a Beermat publication

From the Beermat

the e-book

Thoughts on enterprise from the 'Director' magazine column 2002 – 2007

by **Chris West**

About the author

Chris West is a writer, trainer and marketer. He is best known in the business world as the best-selling co-author of *The Beermat Entrepreneur*, and of the subsequent ‘Beermat’ series (*Sales on a Beermat*, *Finance on a Beermat*), but has also written travel, self-help, and a series of crime novels set in contemporary China. Chris has a background in marketing and PR. Since the publication of *The Beermat Entrepreneur*, he has advised many start-ups and spoken on enterprise in the UK, Europe and America.

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Introduction

The articles that make up this e-book have been gleaned from our ‘From the Beermat’ column that has appeared in ‘Director’ Magazine since 2002.

‘Director’ is the house magazine of the Institute of Directors, an institution which many people assume to be peopled by corporate bigwigs – until they go there and experience the buzz of entrepreneurial activity going on within its rather formidable portals.

‘Director’ was the first media outlet we approached when *The Beermat Entrepreneur* appeared, as the readership seemed ideal for our messages. The editor, Joanna Higgins, agreed. We were given a wide remit – ‘just be interesting about business from the entrepreneurial standpoint’. We hope we have fulfilled this.

The business world has changed greatly since I began writing the articles. The dotcom boom and bust, in whose shadow the first pieces were written, is now an interesting piece of history, alongside the Industrial Revolution, the Battle of Hastings and so on. But, of course, many of the drivers behind that strange era are still in place. The world keeps shrinking and speeding up.

Yet at the same time, the basics of enterprise are unchanging and unchangeable – some of the pieces I enjoyed writing most were about classic entrepreneurs such as Thomas Edison and Matthew Boulton, and what we could learn from them (answer – a hell of a lot). In the end, it’s always going to be about vision, clarity, courage, application, action and, above all, enjoying the journey. As I hope you will enjoy these pieces…

Chris West
Cambridge 2007

The Legend of the Lone Entrepreneur

"Hi-yo Silver!" The stallion rears scarily up on its hind legs – but the masked rider stays cool, and regains control of the beast before galloping off into the sunset. Another wrong righted; another week in the life of the Lone Ranger.

One popular misconception about entrepreneurs is that they have to take a leaf out of this guy's book, and become solitary – or almost solitary – seekers of their goals. Isn't this what enterprise is all about? 'Going it alone'? It certainly feels that way the day you begin trading, or when you get that letter from the bank: yes, you can have the loan, but the security is your house…

But that is not a feeling that can or should last. In the long run, the Lone Entrepreneur is very unlikely to succeed. Great businesses are created by great teams of people, not by lone individuals.

Some entrepreneurs reply: "But only I provide the drive, the focus, the vision!" Undoubtedly, but these things on their own are useless, unless they can be imparted to other people who'll help turn them into a functioning business. We meet a lot of talented and energetic individuals with excellent-sounding ideas who are still trying to realize these ideas – on their own. We tell them they will fail unless they can build *and sustain* a team around them. This doesn't always go down hugely well, but we have to say it.

Many more entrepreneurs have understood their need to create teams, but are not clear exactly what individuals they need or how to get hold of them.

We reckon that the ideal number for a founding team is five. The entrepreneur plus four 'cornerstones'. Imagine your business as a pyramid, with the entrepreneur at the apex. The cornerstones hold up the base. Cornerstones share the entrepreneur's desire for high risk and high rewards, but at the same time ground him or her via their particular commercial (finance or sales) or technical discipline. Incidentally, teams nearly always need two technical experts, one to imagine new products and create prototypes, the other to see these prototypes through to effective mass production.

Note that the entrepreneur may well cover one of these bases (the danger is that they believe, mistakenly, that they can cover all four!). We still think they should balance the numbers with a fifth person, preferably someone who comes from their own discipline, or maybe someone with huge admin experience.

You do not need this great team full-time from Day One. The best ideas are normally hatched by two or three people (usually an entrepreneur plus a friend or two) – the nucleus of the team. Other skills can be bought in as required. For example, Mike's first company, The Instruction Set, began with the entrepreneur plus the sales and innovation cornerstones. The delivery cornerstone was part-time for a while (also lecturing at a university): the finance cornerstone was the last to join, only giving up a lucrative job at Goldman Sachs when he knew the company was going places.

We meet many partially-formed enterprise teams, and the problems they bring us almost always relate to having a weak or non-existent cornerstone. Books get 'done' by a local accountant, and there's nobody worrying every day about cashflow; there's nobody who really understands the minutiae of delivery; there's a person who's 'done a bit of marketing' in charge of (but not actually closing any) sales.

OK, so you're a cornerstone short – imagine that pyramid again, but with one of its supports missing. How do you sort this?

The best solution is to look to your own networks. I knew an aspiring journalist at university who kept files on fellow-students he thought would be useful contacts later in life: entrepreneurially minded people should do the same with potential cornerstones. Networking is a key entrepreneurial skill – another blow to the 'Lone Entrepreneur' model.

If you think you are cornerstone material and are looking for a small business to get involved in, what should you do? Network, too. Get out more. And go online, to a networking site like Ecademy.

Or try an advert. *Finance cornerstone, non-smoker, mid 30's (i.e. 39) seeks entrepreneur for long term relationship. Good sense of humour essential.*

The ability to build and sustain a team is a crucial, and often much understated, component of business success. It is understated possibly because too many entrepreneurs like to claim they did it all themselves. Don't believe such claims. Even the Lone Ranger needed Tonto – the perfect delivery cornerstone – and that trusty old chap at the silver mine to keep the whole operation cash-positive.

Lessons from Great Entrepreneurs: Brunel

Take a train from London to Bristol, and you are riding a piece of history. While you're in Bristol, visit the Clifton suspension bridge and the SS Great Britain. The link between all these is, of course, Isambard Kingdom Brunel. Like Edison, Brunel is one of our heroes: courageous, brilliant and visionary. He thought conceptually, the way great entrepreneurs do – the point of the great iron steamships was to 'extend the Great Western Railway so that it ran all the way from London to New York' (how's that for a Victorian elevator pitch?)

Like many great visionaries, he failed to realize the vision fully. The only way the plan could have worked was to build a new port at Avonmouth, and the small elite who ran Bristol blocked this. So, the grand vision became a series of smaller visions, and Liverpool won the battle to be the great Victorian embarkation point for America (to think, if Brunel had got his way, we might never have had the Beatles…)

The railway nearly failed, too. Like most entrepreneurs, Brunel was insistent on getting involved in every aspect of the business. This included the notorious decision to use his own gauge. The rest of England ran on rails the distance apart they are now, four feet 8 inches. Brunel wanted his gauge seven feet wide. Again, his visionary, overall thinking was spot-on. Early Victorian railway business came from freight. Brunel understood that the future of railway transportation lay in passengers and that passengers would require speed; at the time, the standard-gauge trains ran too slowly as the engines were too dinky. Brunel would create monster engines to speed pull the trains along his railway at the then unimaginable speed of 50 miles per hour.

As usual, execution was the difficulty. The non-standard gauge was always a niggle, but, worse, the special locos he designed were underpowered and unreliable. Brunel did not sufficiently understand steam technology. Luckily he secured the services of a brilliant young engineer, Daniel Gooch – thereby demonstrating another key entrepreneur skill. Gooch wrote to Brunel asking for a post: Brunel interviewed him, realised his ability and appointed him chief engineer. Great entrepreneurs spot good people and have no hesitation in promoting them.

Note that there are other key figures in the GWR story. Charles Saunders was Brunel's finance cornerstone. The great entrepreneur insisted on quality (and thus expenditure): Saunders ensured that the money was there. (Other Brunel enterprises such as the SS Great Eastern lacked a finance cornerstone and duly suffered.) The business also had a mentor in Charles Russell, an influential MP who ensured that the right strings were pulled in the right places.

What can the modern entrepreneur learn from this? Firstly, the importance of vision, but also the ability to temper this with realism. It's a difficult call: how far can you water down your vision before it becomes neutered, insipid and valueless? You have to take a stand somewhere. Brunel ended up getting this compromise dead right: the London – New York travel machine didn't really work; the London – Bristol travel machine was a glorious winner. The key seems to be to compromise one value at a time: in this case, reduce the geographical scope but not the insistence on quality.

Secondly, of course, is our old friend the team. The Gooch story is illustrative. Look very honestly at your team and ask where the hole is. It may look a small hole, but is it critical? Following the Beermat model, the GWR needed two technical cornerstones, one to handle the big picture, the other to hone in on detail. The Brunel / Gooch split was actually a subtle refinement on this. Brunel was the innovation cornerstone, designing all sorts of things from tunnels to signalling systems, but he lacked the depth of skill in one particular, crucial, specialist area. He had to recruit a second innovator, what we would call a 'critical technology cornerstone'. Had Brunel flown modern consultants back in a time machine to help him, they would probably have lectured him about the need to master 'core competencies': he just used common sense.

If you take the train from London to Bristol, enjoy the ride and think of the great entrepreneur and engineer who built the line over 150 years ago. He is a hero now, but in his time was a controversial figure and, contrary to his more hagiographical admirers, did not get everything right. Maybe that's the most important lesson of all from this great man.

Your Mentor: A friend in high places

We work with the Prince's Trust, and have become convinced that their mentoring scheme is a major reason why their start-ups have such a good survival record. So if you're starting a business, get yourself a mentor. But where from, and exactly what should you be looking for?

There are a number of formal mentoring schemes run by government support agencies. These are good, but we believe that the *best way* to get a mentor is to go and find one yourself. A mentor that you seek out is more likely to devote substantial amounts of quality time to you and your business. More important still, the search is a key part of the process of proving your idea. Remember, the Beermat way is about cautiously but rigorously testing and building an idea before you commit totally to it. Finding a really good mentor is one of the best signals you'll get that your business has got what it takes.

Look for an experienced, senior business person. Not a fellow entrepreneur – all you'll do is sit in the pub swapping brilliant ideas. The mentor's job is to help you develop your one, best idea. And while all mentors should be at heart optimists, a measure of realism is needed too. Note that your mentor does not have to be an expert in your field. A wide range of business experience is preferable. Don't be an e-snob: the world does not divide neatly into dudes and dinosaurs.

They must, of course, like you, and you must like them. Someone may look great on paper, but if you don't click, they won't put themselves out for you.

Why do people become mentors? To 'put something back' – and because it's fun. Life at the top of big corporations can become a bit unreal: mentoring a start-up is the business equivalent of getting rid of the Lexus and buying a sports car. So place at the heart of your pitch to a potential mentor that they will enjoy it. And when you do find one, make sure they do enjoy it. Involve them as much as possible.

Finding the right mentor can be time-consuming, but the search is a powerful learning experience in itself, and a successful outcome can make all the difference to your business. A good mentor will provide advice that would cost thousands of pounds, for the sheer pleasure of helping you and your business. They'll put you in contact with all sorts of interesting people. And you will learn massively from them, in all sorts of ways. Receiving mentoring can be rewarding personally as well as financially.

Leadership and Sportsmanship

Leadership is always a hot topic. However we feel that a lot of writing on the subject, while interesting, is of little relevance to the smaller business. Great Leaders may inspire us individually, which has to be a good thing, but is the kind of leadership they provide really what is needed in a start-up or SME?

Great Leaders (note the capitals) clearly have a vision, and this is important in the start-up. Great Leaders paint a positive picture of the future, and keep painting it for all to see, even when things get bad. Ordinary leaders should do the same.

By definition, most of us are not Great Leaders, and never will be. Actually, we find this something of a relief. It might be inspiring to think of ourselves in Churchillian mode some of the time – and why not, if that gets tough stuff done? – but the rest of the time, are we not in danger of setting ourselves the wrong targets? Great Leader models aren't relevant, either to the challenges we face or to the kind of people we are.

To take the second point first… Many Great Leaders turn out to have been not particularly pleasant individuals. A streak of ruthlessness is important to business success, but Great Leaders often have major personality flaws. There's nowhere to hide these in a smaller business: ironically it's easier to hide major flaws when your interaction with your followers is indirect, through speeches, TV appearances or the occasional walkabout, speech to the troops (or whatever). The Great Leader can get away with being a consummate actor or actress; the start-up leader does not have this protection.

Then there's the issue of the task in hand. Great Leaders deal with huge military and political forces. They are masters of strategy. This is why books on strategy often resort to war as a metaphor, charismatic CEOs admit to sleeping with copies of Clausewitz under their pillows and Sun Tzu's 'Art of War' is trumpeted as the perfect MBA textbook.

A much better metaphor for start-ups is sport.

This is not because start-up business is somehow non-serious. If anything, it is corporate life that has room for slack and coasting. But a start-up is not an army or a major political party, it is a tiny group of people. So is starting up like guerrilla war, then? In a way, but still not when you look at it closely. Guerrillas have to have iron discipline – 'obey orders in all your actions' was Mao Tse-Tung's command to his fighters. They also need to be fanatics.

Your team must clearly have discipline, but not 'in all their actions'. They need to improvise, too, and act on instinct and the moment, like sports people.

Should they be fanatics? There's something scary about that – we would rather work with enthusiasts.

Your employees should have fun. Yes, it's hard work, but it's also exciting and enjoyable. War, despite the glamour bestowed on it by some movies, is not fun. (It may sometimes be necessary, but that's another debate.) General Sherman had it right: 'War is hell'. Business may get tough, but it should not be hell.

And you really need a 'strategy' anyway? A vision, yes. A business model, yes. But if you can differentiate your products and communicate that difference to enough of the right people, you have no need for the great rumbling manoeuvres of big corporates.

The two mainstays of Great Leadership, the ability to move millions through media and mastery of grand strategy, turn out to be largely irrelevant to start-ups. So what qualities should you have to lead a real-life smaller enterprise?

Being positive, sometimes irrationally positive, is probably the key one. The leader in any organization sets the tone, and in a small organization you are totally visible. In moments of crisis, when other people are panicking, you must hang on to your belief and optimism. It's not easy sometimes, but it is essential.

Linked to this is 'keeping the vision'. We've already discussed the huge value of this.

Personal skills matter, too. You must be able to build and motivate teams. Many entrepreneurs are charismatic. Lucky them. But if you are not charismatic, don't feel that you cannot lead. This is an illusion created by the Great Leader mythology. Be firm, determined, polite, straightforward and fair. It will get you a long way.

Small business leaders need to be assiduous. Elsewhere, we quoted the favourite advice of Mike's hugely successful mentor, Sir Campbell Fraser – but we like it so much we'll quote it again. 'Watch the cash, laddie.' Hardly Napoleonic sentiments, but a lot more helpful if you start having problems with the bank.

So here's our ideal 'Beermat' leader. Positive and passionate about the vision; firm, polite, honest and fair; assiduous. Was Boadicea like that? Or the Duke of Wellington? Frankly, we don't think it really matters.

Built to Last: What keeps great companies great?

Many of you have probably read 'Built to Last' by Jim Collins and Jerry Porras – it's one of those books that just stays at the top of the business bestseller lists (along, we're delighted to say, with *The Beermat Entrepreneur*). For those that haven't, it is a classic study of large corporates that have been particularly successful over long periods of time. We're talking giants here: Merck, 3M, Disney (etc.); companies with market caps in the tens or hundreds of billions of dollars.

The point of the book was to tease out what it was that made these companies great, which the authors cleverly do by comparing them, not with duds but with companies that are pretty good, in the same sectors but don't quite have the magic. What do they find? The answer is fascinating, because it is almost exactly what we recommend for a start-up. In 'Beermat' we resignedly said that once the company gets too big, certainly beyond 150 people, you just have to accept that it's going to change into an organization, a bureaucracy, and will lose its entrepreneurial vigour and buzz. What's special about Collins and Porras' special big companies is that they do not do this.

They do of course change into organizations, and very efficient ones. But they retain much of what we see in a Beermat company. The authors claim there are five things that keep these businesses that way…

An incredibly strong culture. The authors call it 'cult-like'. You either belong, and do so passionately, or you're out. This is exactly what happens in the healthy start-up: it's a tribe, and if you don't fit, it's best to get out. Sceptical Europeans may scoff at some of the ways American companies do this – WalMart chants, Disney's 'cult of the cute', 'The HP Way' etc. – but it works. These massive organizations really do retain the tribal atmosphere we recommend to start-ups.

Using evolution. These visionary companies are not afraid to experiment. The reason for this flows from the above. Companies with no culture or identity fear experiment because this is boundless: literally anything goes. In a company with a strong culture, everyone knows where to draw the line. Within this boundary, they are much freer to experiment than in apparently less domineering corporations. Needless to say, experiment is the stuff of start-ups: if it works, do it. If it works brilliantly, do it a lot. ('Works', of course, is defined in terms of customer delight and profitability, not technology.)

