From David to Goliath:
How entrepreneurs overcome the challenges of company growth

White Paper
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for Entrepreneurial Studies
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At Credit Suisse, we are privileged to serve the wealth management needs of many of the world’s wealthiest individuals and families. We understand that each of our clients has unique needs and aspirations, and is constantly faced with new challenges. Our strength in private banking, investment banking and asset management allows us to deliver the power and expertise of our global franchise to help you to achieve your entrepreneurial venture.

We are pleased to collaborate with the Lloyd Greif Center for Entrepreneurial Studies at the University of Southern California on this paper. As the oldest entrepreneurship program in the US, the Greif Center has a 40-year history of leading in the research and practice of high-growth entrepreneurship.

In this white paper, we explore the real stories behind how Davids become Goliaths in business, from the in-the-trenches decisions that defined the companies to the nail-biting crises that tested their founders’ resolve. The paper features in-depth case studies of 13 exceptional entrepreneurs in the United States and Latin America who started companies that achieved higher than 100% annual growth rates in headcount and/or revenues in their first five years of business.

This paper is not intended as a formula or a playbook for how to grow a company — as you will see, there is no such magic formula. Rather, we provide an exclusive window into the challenges and triumphs of a select set of diverse entrepreneurs as they scaled their businesses. Each of the founder/CEOs we interviewed experienced unique difficulties and used innovative, highly personalized tactics to persevere and overcome those obstacles.

Four central themes emerged in the types of challenges these firms faced: people, financial resources, business networks, and environmental jolts. In this paper, we discuss these themes and explain how each entrepreneur tackled the issues that he or she found most difficult.

We hope you will find this research inspirational as you continue to grow your business.

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Executive summary

When entrepreneurs get together, they inevitably start trading war stories — the times they did not think they would make it, and the times they kept going when everyone told them to give up. The reality is that it is incredibly difficult to start, sustain, and grow a business. Of the half million or so new businesses started each year in the United States, only 45% will last five years, only 30% will last ten years, and between 65-75% will have no growth in headcount after getting established. However, there is a narrow set of superstars within these new companies that will not only survive but thrive. A handful will even change the way we work, eat, shop, learn, and play. The founders and CEOs of these high-growth, high-impact firms are the subjects of this paper.

We conducted in-depth interviews with 13 exceptionally successful entrepreneurs in the US and across Latin America, representing a wide range of industries from software and consumer electronics to frozen yogurt franchises and beer. This paper provides an exclusive, candid look into the challenges and triumphs these entrepreneurs face as they build companies that create jobs, introduce innovations, and transform entire industries. While each entrepreneur's story and each company's growth trajectory is unique, the case studies uncovered four overarching themes in the types of challenges that high-growth entrepreneurs face and how the entrepreneurs approach these challenges:

1. People: Successful entrepreneurs point to their “people choices” as more important than any other factor in their success. This is the “There is No ‘I’ in Team” Principle. Despite the stereotype of the cowboy entrepreneur who rides alone, these business leaders make it a priority to surround themselves with smart people, listen to their input, and build high-performing teams.

2. Financial Resources: While every entrepreneur must overcome the initial hurdle of raising capital to start a business, high-growth entrepreneurs also face the unique challenges of funding periods of rapid expansion. The “Bird in Hand” Principle of financial resources is that high-growth entrepreneurs are extremely creative and resourceful at fundraising, as well as very skilled at running lean, efficient operations.

3. Business Networks: Successful entrepreneurs maintain vibrant personal and professional networks that support their company’s growth. The “It Takes a Village” Principle is that expert entrepreneurs view customers, suppliers, and sometimes even competitors as co-creators of their market, vital to achieving and keeping their place in the market.

4. Environmental Jolts: The “Lemonade” Principle refers to the way high-growth entrepreneurs recover from major outside shocks that threaten their business. High-growth entrepreneurs do not focus on predicting or preventing shocks; rather, they take setbacks as par for the course, continually reacting, adjusting, re-tooling, and moving forward.

The case studies show how founders of fast-growth companies must continually balance and adjust as their companies grow and change. These entrepreneurs learn to manage and leverage the tensions between idealism and pragmatism, control and delegation, and confidence and humility. They exhibit an extreme responsiveness to market insights and a willingness to try — and discard, if necessary — new business models. Yet, at the same time, they are uncompromising and persistent in the pursuit of their vision and values.
High-growth entrepreneurs: A rare and valuable breed

Entrepreneurs of high-growth companies are a rare breed, and well worth getting to know. Their collective vision and creativity can transform entire industries, create entirely new markets, and have a tremendous effect on economic growth. Interestingly, research indicates that only about 4% of all entrepreneurs can be classified as "high-growth" (defined as annual revenue growth of 20% or more), but that their businesses create nearly 40% of the total jobs generated by new firms.² Figures 1 and 2 illustrate these global job creation statistics. In the US, such fast-growing firms account for 10% of total new job creation each year, even though they make up less than 1% of the total number of firms.² Beyond their employment impact, these unique entrepreneurs also develop new innovations, generate millions in wealth, and act as role models for the next generation of entrepreneurs.

Entrepreneurs leading firms with growth rates greater than those shown above were also classified as High-growth entrepreneurs. However, for illustrative purposes, such outliers were excluded in this figure.

Figure 1. Job creation and annual growth rates at firms of high-, moderate-, and low-growth entrepreneurs²

<table>
<thead>
<tr>
<th>Employees in year 10</th>
<th>Estimated employee growth rate</th>
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<tbody>
<tr>
<td>High-growth entrepreneur*</td>
<td>≥34 ≥20% per year</td>
</tr>
<tr>
<td>Moderate-growth entrepreneur</td>
<td>10-33 5%-19.99% per year</td>
</tr>
<tr>
<td>Low-growth entrepreneur</td>
<td>≤9 &lt;5% per year</td>
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</tbody>
</table>

Figure 2. Prevalence of high-, moderate-, and low-growth entrepreneurs and relative job creation²

While high-growth entrepreneurs are a tiny fraction of the population, their companies have a disproportionate impact on job creation.

Unique growth paths driven by fearless ambition

Our culture lionizes successful entrepreneurs. They are emblematic of some of our most cherished values: creativity, independence, and bold leadership. The reality of leading a start-up, though, is far from glamorous. Most high-growth start-ups are like laws and sausages — things you do not necessarily want to see getting made. The day-to-day reality of running any company is full of unforeseen challenges, compromises, and stress, and only a tiny percentage of founders are able to achieve accelerated growth. The founder/CEO’s path is often rocky and uncertain, and for every success story there are numerous others who did not make it. When asked about what made them successful, high-growth entrepreneurs are more likely to stress resiliency than vision, even in businesses that seem uniquely visionary in hindsight. And when asked about their challenges, none of them hesitate to give examples of obstacles that threatened to sink their companies.

As entrepreneurship guru Guy Kawasaki points out, “When telescopes work, everyone is an astronomer, and the world is full of stars. When they don’t, everyone whips out their microscopes, and the world is full of flaws. The reality is that you need both microscopes and telescopes to achieve success.” All of the founders we interviewed have this ability to simultaneously focus on a great, starry vision while also tackling the myriad problems and operational minutia involved in building their companies.

Perhaps the most surprising finding of this research is that these companies’ most obvious apparent challenge — the predominance of Goliaths, or large, established companies competing against which our founders were competing — was literally the predominance of Goliaths, or large, established companies that these companies’ most obvious apparent challenge — it was, after all, named for one of the nation’s most beloved rebels.

The explicit aim to create a high-growth company is exceedingly rare among entrepreneurs. In fact, one international study indicated that almost two-thirds of founders do not expect their new companies to generate more than two jobs within five years. High-growth entrepreneurs are just the opposite; they intend to take on their Goliath competitors and are unafraid of the challenge.

Comparing the motivations of these high-growth entrepreneurs globally, between the US and Latin America in particular, research has shown that for the most part, high-growth entrepreneurs around the world share a similar set of ambitions and motivations. However, some differences can also be found. As illustrated in Figure 3, US entrepreneurs tend to be motivated more by the need for independence, whereas Latin American entrepreneurs are motivated more by the financial potential in becoming an entrepreneur.

Other than fearless, growth-oriented leaders, what do high-growth companies have in common? The most popular theoretical approach to characterizing new business growth is to view it as an organizational lifecycle composed of distinct stages. These stage models assume that, as firms age, they pass through a sequence of distinct phases in which certain types of pre-determined problems and organizational changes take place. A recent review of the entrepreneurship literature identified 104 different stage models that had been published since 1982.

However, simple, deterministic models fail to capture the complexity of situations facing young ventures and may, in fact, seriously misrepresent the way these rare high-growth entrepreneurs make decisions. Companies do not develop predictably, like human beings or plants. As well-known researcher David Birch has noted: “young, small firms, unlike youngsters and trees, do not necessarily grow,” and “the relatively few firms that do survive and evolve exhibit their own distinctive patterns.”

Most successful firms undergo transformations, but they do not follow any one sequence. Instead, organizational growth and change seem to be discontinuous in nature — firms experience periods of organizational momentum, punctuated by quantum leaps in organizational form. The patterns of periods of growth, plateaus, backslides, and changes seem to be distinctive to each enterprise and are uniquely influenced by situational factors — the people, resources, and networks of the firms as well as the macroeconomic conditions in which they operate.

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As leading entrepreneurship scholar Saras Sarasvathy says, entrepreneurship is not about putting together a jigsaw puzzle where pieces have to be slotted together perfectly to form a pre-determined picture. Instead, successful entrepreneurs build their companies as if they were crazy quilts. A successful company is ultimately the result of the entrepreneur, the team, strategic partners, and other stakeholders patching together their resources, knowledge, and unique competencies to form an evolving and changing pattern of company growth.

Figure 3. Comparison Between the Motivations of High-Growth Entrepreneurs in the US and Latin America

<table>
<thead>
<tr>
<th></th>
<th>US — Includes US and other high-income countries, including Belgium, Denmark, Finland, France, Germany, the U.K., and Japan</th>
<th>Latin America — Includes Argentina, Brazil, Chile, Columbia, Mexico, Peru, Uruguay, and other upper-middle-income countries such as Malaysia and Russia</th>
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<tbody>
<tr>
<td>Proportion who became entrepreneurs to become more independent</td>
<td>28%</td>
<td>30%</td>
</tr>
<tr>
<td>Proportion who became entrepreneurs to increase their income</td>
<td>25%</td>
<td>28%</td>
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High-growth entrepreneurs as problem-solvers

If the accurate view of new firm growth is, in fact, an idiosyncratic and unpredictable path, what advice can we give to budding entrepreneurs embarking on this journey or to experienced entrepreneurs encountering new challenges? How can we generalize on a phenomenon if each situation is unique?

