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Commercial creativity: dancing so the cloud rains

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Introduction: it looks like rain

Teramedia (TM) is a company which started life as a cloud. Richard Goodwin, now head of business development at TM was, until this year, Principal Consultant at KPMG. He asked me one day to help out with a business idea which was emerging at the public/private sector interface. ‘The National Land Information Service’, he said ‘is primarily a means of providing government data to the land and property industry.’ The picture he drew to illustrate the concept centred on a cloud, linking users to data providers (see figure 1). My task was to develop a business plan to see whether we could make the cloud into a profitable business, something in which KPMG and Intergraph could invest.

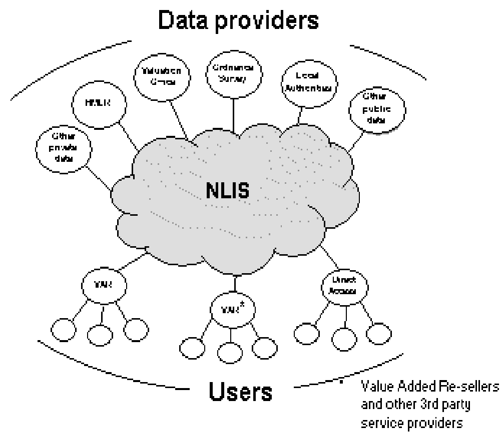


Figure 1
Source: National Land Information Service
Feasibility Study, 1997

How could we make this cloud rain? Obviously we had to begin to construct a business plan: market analysis, likely regulatory framework, potential returns, implementation and risks. The project team was drawn from the internal resources of KPMG and Intergraph, with technical advice from Teranet in Canada. Over the eighteen months, until the award of the NLIS licence in October 2001 we fought to raise funds, maintain high-level sponsorship, build alliances and keep the vision going. We were a disparate bunch of people, with cultures drawn from three companies, but working together towards a common vision.

Three years on, Teramedia has its NLIS licence and we are providing NLIS services to the land and property market. However, what we realised within days of beginning the first business plan was that NLIS was only one component of a much bigger market problem: that of buying and selling homes. NLIS had been a key topic in AGI discussions. As GIS was seen as the delivery method for this information, most bidders for NLIS licences were from the GIS and technology sector. Our mission, however, became to solve the house buyer’s problem, not provide technology.

The company today has its own personality. It is neither KPMG nor Intergraph. Two year’s of building a business, and working through the hard times, builds a new culture specific to the company, its brand values, and the market in which it operates.

This paper is not about Teramedia, it is actually about you. The paper draws on the experiences of the TM team and the peaks and troughs of building our business proposition. If you already own a successful business, created from scratch and profitable, then perhaps you don’t need to read on. But if you are aware of opportunities around you, if you believe in something, and have an ‘itch you need to scratch’, then this paper, hopefully, offers some initial advice to help you get started.

First: Find Your Cloud

Despite the downturn in technology and internet stocks, there are still funds available for good ideas. £8bn was invested by British Venture Capitalists (VCs) in 2000, of which £1.6bn went to high tech companies and £700m to start-ups/early stage firms. Whatever the current market conditions imply, VCs still need to invest and Corporations need to grow.

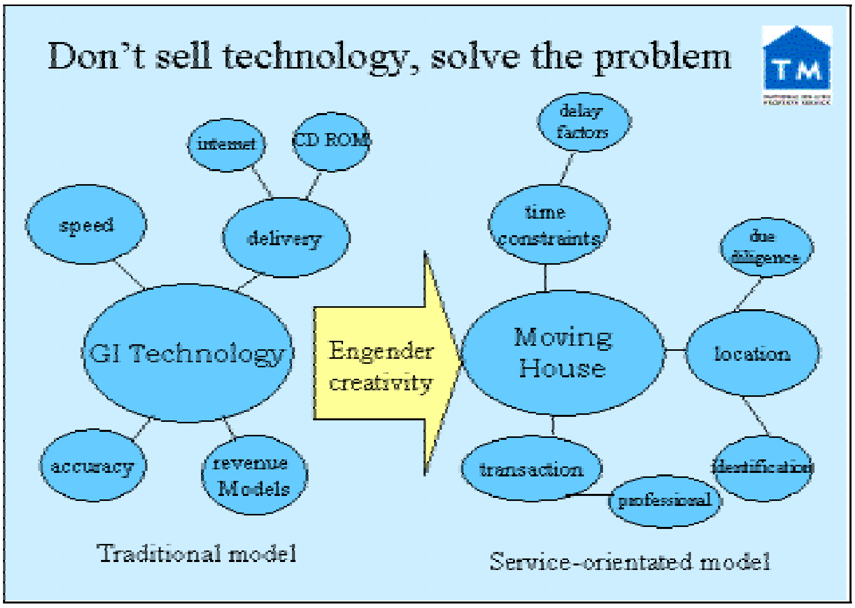
So where do ideas from and what do you do when you have one?

