Have you ever wondered what separates mediocre businesses from outstanding ones?

The essence of this book is about turning a good business idea into a great business.

Whether you are thinking about starting a business or you are already running your own business, or managing a company, or even if you are simply interested in investing in a business, this comprehensive, easy-to-understand book will provide you with a structured way to study a business from a fresh perspective.

Written in a friendly and direct style, it is filled with case examples for you to understand different real-life business issues. Dozens of charts, illustrations and templates make understanding even the most complex business issues a breeze. Each chapter concludes with a workout section that adds a new interactive dimension to your learning journey.

In *Turning Good Ideas Into Great Businesses*, you will learn:

- What causes business failures
- How to increase your value proposition by fulfilling customers' latent needs
- What is the customers' psychology behind every purchase decision
- How to identify and address business opportunities amidst the chaos
- How to increase market share by exploiting untapped market segments
- How to create absolute advantages to help your business reap higher profits
- How to develop a sustainable and bankable business model
- How to spot and manage latent risk before the survival of your business is threatened
- How to sense the market to keep pace with the changing competitive landscape

This book distils more than two decades of the author's business experience in starting companies, working with companies of different sizes and investing in and mentoring companies. It should be your personal journal and quick source of reference, regardless of which stage your business is currently in.

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Marshall Cavendish Business

BUSINESS
ISBN 978-981-4677-05-9
9 789814 677059

Francis Tay Turning GOOD IDEAS into GREAT BUSINESSES

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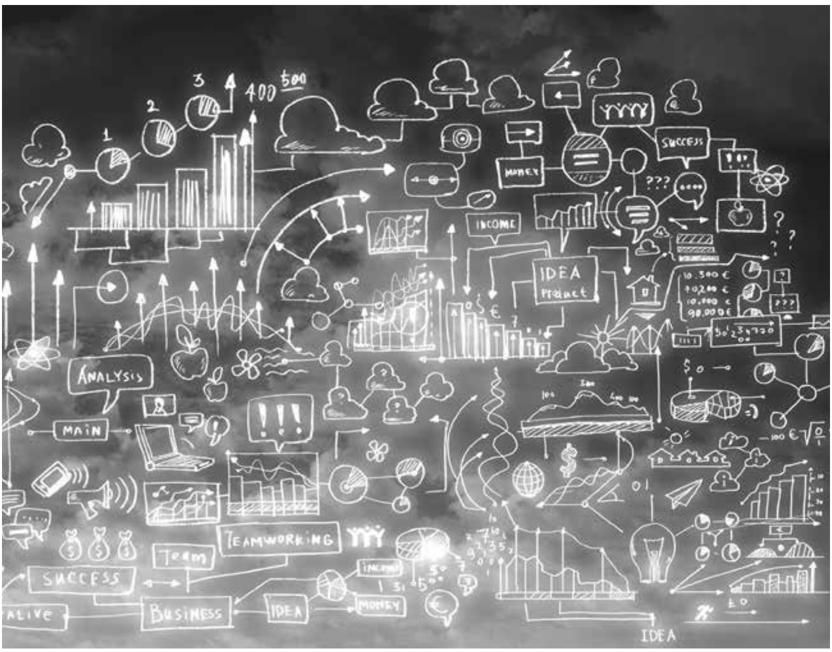

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Marshall Cavendish
Business

Published by Marshall Cavendish Business
An imprint of Marshall Cavendish International
1 New Industrial Road, Singapore 536196

Other Marshall Cavendish Offices:
Marshall Cavendish Corporation. 99 White Plains Road, Tarrytown NY 10591-9001, USA • Marshall Cavendish International (Thailand) Co Ltd. 253 Asoke, 12th Flr, Sukhumvit 21 Road, Klongtoey Nua, Wattana, Bangkok 10110, Thailand • Marshall Cavendish (Malaysia) Sdn Bhd, Times Subang, Lot 46, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor Darul Ehsan, Malaysia.

National Library Board, Singapore Cataloguing-in-Publication Data
Tay, Francis, 1964-, author.
Turning good ideas into great businesses / Francis Tay. – Singapore : Marshall Cavendish Business, [2015]
pages cm
Originally published: The latent factors. Singapore : Candid Creation Publishing, 2010.
ISBN : 978-981-4677-05-9 (paperback)

Success in business. 2. New business enterprises. I. Title.

HF5386
650.1 -- dc23   OCN905275972

Printed in Singapore by Markono Print Media Pte Ltd

Contents

People are always blaming their circumstances for what they are. I don't believe in circumstances. The people who get on in this world are the people who get up and look for the circumstances they want, and, if they can't find them, make them.

George Bernard Shaw, *Author*

Preface

Starting a business or a new venture is not difficult today. A leading source of commercial information estimates that a new business is formed almost every minute.

Making a success out of one's business is another matter. There are probably as many roads to success in business as there are perceptions of what that success is. To some, it might be reaching a point where the business is a recognisable brand name. To others it might be having the biggest market share. Regardless, once one is clear about what success means, achieving that success is a matter of hard work, diligence, perseverance and perhaps a dash of luck.

Success is a validation of what you have planned for, strategised and executed. However, it is too soon to bring out the champagne and proclaim that one has a great business. Before you can claim to have turned a good idea into a great business, you will need to achieve two more things.

First, you will need to demonstrate the ability of your business to generate value and profit on a sustainable basis. Creating value for the firm and customers is the objective of any business. Value creation for the firm is about the utilisation of resources, people and processes. Customers pay for this value which is translated to revenue and then profit.

Generating a profit is not difficult, but doing so on a sustainable basis is not easy. Generating a sustainable profit demonstrates not just the strength of the business model but also the management and its ability to ride the ups and downs of the marketplace and global economy. Great companies might not be the most profitable businesses when times are good, but they perform better than most others when times are bad. It is this distinction of being able to deal with an unpredictable and volatile world, that sets them apart from the rest. Many businesses set out as fair weather companies, only to realise that what they really need is a strong base from which to generate value and profit for the longer term.

