

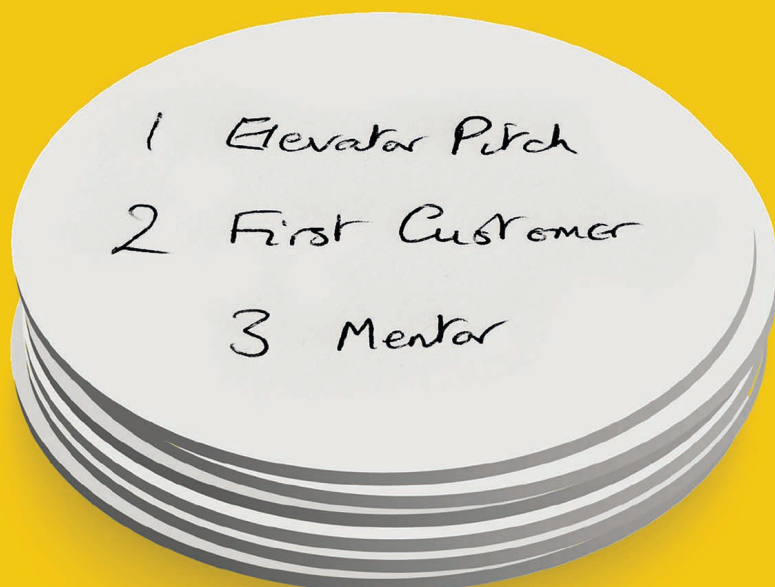
*'This book changed my life and helped me
found an international business that eventually sold
for many millions of pounds. If only I'd found it sooner!'*

JUSTIN GAYNER, FOUNDER, CHANNELFLIP

**BEST
SELLER**

THE BEERMAT ENTREPRENEUR

THIRD EDITION



**TURN YOUR GOOD IDEA
INTO A GREAT BUSINESS**

MIKE SOUTHON & CHRIS WEST

Praise for the previous editions



Mike and Chris understand with unusual clarity what drives a start-up.

SIR TIM SMIT, FOUNDER, THE EDEN PROJECT



Refreshing and very readable.

RICHARD DONKIN, FT



This book, for me, says it all. It should become standard reading for all employees, managers and founders of start-up businesses.

PROFESSOR SIR CHRISTOPHER EVANS, OBE, FOUNDER, CHIROSCIENCE AND MERLIN BIOSCIENCES



If I were to advise an aspiring company founder in any part of the world to read just one book, this would be it.

ROBERT I. SUTTON, PROFESSOR OF MANAGEMENT SCIENCE AT STANFORD ENGINEERING SCHOOL AND AUTHOR OF WEIRD IDEAS THAT WORK



I recommend this book to any aspiring entrepreneur.

SIR CHARLES DUNSTONE CVO, FOUNDER, CARPHONE WAREHOUSE



There was a lot of excellent advice and many useful tools which I'll be trying. I will also recommend it to our University commercialization

The flaky foil

I've found this a lot in mentoring. People come to me, talk a bit about some minor business issues, then confide that their real problem is that they have started up the enterprise with someone but that someone is no longer pulling their weight. What should they do?

The answer is 'act quickly'. It's time for ways to part. This can be very difficult if the foil is someone close to you, which many of the best foils are. But all the more important to get things sorted. Sit them down, buy them a drink and tell them that it's not working. Have examples to hand of things that have gone wrong.

If the flaky foil comes up with a really convincing story, and an even more convincing story of how they understand the problem and are going to remedy it, and a deadline by which they will do this, then it might be worth giving them another chance. But no more excuses!

Acting quickly, especially on signs of trouble, is a key entrepreneurial skill. Most of us initially react to trouble by hoping that we can somehow work our way round it. Successful entrepreneurs grab any dangerous-looking bulls by the horns as quickly as possible.

Friendship can suffer as a result of such a separation. Accept this. The new enmity may not last. The foil goes away, realises that they weren't pulling their weight, and reconnects.

If you split up with your flaky foil then try a new one and the same problems occur, then maybe it *is* the idea that's at fault. Talk to people.

