Book Reality Check

The Irreverent Guide to Outsmarting, Outmanaging, and Outmarketing Your Competition

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Recommendation

Entrepreneurs face terrible odds. Conceiving a new idea for a business and raising the start-up funds is hard. Executing your business plan is harder. "The reality of most businesses is that after a short honeymoon period...everything seems to go wrong." The typical new business encounters problems such as slumping sales, unexpected expenses and personnel issues. Limited support from venture capitalists, management consultants, lawyers and other professionals compound the challenges facing developing companies. While their products and services may be different, many fledgling firms share common problems. Preparing for likely stresses is the best way to contain them. Despite some material that might soon be outdated and a somewhat salty style, *BooksInShort* recommends this book to entrepreneurs seeking advice based on experience and uncommon sense.

Take-Aways

- Average business ideas attract average talent and support: Start something special.
- Successful companies sell products and services that shape the market.
- Raising money requires a short statement, or "mantra," about what a company does.
- Entrepreneurs and venture capitalists lie to each other, predictably.
- Slide presentations should obey the "10/20/30 Rule": They should include no more than 10 slides, last 20 minutes, and the text on slides should be 30 points or larger.
- Conserve cash. Generating sales offers bigger challenges than keeping up with orders.
- Smart companies enter into partnerships only to raise revenues or cut costs.
- Consider recruiting an imperfect job applicant if he or she loves your company's mission.
- Take a systematic approach to hiring and firing to enhance objective decision making.
- Starting a business is easier than delivering great results to investors.

Summary

Launching a Business, Crafting a Message

The notion that almost anyone can start a business in a garage and get rich quick is a fable. "Serial entrepreneurs" who have run several start-up businesses and who seem to have the right experience likely have managed more failures than successes. The steps to entrepreneurial success begin with a concise statement, or "mantra," that explains what your business does. A well-conceived mantra is more useful than a traditional corporate mission statement, which is usually too long, more bland and less readable. A good mantra can prove especially useful in securing start-up financing.

> "The closest real-world analogy to raising money...is speed dating...In five minutes, people decide if they are interested in you."

Consider and compose your business plan and other communications with potential sources of financing in mind. Perfect the executive summary of your business plan. If a busy investment manager reads just one part of an unsolicited business plan, he or she probably will read the executive summary, so its message must be concise and compelling. Lengthy, complex presentations are counterproductive. Adhere to the "10/20/30 Rule" in the delivery of slide presentations. Use no more than 10 slides, spend no more than 20 minutes delivering the presentation, and make sure the text on your slides is 30 points or bigger. Begin all your presentations with a description of what your company does.

Working with Venture Capitalists and Financial Angels

Entrepreneurs and venture capitalists play predictable games. When venture capitalists say they like your business investment opportunity but their partners dislike it, or that they will invest when your company gains momentum, they're probably lying. Venture capitalists may exaggerate the amount of time they will devote to guiding companies in their investment portfolios. Realistically, you can expect an investing venture capitalist to spend no more than five hours a month on your company. Entrepreneurs mislead venture capitalists, as well. Entrepreneurs routinely qualify their growth forecasts as "conservative." They contend that "no one is doing what we're doing," even though the presence of multiple competitors confirms the viability of their business model. Entrepreneurs claim their businesses can coexist with larger firms that are too "big, dumb and slow" to pose a serious competitive threat.

> "The products and services of most organizations are sold, not bought."

Entrepreneurs should seek out investors with sales experience and applicable technical knowledge. Avoid venture capitalists who specialize in management consulting, because their experience weighs toward conceiving ideas rather than executing business plans. Beware of venture capitalists with backgrounds in accounting; they tend to believe that "history not only repeats itself" but also "predicts the future."

> "Most of us fail to appreciate the extent to which our behavior is under situational control."

"Angel capital" investors buy into companies that are too small to interest venture capitalists. Potential angels must be "accredited investors," a legal term that excludes individuals with little money or a limited knowledge of investing. Unless the business in question is based on medical technology, doctors and dentists are the "least desirable" sources of angel capital. "They will drive you crazy" with their meddling and unrealistic expectations. Look for an angel who has money to invest and knowledge of your industry or technology.

Executing a Plan and Handling Unplanned Problems

Babson College studied businesses started by alumni who graduated from 1985 to 2003. The college found no evidence that those with a business plan performed better than those without. Some business owners adhered to a "flawed plan they spent months drafting." The best business plans feature a terrific two-page executive summary, incorporate one page of financial projections, and never run longer than 20 pages in total, including an appendix.

> "Always run leaner than you think is necessary, because your challenge will be creating demand, not fulfilling it."

Redo your financial prognostication every three months. Never make financial projections more than 12 to 18 months into the future. Always predict costs accurately. While external factors can account for inaccurate revenue estimates, the failure to forecast costs reflects poorly on management. Restrain business costs until revenue growth justifies increased spending. Business owners sometimes fantasize that greater scale will mean greater efficiency, so they allow expenses to "get in front of revenue."

> "Advertising is when you talk about how good you are, and public relations is when other people talk about how good you are."

If sales fall short of projections, try to land sales of any size because "little successes build confidence." Remember that small accounts may grow into major clients. Fire account executives only after giving them second or third chances to improve their performance and close more sales. Well-run businesses survive sales slumps by taking pre-emptive action to conserve cash. The best approach to cash conservation varies by type of business. General solutions include freezing hiring, slashing marketing budgets and reducing management compensation.

Marketing and Sales

Marketing drives sales. Even the best product or service can't sell itself. Marketing discussions overlook recurring, easily preventable or reversible marketing mistakes. For example, any company that requires website visitors to register immediately is subtly encouraging the online public to go away. Other barriers to "adoption" of a website include omitting a search function and requiring that visitors retype their email addresses to gain access.

