Opinion: From rags to resorts through entrepreneurship

By Doug French

When most people think of starting a business, or contemplate others doing so, the common belief is that a person should go into a business they have knowledge in — not just something they know about, but something they know lots about. But is expert knowledge of a particular industry really a prerequisite to opening a new business in that industry or taking over an existing business?

Self-made billionaire Sheldon Adelson says the secret to his success was "never knowing anything" about the businesses he entered. That sounds like an exaggeration, but he emphasized that point when speaking to students at UNLV recently, upon receiving the Hospitality Industry Leader of the Year by the UNLV's Harrah Hotel College.

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"You could hand me your laptop and I wouldn't know how to turn it on," Adelson told the students. "It was amazing I had success in developing Comdex."

Comdex was a computer expo in Las Vegas and was one of the largest computer trade shows in the world. Geek Week, as it was called, had a stunning rise from its beginning in 1979, with 167 exhibitors and just over 3,900 attendees to a peak in 2000 of 2,337 exhibitors and over 211,000 visitors.

Adelson's company, the Interface Group, sold the show to Softbank Corp., a Japanese software conglomerate, in 1995 for nearly $1 billion.

Adelson purchased the Sands hotel and casino on the Las Vegas Strip in the early '90s with hopes of building a convention center to house Comdex. "Entrepreneurs are not in the business of making others rich," Adelson said, explaining why he bought the Sands to build his own convention center rather than leasing facilities from the Las Vegas Convention and Visitors Authority, an entity funded by the room tax that operates the competing Las Vegas Convention Center.

Adelson knew little about the gaming industry and says he doesn't even know how to play baccarat, the game that generates most of his company's earnings at casinos in Macau and Singapore, properties that generated more than 83 percent of the company's revenues in the latest quarter.

Gaming insiders laughed at him for thinking he could build a fortune catering to low-rolling convention goers. Now Las Vegas depends on convention traffic to fill its rooms during weeknights. Every new property built in Vegas includes convention space – after Adelson proved the model works.

Scholars in the area of entrepreneurship might call Adelson's acumen Kirznerian alertness, or Schumpeterian innovation, Schultzian adaptation, or Misesian foresight of future consumer preferences. Or more completely, as they explain in their new book, "Organizing Entrepreneurial Judgment: A New Approach to the Firm", Nicolai Foss and Peter Klein stress an entrepreneur's judgment making "in the specific context of exercising control over heterogeneous resources in the service of satisfying future imagined customer preferences."

However, for the seventh-richest man in America, it's much simpler. "This is the nature of entrepreneurship. It's the willingness to take a risk," Adelson said. "It's a willingness to do things a little bit different.”

Thinking differently included not accepting the Las Vegas business-as-usual practice of kowtowing to the Culinary Union. When Adelson purchased the Sands, he inherited its union employees and didn’t necessarily care one way or the other about being a union property. This changed one morning when Adelson went to buy a yogurt.

The Culinary Union employee working behind the counter refused to serve him. The employee who had the job classification that allowed for waiting on customers was on break. The two employees left behind the counter could not, per the union contract, serve him (or anyone). What Adelson quickly realized was; he couldn’t operate a 5-star resort with those union rules.

However, the Culinary leadership wouldn’t budge, and told Adelson that the Venetian would never get out of the ground if he didn’t sign their contract. After all, Las Vegas is a union town, the “new Detroit” they called it. Bartenders and maids can’t be outsourced to India.

Adelson believed his employees should vote as to whether they wanted union representation. The union brass would have none of it. They would only organize from the top down, demanding that Adelson sign a “neutrality agreement” that is anything but. Adelson chose to fight, and against all odds, the Venetian remains the only nonunion Strip property to this day. But the fight goes on daily; with labor laws stacked in the union’s favor, it takes crafty lawyering and Adelson’s iron will to keep them at bay.

Forbes magazine estimates Adelson to be worth $24.9 billion, with the majority of his wealth being Las Vegas Sands Corporation stock. But a look at the price chart for LVS shows that it has been anything but a smooth ride, illustrating Adelson’s determination, confidence, and guts.

