



# Have an idea? Build an enterprise: Or Not

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**S**o you have a great idea for a killer product; one that will draw customers from all four corners of the world and establish your fortunes for life. All you need do now is get a website and trademark the product with a spiffy name. You're on your way to riches.

Unfortunately you don't have the necessary. You have an idea. You don't yet have a product. You don't have a company. You haven't established a market. You

don't have customers yet. You don't have strategic partners. You don't have distribution channels. You don't have production methods. You haven't even thought about your next product or product variation, and you don't have any money.

**Idea to product is one of the major steps.** Taking something from a tenuous concept to a solid product ready for market demands several things. The creation of a product requires the use of several technologies and the ability to successfully integrate them. Let's look at something seemingly simple: bottled water. The idea behind bottled water is: "Let's provide potable water on demand to individuals." Technologies involved include:

- Water acquisition (pumps, free flow, transport)
- Product quality (Filtering, taste, clarity, storage)
- Container production (Materials, forming methods, shape, color, presentation design)
- Closure (Cap, zip, adhesive)
- Label (Painted or paper, inks, inside or outside the bottle)

**Products have a finite life.** Think of the Wham-o Hula Hoop. Twenty-five million were sold in the first four months and eventually over 100 million were sold in two years. But then the fad died out. But, you say, there are many companies which have only one product and who have been successful for a long time. Not that many: Rocket Chemical Company (WD40); Crocs (Crocs footwear); Zippo Manufacturing Company (lighters); Spanx (women's underwear); Michelin (tires), Select Comfort (pillows and bedwear) are some. (Recently Crocs announced that it was closing all production facilities.)

In the end, if you base your company on a single product, your company's life will mirror your product's life, long or short.

One way to avoid early corporate demise is to develop marketable variations on your single product. In 1903 Henry Ford incorporated the Ford Motor Company and built one product, the Model A. In that year they produced 1,708 Model A's. In 1908 they introduced the Model T. In 1932 they introduced the first low-priced V-8 car, the Model 19. Currently Ford produces 27 brands world-wide under the Ford logo and more under the Mercury and Lincoln logos. Since inception, they have marketed around 150 different models world-wide.

**You must build an organization.** Production on market scale usually demands a number of workers. The idea people I've met tend to be loners and have no experience nor skills in managing people. They also are usually not skilled in forming nor managing strategic relationships. People are the engines of the organization – they are the ones that produce value. Technologies are the tools that people use to produce value. Processes are the recipes that people follow using technologies to produce value. Culture is the glue that holds the whole together and gives it direction. Most think of the organization in terms of an org chart, usually a heirarchal depiction of who is in charge of who. However, that only addresses the organization structure and there are a multitude of possible structures. Wikipaedia lists: pre-bureaucratic structures, bureaucratic structures, post-bureaucratic, functional structure, divisional structure, matrix structure, organizational circle, team, network, virtual, and hierarchy-community phenotype model ([https://en.wikipedia.org/wiki/Organizational\\_structure](https://en.wikipedia.org/wiki/Organizational_structure), August, 2018). Start ups usually begin with a functional structure, those who can do a certain function become that function and their relationship to others depends on the relationships of the functions within the organization. In a small enterprise functions usually are obvious: production, sales and marketing, administration, management, etc.; usually with some unfilled functional positions due to scarcity of resources. In a start up there are usually more functions than people. It is key to select people who are capable of managing critical functions and to keep an eye on the match between people and functional requirements as functions and people evolve.

**Discovering the market.** If you have a new product idea you probably already have some anecdotal description of what the market might be for that product. However, you may not have given much thought to whether that market will be sufficient to sustain your enterprise. Think hard about whether or not you can sell enough units to generate a revenue stream large enough to cover administrative and production costs and to provide adequate return to keep your investors on board.

Cash flow generally coincides with unit sales; sales up, cash flow up assuming efficient collections. The startup period for your company is the most critical for cash flow because, let's face it, you have no reserves. Therefore, your product must take the market immediately. That means you must enter the market with a solid product; no beta testing in the general market for your product. Slip ups during product introduction generally are fatal.

Sometimes you may be lucky enough to create a product from your idea that creates its own market such as Facebook. From its inception as a social site to criticize the physical characteristics of fellow classmates at Harvard run from Mark Zuckerburbg's dorm room in 2003 to its IPO February 1, 2012 Facebook acquired over 800 million users (customers) with hardly any advertising. In 2011 Facebook spent \$393 million on sales and advertising, about 7.7% of its revenue that year. However, don't count on it.

Also, now is the time to start thinking about alternative markets. Does your product have other uses than its primary one? Is there another set of potential customers who might use it differently? Are



Tough,  
yet beautiful.

there other geographies you can reach without seriously straining your existing resources? Are there other sales channels that you can tap?

**Capturing strategic partners.** Almost all businesses require some help from others outside the business; even if it's just suppliers. Those who help are your strategic partners and, properly chosen, they can be worth their weight in gold. Suppliers especially are critical. You may need raw materials. You may need parts. You may need

advisors. You may need technologies. It depends on what is your product (or service). Finding reliable, affordable, and high quality suppliers is of eminent importance. Without them you have no product. You definitely need sales channels, the partners that take orders and deliver your product to customers. Without them you will have no market. Wooing strategic partners is just like wooing customers: you must be able to give them something of value.

