

Utah Business Magazine

Secrets of Survival
Building a Business that Lasts
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Business success is never guaranteed, no matter how better your mousetrap is. There is no magic formula to ensure your startup will be around ten years from now, never mind a year or even one month. But you wouldn't be an entrepreneur if you didn't give it your best shot.

To point you in the right direction we've uncovered, with help from some successful Utah businesses, a handful of tried-and-true tools that, when used properly, give any good business idea a fighting chance to not only survive but thrive. Lasting dynasties often have small beginnings, but are not built by accident. They are the result of a series of sound decisions guided by long-range perspective. Utah companies such as OC Tanner, Zions Bank, Sinclair Oil and Flying J have stood the test of time, building a brand, relevance and performance that have spanned successive generations.

Creating such a company is not a linear, static process. Rather, it is an ongoing, interactive, synchronous evolution in a dynamic marketplace. Enduring companies are established on a foundation of inter-related components: idea; leadership; business model; structure; supporting infrastructure; and leverage.

In this feature, Utah Business examines the elements of a successful business, illustrated by the experiences of three Utah companies: IMCentric, Tahitian Noni International and Wing Enterprises.

Utah's Entrepreneurial Environment

Utah has a rich tradition of entrepreneurial innovation, and remains a national leader for entrepreneurship. In October 2003, Inc. magazine ranked Utah the top state and Provo the top city in the nation for entrepreneurial activity, based on the number of Inc. 500 Fastest-Growing Companies per capita. Entrepreneur magazine ranked Provo third among the nation's mid-size cities and Salt Lake City/Ogden fifth among metropolitan areas for the best cities in which to be an entrepreneur in 2003. The National Association of Women Business Owners has ranked Salt Lake/Ogden the leading metropolitan area in the growth of privately held women-owned businesses for the past two years.

Yet Utah is also a leader in several less desirable characteristics: it tops the nation in personal bankruptcy, and ranks near the bottom for business survival rates. Many companies in the state are set up in a manner analogous to the tape-recorded message at

the beginning of the old Mission Impossible episodes: “This company will self-destruct in one year. Good luck, Entrepreneur.”

“The reason we have such a high business failure and personal bankruptcy rate in Utah is that people fail to plan and capitalize properly,” says Steve Price, assistant district director for economic development at the U.S. Small Business Administration’s Utah offices.

Of the Utah companies not falling prey to business failure or bankruptcy, many sell themselves prematurely, or at a fraction of their value—either due to lack of capital or because the founders and shareholders don’t recognize the company’s true value or potential.

How do Utah companies reverse these undesirable trends, while maintaining their entrepreneurial focus and vitality? “We have a great entrepreneurial culture here,” says Price. “We just need the business awareness to catch up with the enthusiasm and ideas before people mortgage their homes and put their life savings on the line for business ideas that aren’t fully baked or capitalized.”

Price emphasizes that entrepreneurs need to have a clear understanding of the market they plan to serve, their value proposition to that market, and at least a two-year detailed financial and operational plan.

Three Questions

There are three fundamental questions any startup needs to answer in the affirmative to have a chance at lasting success:

Is it a business? In other words, do you have products or services for which enough people will pay you enough money in order for you to achieve a net profit? If not, your idea may be a diverting hobby or a worthy charity, but it’s not a business.

Can you keep it? If you do in fact have a profitable business, can you sustain a competitive advantage? Do you have the legal protections, operational efficiency, competency and uniqueness to prevent others from stealing, duplicating or replacing your products or services in the marketplace? If so, you have the potential to be a viable concern. Otherwise, your company will likely be a one-hit wonder.

Can you do it? Do you have the people and pieces in place to effectively execute your plan? Do you have the combination of flexibility and consistency to adapt to changing market opportunities and threats, while maintaining the discipline to recognize and exploit your core value proposition?

As long as a company can honestly answer “yes” to all of these questions, it has an outstanding chance for a long, productive life.

1. Idea

A successful startup begins with a compelling idea—a business proposition with strong potential for success. Big companies are built on big ideas.

In order for an idea to resonate in the marketplace, it must satisfy a great need or want, solve a significant problem or create a compelling opportunity for a large or affluent customer base. Generally, the most successful products alleviate physical or psychic pain, or increase customers’ pleasure.