The second thing that defines a great business is the validation from *non-customers*. It may seem odd that a business would need validation from anyone other than the customer. But businesses grow and mature. There will come a time when it is not sufficient to turn to the customer and say, "Can you pay me more for my service as I need the capital to expand my business?". Eventually you will need to turn to financiers (like banks and financial institutions) or providers of funds (like venture capitalists, business angels, corporate investors, etc.). Today, you can even source for funds from individuals who are not your customers through Crowd Sourcing channels.

The validation from *non-customers* is through their willingness to take a chance on you and your business by investing in it for the medium to long term. They are willing to give you capital (or other valuable support) in exchange for equity. Putting this into investment lingo, your business is now *bankable*. A bankable business is one that will not only pique the interest of investors and lenders but also compel them to put money and other resources into it.

When I wrote *The Latent Factors* (the first edition of this book) some years ago, my motivation was to find out a simple answer to the question,"How can one pick winners?". Then, I found myself asking another question, "How can I create winners?". During that time, an opportunity was presented to me by one of my investee companies: a water bottling and distribution business. I decided to give the venture a go and see what I could learn from it. It was a Business-to-Consumer (B2C) company that involved a product which, by all definitions, was a homogenous product.

That venture gave me two valuable insights that helped me frame the learnings for the book. The first was that innovation alone does not guarantee success. Whilst it is important to be innovative, a business needs to innovate for a purpose, and that purpose is to meet the needs and expectations of the customer. We innovate at many levels, from being more productive, adapting to our changing environment, to being more competitive vis-a-vis the competition. However, we have to do it with the customers — current and potential — in mind. It is not surprising that today we see a lot of attention being paid to understanding the customer, from traditional survey methods to big data analytics.

The second lesson that I took away from my bottled water venture is that a great business is measured not by a single success but a series of successes in an ever-changing business landscape. Many business owners and entrepreneurs get caught up in the moment, and later find themselves distracted and dropping the ball. This leads to a situation where they have to defend their position rather than seek greater success.

The business ventures that I have been involved in, motivated me to put the critical success factors into *The Latent Factors* to help business owners and would-be entrepreneurs, turn good ideas into great businesses.

I have since continued to engage with businesses and entrepreneurs seeking to grow and achieve greater succeses, and looking for funding and financing to expand. Call it coincidence or synchronicity, it seemed timely for the book to be updated.

In this new edition, I have codified my experience as a business investor. I have been on both sides of the table — seeking investment and providing funds. I know it is important for business owners and entrepreneurs to understand how and why investors invest in a business, and more importantly, to have a plan for being bankable.

HOW TO USE THIS BOOK

The ability of a business to attract investments is a validation of its business model and the people that manage it. Somehow, a book on how to get funded, whilst it would sufficiently address this validation, seems presumptuous from my point of view. For example, we have to assume that whoever is reading the book would have prior knowledge of what the underlying factors for a firm's success would be, from the value we want to create for the customer to the risks the firm faces.

The potential gap in knowledge is addressed in two parts. Part 1 deals with how to use the "SPARK" framework to get from the ideas stage to a bankable business model. Part 2 is about what it means to be bankable and taking the profitable business to the next level.

ABOUT THE CHAPTERS

Each chapter has been written to explain the approach and concepts and how to use the insights and knowledge for an end. For example, use the Value-Needs Matrix to plan and prioritise a product development and marketing strategy.

Chapter 1 focuses on the important issues anyone keen to start a new business should be aware of. It addresses the importance of knowing one's "Starting Point".

Chapter 2 introduces the quintessential concept of understanding the customer, which underpins the approach to finding new opportunities, sizing up your market and creating your business' key advantages.

Chapter 3 is about how one can find new opportunities in a chaotic and competitive market place. It is about looking beyond fads and gut feelings to identify potential new opportunities. Label me an optimist but I see opportunities at every turn rather than doom and gloom.

Chapter 4 is about seeing the market for your product or service from the perspective of the customer. By looking at things differently, you will find that the sky's truly the limit.

Chapter 5 focuses on how to create critical success factors. There are many schools of thought on this, many frameworks and probably just as much advice. The cornerstone of the concept is to create advantages that turn into unique differentiators.

Chapter 6 brings together the previous discussions into the bankable business model. Underlining this model is the competitive advantage that a company has over its competitors.

Chapter 7 focuses on risks. It is about the risks and challenges that can make everything go wrong. No business or venture is without risks and these risks change all the time. A core risk today might not be significant tomorrow and vice versa.

Chapter 8 follows on from Chapter 7 and focuses on how to manage the risks that you have identified. For the most part we cannot eliminate risks, but once identified, we can minimise and ameliorate them.

Chapter 9 emphasises the importance of "market sensing". In today's marketplace, companies face the danger of the competition not attacking you head on, but rather, eating away at your opportunities over time until they have made you irrelevant. Companies go down the path of decline not just by being complacent but by being unable to sense what is changing.

Chapter 10 explains the concept of value creation, how it is created by the firm from the different perspectives of Management, Resource and Competency. Value creation is an important ingredient in a bankable business model.

Chapter 11 explains how to develop a financial model for your business and the importance of the financial model in a business. It is a tool which companies use to determine just how valuable their business is. However, the financial model has other uses; for example, it allows the firm to test its importance under different scenarios, do forward planning, etc.

Chapter 12 is about how to value your business. By understanding how firms are valued, one can work towards increasing the value of the firm and thus attract investors.

Chapter 13 seeks to remind the reader of the importance of keeping the eye on the ball, and more importantly, to look at things in a more granular manner. Spotting red flags or danger signs is easier said than done, but once you know where and what to look out for, managing the risks gets easier.

Chapter 14 is about how to pitch your business to investors and lenders. Different investors and lenders have different expectations from your business and with the knowledge of what they are seeking for their investment, the possibility of getting funded will increase.

Chapter 15 summarises the funding and financing options available to you the business owner or entrepreneur. Knowing what is available will help you plan the funding and financing for your business growth and expansion.

