# t2.14 So you have a great idea – now fund it

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This paper looks at some of the issues facing people who want to start their own businesses. Most of these issues are similar for all businesses and are not specific to the Geographical Information Industry. However, as the founder of a business that has come in eight years from being an idea over a drink to being one of the largest exclusively GI businesses operating solely in the United Kingdom, it may be worth sharing some of our experiences with this audience.

I have inter-cut some general conclusions about starting a business with Venture Capital backing with some specifics about Landmark's development. Given Landmark's history, it is perhaps not surprising that quite a few "good ideas" are sent to me for comment each year. I always ask a few very basic questions: *Can the idea be written down on one sheet of A4 Paper, and explained in a couple of paragraphs?* If not, it will be tough when you try to sell it. It is often possible to simplify the explanation through the use of a storyboard or model.

*Could the idea be easily implemented by would-be imitators and competitors?* If it could, you are unlikely to get funding, unless there is some factor that gives you a measurable competitive advantage over your potential rivals? *Do you have all the people you need to make it happen; and do they have relevant experience?* There are many more good ideas in the world than there are people with the skills and resources to put them into practice. A good idea is generally not enough; people have them in the bath and in the bar all the time. *Do you have trusted advisors, who have been involved in a start up company, and know the pitfalls?* If not, find them. It's bad enough trying to start a business, without having to find your way through the treacherous thickets of the funding jungle. More about that later on. *Will the idea still be relevant in 2-3 years time?* Many people have their brilliant idea when it is already too late. It's no good trying to intercept today's market conditions. You have to think about how and where things are going to be in two or three years down the road. This is not easy, as developments in the rest of the world may stall. Landmark's foundation in 1994 was predicated on legislation due to go through Parliament in 1995. The Bill was enacted on schedule, but not implemented until April 2000, creating horrendous problems for Landmark.

Landmark had a great idea, which was to build a GIS incorporating Ordnance Survey's newly completed large-scale digital mapping of mainland Britain, and then to populate it with environmental data from a wide range of sources. We also planned to build a linked database made up of large-scale historical maps dating from 1850. Many people thought it was over-ambitious in every dimension, and weren't sure who would pay us for the information. In fact, we got the idea right, BUT, we lacked technical expertise, thinking we could buy the technology we needed off the shelf. I thought one of my colleagues was the expert in GIS; he thought I was. We were both wrong, and had probably both read the same "bluffer's guide to GIS". You need two kinds of team at the beginning. The one that will impress the venture capitalists, and the one that will actually do the business. They are not necessarily the same. We had parts of each, but we never really recognised the problem. The venture capitalists are uncomfortable with people who are so interested in their idea that they don't sincerely want to be rich. They also want someone on the team with a track record of handling other people's money, and being accountable for it. Our team was not the team we really needed; and it took 18 months to get from an idea to funding. By the end of 1994, we had been working without pay for 9 months and were more desperate to get a deal, any deal, than we were to get the right deal. This led to some stupid decisions, forced on us by a mixture of poverty and pressure from the venture capitalists.

With Hindsight ...

We should have injected the idea into an existing business, and we actually tried to do this, first through a management buy out from the employers of three of the founding group; and secondly by acquiring an existing business. If you can graft a totally new idea onto an existing business, do it. It greatly reduces the risks and therefore your funding problems. Many businesses fail because the problems of setting up all the systems associated with a new business overwhelm the great new idea. We should have been more honest with ourselves about our weaknesses, but by the time the ship is rolling down the slipway, that is a tough call. We should have had a trial gallop with a scaled down idea that we could have funded ourselves; we would then have made some of the mistakes we had to make, rather more cheaply.

All New Businesses Need ... Vision, creativity and energy; a robust business model; strong communication skills; good humour in adversity; financial and legal literacy; An Operations Director; A Commercial Director; A Sales & Marketing Director; and mutual respect for one another. We scored highly on vision, creativity and energy. We had strong communication skills and a fair degree of financial and legal literacy, but we lacked a strong Sales & Marketing Director, or a credible Finance Director; and more importantly, we lacked mutual respect for one another. Among the five directors, we probably had two directors and three managers. What has carried Landmark through and will allow it to double again in size over the next two or three years is a very robust business model, of which more later.

With Hindsight...

We should have spent more time building the team, but by the time we were funded, there was little or no room for manoeuvre; we probably had to do it the way we did, or it would not have happened at all! There are some golden rules, which are worth remembering, even when you are forced to break them.