Promoting from within. Again, this follows from the powerful culture. Who else but a true follower of the faith could run the business? GE provides the classic example. But the same is true for the sapling business. Clearly, at the start you have to bring people in – but once you have the cornerstones and dream team in place, promote from within wherever possible.

Continuous improvement. This was a management fad a few years back, but great companies have always been doing it. The day you think 'we can't do any better' is the day the spark goes out of your business. The same is, of course, totally true for the small business, which is on a steep learning curve. Don't be embarrassed about this: celebrate the fact and enjoy the ride, bumps and all. And remember that some of the world's greatest businesses are doing exactly the same.

Think big. Entrepreneurs hardly need to be told this. But it's nice to know that successful giants are still doing this too. Note that this is not incompatible with evolution: the tiny change in the market that enables a new product to 'take root' can turn over time into a massive opportunity. Our old friend the Post-it note started off marking pages in a hymn book; it is now sold in hundreds of ways and reeling in billions of dollars a year.

One disappointment for entrepreneurs is the observation that these companies do not need charismatic leaders. Indeed, such leaders are counter-productive: it is the company itself that is charismatic – its values, its stories, its institutions, its ways. We feel that when you start, you do need the classic entrepreneur traits of stubbornness and charisma. It's later on that this gets in the way. The key for the entrepreneur who wants to found a truly great business is to ensure that his or her personality – their vision, passion, values, resolve – get built into the company culture before it's time for them to move on. It's a bit like the way we hope our children will take on the best of ourselves, then go out into the world with it.

Intuition: The entrepreneur's gut instinct

The phrase "You make your own luck" rings true for many entrepreneurs; for whom the glass is always half full rather than half empty. Professor Richard Wiseman's best-selling book "The Luck Factor" explores luck in a scientific way, and we highly recommend it. However, another interesting area of Professor Wiseman's work of relevance to the entrepreneur is intuition.

We said in *The Beermat Entrepreneur* that intuition was a valuable business tool. Some critics have replied that intuition is 'unscientific' and thus shouldn't be used by managers. We disagree. Maybe in a big company, where you have to back up any course of action with endless PowerPoint presentations, this is true, but in the small business, 'gut feeling' is an incredibly important guide.

It's no replacement for reliable information, of course – we're not preaching some New Age approach to business where the entrepreneur and cornerstones sit around intoning a mantra until they suddenly receive divine inspiration (though that would probably be more interesting, and no less productive, than many meetings we have sat through). We are talking about the interpretation of figures, and above all, the turning of factual information into actual courses of action. Figures only ever tell part of a story.

Interestingly, Professor Wiseman's experiments support our views. He found that a key difference between lucky and unlucky people was the extent to which they used their intuition. Lucky ones used it a lot, unlucky ones usually overrode it. Interestingly, this difference was even more marked in the business and financial sphere than in emotional relationships – which maybe shows the extent to which business is about people. Good businesses are built on trust, of colleagues, suppliers and customers: lucky businesspeople use their intuition to make good choices of all three. Losers get pressurized, or pressurize themselves, into making poor choices.

One of the keys to intuition was learning *how* to use it. It is best summoned by performing some kind of non-rational task. Meditation is used by some people: we think a brisk walk in the countryside will do just as well, or a spot of gardening or DIY. After this task, consider your feelings about whatever the courses of action are. You will get a clear message – often the one you didn't want to hear.

Entrepreneurs in particular will be familiar with the 'it just felt right' phenomenon. They almost always follow that feeling, and rarely regret it. (If the course of action turns out to be flawed, there is almost always useful learning gleaned on the way, and future intuitions become wiser and better.)

At The Instruction Set, they used to rely on the intuition of their people in selecting new employees. If a person looked right and had interviewed well, they would be introduced them to the staff. If, once the individual had left the premises, anyone said, ‘I didn’t like the look of him / her’, the person was not hired.

This sounds extreme, but Mike does not remember a case where one person made a negative judgement and everybody else replied ‘No, I thought they were great!’ Instead, the usual response to a bad report was ‘Well I did feel a bit uneasy, too, but didn’t want to say.’ The only time the company went against its rule because the individual involved looked so stunning on paper, the hiree turned out to be jolly good at programming but a real stirrer.

How does intuition work? We don’t believe in guardian angels, much as we’d like to. We do believe in the amazing power of the human mind. There are all sorts of hypotheses and factoids which, though they may not be totally true, certainly have truth in them, such as that we never forget anything (just lose the wherewithal to retrieve the memory), or that there are more possible configurations of neural connections that a brain could make than atoms in the universe. They all point to the amazing nature of the organ we have between our ears. Sadly, we often fail to use this organ to the full because of fears, prejudices, social convention, habit, laziness, the pressure of ‘the moment’, poor thinking habits and / or poor mental training. Intuition is when our amazing brain tries to shout above the noise of these distractions: ‘But it can be different! Do it this way instead!’

Listen to that voice. It’s what lucky people do.

Lessons from Great Entrepreneurs: Edison

We're often accused of being excessively critical of inventors. This is unfair, though we do get bored by people who resolutely refuse to leave their potting shed and expect the world to discover them by magic. The greatest inventors have not been like this, and share at least some of the traits of our ideal 'Beermat entrepreneur'.

Take Thomas Alva Edison for example. A myth has grown up around him, of a lone, unconventional genius, working late into the night to produce great inventions from nothing. There must be something in the American mindset that requires this stereotype, as the reality is very different.

For starters, he was a team man. This is not to say he was a team player – he has been described as an 'uninhibited egoist', and there was only one boss at Menlo Park, his famous laboratory. But he knew that in order to succeed, he had to build and motivate teams of people around him. Which he did, brilliantly.

Like the Beermat entrepreneur, he built two kinds of team, cornerstones and dream team. His cornerstones were a British draftsman, Charles Batchelor, and a Swiss machinist, John Kruesi. Batchelor was a 'completer' by nature, who forced Edison to work through the minutiae of his ideas (and to abandon some of the crazier ones). In the best 'Beermat' tradition, Edison split many of his royalties 50/50 with Batchelor. Kruesi turned Edison's and Batchelor's models into working prototypes – he was the classic delivery cornerstone.

One mistake Edison made was not to appoint a finance cornerstone. Menlo Park was only built because he had to leave premises in the middle of Newark thanks to financial difficulties. Later in life, he sold most of his General Electric stock to finance an unsuccessful venture, a venture that a proper finance cornerstone would, if not cancelled, at least have prevented from consuming resources at such a damaging rate.

Behind his team of cornerstones was a second team, the other researchers at Menlo. This was a classic Beermat 'dream team' – young people who worked not for money but for challenge and camaraderie. We recommend motivating the dream team by, amongst other things, regular pub evenings. Edison disagreed: why go out to the pub? Instead, an organ, the nearest the late 19th century could get to a juke box, was set up at one end of the Menlo lab and the young engineers encouraged to work late, then to relax on site with pipes and a sing-along. The lads, incidentally, were known as 'muckers', a perfect term with its overtones of getting hands dirty but doing so communally.

Teamwork also involves forming strategic alliances with the right people, and Edison was a master of this. Essential to the success of the Model T Ford was its reliable battery – developed, of course, by Edison. When raising money for projects, he established connections with the great financial brains of the time, JP Morgan and Vanderbilt. Within the organization, he knew when to bring in outside experts such as the physicist Tesla. Great entrepreneurs are expert networkers.

In best Beermat style, Edison had a sharp eye for 'pain' in the world around him. His inventiveness was always with an end in mind – to produce technology that would benefit large numbers of people. He was also no stranger to hard work: in the tradition of all great entrepreneurs, he had enormous tenacity. Many of his ideas took years to turn from inventions to effective mass-market products, but Edison and his muckers kept working on them. Apparently he tried 6,000 media for lightbulb filaments before hitting on the right one – carbonized bamboo.

And, of course, he did not invent out of the blue. He did discover interesting things – the phonograph was the result of one such piece of luck – but he mainly worked with existing technologies, trying to extend or 'recombine' them to tackle new problems. The lightbulb has become the symbol of the sudden 'eureka!' idea – but Edison's bulb was not created in this way. Inefficient, expensive electric lighting had been around for twenty years before Edison 'invented' his. His famous quote, that genius is 'one per cent inspiration and 99 per cent perspiration' should be recalled whenever the lightbulb metaphor is trotted out – especially if by people trying to promote the cult of their own lightning-like brilliance as innovators.

Like all born entrepreneurs, this splendid man never retired, working into his eighties on new ideas.

All of this makes Thomas Alva Edison an excellent model for the modern entrepreneur, both via the myriad things he got right, and to learn from the few mistakes he made (largely financial). The real Edison, we mean, not the mythical figure created by the media.

The Importance of Culture

I hope I'm not going to lower the tone too far if I admit that I am rather a fan of TV's 'Big Brother'. It is, after all, a psychological experiment, into which we are allowed to peep. The most recent, 2003, series didn't get the ratings of its predecessors, but was the most interesting psychologically. The housemates just kept on being nice to each other! Even when one lad ruined a group task they had all put huge amounts of effort into, their attitude was, 'Hey, never mind – let's get on with having fun.' In previous versions of the show, contestants would have been muttering behind the culprit's back, first about the unfortunate individual and then, while they were in the mood, about seventy-three things they disliked about everyone else in the experiment… This group spontaneously created a positive culture in their 'House', something their fore-runners failed to do.

Many a small business could learn from them.

Culture matters. But can you do any thing about it? Some people argue, no: culture emerges automatically from a particular group of people and their personalities, and there's nothing you can do to control or influence that. Most times in the TV experiment, the outcome has not been very pleasant (though it usually improved once one or two disruptive individuals were 'evicted'); in the 2003 series, the group gelled well. That's just the way it pans out.

If you are building a business, this is not what you want to hear. A healthy, positive culture will be essential to your success. You can't just sit back and see what happens.

We believe you can create a culture – and therefore *must* create a culture. Some tips…

First, select the right people. Your cornerstones should be people you trust totally, ideally because you have known them for a while. The difficulties arise when you come to selecting the next set of people, the 'dream team'. Select on character, not on apparent merit. Key virtues are enthusiasm, optimism and honesty. Anyone who looks like they might have a 'hidden agenda', usually of proving they are better than other people in some way – cleverer, cooler, smarter, even nicer – should not be taken on.

Having selected well, set out do's and don'ts from the start. And mean it. Reward teamwork, 'mucking in', imagination, extra effort, and most important of all, anyone who encourages or helps a colleague in difficulty. Anyone who starts engaging in point-scoring, oneupmanship or 'mind games' – the product of the hidden agendas mentioned above – should be given a warning, then dismissed.

Naturally you must make these rules crystal clear to everybody from the start. "This is how I am going to run things…"

You should have a vision of what the company means. What it does, for whom, why people should buy from you, what kind of place it will be to work in. The more the company has a real character, the more people will be prepared to subsume personal interests to company ones. In the old days, troops were let to battle, and possible death, under a standard, an emblem full of history, value and meaning. Your vision needn't be quite as compelling, but it's worth aspiring that high.

Most important of all, however, you must lead by example. The stuff above won't really work if you are seen to be moody, aggressive, cynical, capricious or devious. Look in the mirror every working morning and remind yourself you are going to be leading people today. They will be following your example. How do want them to be? Be that way yourself. It's amazing how the thought of this responsibility can curb the worse side of one's character.

If you get the culture right, you are a long way to success. At The Instruction Set, they had a superb culture. Hardly anyone left the company, and they are still having reunions years after they were bought out, where ex-employees get together and say what fun they had. They don't sit around talking about how much money was made, though the answer is 'a lot'.

Unfortunately, far too often, the people in the 'Big Brother' house rip each other to shreds. Often, that's by design- it seems to push up the TV ratings. Clearly cultures not only need to be established; they can be influenced and led. The housemates have no leader beyond a capricious TV producer. Your team are luckier: they have you.

Older Entrepeneurs: the value of experience

A recent survey showed that businesses started by people aged over 50 had more chance of success than those started by younger entrepreneurs. Having written many times elsewhere about entrepreneurship in schools, we feel we should redress the balance.

We believe strongly that entrepreneurship should be taught – as part of a more general business education – in schools. However one of the main purposes of this teaching is to sow seeds that may come to fruition many years later. The world of education lends itself to long-term thinking: a book studied at school can be revisited decades later with enormous pleasure, and with a gratitude that might not have been felt at the time. The same is true for enterprise studies: to have youngsters coming away thinking 'one day I'll do that…' is a huge win. But it may not pay off for thirty years. The City won't like that timeframe, but it's good for UK PLC.

David Hall, author of 'In the Company of Heroes' (a useful and underrated book on entrepreneurship) and a successful entrepreneur himself, says that the best businesses are started by people who have ten to fifteen years' work experience behind them. By then you really know your market, both technically and, probably more important, personally: you don't just know who the key people are, you know them as individuals. Hopefully you are also beginning to know yourself – though we reckon starting a business is a journey of self-discovery (amongst other things) whatever age you undertake it.

Many successful entrepreneurs wait even longer than ten to fifteen years, and have a full career before embarking on the start-up. And the good news is that these late starters' chances of success are excellent.

Why? Older entrepreneurs tend to be more realistic about what they can achieve, so are less likely to overreach themselves. Many create great lifestyle businesses – something that some writers on entrepreneurship look down on, but which we think is great. You don't have to create an empire to be a superb entrepreneur. A small team, a happy team, happy customers – who really needs more than that?

The answer, of course, for some entrepreneurs of any age is 'I do'. Ray Kroc was fifty before he founded McDonalds. So if you want to think big, or think vast in Ray's case, do so. But remember that you don't have to. 'Big is beautiful' is a dangerous myth.

Older entrepreneurs often have better people skills. Another cliché of entrepreneurship is that you have to be pushy and ruthless. Wiser, older entrepreneurs disprove this. You have to be focused; you have to know where you are going; you have to be able to inspire that vision in others. These skills come naturally to some charismatic youngsters; the rest of us acquire them over time.

Another advantage of leaving it till late before becoming and entrepreneur is that many people will have assembled decent amounts of capital by that time. Especially anyone lucky enough to have jumped wholeheartedly onto the property ladder thirty years ago. At the same time, such people will have learnt financial prudence – essential in a start-up, and not always enjoined on entrepreneurs by providers of capital (who ought to know better).

Older potential entrepreneurs who have read *The Beermat Entrepreneur* may feel their skills are better used for mentoring. A mentor can add so much value by bringing to a young business the things that it by definition lacks: wisdom, connections, gravitas. But we don't see why you can't do both. If you really feel your planned enterprise is going to be full-time, try a spot of mentoring first. As any good teacher will tell you, teaching is the best way to learn. Having helped a few young businesses get off the ground, it will be time to do it yourself.

Our society is guilty of great ageism. Like all prejudice, it is deeply silly, but can sink into the soul and demoralize whoever is on the receiving end of it. Older readers pondering if they have what it takes to start a business should take heart. If you think you've got it, you probably have. The facts show that you certainly have a healthy chance of success.

Lessons from Great Entrepreneurs: Boulton

The launch for the second book in the Beermat series, *"The Boardroom Entrepreneur",* took place in Birmingham – the home of Matthew Boulton.

Boulton was born in 1728, into a prosperous manufacturing family – his father made toys. As a young man he entered the family business. When he came to take it over, he pioneered what we now call vertical integration, rolling his own steel (this is of course currently unfashionable with management gurus, but no doubt the fashion will change). In 1765, he built the famous Soho Manufactory, which was both a corporate HQ and shop floor – Boulton would have hated the splitting of functions in many modern businesses.

Boulton set about building a top team of committed and skilful workmen – craftsmen, designers and machinists – around him. He was a good, liberal employer, introducing social insurance, banning child labour and ensuring decent work conditions. When James Boswell visited Soho, he commented that the Manufactory team was a 'tribe of 700 people, with Boulton as its head'. We say that the tribal feel usually vanishes from a business after 150 people – Boulton must have been a master of creating and sustaining the kind of culture that makes and drives a great business.

Despite this, the business trod water for a number of years, until Boulton found his 'killer' product – the steam engine. In true Beermat style, he (the entrepreneur) teamed up with a great innovation cornerstone, the Scottish inventor James Watt. Watt had been working on his engine for many years, lurching from one technical problem to another: on pairing up with Boulton and his team, Watt soon overcame the problems and the engine went into mass production. Like all great innovation cornerstones, Watt continued to work on improvements, the most notable of these being a reliable speed governor – but here again, it was Boulton who insisted this was a key problem and ensured Watt put his energies into solving this clear customer pain rather than pursuing more obscure pieces of technology.