The key lies in viewing entrepreneurship and company growth as a learning process where entrepreneurs continually hone their ability to make decisions in rapidly changing, uncertain environments. In other words, entrepreneurs should be viewed primarily as problem-solvers and improvisers — bricoleurs who make use of whatever resources they have to make the best of whatever situation they find themselves in.10

It turns out there is a method to the madness of entrepreneurial problem-solving. Research has shown that experienced, highly successful entrepreneurs tend to approach problems and challenges in a different way than novice entrepreneurs or corporate managers.11 Experienced entrepreneurs learn how to think and act differently as they respond to continuous, ever-changing challenges.

Thus, even though business situations are unique and the array of choices an entrepreneur faces at any given time is vast, successful entrepreneurs share a common approach to how they make decisions. Key aspects of their problem-solving effectiveness include extreme responsiveness to market insights; willingness to try (and discard, if necessary) new business models; uncompromising customer service; unconventional hiring policies; and a bootstrapping attitude about finances, regardless of capitalization.


Four themes in overcoming growth challenges

In the case studies that follow, we highlight the ways in which experienced entrepreneurs approach certain types of challenges that they encounter along their entrepreneurial paths. These challenges can be broadly categorized into (1) people, (2) financial resources, (3) business networks, and (4) environmental jolts.

People — The “No ‘I’ in Team” principle

The popular conception of entrepreneurs is that they are lone wolves — fiercely independent individuals seeking to forge their own paths. More often, the reality is that successful entrepreneurs are collaborative and humble, skilled in communicating their vision and in getting other people to help them make it a reality. The leader of a start-up drives the choices behind advisors, management, and employees. More than any other aspect of running their businesses, our founders pointed to their people choices as the greatest factor in their eventual success.

Advisors

Those founders who formed strong advisory teams give tremendous credit to those teams for helping them anticipate and overcome challenges to growth, while those who lacked advisors consider it a mistake or a lesson learned.

Financial resources — The “Bird in Hand” principle

More than half of our entrepreneurs made an explicit choice to hire people who did not have directly relevant industry experience as part of their senior management team. In many cases this was because the founder wanted to take a radically different approach to an established industry and felt that people who were immersed in their industry were mired in conventional thinking. As Daniel Davidson, founder of OneNews, a crowdsourcing technology platform, notes, "...if we hired management out of that company [the dominant news feed provider in the industry], it would be unlikely that they would bring a fresh perspective."

A common refrain among our founders was that it is essential to hire people who are smarter than they are, passionate about the vision of the company, and willing to stretch to find creative solutions. This was considered far more important than experience as a hiring criterion. The flip side is that founders can be loyal to a fault; the people who help them get their companies going are not always able to grow with the firm. As Rafael Soares, founder of Brazilian frozen yogurt franchise chain Yoguland, says about having to occasionally close a store, crushing the franchisee’s dream, “It’s just part of the business, not everything is beautiful.”

Business networks — The “It Takes a Village” principle

Environmental jolts — The “Lemonade” principle

Management and employees

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Financial resources — The “Bird in Hand” principle

Less than a fraction of 1% of early-stage companies get venture capital funding. It is that most start-ups get off the ground without any outside funding, and our founders were no exception. For most of them, venture capital was simply not available when they started their companies, and banks were not willing to lend to them because their businesses were still unseen at that stage.

Interestingly, several of our founders attributed their eventual success to a lack of invested capital. They believe they were forced to develop a sustainable business from the very beginning. As Harry Tsao, who founded comparison shopping company MeziMedia with minimal outside capital and sold it for 350 millions, says, “It’s not the best thing for a shopping company to have minimum capital. They don’t have the ability to experiment.” Our entrepreneurs frequently talked about how they asked their customers what they needed and used this dialogue to design their products and services. As Adam Miller of Cornerstone OnDemand says, “We started to hear these big companies say, hey, we could use this. We said, well, not just any money. Even in those early days of raising money, we were given lots of options that certainly in hindsight would have been terrible ideas.”

Business networks — The “It Takes a Village” principle

It is well known that networks play an important role in the new venture growth process — ideas are often spawned, opportunities recognized, and funding is often provided through personal contacts. But expert entrepreneurs have a unique attitude towards other firms. Where established firms usually set up transactional relationships with their customers and suppliers, successful entrepreneurs tend to view such relationships as strategic partnerships. Customers, suppliers, and sometimes even competitors are seen as co-creators of the firm’s market. Our entrepreneurs frequently talked about how they asked their customers what they needed and used this dialogue to design their products and services. As Adam Miller of Cornerstone OnDemand says, “We started to hear these big companies say, hey, we could use this. We said, well, of course you could — you designed it.” While asking users for feedback seems like common sense, the established Goliaths across industries are usually not good at listening and reacting to customers’ wishes.

Environmental jolts — The “Lemonade” principle

On the whole, entrepreneurial start-up activity is remarkably unaffected by the macroeconomic environment. A study by the Kauffman Foundation found that none of the factors that might be expected to make entrepreneurs reluctant to start a business — including recessions, tax changes, demographic shifts, scarce or abundant capital, or technological advances — slows the pace of start-ups. However, these environmental factors do seem to have a significant impact on founders’ ability to achieve growth, and often were the determining factors in the companies’ exit strategies.

Despite the heterogeneous growth patterns of our founders’ companies, nearly all pointed to specific macroeconomic conditions or events that significantly affected their decisions about how to grow their companies. As Jim Marggraff, founder of Livescribe, a consumer electronics company, describes, “We had success, we had sales, we had sell-through; we had product, we had interest, we had excitement. But we also had a difficult retail environment and a very cautious investment environment.”

Experience entrepreneurs excel in turning the unexpected into the profitable.

The entrepreneurs leveraged their reputations and personal relationships to gain access to customers and resources. Acclaimed film director David Fincher gave Ollin Studios a chance to work on a small project because he personally knew and liked one of the company’s co-founders. And vendors often constituted an important source of funding. As Alejandro Diego of Ollin Studios points out, “We invested 10-12 millions in equipment, and for more than half of that, we were able to get a loan from the vendor. That was because of our reputation.” Similarly, Liz McKinley of Pinnacle Petroleum was able to start a petroleum distribution business — a notoriously capital-intensive industry — because her vendors extended trade credit to her. This was purely because of the reputation she had built as a commodities trader for being trustworthy and knowledgeable. Juan Blum, founder of Efficacitas Consulting, an Ecuador-based environmental consultancy, echoes the point, “Maintaining a reputation for honesty and uncompromising standards has been a competitive advantage for Efficacitas.”

Where traditional management approaches stress the importance of predicting the future and avoiding surprises, experienced entrepreneurs clearly excel in turning the unexpected into the profitable. For entrepreneurs, surprises are contingencies that can be leveraged, or as the old adage says, when life gives you lemons, make lemonade. As an example, when the Internet bubble burst, Joe Kaplan of Innovative Merchant Solutions, a credit card processing company, had just bought a bank with plans to retool it into an Internet payment gateway. With the bust, he had to rethink the entire business model.

Entrepreneurs view such external jolts as bumps in the road that can be overcome with persistence and with the help of their teams and strategic partners.
Case studies

About the Case Studies — The Wizards Behind the Curtain

Our case studies feature founders who are among the rare few who came out the other side of their growth challenges. They tell stories of making the right decisions but for the wrong reasons, nearly being sunk by unanticipated market events, benefiting from sheer good luck, losing sleep over making payroll, and having to hear over and over that they could not succeed. Many of them have experienced both success and failure in their entrepreneurial careers. In the case studies that follow, they describe the decisions, choices, and events that now inform their thinking and planning for success in their next ventures.

Each of these case studies reveals a different set of challenges experienced by the founders, and each company went through its own unique set of growth stages. Some have had IPOs or been acquired; others are still private. Some of our founders remain involved in their companies; others have moved on to other ventures. Some are seasoned, serial entrepreneurs; some are on their first venture. The entrepreneurs are based in the US, Mexico, Brazil, Argentina, and Ecuador, and they represent a wide range of industries from software and consumer electronics to frozen yogurt franchises and beer.
Efficacitas was founded in 1994 to help companies that were developing real estate projects in Ecuador manage their resources for sustainability, environmental responsibility, and energy efficiency. The company also provides technical assistance to governmental and nongovernmental organizations that regulate and oversee environmental standards and pollution control.

“We had to develop the market from nothing,” says co-founder and CEO Juan Blum. “The first couple of years were really hard. Then we got a big opportunity — there was an oil company that was doing offshore development. We’re a coastal city, and none of the companies in [the capital city of] Quito had the credentials or local knowledge. After that single project, we got opportunities to do a lot of work in the oil sector.”

As soon as work started building, the Efficacitas executive team had to formulate a strategy for resolving some of the inherent conflicts that they could see arising in their business. “We sell a product you have to buy,” says Juan. “It’s not a choice. So we could get caught between the regulators and the clients, and we had to be clear about how we approach our work. We have to be willing to tell the client things they don’t want to hear.”

The Efficacitas team established a simple code of conduct that would govern their choice of projects and how they advised clients: be honest and committed to excellence.

Maintaining a reputation for honesty and uncompromising standards has been a competitive advantage for Efficacitas, although sometimes it has been at the sacrifice of short-term gains. “My other partners are also oriented around good corporate citizenship, in doing things right. Early on, we said that regardless of money, not everyone could be our client.” He continues, “We get involved with companies that are willing to do what’s right, not just comply with the law... it matters not only in the romantic sense, but also in the business sense.”

In addition to a reputation for fairness and honesty, Efficacitas has become a trusted partner for companies that want to meet and surpass standards for “green business.” As Juan explains, “We get called on to do tough jobs. For easy jobs, they hire someone cheaper, or maybe they try to find someone who will say in their report that [the client] doesn’t really need to spend as much as we are recommending to do something right.”

These strategies are paying off handsomely; Efficacitas has now established offices in Florida, is engaged in projects throughout Central America and the Caribbean, and will soon be expanding into Peru.