“You need to clearly understand the market you’re going after, and what they want,” says Price. “Then there needs to be a clear understanding of how you will provide what they want in a way that will separate people from their money.”

The idea is never truly fully baked; it is always a work in progress. Yet however it develops, the idea must be one upon which a company can create value and harvest revenues.

Draper-based IMCentric is growing up around a promising idea that was validated and refined by some of its leading customers, including a Fortune 25 telecommunications company, a Fortune 50 financial services organization, and the world’s leading provider of digital certificates, Verisign.

IMCentric was conceived by two University of Washington students, Russ Thornton and Ben Hodson, in 1999, and began in earnest in 2002. The initial idea was a Web services technology to capture Internet-based transaction information and store it on local computers as well as online.

The idea began to gather momentum when the founders were introduced to a Verisign sales engineer in February 2002. “He told us he had some customers who were tired of the arduous process of managing digital certificates, and there may be a real opportunity if we could simplify that process and make it more secure,” recalls Thornton.

“So with Verisign and these other major global companies helping direct our effort on their behalf, we were able to solve a large scale problem that no one has been able to solve before”—to automate, simplify and standardize the certificate management process, improve security and ensure compliance with HIPAA (The Health Insurance Portability and Accountability Act), Sarbanes Oxley, Gramm-Leach-Bliley and other government regulations.

The take-home message of IMCentric's experience is that the power of the company's idea was built directly on solving a customer's problem. It wasn't a technology looking for a problem to solve or an investment looking for a return. "The beauty of it was that it started at the customer level, dealing with real customer pain," says Stead Burwell, a partner at UV Partners, which led a \$6 million funding round for IMCentric that closed in April 2004. "That eagerness and aggressiveness to find and solve a major problem in such a customer-centric way is the reason this company has such a promising future—and it's why we invested in them."

2. Business Model

Your business idea must be buttressed by a viable, sustainable business model. Ideally, your company will be able to develop products and services that people will want to use over and over again.

Focus and discipline are paramount in establishing a successful business model. In a 2000 Harvard Business Review article entitled "Level Five Leadership" (later reprised and expanded in the best-selling book *Good to Great*), Jim Collins detailed three central requirements of a strong business model: "Our research shows that breakthroughs require a simple... understanding of three intersecting circles: what a company can be the best in the world at, how its economics work best, and what best ignites the passions of its people... Breakthroughs happen when you... become systematic and consistent... (in) eliminating virtually anything that does not fit in the three circles."

When Kelly Olsen was introduced to the concept of Tahitian Noni International (TNI), he recognized it as an idea with extraordinary potential—an exotic plant whose local reputation was suffused with an aura of healing, with a mystique enhanced by its relative obscurity outside its native habitat. In its first month, the company achieved \$40,000 in revenues, and it hasn't looked back.

In TNI's first seven years, revenues exceeded \$2 billion. Now in only its eighth year in business, the company is on course to achieve \$500 million in annual revenues. Provo-based Griffin-Hill, an independent market research and sales training firm, has concluded that TNI is among the ten fastest growing revenue-producing firms in U.S. history.

TNI has reaped the benefits of a tightly focused business model. "Our greatest accomplishment is the defining and communicating of our story," says Olsen of his company's effort to establish Tahitian Noni—and to associate itself with the company's namesake product. "We've driven a stake in the ground—we own this. We don't compare ourselves to other network marketing companies. If we stick to our strengths, the doors of opportunity open up to us. We have extremely high customer loyalty to our products."

According to Olsen, despite the proliferation of noni vendors, TNI still retains a hefty majority market share.

TNI reinforces its dominance through branding efforts such as the 2002 Johnny Lingo feature film, and especially through its aggressive multi-level marketing distribution system, which enables rapid growth without the traditionally astronomical costs of advertising and distribution. “From the very beginning, we knew that direct marketing was the only way to sell Tahitian Noni Juice.”

Wing Enterprises is another company with a winning business model, based on uniqueness and superior product quality. “Our brand is a simple one: build better ladders than anyone else does,” says founder and CEO Hal Wing. “People imitate them but can’t duplicate them.”