Boulton and Watt became partners, even though Boulton provided the manufacturing capital to turn Watt's ideas into a business. Entrepreneurs who refuse to give away equity, please note!

The debate between Boulton and Watt as to the potential of their product is also instructive. Boulton, the entrepreneur, saw into the future. The Lancashire cotton industry would be desperate for the engines. Watt, a man of technological genius but lacking the entrepreneur's commercial vision, did not think this, and argued that there was enough water power in Lancashire anyway. Boulton was, of course, right.

One area where Boulton could have done with some Beermat advice is finance. There was no financial cornerstone in the team, and the company did some poor deals with customers. Some sales took over a decade to finance themselves, let alone bring in profit! This is not to say that financial records weren't kept – Boulton's and Watt's two sons became assiduous bookkeepers and even engaged in a bit of time-and-motion study. But a finance cornerstone does more than keep books; he or she thinks through all aspects of money in the organization, including pricing and business models.

Having created one great, successful, world-changing business, Boulton went on to apply his ingenuity to a major social problem of the time – 'Where's the pain?' is not just a commercial question. Coinage in late 18th Century England was of poor quality, easily forged or debased. Boulton produced coins that were hard to forge and which could be easily checked for genuineness (because of their exact weight). It took longer for government to accept his coins than it had for Lancashire mills to buy steam engines, but the great entrepreneur kept badgering them until they gave in and had the Royal Mint produce the world's first modern coins – working to Boulton's specifications.

Birmingham is rightfully proud of this great entrepreneur, from whom we can all still learn a lot.

Sales and Marketing

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2. The Marketing Mix
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4. Networking: Working a room for beginners
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The Sales Cornerstone

"Selling clearly has an image problem caused by pushy forecourt salesmen"

At Beermat, we've always said "Move heaven and earth to fund your business from revenue." But how do you get the revenue in? The answer is blindingly obvious – sell stuff. However, we have met many people who haven't taken this "obvious" truth on board. They may have done so intellectually, but not in the actual way they people, structure and run their businesses.

Many start-ups have an entrepreneur plus a couple of techies, plus maybe someone who's worked in marketing. Everybody "does a bit of selling", just as everybody will clean the loo if necessary (start-ups are like that, everybody has to muck in). The trouble is: selling isn't like that. It's a specialist, professional job.

A while back, we were talking at a major business school and we asked how many had done sales training, expecting most to say "of course I have". Not a single hand went up. Selling clearly has an image problem, caused by pushy 'forecourt' salesmen or those people who phone you up in the middle of your favourite TV programme to talk about kitchens. Beermat selling is nothing like that. It's about listening to customers, finding out their needs and how to meet them, closing a deal and following up the deal to ensure customer satisfaction (and to make further sales). It is disciplined, long-term and co-operative.

Of course, everyone thinks they can sell. Entrepreneurs, who have a natural tendency to think they can do everything, are particularly guilty of this. But while entrepreneurs may be able to dazzle the customer with their enthusiasm, they usually fail at the two crucial tasks that sales professionals have mastered: qualifying customers (selling to those with real needs and real money, not just anyone within earshot) and closing (asking for payment, something almost all non-sales people find difficult).

Start-ups need customers quickly, and these are best found by sales people. Everyone thinks they can sing 'My Way', and yes, most people can get the words out roughly in time with the karaoke machine. Most people can enthuse about a product and get someone else's head nodding too. But a professional sales person does so much more than that. Get a proper sales cornerstone in your team.

Where do you find people to be your cornerstone? You should be networking as much as possible – it's amazing how soon someone will probably come up with an answer. Or you could try creating your own sales cornerstone. Look around your friends and acquaintances for someone who is particularly popular – the kind of person who always has a group of people around them at parties. Check your intuition, that you do really trust and like this person. Then suggest the idea to them. If they're up for it, send them on a standard sales course.

The old adage "people buy from people" should be engraved above the doorway of every start-up. Critics of this adage say that it is fine for business-to-business (B2B) operations, but what if you want to sell to consumers directly? One person won't be enough – surely we're back to marketing and sales teams…

Our answer is to ask 'even if you are planning to sell to the consumer, must you do so directly?' Instead, you could do a deal with a big intermediary – a good sales cornerstone will make this deal a 'win-win', not the one-sided deal some big company purchasing departments impose on start-ups.

So whatever your business, get a proper sales cornerstone in your team and you're well on your way towards funding from revenue.

Sales for Sole Traders

When we began taking Beermat on the road, we wondered why a section of our audience switched off at the point when we began talking about teams and the need for them. Then at a Q and A someone asked: 'What about sole traders? Are we doomed to fail, then?'

Point well taken. We do believe that The Lone Entrepreneur, trying to build a big company consisting of themselves plus an ever-increasing pool of minions, will fail. Sole traders are, of course, not faced by the same personal and structural issues, and are thus in a different boat. However, certain basic rules apply to them as well, and many solo businesses fail because of a failure to follow these rules.

Take the notion of the Balanced Business Team. Entrepreneurs need four cornerstones to provide essential perspective and breadth of expertise – for new readers, these are finance, delivery, sales and innovation. The sole trader faces the same basic need, but can't hire the expertise in full-time. They have to either do it themselves or get some part-time assistance.

This currently happens in finance: someone comes in regularly to 'do the books'. We've already talked about the dangers of having a passive accountant who does this in a backward-looking way. Get a good accountant – and make them part of your decision-making process.

Delivery is the area where most sole traders excel. Many of them are people with a skill, from woodturning to reflexology: what they want to do with their business is make a living, or at least money, from this skill. Be prepared for 'repetition overload' – 'if I see another pair of feet today, I'm going to scream' – or isolation if the skill is a solitary one: there's no water cooler in your office, and if there were one, there'd be nobody else there. But most sole traders do what they do because they love it, and do it well as a result. It's a great way to be in business, as long as you realize you can't 'scale' it, and are thus unlikely to get rich.

What most sole traders do worst is sales. Yes, there are exceptions, but often the kind of character that makes a great craftsperson makes a lousy salesperson. This is very bad news. Emerson's famous aphorism, that if you make a better mouse-trap, the world will 'make a beaten path to your door', is utter rubbish. You'll just sit at home all day twiddling with refinements to the mouse-trap, writing angry letters to Mouse-trap World (incorporating Rodent Capture Weekly) and getting into debt. But you can't hire sales people in the way you can an accountant. What can be done?

Mike now runs regular workshops on this subject: here are some edited highlights. You must network – and if you are painfully shy, you must make yourself network (or find ways of networking, such as the internet, which render you sufficiently invisible).

You must cultivate your favourite clients and incentivize them to act as ‘evangelists’ for you. You must look out for ways of getting free or cheap publicity. You must be on the lookout for good strategic allies, for example people in complementary areas with whom you can cross-refer clients. You do not have the option of doing nothing about sales.

Innovation is probably the least important cornerstone role for the one-person bsiness – dependable delivery, supported by lively, thorough sales and sound finances will do (though if you want to innovate, go for it – but remember that you may have a job taking your customers with you).

There is almost nobody who loves finance, sales and delivery with equal passion. You’re lucky if you love one, don’t mind another and can just tolerate the third. But you must spend time on all three – despite the endless temptations to do more of the bit you like and to put off doing the stuff you hate. This temptation is powerful, because it’s more fun, and because there will be a voice in the back of your head saying that the other stuff doesn’t really matter. ‘The mouse-traps are going to make me rich, so adding another feature is time well spent – just wait till the customers start pouring in…’

They won’t.

If it’s any consolation, CEOs at the giddy pinnacle of corporate life suffer exactly the same problem. They will have learnt some parts of their trade more thoroughly and more joyfully than others; they will undoubtedly have a better feel for some aspects of their business than for others. But they must grit their teeth and master the whole picture: it is the areas they ignore where the troubles build up.

Working a room

We have often said how important networking is to small and start-up businesses. Some people have asked us to expand on this topic – 'yes, we know it's important, but how does one actually do it? In a room full of people?'

One barrier to good live networking is old-fashioned etiquette, that taught it was rude to speak briefly to people then move on. Nice people listen carefully, we learnt. We engage in conversation and only end the encounter once a reasonable amount of ground has been covered. Modern networking operates by different rules. Everyone is there to meet as many people as possible: the rule-breakers are the ones who try to monopolize others. Skimming round the room is not a sign of superficiality but what everyone is there to do.

We like the analogy of speed dating. Speed daters only have three minutes to make an impression on the other person, then have to move on. This works really well (or so we're told: we both have families). The reason is, of course, everybody has powerful intuitive skills, and we make up our minds incredibly quickly about the 'click' factor. Probably the last two and a half of the three minutes are simply following up this initial impression.

Business, we're told, is different. It's rational and process-driven. That's true up to a point. But people buy from people; people create businesses with people. Networking quickly will enable us to find who in the room are kindred spirits – the kind of people we are more likely to do business with. As with the speed daters, the initial impression can be checked out later, in more formal meetings.

How do you prosper in the modern networking environment? It isn't just about being outgoing; there are tricks and tips.

First of all, do your preparation. Good networking groups enable participants to glean information before the event. For example all attendees at Beermat Monday leave a profile of themselves on our site. Read through all these, and make a shortlist of people you want to meet. Find a 'conversation opener' – profiles will say something about their interests. 'I see you're a Spurs fan,' works well with Mike (though don't overdo the pity in your voice); I have moved from Norfolk, so the old question about the mangelwurzel harvest may not work any longer.

You will soon find that your instinct has kicked in, and you either like this person or not. If you don't 'click', move on. If you do click – move on, too. You have other people to meet. In both cases disengage politely. Always accept a business card; unless you find someone utterly repellent, offer them one back.

Don't be bound by your 'shopping list'. If you feel drawn to someone who looked irrelevant on paper, go with that feeling.

Next morning, make notes on the back of business cards. Or, even better, have a filing system with boxes to tick – did you click; what subject of common interest did we find; how did we leave things? Then follow up the people you liked. (If this all sounds too cold, rethink. Business is about people, but it is also about being business-like.)

In speed dating, if the attraction is only one-way, the introduction is not effected. In the less structured world of networking, you are bound to get follow-ups from people you didn't like. Have another think about them; if you still think 'no' – well, it's up to you. Not to reply is probably less rude than being inauthentic and false-polite or being actually rude.

If you contact someone and they don't reply – give it another try, as emails can get deleted by accident or just get de-prioritized on a busy day. If you still get nowhere, back off. You'll probably meet them again, and maybe this time you'll click. Don't hound people. If you feel you are being hounded, send a polite email answering any specific questions but making it clear you are busy. Maybe they would like a brief chat at the next networking session… In the meantime, remember to lock your pet rabbit up.

The need to network has upset traditional social etiquette, but has not turned social gatherings into free-for-alls. New rules apply, that guard the integrity of the individual while allowing for more interaction. Follow them, and enjoy the experience.

The Networking Myth

Networking is an essential business skill. It probably always has been – only in business schools does the myth of business as some kind of objective, impersonal science hold sway. Real business, especially for entrepreneurs and small businesses, has always been won and maintained through personal contact.

Yet the topic has suddenly become a fashionable one, no doubt due to the rise of the internet. Online networking organizations such as Ryze and ecademy have bought thousands of people into virtual contact, to their mutual benefit. The sensible organizations back that up with live events, for example our own 'Beermat Monday' sessions.

A myth has emerged out of this, however. 'The bigger the better': if I have a network of 10,000 people, that is inherently better than one of 5,000 people. This is a dangerous fallacy. What counts is quality, not quantity.

By quality we mean the quality of the network members' relationship to you, not whether they are posh or well-connected (though good connections can help, it must be admitted). The real question is whether the network members actually like, respect and trust you. Are they prepared to do you a favour, either because they owe you one or because they trust you to do them one in the future (or, a third option, just because they like you)?

For most of us, there is an upper limit to the number of people of whom this can be said. Some master networkers seem to be able to form vast webs of well-wishers, but for most folk, once the number gets beyond about 150, people begin to drop off the radar. (An anthropologist quoted in Malcolm Gladwell's 'The Tipping Point' claims to have worked the average out at 147.8!) Adding extra people to the network way beyond this number has a strongly diminishing return, unless they are special and displace someone who hasn't been in touch for a while and wasn't that close a friend anyway…

The secret of good networking in our view is to manage that 'magic 150' effectively. By 'manage' we mean stay in touch regularly and speak to in greater depth from time to time. In business, it also means ranking potential customers. Who has got needs and money now? This question may sound cynical, but remember that good business is about solving problems for people: at least half the question is 'who needs help the most?'

When you do get a request for help from your network, be careful. Is the person in your 150? If not, then you can't afford to do too much for them – there are a lot of cheeky people out there who will ask big favours from people they don't really know. On the other hand, if the request is simpleeasy to fulfil, why not help out? We get emails from entrepreneurs every day, and if there are simple requests we're delighted to help. We always reply to questions, and even give free one-on-one sessions for members of the wider Beermat ecademy network. But ‘outsiders’ can overstep the mark.

If the request comes from within the 150, you still have to balance out whether the favour is one you can do or not, but the assumption must lie much closer to taking a punt. If the request is outrageous, should the person be in your top 150, or did you put them there for a wrong reason, for example great charm or celebrity? The ideal favour is an introduction where everyone benefits. Sadly, not all intros fall into that category. We’ve had people ask for introductions, and found that they used them to try and sell real estate or pyramid marketing products.

I have recently worked on a book about doing business in China. The Chinese are masters of networking, as anyone who has tried to do business there without the necessary ‘guanxi’ will testify. The rules are strict and clear. Trust takes time to develop, but once developed is sacred. There is little slack cut to ‘nice but unreliable’ people. It’s a bit like one of those Victorian novels where characters worry endlessly about their ‘good name’ or their ‘position in society’.

China is a harsh, highly structured society – and probably needs to be, with 1.3 billion people. We’re not advocating that our gentler, more democratic culture should emulate it. But at the same time, social and business life is not quite as easy-going as we would in our more idealistic moments like it to be. Certain facts of human nature do not change over time or place, and one of these is that trust cannot be infinitely expanded. A network of thousands of people means lots of addresses, not thousands of friends.

Consultancy: dirty word or the essence of service?

'We don't just make widgets, we provide total widget solutions.' How often have we heard that formula trotted out in the last few years?

The answer, oddly enough, is not as often as we would have liked. Yes, it has become a cliché, but many people we talk to still haven't really got its message. The unattractiveness of clichés comes from their being obviously right (and thus uninteresting), not from their being absurdly wrong (and thus ludicrous). Why is the obvious rightness of this one still being ignored?

The 'Technology Trap' is one possible culprit: the team are so 'into' innovation and the exciting products they are developing that they lose interest once the widgets leave the Science Park. Another explanation is that, as with most sage-sounding aphorisms, the hard bit is actually putting it into practice. What the hell is a total widget solution, and how do you deliver it?

Maybe a third reason is that the phrase has become *such* a cliché that anyone uttering it invites ridicule, being accused of seeking a total thirst solution when they next reach for a glass of water or a total waste solution when they pop out to the loo (or a total bodily fluid level solution when they do either). Okay, the idea was taken too far after that famous 'Marketing Myopia' piece set everyone and their dog asking 'what business are we really in?', but that does not mean there is no value in it.

If your product does not solve real customer 'pain' (or does not provide customers with unexpected delight), then you are doing something wrong. If it does solve pain, you are doing something right – but you can bet the pain is not solved simply by the widgets arriving at the customer's premises. They will need to be installed, tailored to specific conditions, mastered by the people who are actually going to operate them. The best person to take the customer through these processes is you, the world expert on the product. So do so. Add consultancy.

Of course, you should charge for this. A really radical option is to provide the widgets for cost, or even nothing, and charge only or largely for the consultancy. Why not? This can create more revenue; it leads to the customer actually getting what they need. It can also teach you a lot about their business, including a whole raft of other needs they didn't mention at the sales meeting (but amazingly you have exactly the solution for. In fact, while our people are here, why don't they do a temporary fix for you now, and we'll get the grommets over this afternoon…)

This all sounds obvious, but many businesses are still not doing it. Apparently a huge amount of software is bought, installed, found to be too difficult to operate and ditched. The companies who flogged this software deserve the misery that will undoubtedly overcome them, once they find themselves getting no repeat business and once their once-unique software becomes a cheap commodity. Had they added consultancy to their sell, they would have made more money and would have had friends for life.