“Takeaways”

Companies in developing markets frequently struggle to convince US companies that they are competitive in terms of the quality they offer. Sometimes one highly visible project can establish a small firm’s reputation and create a strong pipeline through referrals. Maintaining high standards for the types of clients you are willing to take may require a short-term loss of revenues from turning away projects, but pays off in the longer term. Maintaining a reputation for honesty and uncompromising ethical and quality standards forms the foundation on which to build a company’s competitive advantage.
Andrew Burgert — Nextive

Culture and cash flow: scaling up an international software company

Year founded: 2008
Location: San Francisco, California, and Argentina
Current status: acquired by Globant in August, 2011

About the company: Nextive Solutions creates software solutions for mobile, social, and Internet platforms. While headquartered in the US, the majority of Nextive’s engineers are based in Argentina. The company grew extremely rapidly, reaching 150 employees in under three years before being acquired by Globant in 2011.

Andrew Burgert is a seasoned professional with a long track record of success. Still, nothing could have prepared him for the dizzying growth he led as CEO of Nextive. “I have managed to succeed professionally in different environments,” he says. “Managing technology for me is second nature. But the cultural evolution and adaptation of the company was a challenge.”

Many high-growth entrepreneurs struggle with the need to modify their corporate culture as their headcount climbs and their operations become more complex. For Andrew, there were two separate cultural adjustments to make: first, from corporate executive to start-up CEO; and second, from start-up leader to General Manager of a division within a 2,300-person global company.

In the beginning at Nextive, Andrew says, “One challenge for me was coming from a traditional corporate financial services environment, where you basically just make things happen that derive revenue and margin for the company. I wasn’t used to listening to folks telling me what they wanted creating a company that allows people to be happy working there.”

The biggest realization was that his employees’ happiness was not all about money. “We have always paid at the high end of the market,” he says. “Like the 75th percentile. I thought that was enough, but I didn’t realize that in a start-up. When the company transformed into a large-sized enterprise, there were more processes. That cultural shift was the toughest challenge.

Andrew had to make another transition when Nextive rapidly outgrew its start-up culture. “I’m a risk-averse guy who wanted to work in a start-up. When the company transformed into a small-sized enterprise, there were more processes.

With 30-40 folks it was even more so, and the next year with 150 individuals in my group, we had to have a lot of structure and processes. That cultural shift was the toughest challenge. We’ve done different things to keep financial and operational control. It’s a more corporate environment now.”

Part of Nextive’s strategy for rapid growth was to hire the majority of its developers in Argentina, where engineering talent was abundant and the cost basis was lower than the company’s headquarters in Silicon Valley. Andrew’s bicultural background enabled him to lead an international company without the cultural learning curve usually experienced by entrepreneurs who manage foreign offices.

When Andrew and his co-founders reached that pivotal point where they knew that continued growth required access to outside capital, they decided to sell their company to Globant and become its Mobile Studio. “The reasons we were acquired were actually twofold. One is that the decisions between the partners sometimes created a gridlock situation, and it was better for decisions to simply be made for us. Secondly, there were opportunities that appeared that we couldn’t seize. We were limited in terms of resources, experience, and financial backing. We reached a point where we would have to raise capital to keep up with our rate of growth or get placed in a larger organization that might need a group like ours. We decided it was easiest to get placed in a more mature company.”

As for life post-acquisition, Andrew explains, “There will be cultural clashes, but people are motivated to continue to succeed as a business unit. I think we have the tools to continue. Culturally both companies have a good match. That was something that I took into account when we decided to sell.”

Many founder/CEOs talk about the sense of relief they have after a liquidity event because they no longer have to spend time on the functions they did not enjoy. This is certainly true for Andrew. “I am now GM of the mobile division, so it’s a similar role in that I have P&L responsibility for the group. The advantage is that there are fewer areas for me to focus on, like HR, recruiting, IT — everything it takes to run a company. After the acquisition, I can take advantage of those corporate services and only focus on the business and my responsibility.”

“When the company transformed into a small-sized enterprise, there were more processes.

“People tell me this is the best job they have had in their lives. I take that seriously. We’re doing things the right way, but initially there was a steep learning curve.”

Takeaways

Being the founder and CEO of a rapid-growth business is an exercise in personal and professional flexibility. In Andrew Burgert’s case, it required him to learn how to be a motivational leader of a start-up tech team, then to learn to manage the company’s growing infrastructure needs, and then to head the company after it was acquired.

Even with great financial discipline, fast-growing companies can run into cash flow problems that imperil their growth and survival. This can be the precipitating event for an acquisition, when the founders’ vision for growing the company will require more capital.
Case study 3

Daniel Davidson — OneNews

Early-stage challenges: creating a model for real-time news reporting

Year founded: 2009
Location: Miami, Florida
Current status: privately held

About the company: OneNews has developed a proprietary technology platform that allows individuals with smart phones to deliver video, sound, and images to news and other organizations that monetize breaking news for a global audience. In addition to news and media, OneNews has expanded to offer its platform to other vertical industries including brands, municipalities and other organizations requiring access to real time content anywhere in the world.

Some of the most riveting news images captured in recent years have not come from journalists but from regular citizens who were at the right place at the right moment to capture what they were witnessing on their smart phones. While the most timely information about current events is just as likely to come from the public as from professional outlets, we still rely on traditional media to validate the news. As of yet, no one has bridged the divide between user-generated and professional media content. OneNews aims to do just that, leading a sea change in how we gather and receive information.

The premise behind the company’s technology is simple: anyone with a smart phone can register to upload content to the site. The content is then offered to partnering news organizations and revenues from the sale are shared with the contributor. When it was still in its beta release, OneNews received some of the first images seen from Oslo after the bombing, from London during the riots and from the first use of the OneNews platform, which was a test video submitted by a volunteer contributor containing images from inside a plane. Within five seconds, OneNews was able to confirm that the contributor was sitting in seat 26C of a plane on the tarmac at Boston Logan airport. Daniel says, “From that first technological step forward, things got very exciting, very quickly. We were asked to provide information for a major satellite defense contractor that wanted ‘eyes and ears’ on the ground in hot spots in the world. We were then contacted by other organizations (government, public, and private) that wanted to use our technology to help paint a rich picture of certain events.”

The challenge for Daniel has been to prioritize and stay focused. “Everyone — the president, the CTO, the marketing team — gets excited about new opportunities. And there’s nothing wrong with getting excited, but one has to step back and determine if that kind of enthusiasm needs to be tempered. Is the problem that we’re solving a real problem that can be monetized and provide the economic rewards to sustain the engine?”

Like any early stage company, a big hurdle for OneNews was to assemble a great management team. Daniel sees it as part of his role as CEO to constantly determine where he needs additional management and technical expertise based on the changing environment, and then fill those positions. The tricky part was to hire people who shared Daniel’s world-changing mentality. He says, “You look at the media industry and there’s one organization, the 800-pound gorilla, that has been around for 160 years providing news feeds to organizations around the world. They’ve done an impeccable job for all those years, but if we hired management out of that company, it would be unlikely that they would bring a fresh perspective.”

Some CEOs balk at hiring people from outside their specific industry, but Daniel believes that the greatest problem-solving ability comes from someone who has a fresh perspective. He explains, “We hired someone from the floral industry. Flowers have a day or two before they go stale, and news lasts about a day or two before it goes stale. We hired someone else who did logistics in the aviation sector, an industry that is reliant on speed, accuracy, and performance. Those skill sets work perfectly in the news sector.”

Now that his team is in place, Daniel’s focus has shifted to capitalizing his company’s projected expansion. “My biggest focus is making sure that as we finance our growth we do it with the right investors, investors that understand the enormity of the opportunity and help foster our growth. We look just as carefully at [our investors] as we do our management team. Success is maximized when a great opportunity is answered by great management fueled by great investors.”

While there are plenty of investors who are interested in the commercial applications of the OneNews platform, Daniel believes he needs to choose investors who understand his vision and timeline for growth. “You want to ally yourself with somebody who understands that entrepreneurial ventures have hurdles that are in direct relationship to the size of the opportunity,” he says. “You want somebody by your side who has an appreciation for the process and is focused on the summit, not rattled by the daily climb.”

“Takeaways

While it may sound like the kind of problem everyone wants to have, it is actually very difficult for a company to remain focused when it begins to generate widespread interest. Deciding what your company is not going to be requires discipline and formal processes for reviewing opportunities.

OneNews has deliberately hired executives from non-media backgrounds to bring a fresh perspective to the problems it wants to solve in news and media. Thinking creatively about analogous skill sets (for example, someone from the floral business understands the need to deliver a product while it’s fresh, just like news) opens up some surprising sources of new ideas.

Some CEOs balk at hiring people from outside their specific industry, but Daniel believes that the greatest problem-solving ability comes from someone who has a fresh perspective. He explains, “We hired someone from the floral industry. Flowers have a day or two before they go stale, and news lasts about a day or two before it goes stale. We hired someone else who did logistics in the aviation sector, an industry that is reliant on speed, accuracy, and performance. Those skill sets work perfectly in the news sector.”

Now that his team is in place, Daniel’s focus has shifted to capitalizing his company’s projected expansion. “My biggest focus is making sure that as we finance our growth we do it with the right investors, investors that understand the enormity of the opportunity and help foster our growth. We look just as carefully at [our investors] as we do our management team. Success is maximized when a great opportunity is answered by great management fueled by great investors.”

While there are plenty of investors who are interested in the commercial applications of the OneNews platform, Daniel believes he needs to choose investors who understand his vision and timeline for growth. “You want to ally yourself with somebody who understands that entrepreneurial ventures have hurdles that are in direct relationship to the size of the opportunity,” he says. “You want somebody by your side who has an appreciation for the process and is focused on the summit, not rattled by the daily climb.”

“If you are trying to change the way an industry does business, you want an investor who is focused on putting the pieces in place to create a sea change; you don’t want somebody who is so short-sighted that they just want to squeeze out a couple quarters of profitability and run. Ideally, you also want an investor who has been in the trenches himself and had to make payroll. If your investor has never had an ulcer, move on. It would be like going to war with somebody who has never fired a gun.”
Case study 4

Alejandro Diego — Ollin Studios

Proving your legitimacy: scaling and building a reputation as a Latin American visual effects provider

Year founded: 1996
Location: Mexico
Current status: privately held with major investment from a private equity partner in 2011

About the company: Ollin Studios is one of the largest visual effects and post-production companies in Latin America. Founded in 1996, the company focused mainly on the Mexican commercial market until 2004, when it opened Ollin VFX in the United States to offer feature film special effects. A few years later, Ollin was part of the team that won the Oscar for special effects for The Curious Case of Benjamin Button. Co-Founder Alejandro Diego was named Entrepreneur of the Year in Mexico in 2007 by Expansion-Time Warner. The founders recently sold part of the company to finance their next stage of growth.