1. Cash is King ... Never run out of money;
2. Venture Capitalists (VCs) aren't very bright;
3. VCs are interested in money ... not business
4. Read the small print and consider the downside.
5. Always have Plan B (and C) up your sleeve;
6. Under-promise and Over-perform;
7. Keep It Simple Sunshine (KISS principle);
8. Everything takes longer than it should;
9. Progress usually follows a spiral path; and

Most of these are self-explanatory, except perhaps the last. When we were seeking our funding, we saw dozens of potential funders. We wrote and rewrote the business plan a dozen times. We constantly seemed to be making progress, yet the goal was obstinately as far away as ever. The question, which may interest geographers, was why linear progress was not translated into greater proximity to the pot of gold. The answer might have been that like the end of the rainbow, the goal constantly receded, but I concluded that our path was more like a spiral, taking us a long path by tiny increments closer to to our goal. The breakthrough could have come at any time, but we were condemned to wend our way around the spiral. This is why the path becomes so familiar.

Almost every meeting with a venture capitalist followed the same pattern: great initial enthusiasm for the idea and the prospects; followed up by regular, often daily phone calls requesting ever more information; then silence. No one ever telephoned to say, "Sorry, we've decided not to fund you." It was always down to us to track down the executive, who would mumble some fatuous excuse before breaking the bad news. The other piece of homespun wisdom, I carry around with me is Prince Talleyrand's dictum that, 'Nothing is ever as good or as bad as it seems.' You always have another chance with plans B, C & D. Never rely solely on Plan A.

As things turned out, we ran out of money repeatedly, constantly having to go back for more, which never turned out to be enough. In order to persuade the VCs to give us more, we always pretended (to ourselves as much as to the funders) we could make do with less than we really needed. This is a bad policy. What you really need to be able to do is to follow your initial personal investment with more money of your own, begged, borrowed or .... It's the only argument they understand. The VCs were just as bad as everyone says they are. In turns, oleaginous, insincere, bullying and treacherous, probably recruited from all the best public schools.

We were repeatedly saved from disaster, by plans 'B', 'C' & occasionally 'D'. We didn't keep our business simple and paid dearly; Everything took longer than we expected.

### With Hindsight ...

Once the wheels are rolling, your choices can be severely constrained; we didn't do badly and if the VCs had been less vile, we would have done a lot better; we should have strengthened the team sooner than we did, once the most serious weaknesses were apparent; and we should have had our own corporate finance advisor from the start. We believed 3i's marketing and thought the VCs were on our side.

If I do it all over again, I will think big, and start small... with a growing revenue stream as soon as possible, no matter how small. One prototype is worth a thousand Power Point slides, no matter how crude and unscaleable it is. The people you will meet when trekking around the funders are not that bright.

If what you want to do is new, they won't immediately get it. I pinned a Gary Larson cartoon above my desk, showing two giant polar bears, towering over an up-ended igloo, with tiny Inuit fleeking in all directions. One bear says to the other: "I lift, you grab, is that too hard for you Carl?"

Get as far as you can with your own money. The more you can show before you are funded, the better the deal you will get out of the VCs. At this stage you are accountable only to yourself and your colleagues. All the trouble starts when you are spending other people's money. Start-ups are very tough; you will face some tough and unpalatable decisions, like parting with some members of the initial team.

It is hard to remember this, but the VCs generally understand nothing about your business and care less. They understand numbers. If you make the numbers in the business plan, you are a good guy, if not, not. It will generally be a less career threatening decision to close you down and write off the investment than to risk more money and be accused of throwing good money after bad. So you either have to get your hands on far more money than you think you need at the outset, and then husband it, or fund the project in overlapping stages, demonstrating 'success' every step of the way.

Look after your gross margins. This is very hard to remember at the outset. The argument goes like this. If we drop our prices in order to undercut our competition, make it a no-brainer to buy our product, we will win market share and increase our prices later on. Forget it, in the GI business, prices are on a steady downward curve. You will never get those margins back once you have lost them. If you cannot win the business and make a profit, don't chase it. You will be working your tail off, for less than nothing. You've heard me say this, but you probably will go and do it anyway.

The hardest lesson we were taught came from our first customer, Barclay's Bank, who told us that they wanted a report on every commercial property loan that they undertook in the UK, but the report they wanted was just a bit different from the one we were offering. However, there was the chance of 8,000 reports a year. That could have been worth, say, £2 million a year at a time when we were struggling to turn over £1 million. As the months went on, the number of modifications required increased, while the potential reward was shrinking.