However, most entrepreneurs I know will be unwilling to ditch their idea and will keep looking and looking for the right people to help them realise it. I think they are wise to do so, though not forever. Knowing when to finally abandon a cherished business idea is more a matter of intuition than any science. Makers in particular can cling on too long.

Chris knew a musician who worked on a synthesiser for years. He kept being leapfrogged by big corporations and never made any money from it. They have now lost touch: the guy may still be in his garden shed right now, just adding one more feature. Often with entrepreneurs the

decision to quit gets made for them, when the money runs out or a better idea comes along.

However, I shall stay positive. Your first foil wasn't up to the job, but the new one is doing a great job. The business is moving ahead.

Making it official

For legal and tax reasons, but also because it shows seriousness of intent, you should consider becoming a private limited company (technically, a private company limited by shares) once you start having customers. Your business will then be called 'its name Limited' and can have 50 shareholders. You can remain a private limited company for ever, which can be an attractive course of action – see the comments about stock exchange listing in Chapter 4: The mighty oak.

The easiest way is to do your company registration yourself via the internet. If you prefer doing things person to person, ask a solicitor if they have a fixed price service whereby they will register you. You need to have a solicitor anyway – not because you are bound to meet legal obstacles but in case you do – so this is one way of testing one out.

Put some money into the business to cover basic start-up costs. It doesn't have to be much. More on funding later.

Take a little time to ponder your company name. It should be memorable. It should be appropriate to your customer group and should tell people what you do. Ideally, it should be available as a domain name (.com and .co.uk), though if it isn't, this isn't the end of the world. We've been very happy with beermat.biz. If you really can't think of a name, have an informal chat with someone in advertising, as these people often have a knack for thinking up snappy names. Or was there someone at school who always came up with catchy and probably not very flattering nicknames for people?

When you register a company, you become a company director. This means you are taking on certain legal responsibilities. I recommend a brief chat with your solicitor. Don't be scared off by this stuff, but be aware of it.

Who owns what?

In the original *The Beermat Entrepreneur* I said that the entrepreneur and the four cornerstones should split the equity five ways. I now realise this was idealistic. It's what we did at The Instruction Set and it worked. But in the 16 years since the book appeared, I've hardly met anyone else who has done the same.

Instead, I suggest that the founding team agree initially to split the equity between them as a temporary measure, but at a later date – set one, say in six months' time – they will sit down and have an *equity meeting*, a very grown-up discussion about how the equity should be more permanently split.

Remember that you don't have to hand out all the shares when you start. Your company can have 1,000 'authorised' shares, but if only three of those shares are apportioned, one to each member of the founding team, then each team member owns one third of the company.

As the business develops, it can happen that the founding team all put as much effort in, and all turn out to be as skilled as each other. Keep that three-way split.

More likely, however, is that some will find themselves putting more in than others. This isn't usually out of laziness, just priorities. Some people might have academic projects, family commitments, day jobs that they realise they rather like after all. The list of possible distractions is endless. And some founders may find they simply don't have what it takes. Maybe also the company needed cash at one point and one of the team had some spare and invested it.

All these factors need to be considered at the equity meeting. Here, the team must talk frankly about how much of the 'pie' they deserve and how much they think everyone else deserves.

Ideally, this meeting would be presided over by your mentor (much more on this essential person later in this chapter), who would have the final say in case of any disagreement.

This sounds like I'm being idealistic again, but actually many founding teams come to sensible decisions on this basis without acrimony, especially if they understand *from the start* that this is what is going to

happen. People don't like to be offered a 33% stake in a company, then suddenly be told a few months later, out of the blue, that the rest of the team now considers that they are only worth 5%. But if they know from the start that the offer is provisional and that the stake will be discussed later, they are usually grown-up about the whole thing.

If they *don't* see sense . . . I'll talk about that in the next chapter.

Having established these stakes, *do all you can not to dilute them further*. Tony Waller, of global law firm CMS, observes: 'It's very easy, in the early days of a business, to treat equity like sweeties, and hand it out all over the place in return for very little value.' One of Tony's main jobs when taking on new clients (he works with high-tech start-ups) can be unscrambling the mess that has resulted from having doled out equity unthinkingly.

