The Rules of Success

As MicroSolutions became more and more successful, and as I paid attention to the common traits of businesses that I saw succeed and those I saw fail, I came to realize that there are "Rules of Success" that I saw in companies that excelled. Where companies failed to follow those rules, inevitably, they failed. I found myself checking with "My Rules" before I made decisions. When I traded stocks or considered investments in companies, I applied The Rules to their business before I made a decision.

The Rules are not infallible. They have their limits. I'm an entrepreneur. My businesses have had hundreds and now more than a thousand employees. My world has been limited to starting, building, growing and running businesses that are never going to make the Fortune 500. My dreams were never to build the biggest corporation in the world. So, if you are a middle level manager in a Fortune 500 company, these rules may not help you manage your department. If you are the CEO of a Fortune 500 company with tens of thousands of employees, some rules will apply, some won't, but where they will help you is to know how little guys coming out of nowhere are going to disrupt your business.

Where The Rules will help you is if you are considering starting, or currently run your own business. There are always exceptions to any rules, but I can assure you that those exceptions will be rare. Entrepreneurs that don't follow the rules are far more likely to fail. There is no doubt about it.

So let's start at the beginning.

Rule #1: Sweat Equity is the best start up capital.

The best businesses in recent entrepreneurial history are those that have been started with little or no money. Dell Computer, MicroSoft, Apple, HP and tens of thousands of others started in dorm rooms, tiny offices or garages. There weren't 100 page long business plans. In all of my businesses, I started by putting together spreadsheets of my expenses, which allowed me to calculate how much revenue I needed to break even and keep the lights on in my office and my apartment. I wrote overviews of what I was selling, why I thought the business made sense, an overview of my competition and why my product and/or service would be important to my customers, and why they should buy or use it. All of it on a piece of yellow paper or in a word processing file, and none of it cost me more than the diet soda I was drinking while I was writing it up.

I remember the foundation for each of my businesses. MicroSolutions was very simple. To use microcomputers and software to help our customers become more productive, profitable and gain a competitive advantage. AudioNet, which became broadcast.com was simple as well: use the internet to enable real-time, worldwide communications of entertainment and business applications. HDNet is to create great entertainment, originated in High Definition format to allow our distributors to compete for the highest margin customers.

Once I could put the idea on paper, I gave the company a name. From there, I took the most important steps: I tried to find people to shoot holes in it. When we started AudioNet, I remember getting an appointment with Drew Marcus of Alex Brown (it could have been Larry, but I think it was drew :), an investment banking company. Drew followed the radio industry and I wanted to see if there was anything he saw from his experience that would blow up the concept. He loved the idea. We took it to Dan Halliburton of Susquehanna Radio. He was an executive in charge of several Dallas area radio stations. We discussed how he could broadcast his stations over the Internet using AudioNet and reach the in office market where there weren't many radios on desks, and few of those could pick up the AM signal of his stations. He loved it. I took it to Tim and Eric Crown, who ran a newly public company called Insight Enterprises. I asked them if it made sense to broadcast their quarterly earning conference calls over the internet so their investors and the research analysts who followed them could easily listen to the calls and get up to date information, or listen to an archive of the call if they missed it. They thought it would help them reach their Investor Relation goals less expensively.

Each step cost me next to nothing to get great feedback. Each enabled me to check the foundation of my business idea to see if it was easy to shoot holes in it, and most importantly, they all served as sales calls. Each company eventually became a customer of ours.

I went through this in each of my businesses. The step gave me confidence that my business idea was valid. That there was a chance of success. At this point, many entrepreneurs think the next step is to take all this feedback, update their 100 page business plans and go out and raise money. It's as if the missing link for success in a business is cash to get started. It's not. Far more often than not, raising cash is the biggest mistake you can make.

Most entrepreneurs tend to think in terms of what raising money means to them. How it can get them started? How many people they can hire? How much they can spend on office space? How much they can pay themselves? They forget to put themselves in the position of the person or company they are asking for money from. They think they are considering that person's position by making up numbers and calling them expected returns for the investor. If you only give me X dollars, you will get X pct back in X years. You will double or triple your money in X years. Any investor worth anything knows you are just making these numbers up. They are meaningless. Worse, if you tell a savvy investor that the market is X billions of dollars and you just need one or some low percent to make zillions, you are immediately kicked to the curb.

These investors, including myself, know what you don't, and they are not telling you. The minute you ask for money, you are playing in their game, they aren't playing in yours. You are at a huge disadvantage, and it's only going to get worse if you take their money. The minute you take money, the leverage completely flips to the investor. They control the destiny of your dreams, not you.

Investors don't care about your dreams and goals. They love that you have them. They love that they motivate you. Investors care about how they are going to get their money back and then some. Family cares about your dreams. Investors care about money. There is a reason why venture capitalists are often referred to as Vulture Capitalists. The minute you slide off course from the promises you made to get the money, your dreams fall in jeopardy. You will find yourself making promises to keep investors at bay. You will find yourself avoiding your investors. Then you will find yourself on the outside looking in. The reality of taking money from non family members is that they are doing it for only one reason, to make more money. If you can't deliver on that promise, you are out. You will be removed from the company you started. You will find someone else running your dream company. If this sounds like a scene out of the Sopranos or an episode you would watch on TV about a loan shark, you are right. The only difference is that it's all legal.

There are only two reasonable sources of capital for startup entrepreneurs, your own pocket and your customers pockets. I personally would never even take money from a family member. Could you imagine the eternal grief and guilt from your mom, dad, uncle or aunt because you blew your nephews college money or the money for grandmas last vacation… I cant.

You shouldn't have to take money from anyone. Businesses don't have to start big. The best ones start small enough to suit the circumstances of their founders. I started MicroSolutions by getting an advance from my first customer of $500. The business didn't grow quickly in the first couple years. We didn't grow past 4 people in the first couple years, and we all worked dirt cheap.

So what's wrong with that? It's OK to start slow. It's ok to grow slow. As much as you want to think that all things would change if you only had more cash available, they probably won't.

The reality is that for most businesses, they don't need more cash, they need more brains.

Stay tuned for more rules…