Mergers & Aquisitions,
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Startups
…a few keys to success

Entrepreneurs often wonder if they're really doing all they can to ensure their new venture will be successful. We all know that success is the product of proper planning and execution which are unfortunately subjected to a variety of totally unpredictable circumstances over which we have very little, or no control.

Given that startups have relatively limited assets, little or no sales and few internal resources, the margin for error is very small. It is therefore all the more important that the decision makers can be sufficiently enlightened to make the right choices in order to maximize their chances of success.

Our role oftentimes consists in guiding entrepreneurs towards some of the basic principles that lead to successful startups. Without pretending the following to be an exhaustive list, we believe the principles can be summarized under three themes: (1) the importance of Teamwork, (2) the importance of Customer Focus, and (3) the importance of Agility.

Teamwork

Successful companies are rarely the result of only one individual. Granted, in the beginning everything probably starts with one individual's idea or vision. That individual ignites the process and will usually assume the leadership of the business. However, no matter how small the venture, even for a one-person show, success requires teamwork. Successful entrepreneurs will always acknowledge to have been part of a team.

The ability to make decisions and execute them properly is a keystone of a company's existence. During a startup this ability is especially crucial. Any serious investor or lender will be more inclined to confide his or her money to people who possess proven execution capabilities. The "windows of opportunity" for many sectors of today's modern world remain open for relatively short periods and it takes discipline and rigor to react decisively and properly execute those first initiatives leading down the road to commercial viability and creation of wealth. Unfortunately some entrepreneurs are too involved with the technology behind the business or product and its ongoing development. They invest too little time or interest in managing the business and making those tough decisions. But all is not lost, for such individuals a framework can be put in place to ensure effective decision-making happens as and when it is supposed to. Most often, a advisory committee of experienced professionals can be instrumental in ensuring the proper discipline is instilled in the business.

Customer Focus

Building enterprise value is a structured process which requires the recruitment of strategic, reliable and solvent customers. A startup's first customers invariably become the reference point and are critical in creating a successful commercial foothold. It is important that those initial customers not put the new company's reputation or that of its products or brands at risk. Starting off with the wrong client just to obtain a quick sale can be a really bad move.

Each new customer is a "strategic lever" and a young business must carefully evaluate how the new relationship unfolds. When those inevitable "bumps" suddenly appear on the road to success, the quality of the customers is important. Whether a company is looking towards a merger, outright sale, alliance, new financing or even going public, the quality of the customer base will have a direct influence on the perceived value of the business.

Radical new innovations are quickly becoming a rarity. In fact, most innovations today are really "incremental"; they replace similar products and services which are already in existence. Developing new products and services is exciting and oftentimes emotional for the entrepreneur. Unfortunately this is also when the entrepreneur suddenly losses customer focus and forgets to involve his customers, ignoring their opinions, their motivations and the true value proposition.

Entrepreneurs will sadly spend large sums of money to eventually learn what they should not have done in the first place.

Commercial development has a learning curve which must be respected and not rushed. How often do we see large marketing campaigns launched at great expense before the actual product is really ready for market? Entrepreneurs who lose or ignore customer focus will be condemned to rapidly burning cash reserves, they will sow fear amongst their investors and lenders, and most importantly they will lose their commercial credibility and diminish the value of their efforts.

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Startups (cont'd)

Agility

It almost goes without saying that we are experiencing unprecedented times of turbulence and consequently, of growing uncertainty. Successful entrepreneurs, however, have an ability to navigate turbulent waters. In this particular setting, the ability to mitigate risks and react quickly is a valuable trait. We believe the following factors greatly influence the speed with which an organization can react:

- A strong and open leadership fostering initiative,
- Staying aware of competitors and commercial surroundings,
- Use of key performance indicators throughout the organization,
- Training key personnel on a continuous basis,
- Rigorous planning of financial and human resources,
- Open and collaborative mind set with partners.

Companies that promote open collaboration and shared risk-taking remain a cut above those that get bogged down in slow, drawn out procedural decision-making. Too much bureaucracy negates agility.

Today's commercial and technological models depend heavily on open collaboration with outside partners. Be it by investing financial, commercial or strategic means and their know-how, these partners greatly help shorten the value cycle or "time to value". These practices are rapidly becoming the norm throughout industrial sectors.

Over the past few years a number of methodological and software-based tools have become available to measure a business against preselected indicators. Call it a "dashboard" or a management report, these tools aim to better align management decisions with a company's performance objectives. Implementing these tools is one thing, however you must first determine if you're measuring the proper metrics.

Startups must think in terms of value; however gauging progress should not be limited to looking at only the obvious indicators. In fact, highly valuable strategic gains can oftentimes be overshadowed by other seemingly more attractive, but short-lived wins. In order to be useful these tools must incorporate "value" indicators.

In order to be agile and mitigate risks as circumstances might require, the entrepreneur must be able to rely on the appropriate financial and human resources. But in order for these to be available you have to plan! Experience shows that a close and ongoing relationship has to exist between finance and commercial strategy in order to produce a useful and efficient business plan. An efficient plan allows the entrepreneur to properly evaluate the type and number of resources at his disposal and dispatch them accordingly.

The exercise also promotes an improved understand of the weak links in the business model and should point the way to fine tuning certain variables such as pricing schemes or the company's financial structure. The plan will obviously establish what the required revenues should be and consequently better help orient the "go-to-market" strategy. From our experience, however, most startups underestimate their sales learning curve and typically forecast overly optimistic revenue projections. We prefer to see a more carefully planned, realistic approach. Value creation requires planning as well as discipline.

Conclusion

Statistics abound showing how few young businesses successfully make it past their third anniversary; the conclusion varies little, roughly half of startups fail. But even if a startup does make it, survival in today's tumultuous and competitive environment demands ongoing strategic planning and faultless execution. As a consequence, proper alignment of marketing and finance would appear to be an important key to success.

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