The company began trading on Dec. 14, 2004, with the shares jumping in price 61 percent the first day of trading to close at $46.56. The stock then steadily marched upward to over $133 in the fall of 2007. People around Vegas thought the shares could hit $200. But the financial crisis eradicated funding for Sands projects in Macau and Singapore. The company was bogged down with over $10 billion in debt and Las Vegas Sands shares went into free fall, declining to under $2 each in early 2009. But while the public believed a bankruptcy filing was possible, Adelson was shaking up Sands' management and investing another $1 billion of his own money in the company.

Recently, Las Vegas Sands reported to Wall Street that it collected more than $1 billion in pretax earnings during just the first quarter of this year, a first for a gaming company.

While academics try and identify what entrepreneurship is and what entrepreneurs do, with the hopes of training future generations of Sheldon Adelsons, what is apparent is that success can't be created without change. And changes to an industry or to the world don't come from tired, internal thinking but from fresh, external thinking.

Also, it's apparent that entrepreneurial abilities lie outside the particular skills and knowledge needed in a specific industry. You don't need to know how to make a Bloody Mary to start a successful saloon. At the same time, knowing how to make a killer martini doesn't mean the bartender has the required business judgment to make the saloon successful.

"Knowledge can be a subtle curse," writes Jonah Lehrer in his impossible-to-put-down "Imagine: How Creativity Works". "When we learn about the world, we also learn all the lessons why the world cannot be changed. We get used to our failures and imperfections." Lehrer goes on to point out that to be creative over time, "to not be undone by our expertise – is to experiment with ignorance, to stare at things we don't fully understand."

Studies show that people’s creativity tapers off as they get older. But Dean Simonton, a psychologist at UC Davis, explains that it’s not age that saps creativity; it’s that experience in a discipline makes people risk averse and they become part of the status quo. “If you can keep finding new challenges, then you can think like a young person even when you’re old and gray,” says Simonton.

Adelson, while now a billionaire many times over, started or acquired 50 businesses, and each time, as the Las Vegas Review-Journal’s Howard Stutz writes, “he wasn’t sure exactly what he was getting himself into.” Suffice it to say, the success of one of the businesses overshadows the other 49. However, Adelson has for the most part been consistently successful, starting with the first business he purchased – Vend-A-Bar, a candy-bar vending company he bought at age 16, using $500 he had saved, a $3,000 loan from a credit union, and a seller-carryback note of $6,500.

The young entrepreneur had to repair half the machines that came with the sale, but he expanded the business selling ice cream at the factories where his machines were located during the summer.

He learned court reporting at night, and became the secretary to Celia D. Wyckoff who had taken over Magazine of Wall Street from her husband after their divorce. By 1963, Adelson was in the mortgage business and at age 30 was a multimillionaire. But at the end of the decade he was broke. In the 1984 book “The Computer Entrepreneurs: Who’s Making It Big and How in America’s Upstart Industry”, authors Robert Levering, Michael Katz, and Milton Moskowitz, write of Adelson’s brief downturn: “Not one to dwell on failure, he refers to that incident as a ‘two-hour cry,’ as opposed to the ‘half-hour cry’ he had a couple years later when he lost $1 million in a condominium development that went bust.”

Quickly back on his feet, Adelson purchased a small publishing company, but, “He was no more interested in publishing than he was in quantum physics. It was just another company to invest in.”

Adelson saw the trade show as “a magazine in the flesh,” with the exhibitors as the advertisers, attendees as the readers, and the editorials as the conference. “Hey, I got a magazine. Why can’t I do something like this? I’d make a million dollars in three days,” said Adelson, and eventually Comdex was born.

At age 78 Adelson is not slowing down. Besides expanding his Asian presence with possible projects in Japan, Korea, and Vietnam, he intends to test his integrated-gaming-resort model in Spain, at a cost of $35 billion. “We are looking at 12 integrated resorts, 3,000 rooms each. A mini Las Vegas, about half the size of the Las Vegas strip in Spain for the European market,” said Adelson, speaking recently ahead of the opening of another Macau property.

Clearly something continues to drive the man Levering, Katz, and Moskowitz call “a Jewish Horatio Alger.” Mises perhaps described it best in “Human Action”: the entrepreneur is “a speculator, a man eager to utilize his opinion about the future structure of the market for business operations promising profits.” And while the entrepreneur is confident in his view of the “uncertain future,” that view “defies any rules and systemization.”

Hard to define and impossible to model, entrepreneurship makes the capitalist world go around and the rest of us much better off.

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