In the end it became clear that we were providing free prototypes and that the people we were dealing with had no powers to impose a mandatory environmental search on all their commercial loan officers. Anything that might get in the way of lending money in a borrowers' market was a non-starter. I was told subsequently that Barclay's were notorious for exploiting the vulnerability of young companies, effectively getting consultancy and prototyping on the promise of a bonanza. Our rule now is that if someone wants something special, they pay set-up charges, up front. That gauges the level of interest and seriousness. It determines that there is line in the budget for that kind of work, as if there isn't you are almost certainly working for nothing. Barclay's are not alone in behaving in this way, so beware.

We did look after our gross margins (the difference between the selling price and the marginal cost of making that sale, leaving out all overheads, it is the net contribution of that sale to the cost of running the business) and still do. We also had to take some very tough decisions. We didn't always take them well or voluntarily; and only two of the six original directors stayed the course. The biggest problem faced by venture capital funded businesses is that they are ruled by a business plan, which may be invalidated in a series of different ways that are outside the control of either the managers or the investors. Once that has happened, the majority of venture capitalists do one of two things, both of which are potentially disastrous: hope for the best; or panic. In the latter event, they are generally more interested in finding someone to blame (generally the management) than in finding sensible ways of overcoming the problem. The search is on for ways of scaling down the business and reducing the risk.

With Hindsight ...

Given all the circumstances, we probably had to do it the way we did, or it would not have happened at all; and I'm still here to tell the tale. I'll do it differently next time. And that's a promise. A famous management theorist called Peter Drucker invented a question, which he asked all the time: What Business Are You In? Most business people *think* they know the answer; generally, Peter Ducker was able to show them they were wrong, and that if they considered the answer more carefully, they would either be able to run their businesses more effectively and profitably, or make changes that would have that effect.

Are you selling product, process, time, bodies, information, advice, know-how, vision, ideas, status, training, qualifications or ...? In a young business, you need to keep asking this question over and over again. Find other businesses to compare yours with. Read books from other countries, especially Australia and the United States, describing the experiences of others in similar businesses. There's no Copyright in other people's good ideas or their mistakes. You can learn from both and its cheaper to learn from other people's mistakes than from your own.

Landmark has been very strong on this count and our success is rooted in our willingness to constantly review our position in the market. When I say that Landmark is essentially a publishing business, I often get funny looks. We don't produce books, magazines, journals, newsletters or any of the other things that people associate with the word publishing. We publish on demand, a unique report associated with a particular property, and it is generated automatically and doesn't contain any opinion (if it did, I would say we were a specialised consultancy). We are not engineers or environmental experts; we know about information; the information publishing business has been around for over 500 years and it still looks like a good business to be in.

It surprises me at one level that the publishing model has not been applied more generally or widely to the GI business. I think this is because the atlas and map publishers simply saw new technology as enabling them to go on doing what they had always done, but more efficiently, as a production tool. While the people who developed new businesses to exploit GIS were essentially technologists, who knew nothing about the publishing business. I think it is significant and encouraging that we now have Ordnance Survey run by someone who is both a very successful publisher and who understands the potential of modern information systems to transform the way people use and receive GI.

With Hindsight ...

This is the one area in which I believe we got things absolutely right, and that allows us to view the future with considerable confidence. I read our original business plan, seven years on and it still stands up as a description of what we set out to do and what we have done. This is a useful exercise. Read your original business plan every year as you do your budget for the coming year, and ask yourself how you would change it if you had the opportunity to travel back in time and rewrite it. It was harder than we thought it would be, but the opportunity was as we described it, and Landmark as it stands today still fits the original mission statement:

*"Landmark Information Group is in the business of the provision of information services based on our Database of property-related and environmental data. Our mission is to enable more effective risk*

*management and better-informed decision making in the property industry. The Database will be built by linking historical maps and textual data to a large-scale digital map of the United Kingdom. Our customers will include environmental and geotechnical consultants, lawyers, banks, property companies, surveyors and multi-site industrial and utility companies."*

When Landmark's founders trudged the streets of London looking for investors in 1994, start-up companies with VC backing were a rarity. Less than 5% of 3i's funds were committed to start-ups. Most VC's were looking for Management Buy Outs and Management Buy Ins. Then came the dotcom boom. There was a golden window from mid-1999 to the beginning of 2000, when if you knew what you were doing, you could fund almost any silly idea, and many silly ideas were unleashed on the world. The chill set in April 2000 and it has been getting colder ever since. To mix my metaphors, there are many, many burnt fingers out there.