Sometimes ideas are in the public domain waiting for somebody to 'do it'; or it might be something you've been aware of for a time but did not have the confidence to make the leap; or you might copy Jeff Bezos of Amazon.com in brainstorming 20 different ideas until you finally settle on one to go for. Find a problem and then solve it – in TM's case, we knew that moving house is a stressful process (we've all done it), but what could we do about it?

Even if you don't have an idea, you can learn to have them. Composers will tell you that they can only write music if they stay in practice, writing every day. Creativity can be learned - it is not genetic. Genius may be 'natural' but plenty of geniuses die poor. You must practice having business ideas and then ruthlessly test them to see if they could work.

The GIS industry should be full of potential for business ideas. Perhaps a risk to creativity in the industry is a mindset which focuses on the technologies you can provide rather than the services you can bring. GIS is a component technology and a means to an end, not an end in itself.

Figure 2



Consider the two diagrams in figure 2. The first is GI-centric, looking at the technology to see whether opportunities can be found. The second is market-centric, there is a problem; what role does GIS play in solving that problem? Solving common problems or life events is so much more compelling to a wider range of investors than technical solutions.

You have your idea, now learn the dance

Once you have selected your proposition you need to write a business plan. There are many myths about business plans and many entrepreneurs tremble at the thought of writing them. Hours are laboured over the text, diagrams and, of course, the financials.

It is possible to build a business even if you find out that somebody has done it before. For example, the traditional supermarkets were late into the online grocery markets. The great hopeful 'Webvan.com', the first major online grocery store, achieved a valuation of $8.7bn on its first day of trading (November 1999). It 'burned' $1bn in its two years of existence and went bust in July of this year. As a wag at KPMG once said, 'it's the early bird that gets the worm, but the second mouse which eats the cheese'

Take heart. At its simplest, a business plan is only a structured method which makes sure you've asked all the right questions: how will the business make money (rather than how much will it make); do you have the right team; how much will it cost; what are the risks and so on. There are plenty of free templates for business plans available on the internet, but before you do that, ask yourself a few key questions such as those in box 1.

My belief is that the critical factor underpinning the success of a business is the management team. Even the world's best business idea will fail if badly implemented. A good team can react to any external shocks which the market might throw at it. A good team will rebuild and even reinvent the business as often as necessary.

Box 1

Five key questions to test your great idea

- Have you quantified the opportunity? – yes the market is big, but why should anyone buy your idea, what makes your version special, what problem are you solving?
- How do you reach potential customers? – and how do you get them to part with money?
- Who is involved? – do you have access to the right skills and resources? Do you have a management team, and are you the right leader of it?
- What external factors will impact on your success? – are there things outside of your control which impact your business idea (eg regulation)?
- How might the market change? - who might enter the space and what would your response be? Is the proposition still sustainable and at what price?

Learn from Jack Welch at GE:

> 'The biggest advice I give people is you cannot do these jobs alone. You've got to be very comfortable with the brightest human beings alive on your team. And if you do that, you get the world by the tail...Always get the best people. If you haven't got one who's good, you're short changing yourself'[1]

VCs invest in management. You need to build a team of complementary personalities and not merely one with expertise. Where a good business idea exists and the VCs have fears about the management team, they will, at some stage, supplement them or replace them. So build the best team you can. Don't compromise.

The importance of numbers

All business plans have and need financial projections. But what is the point of precise financial projections which go out for five years, for a new product in a new market. How can monthly projections be accurate for 60 months, when you don't even know the detail of what the new product will cost?

Numbers must be used as an indicator, as a means of validating the underlying business engine which will convince investors that the company will succeed. Box 2 provides the four major e-commerce revenue models; the decision on which engine (or combination of engines) to go for will have a major impact on your business plan.

It sounds like a blunt instrument, but once you have your financials, then double the costs, halve the revenues and add a year's delay. The one thing you can be sure of is that your written business plan will not come true.