A good example is that of Apple and Corning. The original plan for the initial iPhone release called for a plastic cover. However, Jobs was concerned that that would result in scratching and clouding. A former Xerox PARC employee who was on the board of Corning told Jobs about a glass that Corning had originated in the '60's called Gorilla Glass. Jobs contacted Corning's CEO Wendell Weeks who told Jobs that Corning did not have the facilities to manufacture Gorilla Glass in the quantity required by Apple. Jobs insisted and Corning invested in new facilities and the strategic partnership between Apple and Corning began. The result was a success both for Corning and for Apple. All new iPhones had a cover made of Gorilla Glass (1.16 billion sold as of March, 2017). Subsequently Corning has gone on to provide the glass to Samsung Galaxy, Dell Streak, and Droid X manufacturers and many others and in 2017 Apple granted \$200 million to Corning from its Advanced Manufacturing Fund.

**Building Culture and Fitness.** Culture is something your company will have regardless of what you do. It's the way your organization views the world and especially itself. There has been much discussion about whether a particular culture can be created or guided by managers, but most managers and scholars believe that there are things a manager can do to influence this view.

Initially your company culture will be your own culture since, at inception, you are the company. As an amalgam of organization members viewpoints, culture tends to be more or less formulated by the socially strongest members of that organization. As owner and primary manager initially you should have the most effect on your organization's culture given that you initially have the greatest formal authority. As you hire, new employees bring differing viewpoints and differing social influences to your enterprise. Be aware of that. Adverse cultural influences are some of the most deadly factors to a young company.

When hiring, you also must consider the fitness of each candidate. Not only whether each is capable of performing his assigned tasks and tasks to which he might be assigned in the future as the company grows, but whether he will be a beneficial influence helping to form the internal society you want in your company.

Southwest Airlines has long been celebrated for its beneficial culture. In 2013 Ken Makovsky, a contributor to Forbes, interviewed Ginger Hardage, then the airline's chief communications officer. She named three virtues that Southwest looks for in new hires and promotes among existing workers:

- a warrior spirit – “...being fearless in terms of delivering the product.”
- a servant's heart – “Treat others with respect. Follow the Golden Rule. Put other people first.”
- a fun-loving attitude (the way Southwest spells “love”) – “We want people who are proud to be here, people who have a fun and loving attitude and don't take themselves too seriously.”

**Creating Ongoing Innovation and Development.** Remember the fate of the one-product company, above? You must immediately start considering your next set of products and/or product variations. No company has healthy growth without a solid future product pipeline.

This comes under the general heading of R&D. However, that could mean anything from the CEO daydreaming in the shower to a full-blown research laboratory. The key is to think about your products and processes constantly; especially from the viewpoint of your customers. Can we make different products with then same processes? Can we make product variations for new markets? Can we innovate in process to reduce cost, improve output, get better quality, increase value, and/or save time?

In the last few years thinking about the innovation process has evolved from general suggestion gathering to a plethora of formal and organized process. For more on innovation and innovation management see: [https://en.wikipedia.org/wiki/Innovation\\_management](https://en.wikipedia.org/wiki/Innovation_management), the Wikipaedia article on Innovation Management.

**Getting Money.** You will go nowhere without money. Initial budget items might include accounting services, probably web site, legal services, marketing and advertising, personnel, production equipment, material inputs, facilities, and other. Where does this money come from?

1. You already have it and are willing to invest it in this venture (savings, retirement plans, mortgaging personal assets, credit cards).
2. Your friends and family are willing to invest.
3. Crowdfunding
4. One or more banks are willing to lend to you.
5. Angel investors have been seduced by your presentations.
6. Venture capitalists have been seduced.
7. A larger company is convinced you might be able to produce something of value to them.

Except for number one, each of these funding methods means giving up part of your company ownership to the investors. And, since your company value is very small at the start, the amount given up is likely to be substantial.

**So what?** If you have a killer idea you have two choices: do it yourself or rent it to an existing company. Licensing your idea to someone is probably, in most cases, the easiest and most profitable approach to getting your product on the market. An existing company already has all those things we talked about above. If you do it yourself you have to face the long road of enterprise creation. Just be sure that you have secured your ownership of the concept through patents if possible. Also licensing leaves you free to continue inventing and innovating rather than working on creating a company. If you decide on

licensing and have never done it before, get help from someone who knows the ropes and knows how to select a licensee and negotiate a good deal – usually a lawyer who specializes in licensing.

If you decide that you really want your own company then roll up your sleeves and get busy. You still need to patent whatever about your idea is patentable. That doesn't necessarily completely protect your idea from the pirates, but it does impress venture capitalists. I had a client several years ago who had several patents around a great idea. Unfortunately they hooked up with an unscrupulous investor who took their patents to China (known for their disregard of intellectual property law), had the products manufactured and flooded the U.S. market with inferior but look-alike products. The company filed patent enforcement law suits and licensed the product to a well-known U.S. distributor. They were still pursuing product improvements and the legal actions when their major investors pulled out due to low returns and the company ceased operations.

No matter which path you decide: licensing or enterprise-building; get help from good people who know their business, hire workers who are capable and believe in your company, and help them work toward community success. Give credit and celebrate the enterprise's successes.

Good luck and good innovating.