The first nine chapters of this book will help you to develop your ideas into a bankable business. The next six chapters will help you to take that great business to the next level.

One of the best ways to use this book is to refresh yourself on what it takes to develop and run a great business. It is important to remember that having a great business does not mean having a billion-dollar business. A great business is one where you are making consistent and sustainable profits and where you are satisfied with what you have achieved. Always be realistic about what you want out of your business.

Part I

Introduction

The SPARK Model

Your life is the sum result of all the choices you make, both consciously and unconsciously. If you can control the process of choosing, you can take control of all aspects of your life.

Robert F. Bennett, *Politician*

The essence of this book is about turning a good business idea into a great business. The easy part is coming up with a good idea and the difficult part is getting it to be a great business. However, "difficult" does not mean "impossible", and the journey is made so much easier if the route is clearly mapped out. Like most journeys, there is always going to be more than one way to get from point A to point B. This book is about one of them; it is about one that I have taken and it is one that you too can benefit from. Like all journeys, there is a start and an end. To put this journey into context, I have put the ideas into a simple model that I call the SPARK model. Each letter represents an important milestone in the journey from a good idea to a great business. Having a simple model will also help you to remember the important steps to take. After all, turning a good idea into a great business is not going to be a one-off activity. In fact, it is probably going to be a common recurring activity whether you are embarking on your journey to become a business owner or already running your own business.

"S" IS FOR "SITUATION"

This is the first step you must take. It is an important reality check that will ensure that you embark on ideas that are not beyond your capability or resources. Anyone starting a new business or getting into a new venture should ask the following questions and address a number of key issues, for example:

- Why am I starting a new business (or venture)? Am I doing this because my business is going nowhere or on a decline? Am I doing this because I want to be entrepreneurial?

- What are my aims and objectives for this new business or venture? What kind of results or outcomes am I seeking? More profits? New revenue channels?
- What is my risk profile? How much am I willing to risk (and lose) for the returns that I am seeking? What kind of risks am I willing to take?
- What resources do I currently have? How much money do I have to invest? Do I need additional resources? What are my options?

This step addresses basic, but important issues and it is the focus of Chapter 1. Don't look upon it as trivial. By declaring your starting point, you will be in a better position to identify the potential opportunities and evaluate which ones to take on. The basic principle for any investment, given a particular risk profile, is to never commit more than what you can afford. It is important, thus, to hold fast these initial declarations, otherwise, the work done in the later stages of this model will be meaningless.

"P" IS FOR "POTENTIAL"

The next step is to find potential opportunities for you to consider. There are always opportunities even in a chaotic and competitive market place. Chapter 2 shows you how it is done even though at times, it might seem like you are looking for a needle in an area full of haystacks. However, narrowing down to the most promising haystack is already half the battle won. The question is "*how*" and "*where*" to begin. Many will begin with their past experiences, gut feel or fads. Whilst it might be the easiest way to start the process of identifying potential opportunities, it will more often than not lead to failure. Successful businesses provide products and services that meet customer needs and demands. The knowledge of these needs and demands does not reside, unfortunately, in our past experiences, gut feel or fads.

So how does one find opportunities? There is a simple way to look for opportunities without relying on past experiences, gut feel or following fads. You do this by looking at facts that present themselves; which are all around us and there in plain sight for us to see, if we know where to look. For example, you visit one restaurant and find that the standard of service is quite bad. You visit other restaurants and you soon realise that the service is getting worse across many restaurants. You conclude that there is a potential need for training services that would improve the standards of service at restaurants. You do some research and find that there is definitely a shortage of such training services, especially for food and beverage frontline staff. This is an example of facts presenting themselves. This is an example of a gap that needs fulfilling. Gaps often present themselves in current situations when expectations are not met. These situations are dynamic as expectations are always changing.

Opportunities can also present themselves as needs that require fulfilling as a result of trends or expected developments. For example, with the world population expected to reach 9 billion by 2050, what will some of the future needs be by then? For example, how can we possibly house 9 billion people on the planet? How can we feed 9 billion people? How can we educate 9 billion people?

"A" IS FOR "ADVANTAGES"

Having identified potential opportunities, you now need to find a solution that will address the needs and make money. After all, the business of business is business. There are two steps involved in the process of turning potential opportunities into real opportunities. The first step is to understand your market and its potential. Chapter 3 does the job of helping you to visualise your market, in particular your addressable market. The next step is to build "advantages" that will be critical if you are to be able to address your market and get your good business idea to be a great one.

There are essentially three types of advantages that a great business needs to have. These are comparative, absolute and competitive advantages. These three types of advantages are very different and it is only by having all three that a firm will have the greatest chance of being a great business. Comparative advantages typically focus on existing operating factors such as costs and marketing strategies. They can be easily compared with other firms and benchmarked. Absolute advantages on the other hand focus on the primary and secondary needs that your business is fulfilling. The importance here is to fulfill a need that your customers cannot get from your competitors but are currently getting from another market or sector. For example, a café that provides crèche services for its customers during office hours. Normally, parents of young children would put them with the grandparents or day-care centres during the day. Now, they can go to your café in the morning, have their morning cup of coffee and place their child in your care for the day. Coffee and child minding are two different needs that are typically offered by two different markets. By offering the service of another market, the café has created an absolute advantage for itself over others. Competitive advantages focus on the longer term prospects of a business. They usually look at the ability of a firm to sustain its profitability over a period of time. Thus, when one looks at the competitiveness of a firm, one will be focusing on the various revenue channels and the business model of the firm. Creating advantages is the focus of Chapter 4.

"R" IS FOR "RISKS"

Business risks have always been present and are ever increasing. Internal and external business risks do not change. The only thing that has changed is the perception and magnitude of the risk that a company faces. For example, you have a business where fifty percent of your revenues come from one country. You have never had any problems with collections and the country has a good business rating. As it stands, your perception of the risk of default from your customers in this country is low, even though the impact on your profitability can be significant. However, in a matter of months, there is a leadership change and the new management decides to implement legislation that makes it difficult for your customers to do business. Your risk exposure has now increased significantly and suddenly, defaults become a high possibility and the potential impact can plunge your business into a tailspin.