Start-ups can benefit hugely from 'thinking service' from day one. Outside dotcom dreamland, cash is a major issue for start-ups. If your product or service addresses a real pain, customers will pay for advice and hand-holding, even before the widgets arrive (during which time, of course, you are frantically getting the darned things to actually work). If you still have a few teething problems when they do arrive, you're already there to work with your customer to get them going. You may even get paid while you're doing this. And once they're up and running, keep your customers abreast of the latest developments in the area. Run regular refresher courses for their people. Invite them to seminars. Remember, you are Mr or Ms Widget. Your customers want you to be the experts.

Getting this right begins with that magic question: 'Where's the pain?' If you are addressing a deeply felt need, you will have no problem adding consultancy to your product.

The Marketing Mix

To many people, marketing is a bit of a mystery: corporates do it well, usually, but it costs millions. Smaller businesses often dip a toe into marketing and get precious little in return: pretty brochures, clever ads but not much extra business. Yet the thought lingers on – marketing is important; out there someone else is getting it right…

There are many ways of looking at marketing: back in the sixties, Neil Borden came up with the term 'marketing mix', which meant all the different marketing tools. There are an almost infinite number of these tools – guerrilla marketing guru Jay Conrad Levinson lists a hundred in one of his books. We like to keep things simple. First there's marketing strategy, then there's marketing communication. A third aspect, marketing information, feeds into both the first two.

The strategy has to be right before the communication is considered. This may sound obvious – cue a truism like 'you can't find your way somewhere without a map' – but it's a common mistake to get things the wrong way round. Strategy usually emerges out engagement with the market. You think you have an idea; you put it into practice; what eventuates is something rather different from what you intended. This is learning, progress, how things really work. Which is great, but if you've spent a fortune on marketing communications before setting out, these communications are now obsolete. You need another set, and they don't come cheap.

This is where the small business has an advantage over the corporate. In corporate brand launches, the strategy is planned and the communications set up, usually in line with the strategy, before the big fanfare of the launch. If the initial planning was right, the marketing works. If it was wrong, then the corporate has an irredeemable turkey on its hands. A very expensive irredeemable turkey. The small business can act differently, gently easing into the market, refining its offer in the light of what it discovers until it has a clear idea of what it is really providing, for whom. Or, of course, it can back off, having realized that there wasn't the market for the offer that was originally thought. It can do this without having lost shedloads of money, lick its wounds, have a good think about what went wrong and try again – still quietly, still in the spirit of adventure.

Naturally, the time comes when the business knows it has found a market where there is enough demand and where they can operate profitably (and, usually, start thinking about expanding further). Now is the time to set out strategy, and marketing communication can begin in earnest as you now know what you want to say and to whom.

The small business will have started off using personal contacts, email and / or some very cheap marketing tools like fliers. It should not abandon these and leap at once into expensive campaigns. Build the marketing armoury slowly, watching carefully what works and what doesn't.

Sales people may well feel that some of the power is being wrested out of their hands at this point, which is why some sales cornerstones like to stay in early start-ups, moving on once the marketing people move in. While we understand this, it's important to keep a 'people person', which is what the sales cornerstone should be, at the heart of things. The moment it all becomes about process, you are ceding advantage to the corporates, for whom this is the case; remember they are bigger than you. The sales cornerstone should not be shifted into sales management, which they are usually hopeless at, as they get bored with the detail and want to be out there selling again. Instead, get them out there talking to people of more general strategic interest, such as potential partners. Don't, by the way, give them free rein in choosing strategic partners – that's the entrepreneur's job.

Lao Tzu said 'in action, it is timeliness that counts'. He probably wasn't talking about marketing, which wasn't massive in China in 600 BC. But it's as if he was. Think strategy from Day One; only start the communication once the strategy is clear; then build it slowly.

Guerilla Marketing

'Guerrilla Marketing' is an excellent book by the American marketer Jay Conrad Levinson. Levinson has worked on, and often quotes, examples from big corporate accounts, but we feel his message is particularly relevant for small businesses.

We particularly like his message that marketing is about people. This is what start-ups and small businesses need – real contact with real customers, not expensive branding and unfocused advertising. This contact must be lasting, too. Guerrilla marketing is about building customer relationships, about always looking to find more ways of helping your customers solve 'pain'. This is also the Beermat way, of course.

As part of this relationship-building, guerrillas are advised to embrace any technology that enables them to communicate with their customers more easily and more personally. Their PDA is never far away. The techno-savvy guerrilla uses the internet well. He or she understands how to harness the power of email, not as horrible spam but as a way of maintaining and developing contact with customers, potential customers or evangelists who will tell others about that business (or, of course, those wonderful people who are both customers and evangelists).

Within the company, Levinson insists that 'everybody is a marketer'. This doesn't mean everyone sits around pondering strategy – heaven forbid! – but that everyone is responsible for getting word of mouth going about the business. Clearly the natural networkers will be better than the shyer types, but everybody in the business has a role to play in activating this most valuable marketing tool. (Being picky, we'd prefer he said that everybody is a sales person, but let's not get into that argument!)

'Spend time, not money,' he says. Absolutely, especially for the start-up.

We also like his focus on action. Guerrilla marketers get things done, rather than sitting around discussing the minutiae of strategic planning. At the same time, there is a strong message that once a plan is drawn up, it should be adhered to. This is something that entrepreneurs particularly need to hear. Entrepreneurs will get bored with marketing materials far, far sooner than the public, and be trying to get them changed while the public is still getting to know them. Guerrilla wars tend to be long, drawn-out affairs, and guerrilla marketing is similarly a long slog.

Unlike guerrilla warfare, which I guess isn't a lot of fun, guerrilla marketing is supposed to be enjoyable. Imagination and spontaneity are important. However at this point, the 'guerrilla marketing' message gets a bit muddled. If you want to hand out leaflets on Epping High Road dressed as a carrot – is this imaginative, spontaneous guerrilla marketing or a dangerous deviation from the plan?

Actually, we wonder if Levinson's message isn't as radical as is sometimes claimed.

Much of it actually sounds plain old-fashioned good marketing practice. Guerrillas, we are told, do their research well. We should hope so! They focus on the customer rather than just blowing their trumpet about how wonderful their business is. Glad to hear it: we dislike companies that just brag about themselves, and always have done so, long before we heard the term 'guerrilla marketing'. Guerrillas follow up sales. Great, but so should any business, especially ones that sell in large chunks.
Still, the guerrilla message is a powerful and valuable one. Above all, it has wrested the notion of marketing away from the corporate world and placed it fairly and squarely in the world of start-ups and SMEs. As people who have spent most of our working lives in this world, we find some of what Levinson says to be obvious. Maybe to someone from Megacorp, used to enormous budgets, to complex, pored-over strategy documents and to rigid processes, the message would still be new.

So should you throw away your suit, don a bandana and join the guerrillas? Yes, definitely – but don't be fooled by the bandana. A lot of what you will hear is traditional common sense. Not as revolutionary as the guerrilla metaphor implies, but excellent stuff none the less. The revolution has already happened, and the guerrillas are actually the ones in power.

Finance

1. Watch the cash: Finance Cornerstones and Painless Cash Management

2. The Finance Bogeyman

3. The Three Sources of Finance

4. The Great Funding Game

5. Mind the Gap: Investor Readiness

The Finance Bogeyman

Some people are amazed that the Beermat series of books should include "Finance on a Beermat" – weren't you bored to death writing it? – but they're wrong to be. Working with two experienced finance directors, we learnt a huge amount that we should have known ages ago but only half-understood. It was fun, interesting and slightly shaming. We ought to have known more of this stuff!

Many entrepreneurs are afraid of finance. Heroic in most areas of life, they turn to jelly in the face of a balance sheet. They then compound the danger of this by not having a finance cornerstone – as if the best way to keep the finance bogeyman at bay is to ignore it and hope it will go away, rather than get an expert ghostbuster on your side. We are shocked how many businesses muddle along, seeing their accountants at best a few times a year, at worst once a year. This really isn't sufficient: entrepreneurs need financial information fortnightly. Your bookkeeper, armed with an accounting package, may be able to provide this, but will he or she be able to explain it to you? And, to be honest, will you listen? A finance cornerstone will be better at drawing out the implications of the latest figures landing on your desk, and you'll pay more attention to them if they're on your board.

Many businesses get into trouble by having poor relationships with their capital providers. We're not here to idealize banks, but to point out that many entrepreneurs handle their banks badly, for example by springing surprises on them, then wonder why the banks get ratty. Finance cornerstones are the right people, and actually the only people, to handle this relationship. Their value here is huge – and will get even bigger once you start talking to business angels.

Finance cornerstones are also the best people to deal with other external professionals, such as lawyers and consultants. They speak a similar language, while at the same time keeping a close eye on the large bills these people can charge. The latter is all part of another key finance cornerstone role, that of watching costs, especially fixed costs, which creep up in good times and then crucify a small business if a downturn appears.

The best finance cornerstones can become 'foils' to entrepreneurs. If you look at many famous entrepreneurs, you see behind them a finance expert, a quiet person who does not seek the limelight. The classic example of this is Gordon White, who was for many years the financial brains behind Hanson Trust. Hanson took all the limelight, but it was White's financial skill that made the company so successful. The foil's main job is to keep the entrepreneur focused on the tasks in hand, but he or she also helps the entrepreneur think through new ideas, to see if they really might work, and, of course, keeps them up to date with accurate, correctly interpreted information about current ventures.

Some readers may object that it's fine for Lord Hanson to have employed such a person – 'but I run a small business, and can't afford such a helpmate'. Objection overruled! Part-time finance directors are now easy to get hold of. There are many very able individuals who have worked in both SMEs and big companies at senior levels, who like doing this kind of work – it gives them freedom, interest and a decent remuneration. Ask around your network, or approach one of the growing band of businesses specializing in providing such people. Contact us if you want a recommendation.

The wise entrepreneur should face down their fear of finance. The topic is too important. Get a finance cornerstone and, most important of all, listen to them.

Or why not go further? Make sure that everyone in your team masters the basics of finance. Do they all understand the difference between (and the consequences of) fixed and variable cost, cashflow and profit, overdraft, loan or equity funding? That way you'll soon conquer any fear of finance, and may even get interested in the subject. It has worked like a charm for us.

Watch the cash: Finance Cornerstones and Painless Cash Management

"The money specialist should be at the heart of the business, at the centre of decision making"

Mike once asked a mentor, a businessman of huge experience, for the one piece of advice above all other that he would give a small business. He was expecting something like 'Stay focused' or 'Delight the customer' or 'Have an ongoing strategy-led management paradigm empowerment scenario'. The actual reply was 'Watch the cash.'

We don't want to trump professional accountants by telling them tips and tricks for doing this. We do want to point up what cash-consciousness should mean to how the 'Beermat' business looks and feels.

In our model, the entrepreneur surrounds him- or herself with four 'cornerstones', experts in sales, finance, innovation and delivery. Many start-up teams we meet are lopsided, with too many technicians and no sales – and someone quietly doing the books in the corner. This 'background bookkeeping' is too passive a role. The money specialist should be at the heart of the team. They don't have to be full time from day one – at The Instruction Set the finance cornerstone was the last of the founding team to join full time – but from the very start he was at the centre of decision making.

Finance people who do get to the centre of things soon start to bemoan how little feel the rest of the team has for money. As sales people, we despise them for this – but they are, of course, completely right.

Technical people, especially innovators, should not be thinking pounds and pence. Delivery specialists should be, but often aren't. Entrepreneurs should be, but hardly ever are. Many want to spend money like water on 'building the brand'. The only real way to build a brand is to deliver excellent products or services to customers time after time. Other ways, usually suggested by marketing agencies, are more suited to cash-rich, established companies, who have already established basic customer credibility. Okay, if you can get your branding on National Tiddlywinks Fortnight for free, go for it. But don't fork out cash for the privilege.

The simplest way round these problems is to have the the finance cornerstone, not just the entrepreneur sign all cheques. This will lead to arguments, but also to solvency.

Beyond that, anything that can be done to teach one part of the business about the realities of another is good. Training days should bring people from different departments together, not have them competing against each other. Short 'internal outplacements', so the technician gets to see quite how short of cash the business can get, are of huge value too.

Sales people who do acquire an understanding of financial issues can be key fighters in the war against cash haemorrhage. When negotiating deals, payment terms should be near the top of their consideration, but often aren't: many deals that present opportunities for cash preservation are wasted in exciting negotiation about irrelevancies. They might moderate their expenses claims a bit, too.

So, you're as cash-conscious as the Treasury on Budget day. Well done!

Don't take it too far, and fall into the trap of making false economies. Customers hanging on phone lines for ages to get support; salespeople handing out crummy business cards (or no business cards at all)… There is always a fine line to be drawn. The best way to draw it is to make the people spending the money have to convince a sceptical financial cornerstone that the expenditure really is necessary.

One area where economies are almost always false is people. Bright motivated individuals will not come and work for you for peanuts. Pay a little over the going rate, and monitor their progress carefully to make sure they are delivering value for that payment. Events that boost morale and keep that tribal feel in the business are worth spending money on, too. That tab at the pub where you go every Friday – keep it running, even if the finance cornerstone is a two-Perrier-a-night man and objects every month.

We have often said that sales are half the key to funding from revenue. This is the other half of that key: making sure that revenue, once in, stays in the business and flows round it, only leaving if it absolutely has to.

The Great Funding Game

The bank is still the first port of call for most entrepreneurs requiring funding. While this is natural – isn't that what banks are supposed to do? – there seem to be a lot of entrepreneurs deeply dissatisfied with the service they get (and pay highly for) from their banks. What alternatives are there?

Government SMART awards for Research and Development run from a few thousand pounds to help knock up a prototype, to £150,000. The catch is that there's a lot of paperwork involved – not always the entrepreneur's strong suit. This is a job for your finance cornerstone. There are also 'Enterprise Grants' for businesses in certain parts of the country: call the DTI to see if you are eligible.

There are various types of local agency funding. Some of these are more helpful than others. Some local agencies want a serious slice of your business in return for a relatively small amount of seed capital and some not-very-valuable 'consultancy'. Be very wary: if you sense they're trying to play hard-ball with you (which is not their job: they're there to help you), walk away fast.

Business angels are a better source. There are two archetypes. 'Absolute angels' are like mentors: they invest in your business not just for financial return but because they like you and your idea, and want to be involved in the adventure of making the idea a reality. They provide contacts, advice and enthusiasm as well as writing out a cheque. If you have an angel like this, make full use of them, and make sure they do enjoy the journey as much as you do.

'Fallen angels' are only interested in money. They are a lot less fun to have around, and can become seriously unhelpful if things turn down and they panic. Avoid them.

Angels can be contacted through networks. VCR (Venture Capital Report) is the classic one, now twenty four years old and still going strong. But there are other sources – it really pays to look around. The net is as good a place to start as any: there's a whole network of angel sites. When you do start interviewing angels, use your intuition. Do I like these guys? Do I trust them? If they're any good, they'll be doing the same with you.

Then there are Venture Capitalists. Most businesses are far too small for VCs to look at, which for them is, in our view, a good thing. I have yet to meet an entrepreneur who likes his or her provider of Venture Capital, and this enmity is not good for business. Complaints about VCs include delaying tactics to 'improve' deals, broken promises about providing contacts and advice, short-termism and simple arrogance.

VCs are fine for things like big buy-outs or funding expansion in more mature companies, where they and the fundee are as big as each other. The relationship between VC and start-up is too one-sided, and it appears that VCs are under too much pressure from their own investors to resist the temptation to bully.

Better by far is an alliance with a key potential or actual customer. Yes, this does tie your hands in some ways, but it frees them in others. Of course, as with angels, the choice of partner must be right. Do they really see a 'win-win' in this, or are they just out for some free technology?

So if your DTI award has got enmired in paperwork; the only angel you could find had two horns and a tail; you wisely avoided the VCs but your potential strategic alliance fell apart – maybe it is back to the bank. The best advice is for the finance cornerstone to deal with the bank, not the entrepreneur. And do keep the bank informed about how things are going (obvious, but it's amazing how often this doesn't happen). If you are starting up from scratch, try and negotiate a deal where your house is not on the line.

Or consider another way of funding that avoids all the pitfalls above. It's the oldest one of all – revenue. We're meeting loads of entrepreneur teams at the moment, and are saddened to see how few have sales cornerstones on board. Get one, and get them selling, fast. You'll be amazed how revenue starts coming in – whatever your product or service.

The Three Sources of Finance

When writing a business plan to raise capital, you must consider the nature of the potential funder. Obvious, you might say, but much of the advice provided on business plans overlooks this, and goes for a generic model of 'good' business planning. The first lesson in any good communications course is to think of the audience – this should also be the starting point for advice on how to produce a business plan.