Several years ago, when Wing Enterprises was facing cost pressures to outsource the manufacturing to China, Hal Wing deemed it essential to keep manufacturing at the company’s Springville headquarters. “I couldn’t outsource the culture of painstaking attention to quality somewhere else, or the loyalty of our people, which I felt a moral obligation to honor by keeping their jobs here,” he says. “We needed to give our people an opportunity to work here and support their families and afford our products.”

Wing instead negotiated aggressively with his vendors in order to remain viable. “I told them they could help me cut expenses, or we’d have to move our operations elsewhere and they’d lose my business. They could tell I wasn’t bluffing. We worked deals where we all won, we found other ways of improving productivity and cutting costs, and the rest is history.”

3. Leadership

Regardless of how compelling an idea and accompanying business model is, there must be a strong leadership team in place in order to transform a winning idea into an enduring company.

The term “management team” actually may be a misnomer in a start-up; what really is required is a group of self-ignited leaders who can attract and develop the people and resources necessary to build a high-performance organization. “Show others what it takes to succeed—don’t just talk about it,” says Tahitian Noni’s Olsen. “Leaders understand that people will always do what their leaders do, for good or bad.”

Leaders must also be able to communicate and sell their vision to employees, investors, board members and customers. “Leaders must have vision,” says Olsen. “Every successful venture begins with those who see the future value and potential. Visionary leadership creates in people the ability to accomplish the impossible.”

“A successful startup leadership team will possess the talent, expertise and experience relevant to the market your company is pursuing and the products and services you offer,” says Fraser Bullock, managing director of Sorenson Capital and COO, CFO and CEO of the Salt Lake Organizing Committee for the 2002 Winter Olympics. “But effective leaders are also team players whose first loyalty is to the interests of the company rather than themselves.”

The leadership team should concentrate not only on performing necessary functional roles—such as marketing, sales, operations, finance and accounting—but also on covering blind spots. Leaders must resist the temptation to include only like-minded individuals in analysis and decision processes; the leadership team should consist of people with a variety of backgrounds, perspectives and abilities.

One of the most important roles of leadership is to establish and maintain a culture of integrity and performance, as Hal Wing attests. Wing’s company has elevated its Little Giant Ladders to global leadership in the high-end ladder marketplace—Little Giant Ladders are sold in 32 countries.

According to Wing, “During the past seven months, we have increased our revenues tenfold—while maintaining our quality and decreasing our costs per unit.”

Wing attributes the company’s successes primarily to the company’s culture—particularly its work ethic and emphasis on continuous improvement: “My R&D team is my entire factory. We have created a culture of organizational effectiveness and innovation.” Wing reinforces this culture with incentive bonuses for innovations that save money, including ongoing bonuses for ongoing savings.

A culture of productivity does not simply fall into place. “A leader has to set the pace, and hold people to a high standard,” says Wing. He recalls a meeting he called several years ago for the company’s entire 300-person workforce. “I felt at the time that our performance and alignment were slipping some.” So Wing rented out a movie theater. “I pulled everyone together to watch the movie ‘Miracle’ [about the U.S. Olympic hockey team’s improbable victory in the 1980 Winter Olympics], and spelled out my expectations for hustle and sustained effort from everyone in the company.”

After the movie, Wing invited everyone to commit to meeting the standards he had set, or leave with his best wishes: “We lost about seven people that day, and our productivity started to click like a Swiss watch among those who remained.”

4. Infrastructure

Many of the most valuable perspectives and resources needed for success come from supporting business services, such as investment, legal, accounting and business insurance firms, industry associations and government groups.

Of these, not surprisingly, funding sources receive the greatest attention. The relationship between investors and their portfolio companies is crucial, and extends far beyond the need for capital. “It’s essential that companies pick an investor they can trust and see eye to eye with,” says Burwell. “Usually, you’re looking at a five-year relationship or longer. That’s a long, uncomfortable time if you’re not compatible or comfortable with one another.”

Sometimes an investment firm can play a prominent operational role for a portfolio company. Carl Ledbetter of UV Partners, a former Novell CTO, is currently serving as IMCentric’s acting CEO, while UV Partners’ Burwell is the company’s acting COO.