A great business leader is one that understands what can go wrong and how to address those risks. Have you done anything to reduce your risk exposure? What processes have you in place to tackle unexpected events? Each firm is unique when it comes to risk and managing risk. You will find that two firms in the same business and doing exactly the same thing will almost always face and take different risks. The simple reason is that although they might be doing the same type of business, their business objectives and expected returns differ. The two companies have chosen different routes to get to where they want to be, and this will lead to them experiencing different types of risks. Chapters 5 and 6 will provide you with the tools and frameworks to help you identify your business risks and how to reduce the biggest risks facing your new business or new venture.

"K" IS FOR "KEEP THE EYE ON THE BALL"

A key objective of any business is to increase the value of the firm, and to deliver that value, with as little risk as possible. It is so easy to become complacent, enjoy the returns of your great business, only to suddenly realise one day that your great business has now lost its competitiveness and you find yourself scrambling for a solution. The frameworks and concepts in this book should not be used as a one-off tool to find a solution for your business. Rather, they should be used frequently to help you keep your eye on the ever-changing dynamics in the market that you participate in.

PRACTICAL APPLICATION OF THE SPARK MODEL

In order to illustrate the usefulness of the SPARK model in real world situations, I will use, throughout this book, an example of a hypothetical café that is currently at its crossroads. I'm going to give this hypothetical café the name Café YOUnique. You will soon notice the symbolism of the name as you read through the chapters.

Throughout the book we will see how Café YOUnique gets transformed from a "me-too" café into one that has clear business advantages, with a business model that is bankable, that is, not only is it a great business to have but one that will draw interest from investors and even easily receive bank financing. So let me describe a little about Café YOUnique before you start on your journey through the chapters of this book.

Café YOUnique is a small café that has been in operation for about five years. It was started by a couple who wanted to build a business in food and beverage (F&B) retail, that had been a passion of theirs for a while. They had the option of franchising a brand but decided to start something from scratch, which allowed them the freedom to create a café with a difference. The café is located just outside the business district in a middle-to-upper class neighbourhood, and like most cafés, Café YOUnique serves up non-alcoholic beverages and food. The café is particularly proud of their selection of coffees and teas and their customers think so too. Café YOUnique also serves light meals throughout the day and opens from 7:00am till 10:30pm at night.

The cafés' customers are between the ages of 20 and 45 years, and consist mainly of executives and students. Café YOUnique has been operating well, with good business, but profits have *flattened. The recent recession had affected everyone but Café YOUnique was fortunate to have come out of it intact. Just like most businesses, changes were made to manage costs and boost profitability. However, the owners of the café know that Café YOUnique is at its crossroads, where something needs to be done to fuel growth and sustain profitability. Whilst expansion of outlets and even franchising as an overseas strategy are being considered, the key concern is whether the current business model is right for such an expansion strategy.*

I chose this as our working example for several reasons. Firstly, the café segment of the food and beverage sector is one of the most diversified and competitive sectors you can find today. The barriers to entry are low and differentiation takes on many dimensions, from the array of beverages served to the type of customers targeted. Secondly, the food and beverage sector is one that all of us understand and have had many experiences with, and most of us would have an opinion about. Thirdly, there are many case studies done about successful and not-so-successful food and beverage businesses. This provides anyone reading this book with the opportunity to do their own research into this sector and who knows, it might even ignite the entrepreneurial spirit within you.

You are now ready to embark on a journey of discovery; a journey that will guide you towards starting a new business or venture and to do so successfully. So enjoy the book and let the SPARK ignite your good ideas into great businesses.

Chapter 1

Starting Right!

It starts by knowing what you want

Know thy self, know thy enemy.
A thousand battles, a thousand victories.

Sun Tzu*, Strategist*

If you do a Google search of "Top Reasons Why Businesses Fail", you will get more than 4.3 million results. Although I have a fairly good idea of the reasons – having dealt with and facilitated many companies over the years – I thought I would go through some of them to see what others are also saying about this topic. As you would expect, most arrive at similar conclusions. The factors that cause most business to fail can be broadly grouped into five areas; starting up a company for the wrong reasons, the lack of capital, failure to adapt, greed, and finally, poor execution and controls.

FIVE FACTORS THAT CAUSE BUSINESS FAILURE

1. Starting a Company for the Wrong Reasons

You know the old advice that someone gives you "…do something that you have a passion for…" well, there's more to it than just getting a business or venture going and then expecting it to be a success. For starting a business or investing in a venture, I agree with the advice that it is important to do something that you have an interest in. If anything, it will sustain you and you won't end up saying "…I really dislike what I'm doing…I want to get out of this situation…" However, doing something without researching, planning and crunching the financial numbers is a direct route to failure. Even if you are going to start a business or invest in a venture that you really like, make sure that you have a business model that is going to make that venture work. Passion alone does not equate success. Let the passion be the spark but be guided by your mind when it comes to starting a business or investing in a new venture.

2. Lack of Capital

How often do we hear entrepreneurs or companies citing the lack of capital as the reason for failure? And how often do we also hear "There are funds out there, but there is a lack of good projects." Unfortunately, there is truth in both. I don't think there is a lack of good projects for funding, but rather the timing never seems to be "right". The truth about raising funds in any climate is that it is not easy and there are not that many Venture Capitalists (VC) or angel investors willing to invest in companies, especially at the seed stage.

> Passion alone does not equate success. Let the passion be the spark but be guided by your mind when it comes to starting a business or investing in a new venture.

Some years back, a friend and I discussed setting up a fund to invest in companies and we bounced the proposal with several angel investors. We saw the potential and even had targets in sight. The fund management expertise was there but the circumstances never seemed to be right. Before the 2008/09 financial crisis, the returns on equity investments, unit trusts and real-estate were so high that many with cash would rather put their money there than consider funding a start-up company. However, when the economy turned in 2008/09 and many people lost money, everyone became cautious and conservative, choosing to consolidate and hold on to cash (cash is king in a recession) and waiting to pick up "bargains" during the downturn, rather than to invest in companies. A Catch-22 situation – as there never seems to be a good time to invest in start-up companies.