The initial challenge was financing. Special effects and post-production require expensive equipment and software, and there was no outside capital for startups in Mexico. The founders’ background as software distributors soon proved invaluable. "We were able to negotiate really well with our vendors," says Alejandro. "That was really why we were able to grow from a small company to a bigger company. Just to give you an idea, I think over 15 years we invested 10-12 millions in equipment, and for more than half of that, we were able to get a loan from the vendor. That was because of our reputation." And of course, like many start-ups, Ollin’s founders bootstrapped. They paid themselves barely enough to survive, and stripped down costs. Says Alejandro, "Our office at first was the garage, literally, of the parents of one of the partners."

The bigger hurdle for Ollin was that there was no film industry in Mexico at that time. This meant that there was no one to hire locally with relevant experience. Ollin had to find talented graphic designers and train them in-house, which took years. Even more difficult, though, was what Alejandro describes as "a type of reverse nationalism. The fact was people didn’t believe that anything good quality could be made in Mexico, especially by a small company with three guys no one had ever heard of. So we went to all these advertising agencies and production companies that were doing commercials, and had to convince them to use us. Even though we were cheaper and we knew we were just as good, it was really tough. There was an automatic opinion that there was no way we were as good as US companies."

The turning point for Ollin was a project for a local Mexican food company for which they created a walking, talking red snapper that could behave like a human in a live-action commercial. The ad was a great success. So much so that when the agency first saw it they thought that Ollin had subcontracted it to someone outside of Mexico. Ollin literally had to show the client evidence of the entire work process, down to the wireframes, to prove that they had done the work. Finally they got the credit they deserved, and business in Mexico quickly picked up.

At about the same time, following the smash success of a film called Amores Perros, in 2000, the film industry in Mexico sprang to life after many years of stagnancy. Ollin was well positioned as the preeminent post-production film company in Mexico. The company grew very rapidly from ten people to 80, then to 100. Finally, after several years of struggling, Ollin was on the map. And then the company hit a wall.

Alejandro says, "All of a sudden we were a huge company with huge expenses. We had over 100 people, and we couldn’t do anything right anymore. We had no focus. Looking back, we were trying to do everything. To make payroll, we were forced to take on projects we shouldn’t have. We started losing money. So we had to go through reorganizing the company because we had really lost our way."

"We thought our challenge with growth was to hire more people. We tried to bring in what we thought were more seasoned people from the industry, basically the advertising industry." Reflecting back, Alejandro sees the main issue as the lack of controls. "We didn’t have the pipeline and the workflow well-defined to make sure that projects would start at point A and go all the way to point Z with the right quality controls and the right process. So all of a sudden we had all these people, and it wasn’t clear what each of them was supposed to do. And there were a lot of mistakes. Before, with five people making decisions it was easy. We always knew what everyone was doing. But the process just wasn’t there for 40 people making decisions."

To address the lack of focus within the company and handle the vastly divergent workflow processes required for their different clients, the co-founders decided to separate their company into two divisions, each with its own budget, leadership, and goals. Ollin Studios, the original company, would be dedicated to the Mexican market, and Ollin VFX was formed to focus on the US and international feature film market.

At first, Ollin VFX again had difficulty getting clients to believe in a Mexican company. In an effort to prove itself, Ollin went back to taking small projects. Its first US film project was working with director David Fincher on a movie called Zodiac, which Alejandro describes as, "sort of a test, I think, that David gave to us." Fincher liked what he saw and hired Ollin for his next project, The Curious Case of Benjamin Button, which went on to be nominated for 13 Academy Awards, winning one for Visual Effects. "That was unbelievable for us," says Alejandro. "Four years after we started our US company, we were part of a team that won the Oscar for Visual Effects."

Ollin’s struggle for credibility was finally over, and the work has poured in. In the last year and a half, Ollin has worked on TRON, Pirates of the Caribbean 4, and The Last Airbender. "This time we were smart enough to grow with a lot better plans. We had the systems in place to manage the projects correctly," notes Alejandro. Looking to the future, he says, "We are in the process of selling part of our company to finance the next stage of growth. We wanted someone who would not just give us money, but also help us in other things, coaching and so on. We expect to grow the company at least fourfold in the next three or four years."

Takeaways

When recognition for a new company comes, it can come hard and fast. Ollin Studios had to learn to call its client base and build back-end systems to manage its vastly increased workflow.

With no access to venture capital or bank lines of credit, Ollin had to build its capital-intensive business on trade loans and favorable deals with vendors who knew and trusted its founders. Even though Ollin was doing something entirely new in its market, its executives had reliable reputations that effectively financed the firm in its early years.
Marco Giannini — Dogswell

Managing inventory and continuous innovation: growing and selling a pet food company

Year founded: 2004
Location: Los Angeles, California
Current status: acquired by private equity firm TSG Partners in December 2008

About the company: Marco Giannini founded Dogswell after he perceived an unmet need in the pet food market: all-natural treats with supplements that can provide specific health benefits for pets, such as vitamins for healthy skin and fur, glucosamine and chondroitin for hips and joints, or mint and parsley for better breath. Starting in 2004 with one product, 20’000 dollars of Marco’s own savings invested, and no staff, Dogswell grew astonishingly quickly, debuting in 2006 on the Inc. 500 at No. 101, with a three-year growth rate of more than 1,600 percent and revenues of 17 millions. Dogswell sold a majority stake to private equity firm TSG Consumer Partners in December 2008 for an undisclosed amount. Marco continued to serve as CEO until 2013.

It is tempting to romanticize a great success story like Dogswell. The company was started on a shoestring budget by a passionate and charismatic founder, grew to eight-figure revenues in a few short years, and is now a national brand with a presence in stores like Target and Whole Foods. We put it in people’s hands and selling it rather than talking about it failed venture. I really just had a focus on getting the product to place orders for as little as 200 dollars each. Once he decided to branch out from his core business of pet treats with nutritional supplements to address specific health concerns. But he didn’t want to make the same mistakes twice. Marco says, “I did everything differently from my first failed venture. I really just had a focus on getting the product in people’s hands and selling it rather than talking about it all the time, which is a really common mistake when you’re starting a company.”

Marco believed that his concept was solid: all-natural pet treats with nutritional supplements to address specific health concerns. But he didn’t want to make the same mistakes twice. Marco says, “I did everything differently from my first failed venture. I really just had a focus on getting the product in people’s hands and selling it rather than talking about it all the time, which is a really common mistake when you’re starting a company.”

With less than 20’000 dollars to invest in the business — not even enough to cover the cost of shipping the product to the US — Marco enlisted the help of a graphic design student to create preliminary packaging and set out to secure a big distribution deal. He personally visited hundreds of small pet stores across the state, giving them samples and asking them to place orders for as little as 200 dollars each. Once he had the retailers on board, a distribution deal went through and Dogswell pet treats started appearing on shelves in 2004.

The first year of operations was, to put it mildly, bootstrapped. Marco says, “I was living on people’s couches. It really was tight. I had no employees. I did everything myself, even my own QuickBooks. I was really nimble to be sure we opened up the market.” This approach quickly paid off: by the end of the first year, sales had reached half a million dollars and showed no signs of slowing.

Dogswell needed more staff to handle the orders that were pouring in, but Marco did not want to lose his close contact with the market. “I hired sales people right away — those were our first hires,” he says. “The reason is that you need that voice out there to the retailers and to the consumers. With retail you can’t interact with the consumer that much. The best focus group you can have is to get the product out there, and then get [the customer’s] opinion.”

Marco and his sales team got new product suggestions from pet store owners based on their customers’ requests, and in 2005, Dogswell introduced Happy Hips, Happy Heart, and Vitality. Marco says, “I knew how important it was to build a brand. A lot of pet companies at the time were named after someone’s dog, or a family name, or the product, like “chicken tender,” but they wouldn’t brand it so that there was meaning to it. We wanted to create brands not only for the company, Dogswell, but for each product line as well. You always know the meaning, that there are health benefits to it. It was a real advantage that people knew what our product was and could distinguish it from others.”

Over the next two years, Dogswell grew at an incredible pace, with revenues soon topping 10 millions. Throughout this expansion, the strategy had remained consistent: maintain a tight brand identity across a small family of products, innovate in response to customer feedback, and produce only what was necessary to satisfy demand — if that. Marco recalls, “We ran out of stock a lot. People think you have to have your product available at all times, but if you have a really good product and it sells out, I think it’s ok. I understand that it’s missed sales. But if it’s a really good product, they’re going to buy it again when it comes back into stock.”

Another component of the Dogswell approach was to use samples as its main marketing vehicle. Marco explains, “Instead of spending 10’000 dollars for an ad in the paper, we have 10 cent samples and we give out 100‘000 of them. We put it in people’s hands so their pets can try it.”

Based on its steady ascent and strong performance, by 2007 the company seemed ready for a major expansion, so Marco decided to branch out from his core business of pet treats and introduce a line of canned dog food. “We got the first buy-in, which was fantastic, for something like 300‘000 or 400‘000 dollars, so we pushed the button to make a million dollars worth of cans. But we were new to the canned food industry. We didn’t really know what we were doing.

Ninety-nine percent of the time we change the packaging, tweak the messaging, and send it out there again improved, but we had a million dollars worth of cans, so we couldn’t do that. It almost tanked the company because we had so much inventory and no cash flow. We were completely leveraged with the bank, our inventory was going bad, and we had no money to pay the bills.”

For Marco, this experience provided the major lesson of growing into a large company. He always stressed the importance of continuous feedback and product improvement, but he went against that strategy when he over-produced a new product without sufficient market insight or room to tweak the product before launch. “We’re a food company,” he says. “We’re not selling million dollar boats or software that we only have to follow up with five years after the sale. We have to sell that same three dollar bag over and over and over. We have to be constantly working on that product, making sure it’s relevant today and the next day. You’ve always going to redo products and update them.”

While revenues are undisclosed, the company is thriving, and Marco remains in his role as CEO. “I found a great partner to diversify with. They have a lot of experience in the food industry. I still have a very active role in the company.”