In addition to the investment relationship, from its very beginning, a company should seek strategic input from seasoned accounting and legal professionals. In this time of intense scrutiny of business ethics and practices, prospective investors, board members, strategic partners and even customers want to know that a young company is building its foundation on solid ground.

“Key stakeholders want to know that your company will be around to honor your commitments to them with your products and services, and that you won’t bring lawsuits or bad press to their doorstep,” says Brian Lloyd, a partner focusing on business services and corporate law for Stoel Rives’ Utah offices. “Good financial and legal help can ensure strong ethical and procedural footing, and increase stockholder’s peace of mind.”

Good business insurance coverage will further protect the company’s interests and increase the comfort level of stakeholders. “An emerging growth company needs a business insurance program that couples competitive pricing with broad coverage,” says Spence Hoole, a partner with Diversified Insurance Brokers in Salt Lake City. “Coverage also needs to be scalable to meet the needs of a growing business.” The most prominent insurance policies for startups include property insurance; general liability insurance; key person insurance; directors and officers insurance; and errors and omissions insurance.

Other key infrastructure assets frequently overlooked by young companies include government programs such as the local Small Business Administration (SBA). Utah’s local SBA offers or facilitates a wealth of services and resources, including:

- Free business counseling for prospective or existing businesses on a host of issues and a range of business disciplines
- A variety of online and classroom instruction, from business plan development to professional training
- Numerous network and mentoring opportunities, often in association with such organizations as the Women’s Business Center and chambers of commerce
- Loan and equity financing programs for funding up to \$2 million

- Business Information Centers in Salt Lake and Ogden, which the SBA's Steve Price describes as "a one stop library for business information," including free Internet access and comprehensive market data
- The SBA Web site, which contains more than 50,000 pages of program information
- The Small Business Resource Guide, produced and published in partnership with Utah Business magazine, provides information about small business resources in the state.

Among the myriad companies that have received funding and other assistance through the SBA are such former small businesses as Apple Computers, Federal Express, Intel, Staples, Compaq, Gymboree and Outback Steakhouse.

5. Structure

Another critical early decision for which legal and financial expertise is vital is which business structure to choose: sole proprietorship, partnership, corporation, S corporation or limited liability partnership/company. "There are potential advantages and disadvantages to every form, depending what you envision your company becoming," says Lloyd of Stoel Rives.

Most companies expecting to become large or lasting avoid the sole proprietor and simple partnership models, says Lloyd, because they don't provide the legal protections other forms of organization afford—in particular, protecting the owners from personal liability for claims made against the company.

An LLC or LLP form of ownership is useful for companies that will be closely held by a few people, such as a real estate firm or a family business, says Lloyd. "LLCs can grow quite large over time through reinvested revenues or occasionally through bank loans. But if you intend to raise capital as part of your growth strategy, a C corporation is the structure of choice. It is an administrative nightmare for investors to file state and federal annual returns for every investment, as an S corporation requires."

It is possible to change the structure of an entity as it evolves, but there are often significant tax consequences and other complexities. "Be sure to consult an experienced tax advisor when you think about making changes," says Lloyd. "As with many other business structure issues, in the long run, it can end up being expensive in many ways to go it alone."

6. Leverage

Because resources, people and time are scarce early in a company's lifecycle, it is crucial that they be used effectively. Every person and activity should serve multiple purposes.

For example, investors should not only bring money to the table, but also provide advice and introductions, including potential board members and customers, and even help negotiate interest rates and other deals when necessary. Accountants and attorneys can play similar roles.

Board members must participate in problem solving—a startup needs active board members, not armchair critics. In essence, the board must become an extension of the leadership team, helping grow the business by introducing the company to potential partners and customers.

Time needs to be leveraged in a similar fashion. Sales calls should be used to learn the entire purchasing chain for customers and to meet the decision makers in each link of that chain. Company meetings can be combined when appropriate to perform multiple tasks. Association events and conferences can be used for strategic networking, educational and lobbying opportunities.

All of the elements discussed in this article are closely intertwined, and are greatly impacted by changing market demand and shifting circumstances. How a company addresses these issues and responds to the changing marketplace will determine its ability to join the pantheon of enduring Utah companies—and add its unique contribution to the marketplace and to Utah's continuing business legacy.