On the other hand, companies too have not done their part in putting up a good show. One reason for the difficulty in getting funding is poor planning and execution. Investors are wary of companies seeking funding that will go towards operational expenses rather than towards expansion and growth. Many have experienced presentations by entrepreneurs spewing fantastic potential returns, over-inflating the addressable market size etc., only to be disappointed when business operations start. There is a need for those seeking funding to be forthright from the beginning about the opportunities and potential for their business. Right from the start, you should carefully work out how much funds you will need for your business or venture and then clearly indicate how you will be using those funds. If necessary, commit to milestones which could be pegged to funds received. Not too long ago, I invested in a start-up company not only for its good business model but because I liked the way they used their seed capital and their plans for the newly injected capital. They had managed to attain profitability, had a healthy capital reserve and at the same time remained debt-free. More often than not, you will find that investors will give consideration to companies that have a business model that will generate good cash flow and a management team that is prudent in the use of their capital.

Investors are wary of companies seeking funding that will go towards operational expenses rather than towards expansion and growth.

3. Failure to Adapt

I find that doing business today is far more difficult than it was during my parents' generation. One of the main differences has been the speed of flow of information. Businesses today have to contend with a market that has become so transparent that barriers to entry have been significantly lowered in almost every sector of the economy. You can come up with a new idea and before you know it, "me-too" ventures pop up and soon, the comparative, absolute and competitive advantages are eroded. This is where firms need to be flexible and adapt, and failure to do so will almost certainly lead to failure. However, it is not easy to adapt and change. How does one adapt to a fast changing landscape when the target is a moving one? The reality is that the target hasn't changed and its movement can be pre-empted. Read Chapter 2.

Businesses today have to contend with a market that has become so transparent that barriers to entry have been significantly lowered in almost every sector of the economy.

4. Greed

There's a reason for the old saying "A fool and his money are soon parted". It is tempting, when you see your business taking off, to want to earn more by expanding it, but you may find yourself over-leveraged, over-expanded and over-exposed. We mentioned that it is important to have a clear business plan and to start a business for the right reasons. It is just as important to stick to that plan. There are reasons why you might have planned to start expanding only in the third year of your business or venture and to do so in a particular way. You did your research, you did your calculations and if you follow that plan, you will reach a return that you will be satisfied with. So don't be greedy. Sticking to the plan will also help you to manage unexpected events better as it usually entails minor adjustments rather than radical strategic changes. More importantly, be clear about what your goal is from the start so that you will not be tempted to go beyond and take risks that could have a significant impact on achieving your ultimate goal.

5. Poor Execution and Controls

This is probably the most obvious reason (and common excuse) for business failure. A business is only as good as the execution. So, if you don't have what it takes to execute your idea, consider bringing on board someone that you know can do the job. It takes a big person to face up to his limitations but the reality is that we all have our strengths and our weaknesses. Making use of individual strengths is what all businesses should do. Many companies also focus on the revenue generation part of a business and do not pay enough attention to the "what can make it all go wrong" part of the business. It is important for any business to understand the external and internal challenges that can derail a business. For example, if you run a business like a café, where cash transactions are high, internal controls on how payment is collected and deposited in the bank are important. Again, if you don't have the administrative skills or you just don't like handling such nitty-gritty stuff then get someone you trust to manage that part of your business. Running a successful business or venture is often a team effort. As they say, there is no "I" in "TEAM".

A business is only as good as the execution.

SETTING OUT TO SUCCEED AND NOT TO FAIL

If you are starting a new business or venture, you are at the most important point of your journey. To help you internalise how important it is to start out right, we will use the Café YOUnique example. We will go through a series of key questions and pin down potential issues from the start.

1. Why are we starting this business or venture?

There are many reasons for starting a new business or getting into a new venture. The important thing is to do it for the right reasons. One approach is to look at the typical business cycle, identify where you are on that curve and give your reasons for it. For example, the typical business cycle (see Figure 1-1) can be divided into six different stages – concept, inception, survival, growth, expansion and maturity. For simplicity, we can group them according to primary business concerns. The primary business concern at the "Concept and Inception" stages is to find a venture that is worth investing in and with the potential to become a successful business. As for the "Survival and Growth" stages, the primary business concern is to find what currently works and what doesn't work in the current business. Companies at this stage, just like our Café YOUnique example, tend to be at the crossroads where their business will need to seek out growth opportunities or face the inevitable stagnation or worse, decline. This stage is usually quite defining for companies and it is not a stage that is reserved for companies that have been in business for a long time. Depending on the industry, it can be a matter of just years before the operating environment changes. The priority for companies in the "Expansion and Maturity" stages is to find new markets for the business. These can be new domestic markets or overseas, for example, expansion via franchising or licensing, or adding a new product line to target a new segment of the market.

Where are you on the curve and what's your reason for starting a new business or venture?

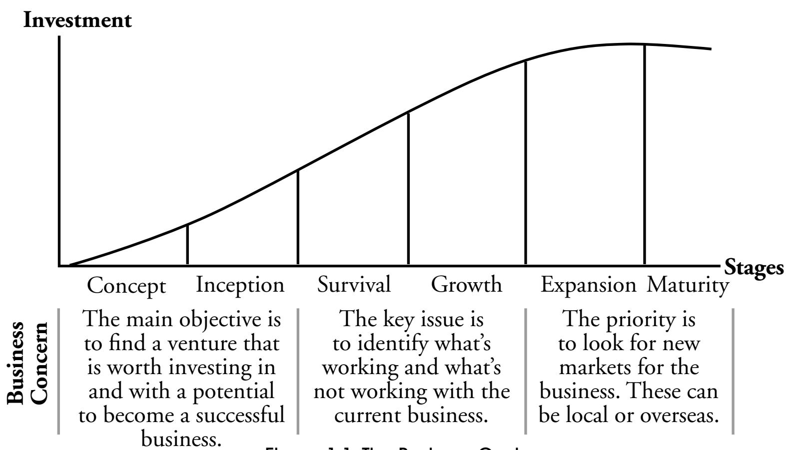


Figure 1-1: The Business Cycle

2. What do we want to get out of it? What is your end objective?

A major issue with many businesses is that they don't have a clear idea of what they want out of it. The "Moving Target" reason does not cut it. Whilst it is true that business is dynamic and there is a need to change and adapt to ever-changing circumstances (you know the old "the only constant is change" saying), our objectives for the business should not change. How we run the business and what we want out of it is fundamental in the business model that we set up in the first place. As such, we can adapt and change the way we do things (processes, etc.), but the fundamental reason for the business and what we want out of it should not change.