The three basic types of capital provider – banks, business angels and VCs – all have very different agendas.

Banks seek to make a margin on the interest they receive. Though they would love you to become the next Microsoft, their main issue is protecting their capital. As a result, their main concerns are with financials and security.

Angels and VCs are both investing for capital gain. But they have differing perspectives, too. Angels often want to be involved in the businesses they invest in, while VCs tend to regard involvement as a cost. Angels want fun as well as their money; VCs aren't known for their wacky, fun approach to business.

Pitches to banks are often got totally wrong with entrepreneurs enthusing about products and aiming to show how committed they are, when the bank really wants to see numbers. Get a finance cornerstone as quickly as possible; make sure they play a major role in writing the plan and present it with you to the bank.

Passionate entrepreneur pitches are much more suited to angels, who are more likely to make a decision based on gut feeling. Personal chemistry plays a major role in business angel investment. Talk up the character and achievements of the entrepreneur and the key team members. If you can, personalize your business plan. What specific skills does the angel you are approaching bring to the party? Your pitch is an opportunity to be honest and say, yes, we're weak in this area, which is why we need your skills, contacts (etc.). Financials? Get them as good as you can, of course, but angels are often sceptical about financials in business plans.

VCs will expect solid financials – companies ready for VC investment must have a finance cornerstone, and should probably have had one for a while. VCs will be looking for a well-rounded management team, rather than 'star' entrepreneurs. Above all, they want quick growth, and will be eagle-eyed for that potential. They want a strong market case and a clear strategy, as they will be expecting to hit a large, expanding, global market quickly.

We have recently read a fascinating paper by Strathclyde University's Professor Colin

Mason and Matthew Stark from Tenon Group. They made comments similar to the above, but also observed various capital sources being pitched to by various entrepreneurs, and noted how much time the former spent on different subjects. While their results do not 'prove' any of the above observations, they certainly highlight them.

The banks spent a remarkable amount of the time discussing financials: 55%. Angels and VCs spent less than half of that. On the other hand, banks weren't very interested in the entrepreneur him or her-self, spending less than 10% of their time on the topic, while angels spent nearly twice as much. Angels seemed uninterested in strategy (2% of their time), a topic dear to the heart of the VCs (11%). Banks were much less interested in the market than the angels and VCs, who both spent about a fifth of the time discussing this. Perhaps most striking of all was the lack of interest shown by any of the providers in the actual product. The bank spent less than 3% of the time discussing what the entrepreneurs actually made or did, and the angels and VCs around 6%.

The banks also showed complete uniformity in their decisions, while the angels and VCs made different decisions. The implication of this is that if one bank turns you down, don't slog round the others with the same pitch. Go away and work on it: less product, more figures. It may not be such fun but it should work a lot better.

Mind the Gap: Investment Readiness

The funding gap appears to be as wide as ever, despite government attempts to fill it. VCs, by and large, won't look at companies wanting less than £2 million. Most angels want to invest around £50,000. What on earth do you do if you need a sum somewhere in the middle? (Yes, the Small Firms' Loan Guarantee Scheme runs up to £250,000, but what if you have used up your entitlement, or want more than this amount, or simply wish to avoid loan finance?)

One answer is do more research. Talk to people. There are sources of appropriate-size finance out there. In certain parts of the country there are 'soft VCs', set up to alleviate economic problems, who don't sniff at six-figure deals. Venture Capital Trusts are supposed to lend amounts of the size you need. Angel networks can put together deals – or may come up with 'archangels' prepared to lend more.

Responsibility for the gap is often passed back to potential borrowers. 'Investment readiness' is the catch-phrase: lenders say that many of the people approaching them don't have it. Lenders' complaints about entrepreneurs tend to centre on two topics.

Firstly, lack of understanding of available finance options. If there were an easy set of answers we'd produce them, but every region has different lenders with different rules and requirements, so it's down to networking. Somewhere out there is a 'maven', an expert on local lenders who is itching to tell you all about them. Find this person.

Allied to the above is a failure to understand what investors want. Again, there's no simple answer. Anyone taking equity expects a serious plan with an exit in mind and in the next few years. Angels often want fun, too: not just a 'punt', but the chance to get involved in a lively, exciting business like yours. Soft VCs will want to see social benefit such as jobs and contracts given to local suppliers. Ordinary VCs want growth, growth, growth.

The second aspect of lenders' complaints are about the companies themselves. The business plans aren't up to scratch, or are presented in such a lacklustre way that investors are put off.

Lenders have been unhappy about this for years: earlier in the decade two professors, one from the excellent Hunter Institute in Glasgow, did some research and came up with a solution, 'investment readiness' programmes for businesses. These programmes involved a certain amount of drum-beating to raise awareness of the issue, a selection process to see who would most benefit, then training and mentoring. Investors would also be involved, to ensure the programmes created a real bridge rather than just a dolling up of one side of the equation. Six trials were run between 2002 and 2004, and they appear to have worked; so keep an eye open for similar programmes, as they could help you cross the funding gap.

In the mean time, the best single thing a small business can do to make itself ‘investment ready’ is to have a finance cornerstone. Too many SMEs use the old formula of a bookkeeper plus an annual visit to the accountants, and this really is not good enough if the business has any desire to grow – or to attract serious finance. There must be financial expertise at the heart of the business, participating in the formation of strategy and in the making of key decisions. A finance cornerstone will understand the sort of finance needed and the best way to source it. He or she is also by far the best person to orchestrate the pursuit of that finance, to put together a business plan that really wows investors and to present it effectively. And the best person to negotiate the deal, and to monitor the relationship with the investor once the deal is done.

Business Strategy

Execution: Getting the job done

Larry Bossidy was formerly a sidekick of Jack Welch, then left GE to run his own show, a previously lacklustre company called Allied Signal. He made a success of this, and has now co-authored a book based on his experience. (One day a superstar CEO will have the humility to write a book called ‘How I made a complete and utter cock-up at Megacorp’. We’d buy it!)

Larry, of course, turned Allied Signal round. Rather than write the story of how he did it, he went off in search of some general principles. The good news is that what he found is very similar to what we recommend to people seeking to create successful, smaller businesses. Rather than endlessly debate strategy, he says that the most important thing in the corporation is the simple art of getting things done. Better an uninspired strategy that is properly carried out than a brilliant one that nobody actually practices.

Furthermore, the only way to ensure this happens is not by waving a huge stick, but by taking care of the people you employ. Make sure you get the right ones in the first place, and work hard on developing them. You, the boss, do this, not the HR department, who are your allies in this process, not your substitutes. Bossidy reckons he spent 40 per cent of his time when he joined Allied Signal on people issues. Now it is down to about 20 per cent. Do you invest this much time in your people?

Time spent on people issues isn’t just spent reading CVs or drawing up succession plans, either, it’s getting out and talking to individuals. Bossidy’s view on how such conversations should go is, as you’d expect from a Jack Welch protégé, forthright. You must say what you think, clearly and without ambiguity. Then, of course, be prepared to listen to similarly robust comments from others, on the issues in hand but also about yourself.

Maybe this is getting a bit too transatlantic: we believe a measure of tact is appropriate in personal communication. But tact mustn’t become an excuse for evasion, dishonesty or flannel. Clarity of communication is an essential business tool, and it’s refreshing to hear someone from the corporate world – which usually emits vast, nebulous clouds of gobbledegook – state this.

When we meet entrepreneurs and hear their ideas, we can only guess if the idea is good or not. Maybe the market will love it, maybe not. But even if the market loves it, failure to execute will mean the idea will wither – and no doubt be taken up by other people. Among those who do this, the ones who put it into practice will emerge the winners: the ones who do stuff like fulfilling commitments, making sure others fulfil theirs, facing up to difficult issues, doing the tasks you’d rather avoid, following up leads (and so on).

This is why your ‘dream team’ are so important. The world really does divide into those who get things done and those who find excuses for not doing things, and you must ensure that your early employees – once you have the cornerstones on board – are in the first category. Doers. Then motivate these people: make their work fun, praise initiative and success, don’t humiliate well-intended failure. It is, of course, infinitely easier to motivate these people if you are a passionate ‘doer’ yourself. Most of us in the small business world are – but some entrepreneurs may have delusions of corporate grandeur. If life at Allied Signal is anything to go by, they are wrong there, too. We find that rather satisfying.

Note that among those unwelcome tasks that must be done is the recruitment and empowerment of proper cornerstones. We hate to go on about this, but we still meet so many entrepreneurs determined to make it with just themselves and minions. Last December, we visited a company in the far north that fell into this category – a charismatic leader, who greeted us jovially, then introduced us to teams of toiling subordinates. Later we found out that his head of logistics had a drink problem. The company was in trouble: ‘customers just stop believing in us after a while,’ said the boss.

We’ll send him a copy of Larry’s book. All we need is someone to deliver it.

The Technology Trap

Technology is wonderful. Without it, where would the enterprise economy be? Three rousing cheers for technology!

Well, let's make it two, quite rousing cheers. Technology can be a trap, into which many fine business ideas tumble headlong, never to emerge.

The problem is focus. Technology-based businesses spend too much time on the technology and not enough time looking at the marketplace. A mentality develops – 'Just wait till we've fixed the x problem' – which puts the rest of the business into paralysis.

For once, it's not just us saying this. Deloittes and Cambridge's Great Eastern Investment Forum produced a survey that shows (among other things) that twenty percent of companies in the area 'completely disregard building market awareness until the product is ready to be launched'. That's an awful lot of effort spent making things nobody might want.

Beermat enthusiasts will know our conviction that every business needs finance and sales input from day one. Even with the most hi-tech application, the sales 'cornerstone' should start talking to potential customers at once, finding out exactly what those customers' most pressing issues are. The chances are that these needs will not be quite what the developers of the technology imagined. A debate must follow, in which the sales voice must be as loud as the technological one.

So that's happened, and the developers are now working on a customer-driven agenda rather than one formed by the inherent challenges of the technology. This is good – though maybe slightly duller for the developers. But there are still hurdles.

The customer, remember, has a problem right now. Anything you can do to help will be valued. Even if the software crashes from time to time, it may still provide such a useful service that the customer is grateful for it. So provide them with imperfect product – not (and this is the key) in the spirit of fobbing them off, but in the clearly stated understanding that you are working on improvements. Version 2.6 is on its way, and as special status early customers, they'll be the first to receive it. Maybe they'll even help you fund its development…

The technology cornerstones may dislike this, and so might the entrepreneur. Many entrepreneurs are passionate custodians of 'brand value'. While they are up to a point right to be so, beyond this point they are wrong: waiting for perfection can cause fatal delay – and incidentally shows a lack of understanding as to what brands really are (happy customers, not perfect products).

Perfectionist paralysis seems to be a particular problem for academic spin-offs. We have seen many presentations by such teams which have been largely along the lines of 'Isn't this technology amazing!' plus a couple of slides near the end suggesting some PLCs that might be interested or featuring those vague, vast market figures beloved of dotcoms. This isn't enough, and it's really heartbreaking, as the technology is amazing, but nobody's going to buy it in its current, user-unfriendly form.

We believe this is also a problem within large companies, where R and D teams are sitting on great IP, but somehow it doesn't get turned into profit. There is a solution!

Great technology spin-offs need a proper team around them, not of more technologists but of sales and finance cornerstones. Great inventors / researchers / academics should learn the noble arts of networking (to meet these cornerstones) and team-working (to ensure fruitful co-operation once they have met). Maybe a little respect all round is needed too: business types stop considering academics as nerds, if techies stop regarding salespeople as spivs and accountants as anal retentives…

The outlook for such teams is stellar. The marriage of great technology with deep customer awareness and sound financial management is one made in heaven. Why are there not more such marriages on earth?

Survival of the fittest

Evolution is often used as a metaphor for business. Only the fittest survive! However, modern evolutionary theory has moved on a long way since those doomy, early Victorian rumblings (to do him credit, Darwin never fell for oversimplified versions of evolution, but many of his followers did). Has business moved on in its perception of evolution, too?

It often sounds not. People say: 'It's a jungle out there…' The world of business is portrayed as one of interminable, bitter struggle, as enterprises grapple for scarce, essential resources. If modern evolutionary theory has moved beyond this view, might some of these changes might be of interest, or at least consolation, for businesses who see themselves as locked in one of these kill-or-be-killed battles? We think so.

Staring with the notion of 'fitness' itself… Both in business and on the savannah, entities that are clearly unfit do not last long. In business, the 'unfit' are outfits that get the essentials wrong; who make a mess of their finances, employ the wrong people (or any other 'obvious' mistake). But avoiding these pitfalls are what management guru Frederick Herzberg called 'hygiene factors', necessary but not sufficient conditions of survival. They have to be got right, but only really get you to the starting line in the race for real success.

'Fitness' is at least partially a relative notion. To say this is not to excuse flabbiness or poor business practice, but simply the truth. Fitness is always dependent on the environment: dumped into the middle of the Atlantic Ocean, not even the fittest of us would be able to survive. Fish, not noted for their longevity in corporate boardrooms, live there very happily. Modern evolutionary theory looks with interest at the moment when new environments become available, or at how creatures can change their own environment by learning new behaviour.

New evolutionary opportunities are opening up all the time. This happens because of physical changes, in climate or in the land itself, via factors such as volcanoes or floods. New environments become available, and species flood in there. Especially if only a subset of the old creatures can enter the new environment, the newcomers can prosper and multiply very fast. They will also change fast: evolution is not a constant progress, but one that tends to go in rushes as new environments open up, then slow down as the equivalent of 'market leaders' emerge in those environments and things become more stable.

New environments can also be created by evolution itself. As new creatures evolve, others that can live off them prosper. Not just parasites, but creatures that operate in symbiosis with them – the bird that eats rhinoceros ticks both lives off the rhino and does it a huge favour.

Finally, creatures can learn new behaviour, which changes their chances in the battle for life. The obvious examples are the big ones – when the first birds took to the air, or back when the first fish began crawling up onto the uninhabited land. This was essentially a behavioural change. Obviously, it was based on previous physical adaptations: birds evolved from creatures who had glided, and thus had features such as wings or light bones. But the 'big leap' was in behaviour.

What is the message of all this? For anyone who feels burdened down by the thought that business is like the 'old' Darwinian struggle, relentless, blind and ungiving, should look up and around. Winners in evolution, and in business, are fit, but not super-fit. Winners are fit and imaginative; they find new battlegrounds to fight on, or even create their own new battlegrounds. Ideally they find battlegrounds that are so new, that there's nobody else there to fight – just eager customers, weary of the old polarities and eager to have their new, real needs met. Be fit, but be smart, too.

Facing Competition: Let battle commence?

We're forever being told that the world is becoming tougher, and that business is a struggle to the death that would have Darwin salivating at the mouth. Remember the Nike slogan: 'Kill Adidas'?

This is not the Beermat Way.

We're not trying to be goody-goody: we think that attitude is bad business. Obsession with competition leads to obsession with competitors. A business should be aware of its competitors, obsessed with its customers.

In a selling situation, for example, few things annoy customers more than people from one company slagging off another. Customers want to know what you can do for them; not how you feel about the guys down the road.

Sometimes competitors try and force themselves onto your agenda by making lots of noise. Don't start shouting back; stay cool; concentrate on your business and your customers. Remember the kid on the playground who was all talk…

And sometimes things get rough – for example, a price war. Price is the crudest form of competition. Talk to your customers and find out what value you could add to your product – at or near its current price – to make it remain their choice. If your sales cornerstone is doing his or her job, your customers will want to stay with you, unless your rivals have a substantial and permanent cost advantage. (If they have such an advantage, get innovating, fast.)

What if a rival starts playing dirty tricks? Again, stay cool. By all means bring in the law if to do so is easy – obvious theft of IPR, for example. But the most important thing remains to talk to your customers. They probably don't want to deal with a sleazeball – what have you got to do to make sure you keep their business?

When times in general get tough, it is not the nastiest that survive but the most flexible and the best co-operators. If you have established a reputation for ruthlessness and double-dealing, you will find it hard to find strategic partners. If you are respected and liked in your business community, it's amazing how many resources you can muster to deal with big, external opposition.

None of the above means 'be soft'. The best way to avoid price wars is to be perpetually vigilant about costs. The best way to avoid having your customers or staff seduced away is by having excellent customer and staff relations. The best way to make powerful, effective strategic alliances is to love what you do and seek out others who feel the same.

Books on strategy often use the metaphor of war. Interesting – but the truth of war is that both sides normally end up with their population decimated and their economy in tatters (unless the war is one-sided and thus over mercifully quickly). Meanwhile, wiser neutrals get on with their lives and prosper.