Reflecting on the next stages of growth for Dogswell, Marco says, “I started this company out of nowhere, on a shoestring, and I get very lucky. But I think that now having this private equity company involved (as a majority owner) has made me a better manager. I think that it’s not that bad to have a big brother watching over you every once in a while. They very much have trust in what I do, and I have faith in their opinions as well. I still have a fantastic atmosphere that allows me to create. Everyone loves working here. They’ve allowed me to continue that atmosphere, and I appreciate that.”

Takeaways
Managing inventory doesn’t mean anticipating demand correctly: selling out of a product can be better for a growing company than overproducing something that does not sell.
High-growth entrepreneurs emphasize the importance of acting over planning, especially in the early stages of the business. Physically going out into the market with a product is more valuable than fine-tuning a business plan.
Rhonda Kallman —
Boston Beer Company and New Century Brewing

Fighting unexpected battles to bring a new beer to the masses

Year founded: 1984; 2001
Location: Boston, Massachusetts

About the company: In her first venture, Rhonda Kallman was part of a great entrepreneurial success story: she co-founded the Boston Beer Company, maker of Sam Adams beer. From its modest early years, when Rhonda personally delivered cases of beer and persuaded bar owners to carry it, she went on to lead the company’s sales and marketing through its spectacular growth and IPO. She then left and started her own beer company, New Century Brewing, which pioneered and introduced two new beer segments.

When Rhonda teamed up with Jim Koch to found Boston Beer Company in 1983, there were fewer than 100 breweries in the United States. They launched Sam Adams beer in 1985, creating a new category of “craft beers.” In the beginning, Rhonda says, “The first year it was just us. I’d load the trucks, and often drive the trucks. I’d set up table tents, and then go on to the next spot. I was out every night in bars promoting the beer.”

The company’s lean operations paid off; they broke even after spending 220,000 dollars. Rhonda says, “That’s unheard of today. The economy was good, and the timing was good. All the stars were aligned.”

Soon thereafter, Rhonda was inspired to start another beer company by one of her former brewing consultants, who had invented light beer in 1967. New Century Brewing Co. was created and Rhonda started meeting with investors. She says, “I had never raised money before, but I raised a million dollars quickly.”

New Century’s first product was a light beer called Edison, the first beer in the US brewed from scratch to be light (as opposed to, for instance, a light beer that is a watered down version of another brand. It was introduced in September 2001 at a beer industry trade show. “It was incredible,” says Rhonda. “We had a great first day. That was September 10th. We woke up to 9/11 the next day. There are things you can’t plan for. The whole world changed that day. I underestimated the impact it would have on my little business.”

“My business plan called for 6 million dollars,” she explains, “But I had only funded 1 million dollars. At that point, especially with the fallout from the events of 9/11, I should have held it close to the vest and stayed local until I had cash flow, then grown from there. But I wanted to get it out there. I wanted to be first to market.”

Rhonda pushed forward with production, and then came a complete surprise. In January 2002 New Century received a cease and desist letter from the 4.2 billion dollars conglomerate that owns the rights to the Edison name. Rhonda says, “I had a trademark, but they had read about my little beer in Maxim and decided they wanted to clean up their mark. They wanted royalties. I was running out of money at an incredible rate. The credit market had crumbled, and there was no one investing private equity.”

Edison had been well received, with retail distribution at Trader Joe’s and support from national restaurant chains like Hilltop Restaurants. Although broad-based distribution continued to be a challenge. But with a lawsuit hanging over her head for Edison. Rhonda needed a new product. Looking at what consumers were drinking in 2003, caffeinated beverages like Red Bull and Starbucks were leading the industry. Rhonda and her brewmaster created the first beer supplemented with caffeine and called it Moonshot ’69. Now New Century had two beers with unique process patents.

In 2009, New Century got the support of 7-Eleven stores to conduct an 800-store test with Moonshot. No one saw what was coming next. In a highly publicized way, the FDA decided to examine the rationale of adding caffeine to alcoholic beverages. As a result, 7-Eleven backed out of the test until the smoke cleared. In November 2010, the FDA banned four products, including Moonshot. “I was going to keep it going without caffeine, but it didn’t feel right as Moonshot stood for caffeinated beer. Ultimately, the margins just weren’t there with the increased cost of goods and freight. I shut down the company in June 2011.”

Rhonda’s story is an example of how even the most talented, passionate entrepreneurs are vulnerable to external shocks. As Rhonda says, “I thought my competition was Anheuser-Busch, but it was really the federal government. Whatever your business plan is, double it. Things will take twice as long and cost twice as much as you think. You will need runway to accomplish the goals you set.”

In true pioneer spirit, Rhonda is completely undaunted, and in fact has already started another company, this time a micro-distillery. “I have great partners, and the opportunity for better margins. Lessons are learned from failure rather than success. What do you call an entrepreneur that has failed? Experienced…”

Takeaways

An under-capitalized business is very vulnerable to unforeseen outside shocks. Boston Beer Company raised more capital than it needed, while New Century did not have sufficient resources to weather its legal battles or macroeconomic pressures. Entrepreneurs of all types — whether highly successful, unsuccessful, or some combination thereof — say that the most important personal trait to have as a leader is resiliency. The challenges faced by fast-growth companies are sometimes single big events you can point to; but more often, the challenge is actually the relentlessness of small challenges the founder must face with undiminished vigor.
Joe Kaplan — Innovative Merchant Solutions

Building a big company with a small-company mentality: leading a payments business to acquisition

Year founded: 1999
Location: Los Angeles, California
Current status: acquired by Intuit in 2003

About the company: Innovative Merchant Solutions is a leader in the bankcard processing industry. It processes payments for hundreds of thousands of merchants, handling over 12 billion dollars in volume annually. In 2003, Innovative was acquired by Intuit Inc., the Fortune 500 company that makes QuickBooks®, Quicken®, and TurboTax®.

Joe Kaplan founded Innovative Merchant Solutions in 1999. His previous company was in the same credit card processing space, so he started out with strong industry knowledge and about seven or eight employees who knew the business. Joe says, “We tried to figure out where the puck was going to be, not where it was. We started to bank on building something we knew, while putting a large portion of our resources on new horizons, which was the Internet.” IMS soon emerged as a forethinker and leader in Internet payment processing, and grew to 110 employees and 24 million dollars in revenues by 2002, when it was acquired for 116 million dollars by Intuit. Joe continued to lead IMS as a division head within Intuit until 2008, when he left the company.

Joe attributes the success of IMS to the innovative spirit he nurtured at the company. “Our business was always about our employees,” he says. “Philosophically, when someone starts [working] at a company, they don’t say, ‘I want to suck.’ They want to be good.” Joe emphasizes that a company has to provide an atmosphere of growth and give them an opportunity to flourish. “We made entrepreneurs within the organization.”

Joe strongly believes in stretching himself and others. “Every day is challenging. If you’re not challenged, you stop growing. So my most challenging times were when I was not challenged.” Mistakes are good — the right types of mistakes, that is. “There are two types of mistakes: foundation mistakes and stretch mistakes,” he says. “Foundation mistakes are things like spelling errors that set you back and have no benefit at all. In our culture you could be fired for making a foundation mistake. A stretch mistake is one where you are doing something you are not used to. We told people, if you don’t make stretch mistakes, you’re not growing as a person and you’re not growing in this company. You start training people not to be afraid of making those kinds of mistakes.”

IMS grew to 95 people within two years. “We were hitting it out of the park, growing like a weed,” says Joe. “We wanted to own more of the food chain, so we bought an Internet payment gateway and retooled it. We bought a bank. We thought we’d have online accounts, sell people checking accounts. Then of course there was the Internet bust and our whole model changed. We decided to reformulate the bank strategy, and two years later, we became the fourth largest SBA lender in the United States measured by number of loans funded.”

The challenge of turning down an overabundance of potential opportunities is unique to high-growth entrepreneurs. “We looked for areas where we could leverage our main expertise. I always ask, where am I going to create durable advantage? Can we get into a marketplace where there are only a few key players, or a lot of players that aren’t doing it particularly well? Where’s the problem, and how can I solve it better than everybody else? There’s a risk of being a popcorn entrepreneur where you don’t stay true to your plan. It’s great to try new things, but you have to be able to focus on a critical few areas.”

After streamlining its business, for about a year and a half IMS stayed relatively stable, until Joe realized that he needed to find a partner or buyer that shared his vision of the direction the payments industry was heading. He also wanted to find a partner that had deep enough relationships with customers that he could change his acquisition model and drive the business to where he wanted it to be. In 2003 Joe sold IMS to Intuit, remaining on board as the head of his division within the Fortune 500 company.

“They took their little payments group and collapsed it into us,” says Joe. “When I sold, IMS had 24 million dollars in revenues and 10 million dollars in EBITDA. When I left five years later we had 350 million dollars in revenues for about 50 million dollars in profit. We went from 95 employees to 700 over many locations. So there was a lot of growth in a five-year span.”

Joe says, “Having a small company mentality and trying to push it into a large space was trying. Our division was consistently the top in growth, the top as a great place to work because we took our philosophies and grew a business of a bunch of entrepreneurs within a large organization. And we had all the latitude in the world. Steve Bennett, the CEO at the time, gave us ground cover. We had the latitude to grow and challenge the norm over and over. But as we became more significant in the revenue of Intuit, people wanted more of a corporate flavor, which changed the culture.”

Learning to think differently about the financial health of his group was also a challenge. “Where you run into problems is if the head of a division doesn’t make their numbers, and you have to give back money. You have to pay for everything across all pieces of the business. So it’s challenging because sometimes you have to manage your money not based on what’s best for your individual division but what’s best for the entire company.”

After five years of tremendous year-over-year growth within Intuit, Joe felt that he had reached his goals for the company he had created, and he left in 2008. He says, “We had hired great people who would carry it into the future, and it was their turn.” Throughout his entrepreneurial journey, Joe says the toughest times were when he made errors that affected other people. “I don’t worry about affecting myself. If you can make other people successful and help them grow, you’re going to be a more successful company.”

Takeaways

The skill set that makes a high-growth entrepreneur successful can easily translate into a managerial role within a larger company post-acquisition, but that role can eventually prove unsatisfying, especially for entrepreneurs who want to have a strong, direct influence on the organization’s culture.