I recall talking over lunch, with a friend of mine who makes a living out of trading currencies and the stock market, on the issue of "moving targets". We were talking about the different aspirations of people we knew and how they constantly lament about their situation, not being able to attain their dream home, dream car and other material wants. This friend of mine wasn't born with a silver spoon but he has done extremely well for himself and his success can be attributed to having a plan and executing it, but most importantly, it was about sticking to his goal. The more successful day-traders tend to be highly disciplined individuals. They do not just punt (speculate) the stock market; they do their research, look at the market factors, come up with a trading strategy and a target outcome, and stick with the strategy. They make changes (adapting) where necessary based on market factors, but the trading strategy remains firm.

It is important for businesses to be clear as to what they want to achieve and put in place a plan to achieve those objectives. Milestones are put in place to remind us that along the journey, we need to keep sight of sub-targets that support our business model. And as each milestone is reached, it is a cause for celebration and not regrets. For example, if your business plan and model targets a profit of $1 million in the first year and you achieve it, be glad and not sad that you could have achieved more. Yes you could have, but then you could also have done worse. If the operating circumstances were what you expected, then the achievement of $1 million profit is a success.

3. What resources do I have right now?

Whether you are starting a new business or expanding an existing business, you need to evaluate what resources – capital, assets, people, connections, etc. – you have at your disposal. This is because there will be opportunities that you can take on immediately and others that will need additional resources. For example, you may have identified a good opportunity to open a vegetarian restaurant in your neighbourhood. It so happens that you own a shophouse that can be converted into a restaurant quite easily. You have the capital to get it started and even friends working as journalists who could help get your restaurant reviewed in the newspapers. However, you are missing a big resource — you don't have a cook that can deliver the dishes you have in mind. What do you do? Do you abandon the idea or seek out a partner who can be the chef?

> Milestones are put in place to remind us that along the journey, we need to keep sight of sub-targets that support our business model.

By taking stock of the resources you have on hand, you can make better judgment on questions like:

a. How much funds do I need from investors or banks?
b. What additional skills do I need and how can I get them?
c. What additional assets do I need for this new venture?

There are probably many more questions you can ask once you have assessed your resource position.

4. How much am I willing to risk?

It does not mean just because you have $500,000 to invest, you would invest it all in the business or the new venture. All investment decisions come with a risk. The question should not be "Am I willing to risk it all?" but rather "How much am I willing to risk?" Investing should not be an "all or nothing" situation. Rather, investing is about being clear on the risks and rewards of the investment and deciding how much to invest. The amount that is finally invested will be a reflection of your risk appetite. Any investment made should be with what you can afford to lose. It should not be made with money you do not have or cannot afford to lose.

5. How much time do you give this business or venture to become successful?

Knowing what you want to achieve, knowing the risks and accepting them, is not complete without having a timeframe in which to achieve your investment objective. Is it three years or five years? The period of time you give yourself will obviously depend on what business you are doing, the industry you are entering, the available resources etc,. For example, if you are getting into a business or venture that has a large start-up cost, such as manufacturing, then realistically, the payback

> The question should not be "Am I willing to risk it all?" but rather "How much am I willing to risk?"

would take longer than if you were getting into a trading business where the initial outlay is smaller. The important thing is to set a target timeline to achieve your goal. By doing this, it will allow you to size up the payback of the opportunity, force you to make clear business plans and keep to them. Do be realistic about the time you are giving your business or venture. One way to do a realistic check is to use a financial model to compute the payback period. We'll look at this in the following chapters.

KEY TAKEAWAYS

- Every journey has a starting point. Whether you are starting a business from scratch or looking to jumpstart something new for an existing business, you need to be clear about why you are doing it; what you want to get out of it; what resources you currently have; how much risk you are willing to take; and how much time you give yourself to make your business a success.
- The environment in which you run your business or venture will be constantly changing, but this does not mean that your business model should change. Flexibility in business is about adapting to changes but this does not mean changing the fundamental business model.
- Focus on implementation but be open to bringing in capabilities that will complement your own shortcomings.
- Invest only what you can afford to lose and which you will not lose sleep over.

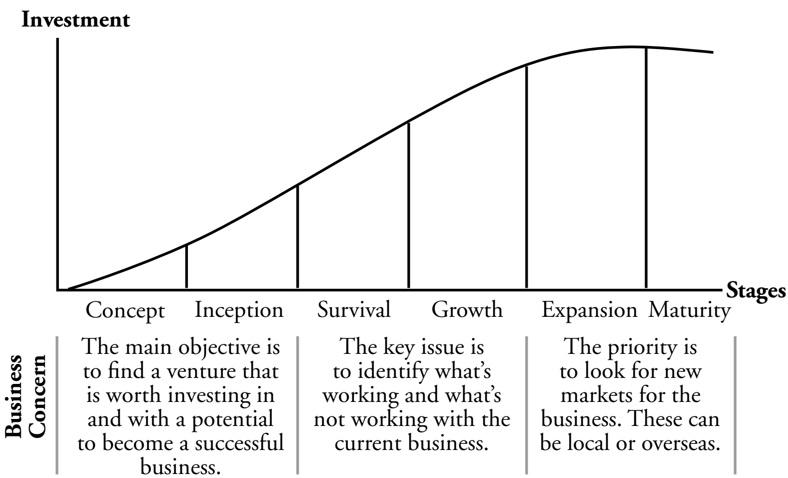
WORKOUT

If you want to ensure that your business will have a better than fair chance of being successful, then get through this workout section and start right. There are five important points to note before you begin the journey:

1. What do I want out of this business or venture?

With each cycle, a firm will be faced with different business concerns, that is, the focus of the firm will be different. For example, when a firm is in its survival and growth phases, the primary concern of the firm will be finding out what's working and what's not working with the current business.