Learning from Experience

“Learning from experience” is a topic that always comes up when we meet entrepreneurs. It is one of the key traits all the good ones have, because nobody gets it right every time and very few people have the luck to get it right *first* time. You just have to get it wrong, learn, try again (and so on: business school types call it ‘loop learning’). It’s an attitude that’s easy to parody – those of us old enough to remember the seventies will recall a song called ‘Do it again’ about a perpetual loser. But this was a piece of West-coast cynicism: away from the City of Angels, real people make real mistakes, learn real lessons from them and go on to achieve real success.

In *The Beermat Entrepreneur* we claimed that business is easy – how does this claim stack up against the need for ‘loop learning’? Not very well, critics have argued, but we’re sticking to our view. The mistakes are usually conceptually quite simple, which is what we meant. The difficulty is almost always to do with execution, which in turn means people. In fact, just to make this piece more interesting, we’ll say that the difficulty is *always* with people.

There are no business issues at all, only people ones.

Experts may start fuming at this point, but for the entrepreneur, this is fundamentally true. Of course, he or she will be faced by all sorts of complex business issues – but that’s where the experts enter the picture. There are plenty of people out there who can solve these problems. The issues for the entrepreneur are selecting and working with these people.

And this, of course, is where things often go wrong. Some classic mistakes:

Exaggerating ‘in-house’ ability. ‘Fred will be able to solve this problem.’ He won’t, and deep down inside you know he won’t, but the hassle of getting a real expert on board is so great that Fred gets landed with the job in the end. And, of course, makes a mess of it, handling things in his unique Fred-like way we all know and love (but which the new customers don’t know and hate).

Underrating inside ability. This is the obverse. Fred is actually very bright, but instead, a consultant pal of the entrepreneur’s is bought in, who is arrogant, alienates everybody, charges a fortune, does a thoroughly mediocre job…

Failure to grasp the nettle. Here it gets even closer to home. We’ve done this in our own business experience, and I expect many readers have, too. I still have nightmares about one project that fell apart because two cornerstones started playing some private mind-games, not communicating important information and scoring points off each other. He realized this was going on, but that old devil wishful thinking stopped him taking action till it was too late. ‘Oh, it will be all right. It’s such a good business idea, even feuding cornerstones won't upset it. After all, they're both very bright and able individuals…' Crash!

The nightmares are, of course, the point. That's how you don't make the mistake again. It's a kind of aversion therapy: the moment that kind of game-playing occurs again, an almost biological reaction sets in.

Convenient forgetfulness

Some people seem to suffer from a surfeit of this. Many of them go into politics. It's important not to spend one's life haunted by past mistakes, but it's folly to go the other way and forget them all.

One very good cure for forgetfulness is other people. The Myth of the Lone Entrepreneur is another favourite theme of ours – again, because it just keeps on coming up when we encounter real business problems. You just can't do this company-building stuff alone. One reason is that learning is so much easier when material is shared. You need someone to talk things over with, someone whom you really trust, who will be open with you, doing unpopular things like reminding you of the last time you made exactly the same mistake. A mentor is a perfect source of such reminders – but your personal partner can also play this role if you let them, or a close friend. The key is always to be honest with this person. And, of course, to respect them when they tell you what you don't want to hear.

So, we would not only argue that people issues are the most crucial ones, but that the key people issues are *yours*. As entrepreneur you must be perpetually developing your judgement, your self-discipline, your close relationships.

And after that, it's easy!

Know Thyself: the discipline of self-awareness

Some ideas sound bright, but are actually doomed. It's part of an entrepreneur's skill to spot these and leave them on the drawing board. Once you get a good business going, hopefully that filtering process will no longer matter – things are happening, well done. But the skill of self-examination and the discipline to face up to the outcomes of that examination are still needed. We still meet too many businesses with great products but serious deficiencies in their organization (the former, of course, hiding the latter. For the moment.)
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Many start-ups lack a true finance cornerstone. We've already talked about the phenomenon of the tame accountant, who gets wheeled in once a month to 'do the books'. Such a person is usually very unmotivated to bring bad news, and often only does so when it's too late. Hardly surprising, if they've been given no role in creating company policy; even less surprising, when, like the occasional company we come across, the accountant is not the first person to have the job – their predecessor having been fired for telling the company that the entrepreneur's Golden Plan for World Domination wasn't quite working out as planned.

Sales cornerstones will have no such fear of speaking up – but their forecasts need to be treated with a measure of scepticism. The whole team should look at the sales pipeline, performing the role of the sales manager in a big organization and quizzing the sales cornerstone on the accuracy of the probabilities they have attached to future sales. Any prospect that has been stuck on a particular probability for a while needs to be looked at particularly carefully – chances are, the customer has actually gone away but the sales cornerstone is still living in hope.

Technical issues are harder for the team to assess: we can all understand sales pipelines and most of us can manage monthly accounts, but when it gets technical the whole game becomes harder. A culture of clarity in the organization helps enormously here. If the non-technical people promise not to speak management-ese, the techies are more likely to honour an obligation not to blind everyone with techno-speak.

Please note that in none of the above cases are we talking about deliberate deceit: it's genuine self-delusion that 'it'll get fixed tomorrow' that is the problem.

All this points to the importance of a team approach rather than the Lone Entrepreneur model that's often touted in entrepreneur hagiographies. If individual cornerstones can fool themselves that everything in their corner of the garden is rosy, how much easier is it for a lone heroic entrepreneur to do the same thing? This is, of course, why people employ consultants – but consultants, like accountants, can be fired if they start saying the wrong thing. Better to bite the bullet and create a culture of honesty inside the organization than bring someone in to do this job.

Customers are, of course, another source of self-awareness. Sales cornerstones should be the voices of the customer in the company boardroom – sadly, too much sales is about getting people to buy things. That is the wrong kind of sales for the small business. You must be allies with your customers, not antagonists in an amusing but ultimately destructive game of who can deceive whom best.

If you suddenly do find things are going wrong, what should you do? Action is clearly called for – but words are more important first. The first person you should talk to is your mentor. It's at times like this that you realize quite why it was worth putting in all that time and effort to get an old greyhair interested in your project.

Next, talk to the rest of the founding team. Get over the blame stuff, and work out a plan of action together. Then talk to any key customers who may be affected by problems.

There's a school of thought that says you must at all costs conceal cracks in the framework. But take a lesson from big companies, who learn over and over again that attempted cover-ups end in disaster, and that customers and other 'stakeholders' appreciate honesty.

Your bank manager is among the people you will have to talk to. We've not always been complimentary about the service banks provide small businesses, but many start-ups don't help by keeping the bank in the dark about what's going on. If you hit problems, tell the bank about them – along with the plans you have for getting things sorted.

But let's end on a positive note. If you have a balanced team with real responsibility; if you have a culture of openness, not blame; if you have a mentor on board who you can really talk to; if you keep other key stakeholders informed (and they are happy) – then you can be pretty sure you're winning.

Drivers, Deliverers and Diplomats

One point regularly raised on the subject of leadership is that a leader is only as good as their team. We agree: part of being a good leader is selecting the right people – if you're given that opportunity, of course.

Small entrepreneurial companies need certain types of people. People with a 'can do' attitude; people who get things done; people who enjoy getting things done. There is an opposite kind of person, who is brilliant at finding reasons for not doing things. These people can strangle small businesses.

One subset of 'avoiders' we have met suffer from what we call the 'yes, but' disease. You soon spot these unfortunate individuals. They will tell you all about – and we mean all about – a serious problem facing them. As a practical and public-spirited person, you suggest a remedy. Their answer? 'Good idea, but…' So you suggest something else. Maybe you even volunteer to lend a hand. 'That's very kind, but…' You dance round the objection: not only will you do X, but Y as well. 'That's nice, but…' And so it goes on. Aficionados of Transactional Analysis will recognize a favourite 'game' here – in the worst cases, the game has a nasty sting in the tail, when the yes-butter suddenly turns round and accuses you of being unsympathetic, unhelpful (etc.)

Another symptom of 'avoidership' is the ready excuse. Badly managed businesses always have endless excuses for failure; well-managed ones just seem to succeed. It's the same with people – for the avoiders, there's always some external reason for failure. As kids, no doubt, they had voracious dogs at home forever eating their homework. The people you need in the small business won't get it right all the time, but they will own up to making mistakes.

Another sign of negativity is, oddly enough, an acute critical sense. Our culture encourages 'critical thinking', and clearly a measure of it is good. The problem comes when that is all the individual can do: criticize. 'Someone has to ask the difficult questions,' they say, in a rather hurt tone. Actually, someone has to get off their butt, do stuff and see if it works.

Allied to this is the curse of complication. It's another maxim of our culture that complicated is clever. Weighty management books filled with labyrinthine diagrams encourage this view. There is even 'complexity theory' to support the idea that the universe is so amazingly complex that there's no reason why anybody should do anything. This may be true at some cosmic level – maybe the real reason my train was late again this morning was because two butterflies mated in the Amazon jungle last Tuesday – but the smug woolliness that this kind of thinking can produce is of little practical use. The bright entrepreneur looks for real, powerful trends and clear courses of action.

Is there no room at all for the sceptical, hyper-critical observer? Probably not, outside the duller 'think-tanks', but there does need to be a counterweight to pure enthusiasm. Classic work on teams shows that a range of temperaments is optimal. The problem with much of this work is that it was done in large companies. The model of Dr Meredith Belbin has nine people on the team. It's superb stuff – but if you only have five people in the business and the customer wants something tomorrow, you've a bit of a problem.

Our solution is to simplify. There seem to be three fundamental types in the model, which we shall call Drivers, Deliverers and Diplomats. Drivers are entrepreneur / innovators, always buzzing with ideas, charismatic and energetic. Sales cornerstones are Drivers, too – 'Resource Investigators' in the model. Deliverers are the people who actually get the work done – in the Beermat team, the delivery cornerstone (obviously), most of the Dream Team, sometimes the financier. Diplomats negotiate between the two (and between drivers who start arguing with one another, and between sulking perfectionist deliverers). They also do what Belbin calls 'monitoring and evaluating' – in other words the standing back and asking the difficult questions.

The start-up will probably begin with Drivers. There'll be a temptation to get even more Drivers on board, but actually what is needed almost at once is Deliverers. The Drivers may consider these people a little beneath them, but they should not. Do you want a business or to talk about having a business? The first Diplomat can be your mentor, though it is advisable to have one of the five founders who fits this role. Finance, probably.

A balanced business team, where all the key functions are represented, is essential to the start-up. In our Beermat model, that is represented by the four cornerstones. But the team needs to be balanced temperamentally, too. Though please steer clear of anyone who greets your first three suggestions with 'yes, but…'

Luck – and how your team can make it

Luck is a key ingredient of success. Yes, 'the harder you practice, the luckier you get', but you still need that luck: almost all the success stories we hear (and enjoy) involve a 'lucky break' at some point.

But what is luck and how does it work? There is a fascinating book on the subject, *The Luck Factor*, by (aptly named) psychologist Richard Wiseman.

Professor Wiseman began by investigating the 'stickiness' of luck: do people regard themselves as permanently 'lucky' or 'unlucky', or do they perceive luck as something that ebbs and flows? He discovered the former – a good thing for his experiments, as he was able to separate the 'I'm lucky' people from the self-condemned losers and examine what differentiated them.

There are several answers. One is in simple behaviour: lucky people tend to be 'people people', extrovert and charming. They are open to new opportunities, socially and commercially. For example, they will try new products or holiday ideas: 'early adopters' are lucky people.

Sceptics can argue this is a symptom, not a cause. People learn lessons from life, and if things go your way, you'll become open, friendly and fun. Bad luck does the opposite, closing you down. But the research disproves this.

Luck is also about thinking patterns. Unlucky people don't learn lessons from life: if they make a mistake, they tend to brood over it, blaming themselves or their bad luck for what went wrong. They won't change their behaviour in the light of past misfortune. Things also go wrong for 'lucky' people, and they ponder these events, too – it's not a trait of the lucky to blandly ignore mistakes. But lucky people are objective and practical, extracting the necessary lessons from what went wrong and moving on.

Lucky people look at events in a different light. Even when bad things happen to them, their attitude is 'it could have been worse'. Wiseman cites the bizarre example of a serially lucky person who was attacked by a lunatic while waiting for a train: the victim's reaction was that, yes, he was unfortunate to have been attacked, but overall he was lucky – the guy could have killed him. By contrast, losers always moan about how things could, and should, have been better. 'Just my luck…'

Losers always compare themselves to successful people. 'It's OK for you…' or 'If I won the lottery…' Winners compare their lot to the many unfortunate people in the world, and are grateful for what they have (I learnt this lesson on a visit to Mumbai, where he was walking along feeling grumpy about his slightly substandard hotel accommodation, then came across a family living in a section of concrete piping).

Again, a sceptic could argue that the loser has more people happier than him or her to make comparisons with. But this phenomenon occurs across the social scale: gloomy aristocrats will always find someone better off to compare themselves to; lowly winners will naturally find someone worse off to make them feel grateful and fortunate.

Winners see ill fortune as something temporary, and as a challenge to be overcome. Losers either succumb to misfortune, or try and fend it off with useless superstitions. Those poor souls who fork out money (of which they are usually short) for lucky lottery numbers, magic crystal amulets made of plastic, fortune telling by post (and so on) are simply digging themselves deeper into a hole of passivity, ignorance and fear.

Of course, the general message of positive thinking is not new: philosophers since Epictetus (55 – 135 AD) have been pointing out that life tends to turn out as we expect it to. But Professor Wiseman's work is based on research, not individual insight. He began his investigations with an open mind, and these specific differences in thinking styles are what he discovered.

The moral for business is clear – and understood by the professor himself, who has used his methods to help companies turn round . The message is particularly important for start-ups and small businesses, where the leaders have to set the cultural tone. You can kick unlucky thinking habits. Think like a winner, and you boost your chances of becoming one – and even if the particular venture does not succeed, you will deal with the consequences in a healthier way, making the chances of the next one succeeding higher.

Five Forces: "Porter on Strategy" for smaller businesses

Michael Porter is a name discussed in hushed tones by big corporate strategists. Does he have any message for the smaller business?

We believe he has. He has consistently produced challenging ideas, but his classic work remains the 'five forces' model, by which you can examine whether an industry is worth going into. This is not usually a question entrepreneurs ask – they decide early on that a vision is worth pursuing, then pursue it, and no amount of strategy-speak will put them off. And, in essence, we support this approach. Belief, which is often based on lots of experience and unspoken knowledge, is more important than analysis, that can be plain wrong.

Still, if you are pondering a venture, here are five criteria by which to judge the industry. Note, of course, that a glowing result about the industry doesn't guarantee the success of any given venture in it.

Firstly is the question of *entry barriers*. How easy is it for other businesses to follow you if you succeed? Beermat companies naturally throw up such barriers, as they build relationships with customers. This is important, because other aspects of the Beermat model encourage low entry barriers – our insistence on low capital expenditure to start off with, for example. Ultimately, of course, the best entry barrier of all is excellence. Once people know you're the best, the 'me too' brigade will only be able to pick up the crumbs.

Secondly Porter asks how easy it is for *substitutes* to come and take your market away. Rubber is the classic victim of this: planters lost money hand over fist once a synthetic substitute became practicable. But the fear of substitution is often greater than the reality. Substitutes are usually not quite as good as the original. Consider why your customers will want to keep on using your product. Video didn't drive cinema out of business, and we don't see e-books taking over from real books (except in certain areas such as reference). Substitutes tend to split markets rather than destroy them. Beermat companies, close to their customers, are well placed to fight off substitution threats.

Perhaps the most useful point to garner from this notion is that markets are never for 'things' or 'services' but in solving customer pain. If you are the experts in solving that pain, you may have to switch out of a much-loved 'pain-solving medium' into another, which will be tough, but you do not have to lose the business.

Porter also looks at *buyer* and *seller power*, which vary from market to market. Clearly you want both to be weak, so you can dominate suppliers and command huge margins from your customers. Dream on. Small businesses serving large ones often feel under the 'cosh' of buyer power. However, they often let themselves in for this, by being starstruck by an order from a major PLC and then pushing other customers to the back to fulfil it. This is short-term thinking, and the damage this can cause, when the big buyer suddenly decides to waltz off somewhere else, is partially self-inflicted.

If you are in a position to bully your suppliers – think twice. If you force them to compromise on quality, that is now feeding into your product. And we'll accuse you of not being 'Beermat'.

Porter was an economist by training, and economists tend to take a rather bleak view of business as irredeemably raw in tooth and claw. But naked shows of power in commercial relationships don't always pay off . 'Because we can' is not the motto of the long-term business.