However, it can be very tempting to do this when you are short of cash. It often happens when the business suddenly needs something, and one of the cornerstones has a friend whom they reckon can provide it. I once did some work with a business that gave a 10% stake to someone who let them use their premises as an office. Usually these introductions turn out not to be as good as promised, and they soon disappear from view – with a chunk of your business in their pocket.

Tony advises that if you feel tempted to hand out equity this way, imagine yourself a few years down the line with a million pounds on the table. Will you really be happy giving away a hundred thousand pounds to this person?

In practice, most start-up shareholdings will end up with *some* dilution. When your part-time FD becomes full-time, they will need a decent-size stake. You may take on other cornerstones too, and proper cornerstones need a stake in the business. Once you start taking on more junior staff, they will need a (smaller) stake as well. More on stock options later. And you may have to trade equity for cash to finance expansion (though I am a huge fan of not doing this).

The Beermat sales funnel

After a while, you will probably work your way through the 'low-hanging fruit' of sales to personal contacts and have to start cold contacting. Some businesses are lucky enough not to have this problem. By the time

they have sold to all their personal contacts, they have struck such a sweet spot that the network effect takes over. Word spreads around and they have potential customers, people they have never heard of, knocking on their door – thus proving that Kevin Costner’s inner voice in *Field of Dreams* was right after all.

Most businesses don’t experience this, however, and have to set up a formal sales system. Welcome to the Beermat sales funnel. This has ten levels, which may sound overcomplicated, but isn’t. We don’t do over-complicated in Beermat.

I use the image of the funnel because that is what it looks like: one of those things you use to put petrol in a small engine. It’s wide at the top, narrowing down to a relatively small middle, then reasonably straight-edged for the last bit. People also talk about sales pipelines, but that’s not a good metaphor, as one end of a pipeline is usually as large as the other. This is sadly not the case for sales, where you begin with a mouth-wateringly large list of prospects and end up with a few paying customers.

Once a business is doing well, it has prospects at each level in the funnel. Some have just handed the sales cornerstone a card at a networking meeting, while others are happy customers, just about to transfer the money to the enterprise’s bank account. Everyone else is in between.

Level one

This is simply a list of prospects. By the time this book comes out, the laws on data storage and use (GDPR) will have radically changed, and at the time of writing there is uncertainty as to what will finally emerge as standard practice. So any advice given here has to be taken as provisional. It seems that the old sales technique of buying lists of prospect details will be either illegal, or, if the list is pre-screened in some way to make it compliant with the new regulations, will be costly. As an alternative, *if you are selling to business customers*, build your own list from directories, searching online, driving round local industrial estates – whatever it takes.

The new laws are particularly strict on gathering data about, and sending ‘cold’ emails to, private individuals, sole traders and partnerships.

It looks as if the 'magic email' route may be effectively closed for anyone selling to consumers or sole-trader businesses. Nothing is certain, however. The main target for GDPR is not small business but spammers and large organisations that 'farm' and sell personal data.

Level two

This is a *qualified* list, the level one list 'with brainwork applied'. The list will have been researched and broken down into relevant categories. Exactly what categories varies from situation to situation. Ideally, it's broken down by some sense of how likely they are to buy. Are they exactly in your target market? Are they local? Are they the size of business you imagined yourself serving?

Then learn about these individual prospects. Visit their websites.

The salesperson should call up and chat to whoever answers the phone in order to find out who is responsible for x (where x is the area with the pain that you are solving) and their email address. A magnet may well get a conversation going that yields more info about the business.

I used to advise that you keep thorough records of all you learn about prospects from this research. This is still an ideal to be striven for, and we shall have to wait and see exactly what the new rules allow in practice. My guess is that if you can demonstrate what the rules call a 'legitimate interest' in holding the information for a reasonable period of time, such record-keeping will be fine. But this is only a guess. Things should have become clearer by the time you have this book in your hands.

Everyone in the team should be networking. There should be a regular sales meet-up where everyone says if they have met any potential clients, or anyone from potential client organisations, and how they got on. If the answer is 'well', put these on the funnel at level two.

Go to trade shows as a simple attendee – you can take a small stand later, when you can afford it. You probably won't sell, but you can make contacts and learn. The people manning stands will vary, from the standoffish and rude to the bored-and-delighted-to-chat. Get the latter talking about their customers' needs. Maybe you could help them fulfil these needs.