Book Better, Stronger, Faster

Build It, Scale It, Flog It: The Entrepreneur's Step-by-Step Guide to Success in Business

Brad Rosser
Infinite Ideas, 2009
Listen now

- play
- pause

00:00
00:00

Recommendation

Don't believe that most entrepreneurs are brash adventurers who act without thinking, mindlessly hitching their wagons to any bold, new enterprise. It certainly is not true for serious businesspeople who succeed over the long haul. They are the brilliant strategists who think 12 moves ahead. And what are those moves? Entrepreneurial aspirants can find out by reading this rollicking good book by serial starter-upper Brad Rosser. A former McKinsey & Co. consultant, Rosser worked closely with famously successful moguls, including Sir Richard Branson (Virgin Group) and property tycoon Peter Beckwith (PMB Holdings). *BooksInShort* finds that Rosser's smart, savvy book provides the necessary know-how to get a business up and running – and all in his signature Aussie-style combination of bonhomie and brio.

Take-Aways

- Only 20% of new businesses survive five full years of operation.
- Sadly, most entrepreneurs do not think their ideas through carefully.
- A "bulletproof idea" meets all the criteria of successful entrepreneurship.
- You need credibility to get start-up funding from outside investors.
- Cash is king. Make sure to have the operating capital required.
- Spend your money on "front-end" expenses that directly relate to the customer, such as product quality and marketing.
- When launching a business, focus on the lifeblood of your start-up – sales – not on brand building.
- In negotiations, be prepared to abandon the deal if you cannot get what you want.
- Hire street-smart employees who think like entrepreneurs.
- To sell your business for the best price, look for a buyer in your industry.

Summary

Case Study: How Not to Ask for Start-Up Funding

Like prisoners heading to their own executions, two men dragged themselves into the office of a venture capitalist, hoping that he would fund their new enterprise. They carried two cartons of disgusting brown liquid, which they unceremoniously plopped down in the middle of the financier's desk. He stared at the cartons, wondering if the noxious-looking fluids might burn right through his desk.

"Start-ups must concern themselves with survival above all else."

After a nervous silence, one of the men managed to say that the liquids were special energy drinks for pets: "Woofit" for dogs and "Meowit" for cats. The men looked immensely pleased, as if they had developed a cure for cancer. But they could not explain the market for their new products, who the customers would be or why anyone would buy energy drinks for pets that, by and large, possess ample energy. The men left without a penny.

"Only 20% of new businesses survive to see their fifth birthday."

An atypical case? Not at all. Most start-up firms do not stay in business over the long term. And few that survive are ever sold for a profit. Why? The answer is simple: Most entrepreneurs do not think strategically about what their start-ups require for a successful future. They kid themselves that their great ideas alone will magically transform them into the next Bill Gates or Steve Jobs. But defining a "bulletproof idea" and building a lasting, viable company demands a "structured framework." Answer these questions to erect your start-up's scaffolding:

- **"Can anyone make money in this market?"** – Some markets and industries are conducive to new ventures; others are not. When personal computers first became popular, computer hardware suppliers and technical support firms made money easily. By contrast, today's DVD industry – a mature market with thin margins – is a tough place for a new business to operate.
- **"Can my product satisfy an unmet customer demand?"** – Would-be entrepreneurs must figure out, "Why would anyone buy my product?" You and all your kin believing in your great business idea means nothing if potential clients do not feel similarly. Ask: "Is the proposed product special?" "Will it offer more quality than competitive products or services?" "Will it be cheaper?" "Will it make money?" "Does it make life easier?" You must find positive answers to all these questions.
- **"Can I sell it for more than it costs to make today and in the future?"** – Many novice businesspeople think this is a silly question. Their typical response: "Of course I can. I'll just add a mark-up to my costs." But consumers may not be prepared to pay your price. Customers control what gets bought – not suppliers.
- **"Can my project make money?"** – If the numbers don't add up, abandon your idea.
- **"Can I manage the inherent risks in the business?"** – Common risks reside with competitors, clients and suppliers, as well as legal and regulatory problems. Entrepreneurs with superior products or services can better control risk.