> "Management consulting is bad because it leads you to believe that implementation is easy and insights are hard, whereas the opposite is true in [business] startups."

Marketing-oriented entrepreneurs get rich by successfully branding their businesses. Support organizations establish their brands more through public relations than advertising. The worth of a brand depends on what customers say about it. Sound public relations can generate external confirmation of brand value, whereas advertising cannot. Great brands convey one clear message, and they "seize the high ground" by emphasizing that their products improve society or inspire joy in their customers. Great brands do not attack their competition.

> "The optimal length of a voice mail is fifteen seconds."

Sales discipline requires adhering to a checklist of best practices, selling proactively and resisting the reflex to wait for customers to express interest. Let prospective customers talk during sales calls as you note the motives they reveal. Determine who the "key influencers" of sales are on the buyer's side and strive to win their confidence. Encourage prospects to make small purchases at first and larger purchases later when they are satisfied.

Customer "Evangelism" and Product Innovation

As former prospects become satisfied customers, they also become evangelists for your company; that is, they promote your products and services to others. This is why product innovation matters so much. No matter how well a company advertises its brand, only well-received products and services inspire fanatical devotion. Put another way, "you either attract believers or you don't." Bringing in believers essentially involves fresh approaches to customer satisfaction. The most successful innovators personally want to use their own products and services. Their inventions can transform markets by rendering other products obsolete. In the software industry, companies regularly kill customer demand for older programs (including their own) by introducing newer, better versions. "Macintosh killed Apple II: would Apple still exist if it tried to 'protect' the Apple II cash cow ad infinitum?"

> "The purpose of cash cows is to fund new calves."

The acronym DICEE represents a useful framework for product development. It is shorthand for five important product qualities: "deep, intelligent, complete, elegant and emotive." A deep product retains functionality over a long period of time, even as its users' needs change. Products exhibit intelligence in smart design, completeness in intangibles like customer service and technical support, and elegance in ease of use. When these products also provoke positive emotional responses from users and generate word-of-mouth advertising, they fulfill the DICEE framework.

Exerting Influence

Robert Cialdini, an Arizona State University professor of psychology, wrote the book *Influence: Science and Practice* for people seeking guidance in shaping the opinions of others. Cialdini identified "six universal principles of influence," including reciprocal behavior, the impact of exuding authority and the benefits of befriending others. People also tend to have more interest in scarce products than abundant ones. They generally follow the apparent consensus of opinion, and say yes to conditions consistent with what they already regard as acceptable. Apply these psychological aspects to help you run your business and deal with constituents including investors, directors, employees, partners, vendors and customers.

> "Enduring long, boring, pointless meetings is a survival skill."

Influencing important people has beneficial potential, but shaping the opinions of "folks who don't have big titles but make the world run" is more useful. Consider a disagreement between a passenger and an airline ticket agent. If the passenger makes a sympathetic effort to resolve things, the airline agent might be moved to cooperate. Otherwise, the agent might ensure that the passenger and the passenger's luggage fly to separate destinations.

Finding the Right Business Partner

Start-up Internet businesses attracted a wave of investment in the late 1990s, sometimes by simply announcing a vaguely worded "partnership" with larger, better-known companies. A real partnership requires more than just an enviable association. Companies should seek partners that will build on their best qualities – not ones that will disguise their flaws.

> "Maverick companies exude an undeniable sense of purpose."

The soundest motive for forming partnerships is "spreadsheet reasons" – that is, the affiliation will have a significant and beneficial impact on revenues or costs. Usually one partner has more power than the other, so if an agreement fails to protect the weaker partner, the association likely will dissolve. Flexible partnership agreements contain an "out clause," allowing either party to exit easily. When assessing the potential of a proposed partnership, don't seek men's opinions; they "have a fundamental genetic flaw," which means they agree to collaborate with anyone. Women are more thoughtful than men about the prospects for business partnerships. Wait until you and your partner reach a tentative agreement seeking legal advice; involving lawyers too early might prematurely terminate the process.

How to Hire and Fire Employees

Recruiting employees is an art. Yet certain principles apply to the recruitment process. Assessing academic credentials alone, for example, might prove insufficient. Employers need to find talent that matches their particular needs. Job candidates who lack academic credentials but are "infected" with a love for their potential employer's mission may be better qualified than other candidates with impressive university degrees.

> "Innovation is a hard, messy process with no shortcuts."

Laying off or firing employees requires a disciplined approach. In a layoff, employers get the best results by making one significant staff reduction, not by a series of smaller cuts. "Clean house" by sacking the worst employees. Dismissing productive workers sends the wrong message to the rest of the staff. Before firing an employee, consult impartial observers and get guidance on employment law. Document all reasons for the termination. Ideally, the day of the termination will be the last day of employment. Refuse requests from canned employees to stay on the job for another week or longer.

> "One of the biggest mistakes...is to accept the known and resist the unknown. You should, in fact, do exactly the opposite."

Avoid rushing the sacking process. A "rapid fire" approach is risky. Taking time to understand the poor performance of an employee may reveal problems beyond his or her control. Is the worker trying to do an "impossible job" or facing a set of vague or conflicting goals? Would the staff member face possible termination if business conditions were better? Rapid-fire advocates claim "nobody ever got fired too early." But morally, companies should give underperforming employees one or more opportunities to improve their performance. In some jurisdictions, employers legally can fire workers "at will," or without clear justification. But "it is still immoral to fire people without helping them understand what they need to improve."

About the Author

Guy Kawasaki writes business management books and is a founding partner and entrepreneur –in residence at Garage Technology Ventures.