Finally, Porter talks about the *degree of rivalry* in the industry. Cited examples of rivalry-free businesses tend to be large virtual monopolies – something an entrepreneur is unlikely to possess. According to the theory, fast-growing markets should be rivalry-free, as there is plenty of business to go round. In practice – wait till everyone spots this and piles in! (Back to 'entry barriers' again…) The moral here is to differentiate yourself as much as possible. Being the best is the obvious way, but being the nicest or most convenient will do. In markets of one, there is no rivalry… However, for many entrepreneurs entering growth markets, rivalry is a fact of life. While striving for differentiation at all costs, learn to accept and even enjoy rivalry. It can often be a spur to achieving much more than you thought you were capable of – or would have achieved in one of these (we believe largely mythical) rivalry-free markets.

Conclusion? We don't think this venerable model is a 'Holy Grail' for small business, but it's good food for thought. Use it wisely, not as a clinching argument (especially against entrepreneurial passion), but to gain perspectives and insights.

Outplacement: As one door closes…

One of the most difficult jobs we do, but one of the most important, is helping people who have been fired look at options for the future. We get asked to do this by firms that are laying people off and want to soften the blow – a move that is both humane and sensible, as it is better to have ex-employees who are friends rather than enemies (a point macho managers seem to forget, then wonder why their organization slowly acquires clusters of enemies).

We always recommend newly dismissed people to take a bit of time out to consider various options. Once they've thrown away the voodoo doll with the face of the HR director on, they can get on with life.

Not everyone we advise is entrepreneur material. We try and be honest here, not telling people outright that they'll never make it, but showing them how much of a mountain they have to climb to get there. But many have what it takes. Ex-employees bring a number of hugely valuable things into their new businesses, things that dynamic young entrepreneurs cannot. Experience, for example. Knowledge of the marketplace. Forget those whizz-kids who say that knowledge and experience are drawbacks. That may have been true during the dotcom boom, when they prevented people from doing things like wasting millions of pounds of other people's money, but in the new century these things are hugely useful, as long as they are harnessed to an entrepreneurial attitude. Knowledge and experience should be the material from which older entrepreneurs forge a new vision of how the market is to be served. How are you going to be better than your ex-employer? People who answer 'Er… Um…' to this question haven't been through the entrepreneurial visioning process, and need to.

Of course, the real value that old hands bring to new enterprises is contacts. Those elusive first customers, who will help them define their product and market, are in their rolodex. There may be some rule forbidding you dealing with them, but there's no rule against ringing them up, buying them lunch and talking your ideas through with them, so that when the no-dealing rule expires, you are ready to roll.

Of course we'd never, ever suggest to employees that they build good relationships with key clients before the dismissal process cranks into action. Your loyalty to the company should be, well, the same as it is about to show to you.

One route taken by some dismissed people is straight back into the company, as consultants. Downsizing often results in a drain of what business schools call 'tacit knowledge': in plain English, they fire a load of people, then suddenly realize that nobody left in the firm has a clue how certain processes work. They then hire the ex-employees back. Nice. The danger here is of being a one-customer business – the curse of many consultancies. Yes, it's great to be back on a higher day-rate, but you need to be looking around for a range of customers.

This brings us back to our old friend, the Balanced Business Team. Consultants are normally good deliverers. Who is doing your sales? Remember that if you are a one-person band, you have to be your own sales cornerstone, and this can be hell for some people. Better to try and build a team. If a group of people are being 'let go' at the same time, they should get together and see if they have skills that would dovetail into a balanced team. One sales animal can be a virtual sales cornerstone for several consultants – the Beermat model is flexible. Finance cornerstones can be virtual, too.

Remember that you do not have to be an entrepreneur to play a key role in an entrepreneurial business. Entrepreneurs need cornerstones, and laid-off managers are often ideal for this kind of work

In our experience, most people who move from redundancy to entrepreneurship create lifestyle businesses. The skills of time management and virtual team-building are paramount here. Others do go on to create large, growing businesses – the next generation of 'mighty oaks' – but they are in a minority.

The final message we give people who have been laid off is to treat the experience as an opportunity rather than a disaster. Recent research shows that 'lucky' people aren't really any luckier than unlucky ones: they just treat the ups and downs of life differently. Getting a roomful of people who have just been fired to create a deafening 'group cheer' is not easy, but it can be done. And there are many businesses out there to prove that the cheer was the right response.

Eastern promise: doing business in China

I recently assisted in the writing of a book with Chinese business expert Harold Chee (*Myths about Doing Business in China*, published by Palgrave). Here are some observations about doing business in this apparently bountiful market.

China has embraced Capitalism with the same fervour it embraced Maoism in the 1960's, and is booming at rates that make western eyes water – last quarter the rate was equivalent to annual growth of ten per cent.

Yet China is not the magical goldmine many people perceive it to be. There are two main ways of profiting from the market. One is to sell into it, the other is to use its massive resource of cheap labour to outsource manufacturing. The second is a lot safer than the first, though also not without pitfalls.

In both cases, you must accept that there is a different business culture in China. Some people argue that as China westernizes, its business culture will change. Over time this effect will no doubt be felt, but for anyone wishing to do business *now* with The Middle Kingdom – China's revealing name for itself – it is wise to assume that things will be done their way. Such an assumption is both wise and morally preferable: money does not buy us the right to tell other cultures what to do.

Elsewhere, we have talked about the importance of *guanxi*, connections, in Chinese business. They are of course important in every market, but nowhere more so than in China. This is because they are crucial to all aspects of Chinese life, not just business. Marriages are arranged on this basis. Political power is acquired and wielded through guanxi. If this seems odd to western readers, consider the size of China. They face tasks in ordering their country that we can't even imagine – a country the size of Europe, a population twice that of Europe and the USA combined.

Any contact you make in China will cherish their *guanxi*. Short-term business advantage will always be secondary to *guanxi* and its associated emotion of 'face'. Also, *guanxi* are largely within the Chinese community: as a foreigner, you do not really belong. This is not racism but a fact: you can leave China if you've had enough of the place; they cannot, and must live with the social, political and personal consequences of what they do for the rest of their lives.

How can you develop *guanxi* in China? There is no easy way. You have to take time to understand China's ways, and to get to know individuals in person. If you can learn Chinese, all the better. You must also accept that your *guanxi* will never be as deep as those developed within a Chinese family or between a Chinese person and his or her oldest and closest friends – however important your business is.

Negotiating in China is hard work. Most Chinese have grandparents who eked a living off an ungiving land, and are haunted by scarcity, even among the apparent opulence of modern Pudong or Shenzhen. So they will bargain ruthlessly on price. Worse, however is the perpetual renegotiation of contracts. It must be understood that contracts mean a lot less than contacts in China. A contract is seen more as a general statement of good intent, a sign that you have at least crossed into the outer circle of *guanxi*, than a formal, morally binding deal. Westerners hate this, but that's how things are.

A fatal mistake that many westerners make is to underrate the Chinese. Chinese are masters of strategy, a subject which most of them will have studied from youth via stories of martial adventure such as The Water Margin. Later, they will have read history books like The Romance of the Three Kingdoms, and learnt strategy from an era when failure meant execution, not a bit of a dent in the balance sheet. Strategy in these circumstances often involves deception. Read Sun Zi's Art of War to gain an insight into this – but don't assume that having done so makes you an expert. You have just read the first text in Chinese Strategy 101.

We hope we haven't put you totally off doing business in China. Get it right, and it can be hugely rewarding, both financially and personally. The culture of China is fascinating, and you can make good, lasting, loyal friends there if you stick by people. But to anyone looking at those amazing growth figures and thinking there must be easy money in there somewhere – think again!

Growth

1. Building the Dream Team
2. Life after 25: the Growing Company
3. Alliances and Partnerships
4. Knowing when to Quit

Building the Dream Team

Elsewhere, we have looked at entrepreneurs and the 'cornerstones' they need around them: those invaluable half-entrepreneur, half-professionals. Small businesses can run for a while with just these five people, plus a 'gopher' maybe, but the time almost always comes to take on new staff.

It's a crucial moment. You're still small, and introducing the wrong individuals can cause real cultural shifts – in the wrong direction. What sort of people do you need? How do you find – and retain – them?

Their most important characteristic is simple enthusiasm. They must, of course, be competent, but they don't have to be 'professionals'. Their bosses, the cornerstones, will teach them the minutiae of their jobs. What they bring to the party is commitment, a measure of skill and a sense of fun. In this, they are very like players in a sports team.

The analogy between business and sport is at its closest when enterprises are in this 'sapling' stage. So motivate your new recruits like the great sports managers. Lead by example. Celebrate success – and get everyone involved in the celebration, as a win for one is a win for all. Minimize office politics by creating an atmosphere of equality and openness.

Don't bother with formal team-building exercises. There are enough challenges facing the business without having to manufacture them. The best place to build 'dream teams' for your sapling enterprise is not the Brecon Beacons but the local pub. Get everyone down there on Friday; buy the drinks; have a great evening. And listen carefully to what people say – not to hold against them later but to understand them. Treated this way, your people won't want to leave.

The best way to recruit your 'dream team' is by personal contact. Your people should think that working in your company is brilliant, and should be telling their mates that. And if one of these mates wants to join, and you all think they have the right stuff – ask everyone – congratulations! It's a much better mechanism than interviews (artificial scenarios that can be 'learnt') or ponderous psychometric indicators.

When the business gets beyond about twenty employees, this wonderful, spring-like feel begins to wither away. Some businesses decide to stay small for exactly that reason. Others have no choice but to grow. So cherish this time in your enterprise's life: it's about as much fun as you can have.

Life after 25: the Growing Company

We're not huge fans of numerology in business, though I did once meet someone who claimed to outperform the stock market by drawing up horoscopes of companies, based on their place and date of incorporation. But some numbers do seem to have magic qualities – particularly when it comes to numbers of people in an organization. Regular readers of this column will already know of our enthusiasm for the number five: the entrepreneur plus four cornerstones. An odd number, in case things go to a vote. Five is enough people for debate: three is too much like an unhappy marriage, while seven is getting too diffuse to make quick, effective decisions.

Beyond that, lies another magic number. It's vaguer, between 20 and 30 people, and it's the point at which the small, growing business ceases being like a tribe or a sports team and begins to turn into a mini-corporate. It must be to do with the psychology of how many individuals we can really get to know, like and trust. Our ancestors must have roamed the African savannah in groups of about 25 adults.

Grow beyond 25 people, and strange things start happening to your business. You walk in one day, and there's someone at a desk whom you don't recognize. When you were once delighted to be copied on everyone's emails, suddenly this has become a chore. Your people start complaining they're not being listened to: you feel you're still trying your best, but there's just not enough time.

The solution, sadly, is to accept the change and introduce more structure. Your people should be having regular, formal assessments every six months. Are they? Have you got a full-time HR person? Maybe you don't need one at 25 people, but when it gets to 40 or 50… Are you still trying to get by on Word, Excel and the brilliant memory of your finance cornerstone's assistant? Time to give in to those people who have been trying to sell you an IT system for the last three years…

For many entrepreneurs this change can be heartbreaking. Things just aren't such fun any longer! But it must be made.

So can the fun be preserved? We think it can – up to a point. It'll never be quite the same again, but you don't all have to rush off and buy suits and white shirts.

If the company was a good place to work, that will be because it had a good corporate culture. This culture undoubtedly grew naturally, from a string of particularly good evenings down the pub, or from the wisecracks of one particularly funny team member, or from any of a hundred sources of that wonderfully indefinable and human thing called culture. It needs formalizing now. If everyone went to the pub on Fridays, make sure that still goes on. Remind yourself of the mythology that has grown up in the business, and ensure it is passed on to new arrivals.

The Instruction Set had monthly awards, some serious, some silly, all of them hugely important for fostering team spirit. These kept going even when the headcount got beyond 100.

Keep recruitment a tribal thing for as long as possible. Potential employees of The Instruction Set met as many team members as possible as part of the interview process – and if any of the team got a bad feeling about them, the person did not join. Draconian? Ponderous? It was wonderfully effective: they lost a handful of people in their entire history. The spirit remained in the company to the end ('the end' being a trade sale to one of its biggest rivals).

An alternative strategy to all the above is to keep splitting any business unit when it gets too big – say at 30 people. We have met a very successful entrepreneur who does this (so it's not just us who have spotted the magical properties that lurk between 20 and 30).

What is not possible is to pretend nothing has changed: the 'Peter Pan' strategy. It can be disastrous. If you need a mental model to put you off the 'Peter Pan' approach, think of those embarrassing people in their forties who still pretend to be teenagers.

Is there a magic number beyond 30? 150 people seems to be another point to stop and reflect. It was the point at which The Instruction Set was sold, and we have met other entrepreneurs who say this is another milestone.

So if you are growing your company fast, don't be surprised if things suddenly seem less fun. Adapt to the change, and you can keep that start-up spirit alive in your workplace. Up to a point.

Alliances and Partnerships

According to some researchers, the ability to form alliances that work is the single most important factor in the success of a new business. We're not sure that's provable – how do they do these experiments? – but certainly agree it's among the key factors.

We meet so many 'Lone Ranger' entrepreneurs, determined to go it alone. There's a look they have, a kind of overwhelmed determination. If only there were 275 hours in every day, they'd make this work!

But there aren't. So you build the team around you – your cornerstones and those bright 'dream teamers'. Great. But there's more devolving to be done. Out there are businesses with whom you could create fantastic 'win-wins'. You need to be looking for them.

Generalizing massively, there are two basic types of alliance that the start-up can make. One is with a much bigger company, the other with someone of similar size.

The much bigger company can be the perfect partner. They have resources you can only dream of, best of which is access to huge numbers of customers who want your type of product. The key question you have to ask, of course, is 'what do they stand to gain from allying with you?' In the baldest terms – something I'm expert on – the answer is that you'll save them money or increase their revenue. All businesses are perpetually looking for ways to do this; think of a really convincing way you could help them, then announce yourself to them.

For example, retailers are always looking for ways to brighten up their stores and attract people in. If you can feature your amazing new product there, and get some PR as you do so, then you'll be of real assistance.

The other type of strategic partner is someone around your size, who has a skill or access to a market that is complimentary to yours. Your delivery or finance cornerstones are the people to consult about this. Beware of buying close customer relationships: these can vanish very quickly.

In both types of alliance, there are three magic words: realism, mutuality and empathy.

Realism is not always entrepreneurs' strong suit – that's why cornerstones are so valuable. It is essential in alliances, both with regard to your own strengths and weaknesses, and to those of the potential partner. So often a partner appears to have exactly what you need: that manufacturing capability, that customer recognition, that market clout… But do they really have as much as you want them to, and will they actually let you in on the act? You must know, not just hope.

Mutuality refers to our old friend the 'win-win' (one of the few terms in managementese that we like). What's in it for your partner? Alliances are often described as 'getting into bed' with another business, and the metaphor has a sad aptness. Old-Bloke-in-a-Mac Ltd may well want to make a strategic alliance with Kylie Minogue PLC, but is the desire mutual?

Empathy is about the 'soft stuff' – culture, values and so on. Every year, another firm of consultants produces another report showing that a stratospheric percentage of takeovers and mergers destroy value, despite all the work put in by 'experts' in matching the companies. This is, I'm sure, because not enough attention is given to the cultural match of the businesses.

In forming an alliance of small equals, this is by far the most important question you have to ask: 'do the key people really like each other, as individuals?'

Have a reasonably Victorian attitude to your 'getting into bed' activities. Take sensible precautions like ensuring any IP is protected, before you start. Run a pilot scheme, and watch the outcome like a hawk. If things look good and you want to develop the alliance, get lawyers involved to set up the deal – it's a lot cheaper than getting them in to unscramble an informal deal that went wrong.

If things don't work out, you have to disengage with the minimum of fuss. If, despite your careful following of the advice above, you ended up allied with someone with the morals of a snake (or simply made an alliance which didn't bring the benefits you thought it would), please shun the overpowering desire to 'get your own back' and instead get on with rebuilding your business. When we look back on one or two characters we did business with, especially at the start of our careers, it feels that the worst mediaeval tortures are too good for them. But luckily we were too busy moving on to waste time on acting out these feelings.

The importance of alliances is yet another proof of the adage that despite the undeniable importance of ongoing paradigm-based strategic meta-planning, business is really about something infinitely more complex, but a lot more interesting: people.

Knowing when to Quit

Perhaps one of the most important pieces of advice we can offer to entrepreneurs is this: know when to quit.