"It is no accident that some businesses succeed and others don't."

About 80% of start-ups don't make it past their fifth year of operation, due to lack of income. Start-ups need strong, consistent sales volume that translates into cash. Entrepreneurs often do not spend money wisely. Expenses drain their operations, reduce their margins and steal the time they need to achieve long-term success. Any start-up must focus on survival. All else is secondary.

"It's the business-builder's lot to be treated as the lowest of the low, unimportant, just another time-waster."

Cash is precious to any business, but especially to fledgling start-ups. Spend money only on essential "front-end" expenses, which include "product, packaging, pricing, marketing, sales pitches, closing sales and sales staff." During your launch, focus on sales; do not invest in brand development at this stage. Nevertheless, work hard to ensure that customers can trust your brand.

"Most funders would rather see you die than work half-heartedly on their investment."

Spend as little as possible on "back-end" expenses, such as "manufacturing, information technology, human resources, finance, logistics [and] administration." Base all your expenditures on current – not anticipated – sales volume. To boost sales, use these three techniques:

1. **"The pitch"** – Begin with a compelling "call to action," a pitch that excites your prospects. Your "store design, the floor layout, point-of-sale materials, packaging, the counter and the sales person behind it" are all aspects of a sound pitch.
2. **"The 80/20 rule"** – If your product is already 80% perfect, move ahead. Don't keep fiddling to try to achieve perfection, which is unattainable. You may want to make this rule "70/30" or even "60/40." When you and your product are ready – not flawless, but ready – go to market and get customer feedback.
3. **"Leap and learn"** – Right out of the gate, engage with your customers to understand what they like and dislike.

"Assessing ideas truthfully and without ego is the hallmark of all great entrepreneurs."

To get the outside cash investors that your start-up needs, establish credibility. Credibility means delivering on the promises that you make, specifically about your business prospects. Credibility requires answering yes to these questions: "Is your idea practical?" "Will it work?" "Are you fully committed?" "Can you succeed?"

"Your vision is the biggest asset that your start-up has."

Build credibility with your stationery, business cards and website, and with your PowerPoint presentation. Your standing will suffer if you work out of your home – to be taken seriously, work from an office. Third-party testimonials also help establish your trustworthiness. Dress well. Demonstrate your personal commitment to your start-up; invest your own time and money. Develop strong public relations, which means creating solid relationships with journalists. Help a journalist develop a scoop, and you will have a friend for life. Some possibilities for delivering good stories:

- **"Bad guy/trouble"** – Show how you are the good guy and how your competition, with its high prices and inferior products or services, is the bad guy.
- **"Your business is going to revolutionize the world"** – Or explain that it will at least change your industry.
- **New management team members** – Trade publications thrive on such stories.
- **"Statistics and data"** – Help journalists interpret the business landscape with your specialized analytics.
- **Local angles** – Find local stories that nourish media outlets in your area.
- **Case studies** – Choose ideas that reflect current trends.
- **Stunts** – To publicize Virgin Bride, Sir Richard Branson wore a wedding dress.

Negotiations

An effective negotiator can secure funding without giving away the store. Think of negotiations as a "four-legged table":

1. **"Clear vision"** – Communicate your business precisely and compellingly.
2. **"Relationships and trust"** – Before you negotiate, develop a trustworthy connection with the person across the table.
3. **"Check your ego"** – Everyone in a negotiation is equal to everyone else. Getting the best deal should be the only thing on your mind.
4. **"Prove yourself"** – A start-up has no track record, so you must show that your business can be viable.

> "Challenge yourself to deliver a truly exceptional product. If you do this, the risks should take care of themselves."