The great book about the dotcom boom and bust has yet to be written, but if you want the prequel, an earlier running of essentially the same movie, in the United States, read 'Burn Rate' by Michael Wolff. When are done with that, pick yourself up. Businesses are still being started. Recesssions are a good time to start businesses; people, space, resources and money are all cheap. The fact that no one is buying anything doesn't matter; you haven't yet got anything to sell. Perhaps you can save your customers' money; that's easy to sell in a recession.

Research all possible sources of finance thoroughly. The breakthrough for Landmark was a £750,000 line of credit from IBM. The downside was that we had to use their computers, but the money could be (and was) used for developing the applications we planned to run on their computers. It's not much good asking companies like Reed Elsevier, Pearson, DMGT or Experian to fund start ups; they don't have to! They are extremely bad at incubating new businesses internally; they buy businesses once the concept is proven and the founders are looking for a way out.

Don't go to VCs for less than £10 million. This was a big mistake by Landmark. The due diligence required for a £2mn funding are as onerous as those required for a £10mn, but the fees aren't as big. There isn't enough booty to get their attention. I won't make that mistake again. We should have looked for seed corn finance privately; with the intention of taking the proposition to the VC later, once the concept was proved, when we could have argued convincingly for a £10 million investment.

There an iron rule (to go with the golden rules) that say that if you want equity, you have to take a risk yourself. All investors want to see your had in the fire along with theirs. They want you to face the risk of losing your house or your money and if it's money it has to be enough to hurt.

Don't put your money into a business unless you have a good prospect of getting it out again. All good investors ask: what's the exit strategy? This is why you need to be careful before locking yourself in as a minority investor to any enterprise. The majority are under no obligation to buy you out at any price, unless there is a contract that says they must. If any funding offer is too good to be true, it almost certainly is too good to be true. There are some terrible stories that are almost unbelievable, but true.

Landmark set off in1994, funded out of our own pockets; 3i, GLE Development Capital and IBM invested in March 1995, alongside the founding management group. In 1996, Eagle Star invested in the company, seemingly on a whim. We raised more money from the original VCs (3i and GLE) who were joined by a third, Robert Stevens Holdings.

In early1997 3i lost confidence in Landmark and its management team, and effectively tried to close us down; at the last moment, Eagle Star offered to buy out all the shareholders. This deal collapsed, again at the last moment, when Zurich bought Eagle Star. After several more adventures, Landmark was acquired by Daily Mail & General Trust in Septmber 1998.

### With Hindsight ...

Starting a new company and cashing in your chips at a profit is tougher than winning the lottery. Contrary to reports in the popular press, with the singular exception of the dotcom zillionaires, now an endangered species, it isn't that easy. There's no substitute for experience; you can't get it out of a book. There are good VCs, but they are hard to find. We had three, one absolutely brilliant, and two who were the pits. I would do it all over again ... differently.

Let’s assume you get the money. What happens next? Develop a corporate culture that is as lean and mean for the chiefs as well as the Indians: no company cars; no pension plans; no private offices; no unbreakable service contracts; and no business class travel. Wherever you can, link reward to performance, especially delivery on time. You will find many unbreakable dependencies: X cannot be done until Y is done. Project management becomes a large part of your life.  Don’t spend money if you don’t have to.

You really need strategy as well as tactics; be clear about what you are trying to achieve. When you aren’t sure, read your business plan again, and ask yourself the question: What business are you in?   Don’t do anything that doesn’t fit the strategy. Spending money on a marketing agency isn’t a substitute for talking to customers  (Read: The Cluetrain Manifesto).  Build Strategic alliances that have a material basis rather than a feel-good basis. The latter are the easy part.

Landmark scored pretty well on here; none of us came from a cushy big company culture and I had started two previous companies. But that didn’t stop us running out of money; We needed to find a way of shedding a failing member of the founding team without him or her bringing down the roof; the founding directors had 12-month notice periods built into their service contracts on the order of 3i.

So having a great idea and founding a company is not the easiest way of making a living; but you get a taste for it and at the ripe old age of 61, I am all set to do it again.  It’s much easier to criticise other peoples efforts than to build your own business; and if you never have a shot at being your own boss,  you’ll never know what might have been. There are always many, many opportunities, stilll awaiting the next generation of entrepreneurs. There are so many things waiting do be done in GI that I can hardly stop myself.  Once you do succeed, people will still say:  “Well, it was easy for him; anyone could have done that.” And it is galling. When it is said about Landmark, I seethe with rage.