This is probably the worst bit about being an entrepreneur – when things go wrong. In this piece, we'll look at early-stage failures. There are of course also issues about when things go wrong later on in the life of the business – something for another day.

I once played in a band with a very clever guy who was building a synthesizer (which shows how long ago this was!) This person was forever contacting potential manufacturers and being told they didn't want the machine, because it lacked certain features. The poor guy would then go away, add the features, contact the manufacturers again, and be told that the new features had now been added to their existing product line…

Two fundamental truths of enterprise clash here. One is the entrepreneur's natural stubbornness. 'Entrepreneurs never take no for an answer,' we say proudly. The other is the sad fact that many ideas, however good they sound, just don't cut it in the marketplace.

In 'Beermat', we set out some hurdles an idea has to cross in order to make it to commercial success. Three major ones are: attracting a team, attracting a mentor, finding customers.

The team is the first one. The synthesizer builder was a lone operator – and paid the price: there was no-one to take him to one side and point out that the project was going nowhere. But his failure to attract a team round the idea should have alerted him to the fact that it was unlikely to be a winner.

If you can attract a team, you also need a mentor. Again, if nobody with long business experience will agree to help you out, maybe the idea isn't so good. It probably sounds great to enthusiasts, but in the cold light of day… It could be argued that certain youth products won't attract mentors because older people won't understand the market. Possibly. But don't use that as an excuse: not all mentors are deckchair bound and only listen to Herman's Hermits' Greatest Hits.

The acid test, of course, is whether anyone will actually reach into their pocket and buy the thing. This sounds obvious, but is often ignored by highly technical teams who plug on with development, believing that people out there are just stupid: one day they'll suddenly realize what they are missing. Many spurned lovers console themselves with similar thoughts – sadly, their ex's are usually off having fun elsewhere.

We believe, very strongly, that the vast majority of products fall into two categories –

immediate winners, and losers. Customers either light up when an idea is put to them, or nod sagely and ask what else you have on offer. An oversimplification? Undoubtedly, but a very useful one. Bear it in mind when selling new products.

Yes, in the middle, there are ideas which need extra work – and entrepreneurial stubbornness – to get right. Here you need judgement, so you can tell the difference between a sincere, enthusiastic 'if it had an x, we'd be interested' and a weary rationalization for what is actually a deep-gut decision not to go within a hundred miles of something.

Sounds easy? Try putting your heart and soul into an idea for at least a year, then see if you can tell the difference between those two no's. Wishful thinking is a powerful force. Yet the ability to distinguish between them is crucial.

When you do decide to quit, people may emerge from the woodwork and say what a wonderful idea it was, and how surprised they are that you're 'giving in'. The best response is to suggest they take the project on, at which they normally suddenly become far too busy. If they do want to take it on, do a proper deal, ensuring you retain some stake in the venture. But don't be greedy.

Psychologically, you need two things. To learn all the lessons you can from 'what went wrong', and to move on to newer and more promising fields. What you mustn't do is get enmired in gloom, and conclude that you are a 'failure', just because one particular idea didn't work. All successful entrepreneurs have lost and learnt on their way to success.

You can actually congratulate yourself on having made a tough, good decision. Well done, indeed! I'm afraid my synthesizer-building colleague never made that decision. For all we know, he may still be working on the damned thing. If any of you have a neighbour, a rather haggard looking neighbour, from whose potting shed odd wails emerge most evenings – buy him a drink on us, and give him a copy of this article.

Innovation and intrapreneurship

1. Intrapreneurship:
Entrepreneurship from within

2. Intrapreneurship and Company Structure

3. Intrapreneurship in the Public Sector

Entrepreneurship from within

Our book on 'intrapreneurship', *The Boardroom Entrepreneur*, covers a topic we have long found interesting: having studied and written about entrepreneurship for so long, to what extent can it be practised within large organizations?

The answer, we have concluded, is 'a lot'. This has not always been believed, however. The word intrapreneur comes from Gifford Pinchot's book on the subject, written back in the 1980's. Pinchot was optimistic that big firms would turn into 'loose confederations of entrepreneurs'. Needless to say, this did not happen: Pinchot himself later blamed this on a lack of courage on behalf of corporate America, at whom the book was aimed. Despite this, the book remains a classic, full of useful and inspirational material.

Instead, things went the other way: late eighties management fads were about cutting cost and 're-engineering' processes – things that were best done centrally. If the era produced 'flatter' organizations, it did little to encourage intrapreneurship. The centre remained in charge, arguably more in charge, since various levels of management had been swept away. It was often in these lost layers that intrapreneurs could operate. Intrapreneurs have to be stealthy, and a cumbersome corporate structure gives them more places to hide.

The nineties stress on core competencies – remember when every CEO talked about 'sticking to the knitting'? – similarly discouraged entrepreneurial activities by big corporations.

Of course, with the late nineties came a new surge of interest in the subject, bought on by the dotcom revolution. Business behemoths were suddenly terrified that internet entrepreneurs would come and sweep away their customers – even Jack Welch set up an intrapreneurial initiative called 'destroyyourbusiness.com' where managers were invited to experiment with online alternatives to their current business models. In practice, the new models turned out to be less threatening, and the internet more of an enabler than a destroyer. Nonetheless, a lot of corporate money vanished into what now look to be rather silly internet ventures. The result of all this was a backlash against corporate entrepreneurship. Which is, for many companies, where we are now.

This will change. We hope our book will be instrumental in bringing this change about, as it needs to happen. Big companies have no option but to experiment – not, dotcom style, betting the entire farm on Megacorp.com, but in our suggested manner, by empowering internal entrepreneurs to take calculated risks on innovation, and by monitoring their progress carefully, against a set of metrics that mimics the experience of independent entrepreneurs as closely as possible.

Would we do anything different if we were starting the book now, rather than looking at smart printed copies? Not a lot. We would probably put in more reminders that the 'Boardroom Entrepreneur' process is not just for big companies, but for SMEs. The process is exactly the same, however large or small the company. In giving talks on the subject, we have met many small companies that have allowed entrepreneurially-minded staff time off to try ideas, some of which have grown into businesses bigger than the original. Intrapreneurship is actually more important to SMEs than to big companies: a successful new offshoot will take many years to outgrow a big corporate parent, but this can happen quite quickly for an SME.

And a final reminder: intrapreneurship is for the public sector, too. As with dotcom mania, there was a heady flowering of revolutionary fervour around the turn of the century: intrapreneurship was going to transform government. It hasn't quite worked out that way, but the need for change remains, and imaginative and creative people are still busy bringing about that change. We've worked with some, and they're just as buzzy and able as their counterparts in the private sector.

What is the future for intrapreneurship? Bright, we believe. It is not the only future: companies will still carry on pursuing their core skills and markets (it was the idea that this was suddenly going to stop happening was that what made the dotcom boom so silly). But all businesses know that they must innovate to keep ahead of competition. Wise companies know that the best resources they have to bring that about are their ablest people; and the wisest ones of all know how to motivate and monitor these individuals' progress. 'Boardroom Entrepreneurship' is here to stay.

Intrapreneurship and Company Structure

Two myths are often trotted out against intrapreneurship. We don't know if the people doing this trotting do so because they actually believe the myths, or whether they invent the myths because they have other motives, such as jealousy, for opposing intrapreneurship. Either way, they are dangerous.

The first of these myths is that intrapreneurship is an 'all or nothing' phenomenon. It's one of those 'slippery slope' arguments – once you start letting 'these people' loose in your organization, all hell will break loose; they'll waste disproportionate amounts of time and money; everybody else will become envious, clamouring, 'why can't we follow our ideas too?'

This fear may have had some basis during the dotcom era. That old slogan 'If you're not part of the solution, you're part of the problem' was popular then – a nasty little slogan that vilifies useful, hard-working but unimaginative people. It has now disappeared, and we're delighted. Organizations are full of good people doing good work who don't really want to change. Let them carry on. They will need to be led through change at some time – an exciting challenge for leaders – but can't be and shouldn't be expected to instigate change.

That's a job for intrapreneurs. Good intrapreneurs don't set themselves up as enemies of the system, but work within it. They may well step outside the system from time to time – for example the man behind the Sony PlayStation who organized a covert meeting with Sony's greatest rivals – but largely they stick to the rules (or appear to, anyway, which is what matters for everyone else's morale). They are no direct threat to existing structures. There is no slippery slope.

In the long run, of course, they will effect much more change than the noisiest rebel, but the change will appear just to happen – not through some mystical force, but because the intrapreneurial process has been well managed, to allow good ideas to flourish and poor ones to fade quickly. Great intrapreneurs should end up the heroes and heroines of the company, though right now they are too busy quietly getting on with their enterprises.

The second myth is that intrapreneurship means a 'chosen few' who have the freedom to go off and do whatever they want. Actually, the intrapreneurial start-up has to be done alongside the ordinary job. This is good: it makes the intrapreneur really fight for and value their time. Later on, once the idea is clearly working, good managers will give intrapreneurs more space and time (and ultimately all the time they need).

Intrapreneurial projects, like conventional projects, need to be monitored.

Conventional projects tend to be set strict financial targets: the intraprise needs something looser, but still real. Start-ups, whether corporate or entrepreneurial, are essentially leaps into the dark, and often encounter unexpected difficulties that can make a mockery of tight financial targets. (A key entrepreneurial skill lies in knowing when an unexpected difficulty is fatal to the enterprise, or is something that can be navigated round – at which point, it can become an ally, as a barrier to entry or a signpost to some customer 'pain' not initially perceived by the enterprising team.) Hurdles or milestones are the right metrics for intraprise. Especially to start with, these are about people, not profits or even workability. Does a critical mass of competent people believe in the idea? Then it's about customers: do enough of them see value here? These may not be as black and white as financial targets, but they are still targets that have to be hit – or else...

So don't let a 'straw man' be set up, that intraprise is a kind of cop-out from management and organizational discipline. The opposite is true: the right systems and controls need to be in place for intraprise to flourish. We stress, of course, the word 'right'.

Intrapreneurship in the Public Sector

Intrapreneurship is a hot topic for large businesses, as the City continues to demand higher growth rates than can be expected from the mature markets in which many large firms operate. In the short term, big companies can cheat via a mixture of mergers and creative accountancy, but in the long term these imperial new clothes blow away. Look at old lists of Top 100 companies, and you'll see that the old adage is true: innovate or die.

We believe strongly that the only way for big organizations to innovate is by unleashing the entrepreneurial skills and passions of their people. Cumbersome venture committees sitting in judgement on endlessly rehearsed business plans just won't do. Things out there are changing too fast, too unpredictably.

The same does not appear to be true for the public sector. Innovate or don't bother; it doesn't matter, because government, ministries, local councils etc. will still be around anyway. But is this true? We believe not. Intrapreneurship is just as important in government as in the private sector.

There are two arguments against our claim, one false but reasonable, the other dreadful.

The fair but flawed argument is that the task of government hasn't changed, and is not going to change, so why innovate? You just keep on telling people what to do. Maybe you do a little 'incremental' innovation, like using the Internet. But there's no need to change fundamentally. We disagree, for two reasons.

Firstly, it isn't just the marketplace that is changing ever faster, but society itself. We are more diverse, ethnically, culturally, in the lifestyles we choose – in every possible way. This unending social change is meat and drink to entrepreneurs, who are forever developing new products and services to meet these changes. But it is a challenge to government as well. An inconvenient challenge if you view government as an essentially conservative (with a small c) activity. But an exciting one if you view the role of government as something that is about responding to (let alone driving) change.

Secondly, our expectations of public services are changing. The private sector is responsible for this: we're used to getting stunning service from certain companies, and are ever less tolerant of the old hypocrisy of 'your obedient servant' in Whitehall. Government's ultimate masters are, thank heavens, the electorate, and the quality of public services is now firmly at the top of every party's agenda. Do you miss the seventies when this wasn't the case, and political debate was about the survival of the free market system at all? We don't (except for the music, but that's a different issue…)

So modern government is faced by a changing 'marketplace' and ever-rising expectations. It has no choice but to innovate. And, exactly like big corporations, it cannot do this by committee, despite its natural instincts to do this. Instead, it must empower its people to experiment, to ask the entrepreneur's magic question – 'Where's the pain?' – and to develop and test solutions. And to fail, learn, rethink, try again.

Essential examples of public-sector pain are exactly the same as those for large organizations. Are resources being wasted internally? Are there groups of customers being appallingly served? Beyond this is a special problem for government – are agencies hard at work duplicating each others' efforts? One very entrepreneurial public servant we spoke to recently created a group of like-minded individuals from different departments to address this problem. We need more people like her.

The very bad argument against public sector intrapreneurship is that the people in this sector lack the oomph to do this. It is clearly true that some of them do – but so do many people in large corporations. Intrapreneurship is not for everybody. We believe there is a critical mass of able and imaginative people in most public sector organizations who could make a real difference – and who will make a difference, given the opportunity.

It is probably true that there are more 'Sir Humphreys' in the public sector, hard at work resisting change of all kind. But such people exist in big private-sector companies, too. All intrapreneurs have to battle against institutional and personal barriers, wherever they are. There is no excuse to give up on public sector intrapreneurship.

The alternative is grim. Dinosaur-like private-sector companies that refused to innovate were made to pay by the marketplace. If the public sector emulates them, it will just become less and less efficient, always crying out for more of our money and actually spending it ever less wisely. The electorate will not tolerate this.

And finally…

So what's
it all about?

So what's it all about?

The articles you have read here appeared over some four years or so in *Director*, the Institute of Directors' magazine. Over those four years we've tried to give a flavour of the 'Beermat' approach to business. What do we mean by this?

First and foremost, we believe that people are the key to a business' success. This is not a stunningly original thought, but we don't care: it's what we believe. And it's not what we always see when we go into companies and see poorly motivated staff. Great small businesses are tribes. People will muck in and do whatever is needed, whenever it is needed. Organizations don't naturally turn out this way – leadership is required to bring this about. If we've helped entrepreneurs become real leaders, then we've done a good job. We sometimes get criticized, usually by rather harassed-looking people, for saying that business should be fun. We mean it: business should be fun. Not one long party, but challenging, engrossing, sociable, exciting (OK, with a number of parties along the way…) That's how you get tribal loyalty, and tribal loyalty is how you get the best out of people, and people get the best out of themselves.

Sometimes, this focus on people means being tough. People who are reasonable at their jobs but play 'mind-games' – Sir Clive Woodward calls them 'energy sappers' – have to go. This isn't about being nice to everyone.

Clarity is another part of the Beermat approach. Clarity at all levels – clarity in direction, clarity in leadership and clarity in communication. Clarity in direction is about knowing what the company does and why. What are you trying to achieve? 'Making lots of money' is not a sufficient answer. Whose lives are you making better? Clarity in leadership means not having hidden agendas with people; it means being open about pay, perks and bonuses; it means telling the staff where the company is headed and discussing this with them. Clarity in communication is about using plain English, not the ghastly management newspeak that comes spewing at us from most corporates or from government. You can't get much of this on the back of a beermat…

We are also huge fans of getting things done. As with our 'people' comment above, this may appear a statement of the obvious – until you encounter organizations where action is rather low on the priority list (and find out what horrible places these are to work in!) 'Blame cultures' are sadly still common. These militate against action: instead, the employee's focus ends up on covering their back or, worse, at shunting blame onto someone else. Equally unpleasant are 'smartarse cultures', where the points go to people who sound the cleverest. As it's usually easier to sound clever ripping someone else's idea to shreds, that's what happens. As any and every entrepreneur knows, in the end you just have to make a judgement and then back it with action.

Beermat businesses are ethical businesses. We have never bought into the idea that capitalism is simply 'devil take the hindmost' – or, if it is, then that business is really the dumb slave of capital that both 'turbo-capitalists' and Marxists believe it to be. Business, as we say, is about people. Hence the number of spats we have had with certain capital providers. However other capital providers agree with us, and we enjoy seeing them prosper as their well-nurtured businesses quietly steam past those of their nastier, strife-ridden rivals. We do not believe that 'nice guys finish last'. Weak, indecisive, incompetent people may do, but that's not 'nice' or anything near it.

Lastly, Beermat means keeping the focus on customers. Again, everybody says they do this, but you only need to pick up the phone to the average call-centre to realize that this is often not meant. "We are big; you are small; we don't care," is the message instead. By contrast, we feel that you're not a true Beermat business till you've lost a night's sleep about the welfare of one of your customers – not because you're worried they won't pay you, but just because you are concerned for them.

So, there we have it. Looking back at this list I've been struck by its comparative obviousness, but at the same time its great power – if adopted sincerely and acted upon with passion. This stuff works, and we wish all of you who use it good fortune.