (left) in Florida. The old man offers to become his partner and supply him with more shells, but Koretz decides to collect all the shells himself when he visits again, to avoid having to share the

profits.

Age 13

Koretz is already reading up to seven business books a week.

Age 14

Koretz's mom realizes that he is different from other children when he spends his summer vacation writing a business plan.

During his freshman year at Brighton High he hounds local legend and future mentor Tom Golisano, founder of Paychex. Hoping to get rid of the boy, Golisano invites him to a day full of business meetings. Koretz is thrilled.

Age 16

Koretz starts his first real business, Compucepts. It distributes computers to small businesses all over the country.

Age 19

Koretz starts BlueTie with the help of \$10 million supplied by angel investors, including Tom Golisano.

Koretz Meets Einstein

David Koretz has his own method of screening job candidates. He gives them brainteasers. Here is one of Koretz's favorites, which is attributed to Albert Einstein.

Who owns the fish?

There are five houses in a row and in five different colors. In each house lives a person from a different country. Each person drinks a certain drink, smokes a certain cigar, and keeps a certain pet. No two people drink the same drink, smoke the same cigar, or keep the same pet.

- The Brit lives in a red house.
- The Swede keeps dogs.
- The Dane drinks tea.
- The green house is on the left of the white house.
- The green house owner drinks coffee.
- The person who smokes Pall Mall rears birds.
- The owner of the yellow house smokes Dunhill.

- The man living in the house right in the center drinks milk.
- The Norwegian lives in the first house.
- The man who smokes Blend lives next to the man who keeps cats.
- The man who keeps horses lives next to the one who smokes Dunhill.
- The man who smokes Bluemaster drinks beer.
- The German smokes Prince.
- The Norwegian lives next to the blue house.
- The man who smokes Blend has a neighbor who drinks water.

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