High-growth entrepreneurs create a culture of entrepreneurship throughout their companies. They give “stretch” opportunities to their employees and encourage them to have an innovative mentality, even in relatively unskilled positions.
Jim Marggraff — Livescribe
Dealing with environmental jolts: Launching a ground-breaking consumer technology product

Year founded: 2007
Location: San Francisco, California
Current status: privately held

Founded in 2007, Livescribe Inc. produces low-cost mobile computing platforms, smartpens to enhance personal productivity, learning, communication, and self-expression for written and spoken information.

Jim developed a prototype of a writing utensil that would also be a fully mobile computer you could hold in your hand. He says, “As part of fundraising and also preparing for visibility, we were able to present at All Things Digital with the Wall Street Journal, which caught international attention. This was well ahead of launching the product, so we did it with a very, very crude prototype. We went through about three pens, and there was Gates in the audience, watching. A lot of pressure. But it did capture a lot of attention.”

It was a calculated risk to introduce a product that was not ready to market, but Jim feels that he paid off. “We felt we could avoid working in stealth mode, which many companies need to do, and we felt we could use that time. Unlike a software company today, where if they reveal the idea it can be copied, we felt we had such a breadth and depth of technology that we were not exposed. We used this [exposure] both for financing and for hiring people. It was very helpful.”

Additional demos gave Jim the opportunity to get feedback on product features and fine-tune the tool. The product officially launched online in Spring 2008, and the following summer in mid-July Livescribe did its first retail launch at Target for the back-to-school season.

Jim explains the inspiration behind Livescribe: “The idea was to integrate modalities of learning and look at paper as a display technology, if you will.” Jim had read about a technology from a Swedish company that embedded dots into paper to make it touch-sensitive. Jim saw this as the missing piece that could “take reading, writing, speaking, and listening, and turn it into a self-contained computer.”

For a brief while, Jim joined the Swedish technology company. He says, “In about a week we raised over 20 million dollars to work on this idea. I did a road show and brought that money into the company. That was in Fall 2005. The following year, this company had some problems. Basically they over-expanded. The economy was still good, but they realized they didn’t have a cohesive strategy. So I spun out, took a license from the company, and in January 2007 I started Livescribe.”

Jim introduced the LeapPad, an interactive learning device for children that has sold more than 30 million units worldwide. After the product’s overwhelming success, Jim started looking at ways to combine technology and education to reach an even broader audience. Now he is the founder and CEO of Livescribe, which produces a handheld computer in the form of a smartpen that records audio as you write and replays the relevant portion of the recording when you tap the handwritten notes on a sheet of paper.

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Everything seemed to be in perfect alignment with Livescribe: it had a seasoned CEO, a wow product, rave reviews from the media, strong sales… but unfortunately, no entrepreneur is immune from outside forces. “We had financing, but in the fall of 2008 we needed more capital,” says Jim.

“The Lehman collapse was announced just as I was going to the media, strong sales… but unfortunately, no entrepreneur is immune from outside forces. “We had financing, but in the fall of 2008 we needed more capital,” says Jim.

“The Lehman collapse was announced just as I was going to the media, strong sales… but unfortunately, no entrepreneur is immune from outside forces. “We had financing, but in the fall of 2008 we needed more capital,” says Jim.

In hindsight, if I’d known the degree of impact we felt in the retailers, the reluctance to deploy new products, I would have been more aggressive with our investors in managing expectations earlier. It’s a give and take because you’re continually trying to say here, we’ve grown this fast, here’s the implications on our cost and our financing. One day the upside is incredible, and the next day you hit a bump by a surprise.”

“There’s a lesson that you learn over and over again, and you think you have it but you don’t have it fully, and it’s around resiliency. You start out and you think you’ll get over a hump and you’ll be fine, but what happens is you get over one hump and there is another one to climb right behind it.”

When you are the guy who invented the most successful educational toy ever made, expectations are high for your next venture. Jim Marggraff introduced the LeapPad, an interactive learning device for children that has sold more than 30 million units worldwide. After the product’s overwhelming success, Jim started looking at ways to combine technology and education to reach an even broader audience. Now he is the founder and CEO of Livescribe, which produces a handheld computer in the form of a smartpen that records audio as you write and replays the relevant portion of the recording when you tap the handwritten notes on a sheet of paper.

The product officially launched online in Spring 2008, and the following summer in mid-July Livescribe did its first retail launch at Target for the back-to-school season.

Everything seemed to be in perfect alignment with Livescribe: it had a seasoned CEO, a wow product, rave reviews from the media, strong sales… but unfortunately, no entrepreneur is immune from outside forces. “We had financing, but in the fall of 2008 we needed more capital,” says Jim.

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Takeaways
Managing investors’ expectations is a balancing act that sometimes requires entrepreneurs to switch between tempering unrealistic optimism and lightening unwarranted pessimism.

Opportunities to demo your product at industry events are extraordinarily valuable, even when the product is not fully finished. Introducing a prototype gives entrepreneurs advance buzz as well as an opportunity to get feedback on the product that can be used to tweak it before the launch.
Case study 9

Liz McKinley — Pinnacle Petroleum

Learning to delegate while keeping that personal touch: Innovating in petroleum distribution

Year founded: 1995
Location: Los Angeles, California
Current status: privately held

About the company: Pinnacle Petroleum, Inc. distributes oil, gas, and refined petroleum products to customers across 12 states. The company also provides environmental, financial, and resource management services for the energy industry. Pinnacle now has over 150 million dollars in annual revenues.

Some companies’ founders start out with a highly ambitious vision for their business; others start out with more modest goals and grow into something the founders never even imagined. Pinnacle Petroleum is an example of the latter. Founder and CEO Liz McKinley says, “My intent was not initially to be this large. I mainly wanted flexibility.” When she decided to start the company, Liz was a new mother of twins, and she “wanted to be available for her family without giving up everything she had accomplished in her professional life.” “I was looking for a way to do both,” she recalls.

Entrepreneurship was in some ways an obvious choice for Liz. In her former career as a commodities trader, she always knew she eventually wanted to start her own company. “Honestly, looking back the biggest catalyst for me was getting completely annoyed with my bosses,” she says. “I always felt like I could do it better myself. The biggest incentive came after not receiving a year end bonus I felt I deserved. That was the final impetus for me to start aggressively saving to start my own business.” Despite Liz’s relatively modest aspirations, within months of its inception Pinnacle Petroleum, as they say, struck oil. “We grew quickly by winning large contracts. I mean, some of these contracts the we were winning were really large, like 10 million, 30 million, 50 million dollars, and they kept growing.”

As a founder and CEO, Liz McKinley encountered her biggest challenge far sooner than most entrepreneurs: her company got more successful than she was ready for, faster than she could have imagined. Virtually overnight, Liz found herself at the helm of a booming business. “It was so crazy,” Liz recalls. “We won the state of California contract, which is huge. The previous company that had the contract didn’t deliver the fuel, so when we got the contract everyone in the state was out of fuel. It usually takes a while to put things through a bureaucracy, but they were so desperate for fuel that they pushed it through in a day. We were supplying [fuel to] 38 agencies within the state, including CDP, CHP, the forestry agencies, everyone. I just didn’t have the personnel — we couldn’t even keep up with the calls.”

Understaffed and unprepared, Liz had to work day and night to meet the incredible demand for her new company’s services. “The first large contract I won, I was working out of my house, with my mom answering the phone,” she recalls. “Then I hired people who came to the house. There was a study downstairs that we used as an office. We had the copy machine in the bathtub. My role was always changing, and how I was dealing with things kept changing. We just had to be more and more structured because of what was going on.”

Unlike many fledgling companies, particularly those in the energy sector, Pinnacle did not require a lot of start-up capital. Liz explains, “I put 100’000 dollars into Pinnacle, which is nothing in this business. But because of my years of history working with these vendors, I was granted a lot of trade credit when I started, just because of me, because people trusted me. When I look back on it now, it’s shocking how much trade credit I got. I kept funneling everything I was making back into the business. I didn’t even get a credit line with the bank. I was in business for a couple of years before I got a credit line.”

Trustworthiness, vendor relationships, and personal responsibility became the touchstones of Pinnacle’s company culture. Liz established some principles early on that would guide the company’s growth: always have a live person answering the phone; hire smart people even for mundane jobs; and stay on top of every detail so the client is never disappointed. “From a personal standpoint, I have a hard time letting go of control. I’m a Midwest girl and I’m used to doing everything myself. I still don’t have an assistant. It’s kind of shocking, but it’s also why we’ve been so effective. In sales pitches, some of the utilities, they don’t want to deal with a massive company where they’re just another customer. They like that they’re dealing with the President. But I don’t think I needed to make it as hard on myself as I did.”

The biggest challenge for Liz, she says, has been managing her time and letting go of operational control. She says, “From a personal standpoint, I have a hard time letting go and letting people do their jobs. I’ve gotten better and better at that. I’ve hired well. A lot of them are younger. Another thing I did wrong was realizing there’s a limit to all that I can do. I did all the deals. I was the bottom line moneymaker. I’ve been really focused on that for the last three to four years. I finally found a great guy [to handle that role], and he can focus on that stuff. He’s organized, he’s smart. I heard once that instead of working in your business, you should be working on your business, and I think that’s definitely true.”

When asked what she would do differently, Liz replies, “I would have started getting help earlier. I’m a Midwest girl and I’m used to doing everything myself. I still don’t have an assistant. It’s kind of shocking, but it’s also why we’ve been so effective. In sales pitches, some of the utilities, they don’t want to deal with a massive company where they’re just another customer. They like that they’re dealing with the President. But I don’t think I needed to make it as hard on myself as I did.”

Takeaways

Many successful entrepreneurs have a hard time letting go of control, especially when their personal networks and expertise were fundamental in getting the business started. Hiring talented people and delegating allows the founder/CEO to work on the business rather than in the business.

Any business that relies on large contracts should be prepared to scale incredibly quickly. Pinnacle Petroleum literally changed overnight when it won a contract with the State of California.

High-growth entrepreneurs frequently stress their preference for hiring smart, engaged people over people who have experience, but lack passion. This can mean a higher turnover rate as people outgrow their jobs, but it keeps the level of energy and excitement high at a start-up.
Case study 10

Adam Miller — Cornerstone OnDemand

Business model innovation to drive change in the emerging SaaS market

Year founded: 1999
Location: Santa Monica, California
Current status: publicly traded (NASDAQ: CSOD)

About the company: Cornerstone OnDemand is a leading global provider of a comprehensive learning and talent management SaaS solution. Its software is currently used by over 7.1 million people in more than 700 companies, across 173 countries and in 29 languages. The company went public in March, 2011.