Mark where your business is on the chart below and give your reasons for considering new ideas for your business.



My reasons are:

2. What do I want to get out of this business or venture?

Think not just from the perspective of making large amounts of money or profits but also the social aspects and other things that you want to get out of this business or venture.

I want to get the following out of my business or venture:

3. What resources do I have to start this business or venture?

Approach this from the following perspective — the amount of financial resources you have at your disposal or are confident of getting from investors; the skills that you or those in your project have; the assets that you have for this business or venture, for example, if you are already in a retail business, then your asset would be the property that you have and are currently using.

I have the following resources and skills at my disposal:

Note:

It is easy to say "the sky's the limit", but realistically, most businesses need to work within their available resources. It is also easy to say "…we'll get investors…" or "…we'll borrow from the bank…" Both are not easy options and they often come with obligations and responsibilities. For example, loans will have to be collateralized, venture funds will mean giving up shares and even control of the business.

4. How much am I willing to risk?

The purpose here is to come to an absolute amount that you are willing to lose on this business or venture. Any investment made should be with what you can afford to lose. It should not be made with money you do not have or cannot afford to lose.

Write down how much are you willing to risk:

5. When do I expect to reach my GOAL?

First state when you want to achieve your goal, for example, Year 3. Then give yourself the reasons as to why you have selected Year 3.

Write down when you intend to achieve your goal and the reasons for setting this goal:

Keeping It Real

Avoid getting blindsided

Even if you're on the right track, you'll get run over if you just sit there.

Will Rogers, *Actor & Social Commentator*

At the end of Part 1 of this book, I emphasised the need to be *sensing* and to *keep the eye on the ball*. Complacency, as explained, is not the only reason why firms, seemingly successful one moment, start the downward spiral to failure almost overnight. The inability to sense changes in the operating environment — both internally and externally — can impact a firm's comparative, competitive and absolute advantages very quickly.

Two other factors that can have a significant impact on that great business of yours — *Knowledge Gap* and *Inaction*.

I would like to add two other factors that can have a significant impact on that great business of yours – *Knowledge Gap* and *Inaction*. Knowledge gap and inaction can easily lead to complacency, leading to an irrecoverable slide in the business.

There are obviously many causes for knowledge gap and inaction by firms. However, having been involved in business, the area of business intelligence and organisational leadership for more than a decade, I think it is useful for entrepreneurs and business owners to be mindful of some of the causes and reasons behind these two factors. To help put things into perspective, I will focus the discussion within the scope of *Business Risks*, albeit a narrow focus, but one that I think is pertinent to any growing and successful business.

KNOWLEDGE GAP

Businesses succeed and prosper because of three things – they have clear comparative, competitive and absolute advantages. Over time, these advantages can be eroded and firms need to innovate and even reinvent themselves to progress. A firm can be sensing and action-oriented and still be unable to do something about it. When it comes to risk assessment and response, it is not enough to know where or what the risks are, it is perhaps more important to be able to assess the impact of the risks and have the ability and capability to take reactive and proactive actions.

Take our example of Café YOUnique. It has successfully found a way to get out of a stagnant situation and grow and is now ready to grow even further. During this time, a new food and beverage outlet has set up shop literally next door. However, this is not just any food and beverage outlet, it is a franchise of a major brand. The owner of this new outlet is a public-listed company with significantly more resources than Café YOUnique.

The owners of Café YOUnique are aware of the threat that this new food and beverage outlet brings and its setting up next door was not a secret. Prior to the opening of this new competitor, Café YOUnique was already putting in place a defensive strategy, e.g. building up its loyalty programme, differentiating menu, differentiating services (e.g. the wall of books). Safe to say, Café YOUnique was sensing and not complacent. So what can possibly go wrong?

Let us address a common problem with many SMEs like Café YOUnique, and that is the inability to fully assess the threats of competition. With limited resources, Café YOUnique will focus its resources (manpower, capital, etc.) on what matters most and that is generating profits. Like most SMEs, good business intelligence (about the competitor, market and customer) can be costly and difficult to obtain. However, the owners of Café

YOUnique are aware of the importance of business intelligence and so does as much as possible, with the scarce resources available, to get at this. Thus, for customer intelligence, it makes use of its past transaction data, loyalty programme data and customer feedback, to learn as much about them and how to deliver even more value to them. As for competitor intelligence, it does some secondary research about the new store next door, its owners, and even dines at other similar franchise outlets to understand more about the competitor. For market intelligence, Café YOUnique obtains market and F&B sector reports, speaks to friends, suppliers and business partners to keep abreast of developments. For all intent and purpose, Café YOUnique is doing a lot with regard to obtaining business intelligence to help them understand as much as possible about the market they are in and the potential threats and opportunities.

However, the reality is that with so much information and developments going on, it is almost impossible to be completely in-the-know of what is happening in the market they are operating in. The knowledge gap — essentially the void between what the company knows and new developments taking place — exists within all organisations, both large and small. Unfortunately, the gap tends to be larger for smaller companies and they seem to be perpetually playing catch up. Larger companies, because of their larger resource base and better access to information and knowledge, are able to close the gap faster. For example, by having close association with research institutes, they are able to access new technologies and apply them in their products and services and even set standards for others to follow.