[1] *Jack Welch and the GE Way*, Robert Slater, MacGraw Hill, New York 1999 p41

Box 2: **Current e-commerce revenue models**

Model	***Pros***	***Cons***
Transaction model (the current favourite)	Low entry costs Pay as You use	Low loyalty Low switching costs
Subscription	User commitment	High sales costs High entry costs
Free to user	High sign on	High dependence on third party loyalty (eg advertising) Business needs to accommodate third party agendas
Metered access	Feels 'free' to use	Hidden costs
'No sale no fee'	Obvious value to user	High risk

William Sahlman is a professor of business administration at Harvard Business School and a serial investor. He said 'In my experience with hundreds of entrepreneurial start-ups, business plans rank no higher than 2 – on a scale from 1 to 10 – as a predictor of a venture's success.'[2]

Sourcing funds and Return on Investment (ROI)

All investing organisations have some benchmark on how to evaluate opportunities. For the past ten years or so, the preferred way of doing this has been through 'discounted cash flow' (DCF) a computation method which takes into account time and risk tolerance as factors in making decisions. The logic behind DCF is that having one pound in your pocket today is better than having a pound in the future; you can do things with the money today, so it is inherently more valuable. Risk is factored in through a hurdle rate, or a level of return which an investor would require to justify tying up funds. Like in every day life, the more risk involved, the higher the expected rate of return.

Here's the rub. Venture Capital firms often apply hurdle rates in excess of 30% in considering your business plan. This means that in order to satisfy them, every pound invested today would need to be worth double in three year's time. If you persuade an investor you are worth £10m, you will need a business plan which shows that you are worth £20m to them in three year's time. If you sold them a 50% stake for £10m, your eventual valuation needs to be £40m minimum for the VCs to be happy.

You can see that this is the attraction of investing early. It doesn't always work. Lastminute.com was valued far too high and early investors have so far lost money. Microsoft was a great investment, if you got in early enough.

Sometimes an easier and safer bet is the corporate investment (sometimes referred to 'corporate venturing'). Corporations may be seeking company-wide growth of 5% per year, and under certain circumstances may be happy with a lower hurdle rate (of, say 15%) reflecting a more relaxed attitude to risk by corporates. Internal corporate venturing also avoids the risk that your ideas will 'leak' to competitors.

Critically for corporate ventures the proposition must do one of three things. It must be of sufficient scale to complement existing products and services, or derisk those products and services, or it must remove a problem (which is often a cue for a Management Buy-Out – an MBO). If the proposition is not based around an MBO, then it must be attractive enough to attract and sustain the support of senior management and board level sponsors.

For the entrepreneur, these two different routes have advantages and disadvantages. If you set up a company from scratch, with your own money and you own 100% of the equity, you should be happy to share the equity with an investor because of the growth opportunities afforded by their funds.

[2] *How to write a great business plan*, William Sahlman, Harvard Business Review, July-August 1997

If you convince your employers that you have a great idea and want them to fund it, don't be surprised if they also take most of the equity in the idea. You might negotiate stock options in the new venture or a large cash bonus. But don't forget, your employers are taking the risk. While you develop the business, you are on their time, their payroll. With corporate support, your house is not at risk if your business idea goes bust.

Selling the business proposition

This paper does not deal with finding VCs and presenting to them.[3] However, if you agree that management are the key to a business success, the investors in the early days are investing in you, as much as your idea. You need to sell the idea to them to raise funds; if you can't do that, how will you sell in the market?

Teramedia's head of marketing, John Glover, marketed the entire TM concept on the basis of one question: 'has anybody ever bought a house'? Everybody can see the need for a better way of buying homes. Never mind the fact the TM is part of the National Land Information Service, a quasi-government licensing regime, serving data over the internet and powered by GIS technology. Never mind the fact that the NLIS part of the business is dependent on the cooperation of over 400 local authorities. The simple issue is that TM wants to make the process 'simpler, safer and faster': people understand this big picture, this end game.

For the GIS industries, explaining your products is a challenge and I would suggest that where you are building a new business, you should enlist the help of somebody not from the industry. Somebody who in fact knows very little about the technologies that you are so excited about. Explain the idea to them, let them explain it back to you and repeat this until the entire concept can be expressed in a user story. Keep your belief in your idea and yourself.

Keep dancing

Building a company is a roller coaster ride. I am still learning and find it a frustrating, infuriating, but utterly fascinating, thrilling and completely rewarding experience. If you have an idea then, for your own sake, do something about it. Work within your company if you do not want to go it alone. Enlist support from peers, juniors and managers. You may not make millions this time, but you will get experience and build your own self-confidence. Next time, you might go it alone.

To help you on your way, find a trusted coach or mentor. Being a CEO in a new venture (or any company) is a lonely position and you can't always go to your investors or team for help and advice. Find somebody who has done it before, has some interest in seeing the business succeed and enlist their support. Reward them with cash or stock if you can.

A final thought. I have always felt uncomfortable with the label of entrepreneur. Surely, entrepreneurs are weird, risk-loving pioneers who live at the cutting edge? Well, no they aren't. To quote Bill Sahlman again, 'One of the great myths about entrepreneurs is that they are risk seekers. All sane people want to avoid risk.'

[3] Read *Zero Gravity*, referred to above