Adam Miller was convinced that he could change the way software was delivered to large corporate clients and transform online learning. The trouble was persuading everyone else of his vision. He did so by creating an extremely responsive organization, including very short product development cycles to continually incorporate client feedback and a heightened commitment to customer service.

When Adam and his partners first conceived of their online business, it was 1999, the dot-com bubble had just burst, and no one, least of all big companies, had faith in the Internet as a delivery mechanism. Adam says, “We were competing against Goliaths like Oracle and SAP, and we just didn’t think we could compete right out of the gate.”

In an effort to create a competitive advantage, Adam and his partners went to everyone they knew who worked in large companies to ask them what features they wanted in an online training and learning tool but weren’t getting from the large providers. Based on what they heard, Cornerstone built a software solution around the 3,000 online training titles they had aggregated and resold, using two-week software development cycles — a then unheard-of practice — evolving the product for about two years. Finally, Adam says, “We started to hear these big companies say, hey, we could use this. We said, well of course you could — you designed it.”

By August 2001, the company’s pipeline was filling, mostly with financial services companies in New York. The devastation of 9/11 impacted Cornerstone; Adam and his executive team were advised to cut their staff in half. Instead, on September 15, Adam decided to keep on hiring. He closed three deals that week. One was a large deal that was advised to cut their staff in half. Instead, on September 15, Adam decided to keep on hiring. He closed three deals that week. One was a large deal that Cornerstone continued to encounter resistance to other aspects of its service. “We told clients if they wanted enhancements, they would have to pay for it, but everyone would have access,” says Adam. “They didn’t like that, but we explained that for every one thing they asked for, there would be 50 things suggested by other people that they would get to keep, too.”

As the company gathered momentum, the next step seemed like a foregone conclusion for its founders. “I always wanted to take the company public,” says Adam. “It was the brass ring, the way you measure your success. I never had any interest in selling. And I wanted a Tier 1 offering. A marquis offering. Not just to go public but do it the right way.”

The pressure to modify its core business model was intense. “We were a small company, so we needed the capital, we needed the income. But we never submitted,” recalls Adam. “We never allowed anyone to install the software. Had we done that, it would have forever changed our model, and our cost basis was dependent on that model. Now it seems obvious but then it wasn’t. It seemed insane.”

“There were many long nights and depressing days,” says Adam. “I remember once I went on a VC tour, and everyone called and said that they weren’t going to do the deal. My head was on the table. For the first time it seemed like I was losing hope.” But despite a skeptical market and a resistant investment community, Cornerstone stuck to its vision. The turning point came after Salesforce.com’s successful public offering. By 2007, Adam estimated that 70% of companies were indifferent between on-premise and on-demand software, what’s now called SaaS or cloud computing, and by 2009 there was actually a preference for it. Cornerstone’s crazy model was vindicated as a visionary shift in the software industry. It was, from top to bottom, an on-demand product. Adam says, “First, we built our applications to be flexible enough so everything was configurable through the user interface — we didn’t customize, but the client can do the customization themselves. Second, early on we recognized that the market knew better than us what they wanted. The product was basically designed by the clients.”

Even as the SaaS model gained widespread acceptance, Cornerstone continued to encounter resistance to other aspects of its service. “We told clients if they wanted enhancements, they would have to pay for it, but everyone would have access,” says Adam. “They didn’t like that, but we explained that for every one thing they asked for, there would be 50 things suggested by other people that they would get to keep, too.”

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Even though sticking to his vision against all the naysayers paid off, Adam is adamant about the need to react and respond to changes in the market. “Make your plans, stop thinking about them, and execute on your vision. But stop to think about it maybe once a quarter. Certainly not more than once a month.”

Post-IPO, Adam says, “Someone told me that when astronauts go to moon they sometimes come back divorced, alcoholic, and depressed because they have achieved the impossible. I figured that story was an analogy for me. [After the IPO], I needed to come up with new goals. My focus now is building a very large, very sustainable global business. In many ways it feels like a start-up again.”

“People had the attitude of build it and they will come. We listened and then built it.”

Takeaways

Convincing large companies to try on-demand software was possible because Cornerstone invested years into building the exact features prospective clients said they wanted. This philosophy helped them prove to clients that the SaaS model could work for them — it was built to their exact requirements.

If a company is committed to a transformative business model, it cannot cave to pressure to make exceptions just in order to sign deals. If Cornerstone had succumbed to large clients’ desire to install the software, it would have changed the company’s cost basis and made the business unsustainable.
Rafael Soares — Yoguland

Creating an overnight sensation: building a successful frozen yogurt franchise in Brazil

Year founded: 2008
Location: Brazil
Current status: privately held

About the company: Yoguland is a franchise chain of frozen yogurt stores in Brazil. Its first location opened in August 2009, and within two years the company expanded to more than 50 locations across Brazil, with plans to move into other Latin American countries in the near future. Rafael Soares started the company at the age of 24 and remains at its helm.

After finishing college in the United States, Rafael Soares moved to Hawaii and worked as a sales manager. He had always wanted to start his own business, and he was looking for opportunities to return to his native Brazil. After watching the frozen yogurt craze hit California, his friend bought a franchise and opened up a branch in Hawaii. From the first day there were people lined up outside the store.

Rafael says, “At the time in Brazil there wasn’t even one frozen yogurt store. I said, hello, here’s my opportunity.” With no capital and virtually no work experience, Rafael built a business from scratch. He researched production equipment, franchise marketing, real estate, and his potential customers. At that time no one manufactured frozen yogurt mix in Brazil, and Rafael had no money of his own, so he took on a business partner who financed the manufacturing of the product. The first store opened in August 2009.

Rafael says, “It was a big hit. It was the same thing [I had seen] in Hawaii — people were lining up around the block.”

“Our goal was to franchise,” he explains. “We had the contracts to get someone else to take over your store.”

As part of Yoguland’s commitment to helping its franchisees succeed, training is a major priority, but this, too, presents some complications. “We train the store owners, we go to their stores, we try to keep involved, and we show them how to use our operating systems, how to use the machines, how to manage their teams, how to keep their employees motivated. But there is an issue there, because the franchisees are in the business to make money. So the more support you give, the more training you give, the more travelling you do, the less money there is for them. But without it, the store could fail. It’s very difficult to know the balance of how much to provide while still keeping the business profitable.”

And of course, even the best training and support can’t prevent the occasional failure. “One of the things I have learned with a franchise business is that you have to have healthy stores that continue to grow and do well. You will close stores, no matter what. McDonald’s, Subway, they close stores. That’s tough because you see someone investing in your brand, putting maybe all his savings into a store, and you want that guy to do well. You’re selling a dream, and you want him to get his money back and do well with it. It’s just part of the business, not everything is beautiful.”

Rafael says, “I like to have everything under control and working perfectly, but nothing is ever perfect. Everyone’s a critic. In the beginning I didn’t know what to do with it. You have to get your team together and say, are we doing the right thing, or are they just crying because they are crying?”

After just a few short years in business, Rafael has confronted some growth challenges that would daunt anyone, much less someone running his first company. He says, “We are more mature, we know better what we’re doing, the franchisees recognize it, and so the relationships get better. And those that don’t get better, forget it. It’s better to get someone else to take over your store.”

Takeaways

When building a business that can be easily reproduced, first mover advantage becomes absolutely critical, and finding a way to scale up quickly establishes your brand as the one to beat. For Yoguland, this strategy was best achieved with a franchise model.

The relationship between franchisor and franchisee requires a deft touch. In particular, there is a difficult balance in a franchise business between the need to invest in back office functions, including training, marketing, and support, with the need to maximize profits.

“I knew once we started, the business model was very easy to reproduce. We had to create a really strong brand so people would want our product and go to our store. It was like a war game.”
Harry Tsao certainly knows something about rapid company growth and exit: MeziMedia, the business he co-founded in 2002, sold for approximately $350 million five years later. But when you ask him how he did it, he’s quick to point out all the things he did not have to learn how to do. In fact, he says, “I never had a lot of professional or financial challenges... and I never evolved [as a manager] because I never needed to.” In fact, the key to MeziMedia’s success may have been that Harry anticipated and side-stepped some of the inherent challenges of rapid growth based on what he had learned firsthand in his previous ventures.

Harry’s first start-up, back in 1997, was a dot-com that served the trade show market. He says, “I signed up a couple hundred merchants, but I realized the concept didn’t work. So we failed.” Harry then joined search engine pioneer Goto.com (which later became Overture services) as employee number 90. He recalls, “I joined the company thinking, ‘this is awesome.’ It went public, and I got a little money, but it got boring.” He realized that he had little interest in the workings of a larger company and began looking around for a new opportunity.

At the time, coupon sites were proliferating on the Internet. Harry and his partner looked at the competition, thought that they could build a better coupon site, and left to start MeziMedia. From the very beginning, it was clear that their concept was solid. “We were profitable from month one, and we never had a loss in any month,” Harry says. “In the first year we made a few hundred thousand, then in the second year we made a couple of million, and in the third year we made seven million.”

In 2005, Harry and his partner realized that despite their solid growth record, their business was not sufficiently scalable for the level of success they hoped to achieve. They decided to expand into online comparison shopping, and in order to scale up quickly, they relocated their software development operations to Shanghai.

This move enabled MeziMedia to grow more quickly, but it also created new challenges for the founders. The time difference was horrible,” explains Harry. “5:00 p.m. Pacific time is 8:00 a.m. in Shanghai, so I would be on the phone for long, late nights. And I had to travel a lot. The first year we had operations there I made 14 trips to Shanghai. Work is work, but it put a strain on my marriage and my family life.”

Even with constant phone calls and frequent visits, Harry knew that it was impossible for him to personally oversee the growing team of engineers working in Shanghai. “I think as a business operator there is a tremendous amount of risk if there is one person you’re relying on as a manager,” Harry says. “So I hired two heads of the company [in Shanghai]. They had different titles but really each of them was just running half the business. It worked wonderfully.”

Even with professional managers overseeing the team in Shanghai, there were challenges. “In the early days there was extremely high turnover,” says Harry. “There’s a Chinese expression, ‘you ride a mule until you find a horse.’ You’d see a resume from someone four years out of college who had worked at four different companies, and that was seen as normal. But as you grow and become more profitable people realize you are the horse, and they stick around.”