So what does this mean for a small company like Café YOUnique? For all the efforts that they have put in for getting business intelligence, the knowledge gap around the competitor, market and customer, will mean that they are likely to make decisions with outdated and less than perfect information. For example, information about their current customer base is based on past transactions. Whilst most of it will still be relevant, Café YOUnique needs to know more about the future needs and expectations of this customer base. For example, how brand-conscious are our customers? What is the extent of their loyalty? What would they like to see and experience besides what we are already offering? Here's another example and this time it is about the competitor intelligence that they have collected. Besides getting information about the products and service level, what do we know about their cost structure? Are they in a position to poach our staff with better benefits? How will they challenge our incumbent position in the area? At the market level, how do we compare with the likes of the new threat next door or for that matter, the best-in-class in our sector? Can our area support more than one dominant café?

Is there a solution for small companies like Café YOUnique given this scenario? As far as the knowledge gap goes, I am optimistic that there is. From my experience, plugging the knowledge gap will not be solved with more information. Instead, the solution lies not in plugging the gap but by *closing* or *bridging* the gap with better quality information and business intelligence. The simple truth is that there is just too much information out there; too much "noise" to sieve through. If you study the knowledge gap situation between large and small companies, you will realise that the key difference is in the *access* to higher quality information and not about the volume of information. No doubt technology (data mining tools, advanced analytics, etc.) plays a part, but at the heart of it is quality information; and this can be found everywhere.

How can we know if a piece of information is of high quality? Typically, information that is of high quality exhibits three features — *Accuracy*, *Currency* and *Predictive Ability*.

Accuracy can be defined as the condition or quality of being true, correct, or exact; free from error or defect. Information that is accurate can be counted on or expected to represent something without error. Many decisions, financial or non-financial, are based on information that is deemed to be accurate. Any deviation from the truth could result in significant losses. Accuracy is paramount in many industries like finance, healthcare, aviation, shipping, trading, etc.

Currency of information is about being as up-to-date as possible. Different types of information will have different degrees of currency. For example, some statistics obtained from the government could be a year old but the most current for use in analysis. The closer current information is to real time, the better. Thus, a good source of business intelligence is the information from a transactional system like Point-Of-Sale machine. The data, when used together with customer information, can give an insight into buying patterns and tell us something about the character and personality of the consumer.

Information with predictive ability often refers to information that is a leading indicator of some sorts. For example important statistics from the US include the employment rates (released monthly) and unemployment claims (released weekly). Both statistics are closely watched as they give a glimpse of what is to come with regard to the economy. Other useful information that firms track will include the projected performance of market leaders. Market leaders tend to have a significant market share of the segment and their performance usually has an impact on the broader market. For example, if you were a manufacturer of fasteners for disk drives and you command a 30% market share, then it is safe to say that if your projected sales is expected to increase, more disk drives would be produced and that could mean more PCs will be manufactured.

SMEs like Café YOUnique should pause and take a look at the information and business intelligence they have. Take a close look at the source of the information and the quality of the information. Focus on sources that are not only credible but able to provide information and insights that are *accurate*, *current* and have *predictive abilities*. The source can be traditional or new (e.g. social media), internal (e.g. transaction systems) to external (i.e. those outside of the company). The objective is to bridge the gap and not to plug it with ever more information.

INACTION

There are three types of inaction in an organisation that leaders and managers need to address:

1. Not Knowing and thus Not Doing

2. Knowing but consciously Not Doing anything
3. Knowing but unable to Do anything

In a "Not Knowing and thus Not Doing" situation, the probable cause would be the result of a gap in knowledge. We discussed knowledge gap issues earlier and when addressed, this inaction situation could be resolved.

In a "Knowing but consciously Not Doing anything" situation, the inaction typically points to internal challenges. There can be a number of reasons for this, such as turf guarding and pooor superior-subordinate relationships. Such inaction situations can be quite easily resolved, provided the internal problems are identified and dealt with. Depending on the leadership, employee working relationships and working environment, identifying internal issues can be easy or difficult to address.

In a "Knowing but Unable to Do Anything" situation, the inaction could have a long-term negative effect on the business. Assuming that there is willingness to act, then the causes of this inaction boil down to two things — a firm's *ability* and its *capabilities*. A firm's ability to respond to internal and external threats and opportunities has a lot to do with the abilities of the rank and file in the organisation. For example, suppose credible business intelligence is telling the owners of Café YOUnique that there is a high demand for Japanese cuisine in the area, in particular sushi. The owners want to tap this new and growing demand, however, preparing and serving sushi requires specific skills and kitchen. The current chef is good but he is not a sushi chef. Furthermore, the current kitchen cannot cater for an additional cuisine. Expanding the kitchen and hiring the additional skills required to act on the opportunity requires quite a lot of capital. Café YOUnique does not have that kind of capital to invest right now. The owners do have options. One would be to put the cafés bankability to the test and raise fresh capital from investors. The owners can also consider gearing up and borrow against their current assets. A third option would be to bide time and build up its ability (retrain existing staff as sushi chefs) and capability (reinvest more profits into the business and build up a capital base for future expansion). Café YOUnique is in a classic "Knowing but Unable to Do Anything" situation. It knows the opportunity and wants to get into it but does not have the ability and capability to do so.

All inaction situations can lead to complacency, overconfidence and hubris. The quantitative impact might differ from company to company but it does not mask the potential dangers to a great business. Addressing inaction in the organisation, in most if not all situations, will have to involve those at the top. Strong leadership is required to identify and address the inaction issues.

As we work towards turning our good ideas into great businesses and beyond, it is important for everyone in an organisation to adopt an open mindset to knowledge gaps and getting things done.

The time to get real is now. Firms need to embrace a world that will be more complex and data-driven and more importantly, to find ways to close and bridge their knowledge gap with regard to their competitors, the market they operate in and the customers they are serving. Firms also need to focus on sustainability and continuity. They need to look at their ability and capability needs to ensure that their great businesses can be sustained and continue into the future beyond the original founding.

As I end this book, I hope that you would give some thought to the question "Do you know what your market looks like and where you stand in this market?"

I wish you every success in growing your great business.