The three primary elements of any negotiation are:

1. **"Win-win"** – In a negotiation, you are not cutting up a pie, you are creating a bigger pie for all parties to share profitably. Focus on the first priority of any start-up: the future. Find a positive outcome for everyone.
2. **"Stop-loss"** – Know your "absolute minimum objectives." Break down your goals as "must-haves," "good to have" and "can live without." Draw a line in the sand. If the other party crosses it, abandon the deal.
3. **"What the other side needs"** – Understand what your counterparts must achieve.

> "Your first point of call is always your business's bank balance."

Use proven negotiation tactics. Establish rapport. Let the other side be the first to show its hand. Disarm your counterparts when you can. Play the "good-cop, bad-cop routine." Put aside difficult issues until later. Always have an alternative to the negotiated deal, so you can walk away if you cannot get what you want.

> "Accounting is an art not a science."

When negotiating for operating capital, use more refined tactics. If you're seeking a loan, stretch out the "repayment date." Bargain for a "nominal interest rate." Insist that you will make repayments only "when the business can afford it." Create loan payment milestones that correspond with specific achievements.

> "The more competitors there are in an industry, the harder it will be to succeed."

If you're dealing with would-be investors, offer "free equity," but "keep it under 50%." Supply equity "in chunks" that correspond with funding amounts provided on specific dates.

Up and Running

OK, you have the money you need. Now you must make smart decisions and ask the right questions. Focus on immediate costs and revenues, not on income that might or might not come. Figure out the metrics you'll use for tracking your financial performance.

> "Running a business is not all weddings and no funerals."

Keep your budget simple and under two pages. Carefully review your "key performance indicators," the numbers that measure how your business is working, particularly your balance sheet. Business activities are often a series of projects or initiatives. Base your decisions about specific projects on the "payback principle":

- **"Do everything on a cash basis"** – Don't tally sales until you get paid. Promises do not count; cash counts.
- **"Only consider incremental costs and revenues"** – Base your expense total on specific projects or activities. Avoid "complex, made-up allocations."
- **"List all fixed costs"** – Don't miss any, and keep them to a minimum.
- **"Calculate your profit margin"** – What is your "incremental revenue" from a "single product" sale? Deduct the "variable costs" for that sale. Count only revenues you can directly gauge.
- **"Find out exactly how many items you need to sell to recoup all your costs"** – You can calculate your break-even figure "by dividing...fixed costs by the profit margin per sale."
- **"Compare your break-even with other points of reference"** – How does your competition measure its break-even or profit points?
- **"Make a judgment call"** – Your primary consideration should be: "Is the return worth the risk?"
- **"Don't look back: Move on"** – Get ready for the next project or initiative.

> "A key supplier who fails to perform can literally send a start-up bust within months."

Your start-up's survival depends on finding the right staffers and the right suppliers. Hire people with entrepreneurial spirits and "street smarts." Constantly recruit. Base your compensation package on incentives.

The best suppliers are "small, trustworthy, needy" and "close to you." Make sure your partners solicit you, not the other way around. Work with them on a "six-month trial."

Time to Cash In

Congratulations! You survived and made money. You have a profitable enterprise, and now you want to sell your company. Make sure it's ready to be sold. Bring in a management consultant to confirm that your administrative, finance, information technology, customer service, human resources and legal units are operating in a strong, sustainable way. Find a good lawyer, and take on a good adviser, not a "transaction shark." Pay that person for his or her performance.

In the crucial negotiation to sell your business, don't mislead a potential acquirer. Look for someone who operates within your industry (a "trade buyer") to get the best price. If you must deal with a private-equity company, expect its representatives to be hard-nosed. Investors want short-term results. Don't get greedy.

If you can, avoid expensive "stock market flotation." That means being paid "in shares, with limited cash." You'll likely need to hold onto your shares for years to get the full value of your sale.

About the Author

Brad Rosser is an entrepreneur. His latest commercial creation is the BetterStrongerFaster Group. Rosser worked for McKinsey & Co., Virgin Group and Bond Corporation.