As the company grew, both in profits and in headcount, Harry realized that he preferred to limit his role in the day-to-day management of MeziMedia. “I was not the CEO,” he explains. “My title was co-founder. Most of our growth was in Shanghai, where I had two professional managers who had that kind of organizational skill. A larger company requires creating a lot of human resource processes, things like quarterly reviews and employee policies, and that’s not something that I was interested in.”

Part of Harry’s effectiveness as the leader of a high-growth company stemmed from his clear-eyed assessment of his own strengths and weaknesses. He says, “I push people incredibly hard. I always want more, quicker. As we grew bigger and bigger, we started bringing on people who were less and less like us. The reality is that there are many people who can’t stand my style, who are not comfortable with a lack of organization, with being resourceful, with having a new task every single day.”

As far as the David to Goliath metaphor goes, Harry never let it bother him to go up against the big guys. “When I started doing comparison shopping in 2005 there were several very large companies in that space. I heard over and over, ‘you shouldn’t do this, you can’t beat Goliath.’ I say don’t worry about the big guys. They’re slow-moving — if they weren’t, Microsoft or IBM would own the Internet. Run your business the way you want to run it.”

**Takeaways**

MeziMedia received very little outside capital, which, in addition to forcing it to prove its core business from the beginning, enabled the founders to retain complete control until they sold the company. Most of the headcount growth at MeziMedia occurred in its Shanghai office. Rather than attempting to run day-to-day operations abroad, the founders hired two local managers who were skilled at putting in appropriate systems and processes as the company grew. This freed up the founders to focus on areas of the company that they found more personally rewarding while ensuring that the company grew smoothly.

“Don’t worry about the big guys. They’re slow-moving. Run your business the way you want to run it.”
Case study 13

Rob Ukropina — Overnite Express

Over-delivering against the giants: growing and selling an overnight delivery company

Year founded: 1992
Location: Los Angeles, California
Current status: acquired by Norco in 2008

About the company: In 1992, Rob Ukropina founded Overnite Express with the idea of picking up packages after the 9:00 p.m. deadline for FedEx, UPS, and DHL and delivering to California, Arizona, and Nevada by 9:00 p.m. the next day. Overnite Express grew to become the premier West Coast overnight delivery company, with 400 employees handling over three million packages per year. In February 2008, Overnite Express was sold to Norco Corporation, a privately held distribution company in California.

Serial entrepreneurs have a unique ability to pick themselves up from failures and start all over again with undiminished enthusiasm. Before founding Overnite Express, Rob Ukropina was in two previous start-ups, the last of which wiped out his entire net worth. He says, “I went from the top of the hill to the bottom of the hill. I was in corporate life until I was 36, when I ventured out, and I was penniless by the time I was 41.”

Undaunted, Rob began to look for his next opportunity, which he saw in the express delivery space despite it being dominated by industry giants like FedEx. “I knew we could be more proactive,” he says. “When you have huge competitors like that you have to be so far ahead of them. They’re actually not very good at what they do. Three percent of FedEx packages don’t make it on time because of a minor address discrepancy — that’s a big deal. They got so big that they have no flexibility left. What we had to do was continually innovate to be better.”

Rob set out to build an overnight delivery company that would compete with the big guys, but he had an innovative perspective on his value proposition: “Overnite Express was not a delivery company. We were actually a communications business,” he says. “We had six full-time software engineers. We were way ahead of FedEx and UPS in tracking. Everything you touched was electronic. We had a picture of your package at the front door. Everything was about communicating between the driver and the customer.”

As a CEO, Rob also had a distinctly anti-big-business philosophy about managing people. He explains, “There is a big difference between an entrepreneurial CEO and a corporate CEO. An entrepreneurial CEO rarely forgets where he came from. I did the opposite of what I saw in corporate life. They weren’t surrounding themselves with smarter people and listening.”

“I’m a pretty humble guy, with a very humble background. My passion is that I am a servant/leader. I think we ended up with 400 associates. I parked my car in the back of the parking lot next to the trash cans. I’d pick up the cigarette butts on the way in, check the bathroom, and make the coffee. We had less than 2% turnover because I was treating my associates so well. I created this environment of treating people extremely well and as a result my associates treated our clients the same.”

“Think about drop boxes. We’re not going to have an engineer design that — that’s absurd. Have the drivers design it. They’re the ones who have to lean down and scan the boxes and open it up dozens of times a day. Our best sales ideas came from accounting, our best finance ideas came from operations, and our best technology came from marketing.”

“I had an open door and I would answer my own calls. My philosophy was, how could I possibly know more than 350 people who have 350 years more experience collectively than I did that year? It’s easier said than done to really believe that the people doing the work know more than management. It has to start from the top.”

“You really have to nurture people personally and professionally, and keep people in the right spots. I’ve probably kept people in the wrong position too long because I was such a believer that people could rise to the occasion. Sometimes they can’t, or they’re just in the wrong slot. The entrepreneur is so loyal to the people who helped him when there was nothing that it’s hard to move on from that.”

Case studies

Takeaways

Highly successful founder/CEOs frequently give most of the credit for their success to the people they hired, encouraged, and listened to. They are extremely open to others’ contributions and willing to create opportunities for anyone to have an impact on the company.

“David” companies are not daunted by “Goliath” companies — their founders see opportunities to innovate and out-perform where others might say, “How could you possibly compete?”

“There is a big difference between an entrepreneurial CEO and a corporate CEO. An entrepreneurial CEO rarely forgets where he came from.”
Conclusions

Through these unique and individual stories, four central themes arose about the challenges that entrepreneurs face: people, financial resources, business networks, and external environmental jolts.

1. People are the most important success factor for a growing business — finding executives, managers, employees, advisors, and investors who share the founder’s vision, values, and passion. This is the “There is No ‘I’ in Team” principle. High-growth entrepreneurs must continually fund its expansion. The “Bird in Hand” principle of financial resources is that high-growth entrepreneurs are persistent, but not bull-headed — they are highly responsive and adaptive. They continually seek feedback and ideas from their colleagues, employees, investors, and customers, and adjust their strategies where necessary. Several of our case entrepreneurs created explicit schedules for cycles of planning and reviewing their business goals so they had the right balance of execution and analysis.

2. Financial resources require a deft hand in a company that must continually fund its expansion. The “Bird in Hand” principle of financial resources is that high-growth entrepreneurs are extremely resourceful when it comes to capitalizing their growth (often through unconventional means), as well as very skilled at running cash-efficient operations. For many entrepreneurs, their willingness to try new things contained a hidden peril; it was difficult to learn the lesson that they not only could not do everything, but should not. As their companies gained traction, these CEOs needed to become much more focused and selective about the clients, projects, and markets they took on in order to avoid outstripping their financial resources.

3. Business networks for high-growth entrepreneurs go beyond friends, family, and advisors. They include customers, suppliers, and sometimes even competitors. This is the “It Takes a Village” principle. Founders of fast-growth companies exhibit a contradictory mix of behaviors that they must continually balance and adjust as their companies grow and change. At every stage, they must manage the tension between idealism and pragmatism, leading and executing, control and delegation, and confidence and humility. Many of the entrepreneurs struggled with their conflicting desires to control every aspect of the business and to create something bigger than themselves. Successful entrepreneurs are willing to continually change their management practices to suit their rapidly changing companies. Their networks provide a multi-dimensional “reality check” to let entrepreneurs know when it is time to adjust their personal approach, their business model, or both.

4. External shocks often require entrepreneurs to turn hardship into opportunity. The “Lemonade” principle reflects how high-growth entrepreneurs recover from major outside shocks that threaten their business. The entrepreneurs do not focus on predicting or preventing shocks; rather, they take setbacks as par for the course, continually reacting, adjusting, re-tooling, and moving forward. These entrepreneurs all have a “little engine that could” mindset. Persistence is their most defining trait. They have little fear of failure, and they are motivated to start their businesses because they see an opportunity to be exploited through better execution.17 The explicit intention to grow and become a major player, undaunted by Goliaths, turns out to be incredibly important in leading high-growth companies. These founders took on entrenched companies — and sometimes whole entrenched industries — without ever doubting that they could prevail.

Best practices from the case entrepreneurs

In our interviews, the entrepreneurs were keen to provide advice and lessons learned that might benefit their fellow entrepreneurs. Some of their best practices include:

Vision and Execution

Be bold, and think big. Do not worry about competing against 800-pound gorillas — they cannot execute as quickly or creatively as a start-up.

Be willing to turn away work that you cannot do well, or that will distract from your core mission.

Plan, then execute, and then stop periodically and re-examine your approach. Do not do this too frequently; it is usually helpful to conduct a formal review of the business somewhere between once a month and once a quarter.

Funding

Think of potential investors as strategic partners, be very selective about them, and manage their expectations for your company’s growth.

Be creative in fundraising. Trade credit, founders’ capital, and loans are far more common than venture capital, and ultimately can be less expensive.

Be realistic about your capital requirements, but keep your operations lean as you grow.

Never lose sight of the fact that a growing company’s financial health is only as strong as its cash flow. Companies live and die by whether they can meet payroll, not on their P&L.

People

Hire people who share your passion and your vision. Everything else can be learned.

If you do not have an interest or aptitude for a particular business function, find someone who does and let him or her run it, even if it means giving up some control over the company’s operations.

Accept that everyone you hire might not be capable of growing with the company. Beware of being overly loyal to your start-up team and leaving people in the wrong positions for too long.

“No man is an island,” wrote English poet John Donne. Do not be afraid of relying on your personal network and team for support and feedback.

Resources

The following resources may provide additional information to expand upon the topics discussed throughout the paper.

Organizations and Publications
Entrepreneurship online community and resources, www.entrepreneurship.org
Entrepreneur Magazine’s site, www.entrepreneurship.com
Kauffman Foundation, www.kaufmann.org
Young Presidents’ Organization, www.ypo.org

Books — General

Books — Biographies

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The Lloyd Greif Center for Entrepreneurial Studies at USC Marshall School of Business

The Lloyd Greif Center for Entrepreneurial Studies at the Marshall School of Business, University of Southern California, is among the global leaders in entrepreneurship education and research. Established in 1971, it is the oldest entrepreneurship program in the US. Its faculty — a diverse mix of academics and entrepreneur practitioners — offer undergraduate and graduate programs designed to help students, entrepreneurs, and executives develop the skills and cultivate the mindset for launching and managing successful new ventures. The Greif Center’s program has been labeled one of the best entrepreneurship programs by Business Week and has consistently been ranked among the top programs by US News and World Report and by Princeton Review/Entrepreneur Magazine.
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