

The Key To Entrepreneurial Success

Jeffrey C. Shuman, Ph.D.
Professor and Director of Entrepreneurial Studies
Bentley College
175 Forest street
Waltham, MA 02154
(781) 891-2533 (office)
(508) 877-6805 (home)
jshuman@bentley.edu

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Abstract

The paper identifies and describes the development process which intuitively all natural born entrepreneurs use when starting and building a successful business. It provides a step-by-step explanation of what needs to be done, when it needs to be done and why it needs to be done in terms that anyone can follow to make his or her business a success. In support of the development process presented, the paper highlights Buddy Carp and David Litos, the cofounders of New World Technologies, a 1997 *Inc. 500* company. Research on this venture is based on a multi-method, longitudinal design, emphasizing open-ended interviews with members of the entrepreneurial team, a content analysis of organizational documents and archival records, and participant observation in the company.

Venture Creation Processes¹

Rhythm is one of the principle translators
between dream and reality.

Dame Edith Sitwell

The Conventional View

The conventional wisdom is wrong! As surprising as it may seem, the standard advice on how to start and build a business more often leads to failure than success. What's taught in business schools, written in business books and passed on as gospel from one businessperson to another is not the methodology that successful entrepreneurs follow. The conventional wisdom states that to start a business you have to: identify and evaluate an opportunity, develop a business concept, assess and acquire resources, manage the venture, and then harvest and distribute value (Stevenson, 1994). And the conventional wisdom also holds that a successful entrepreneur is someone who possesses certain characteristics, including: commitment, perseverance, tolerance for risk and a high level of integrity and reliability (Timmons, 1989).

While there are variations on this advice and reams of instructions on how to master each element, the basic belief is that you begin with an idea, and if the idea is good and you transform that idea into reality, you end up with a successful business. If the idea is bad, or you fail in transforming it into reality, your business fails and you end up with a loss and, perhaps, bankruptcy. However, this "wisdom" simply isn't true.

Marketplace Realities

In his landmark book *Innovation and Entrepreneurship*, famed management guru Peter Drucker observed (Drucker, 1985):

When a new venture does succeed, more often than not it is in a market other than the one it was originally intended to serve, with products or services not quite those with which it had set out, bought in large part by customers it did not even think of when started, and used for a host of purposes besides the ones for which the products were first designed.

And Leo Kahn, a retailing entrepreneur who founded Purity Supreme Supermarkets and cofounded Staples (a national chain of office-supply superstores), noted (Bailey, 1996):

The entrepreneur has to grow with the concept. If you look at any business that is started and successful five years later it is very different in many ways from the original concept. And the entrepreneur has got to know when to change and when to be rigid in sticking to the original principle.

Peter Drucker and Leo Kahn both make a very profound and very important point. Most entrepreneurs do not succeed by bringing into reality the idea with which they begin. Why? Because every business goes through a natural development process. A development process that is so natural and so intimate a part of business life that it has been overlooked and misunderstood even by those individuals who guide their businesses through the process.

What is the Process?

So many times we hear successful entrepreneurs talk about their success as if it were a mystery. But it is not a mystery. It is based on “the natural development process” which lies hidden in the cacophony of everyday events, and even when it is heard, it is only heard dimly and followed mostly by instinct. Entrepreneurs who are successful might know the conventional wisdom: they’ve read the same books, gone to the same schools and listened to the same experts as everyone else but when it comes to what really makes them succeed, they follow their “gut” and therefore can’t describe their technique for success. And if those who’ve been there and done it can’t explain it, who can? Certainly not the academic observers and theoreticians who only observe business from the outside. As a result, the very essence of business has remained unexplained and for those involved in the world of business, there has always lurked a terrible sense of fear, a sense of being slightly lost, of being slightly out of sync because no one completely understands where they are or what they are doing or where they are heading within the overall context of gaining and maintaining business success.

The Rhythm of Business

From my own business experience living business on the inside, my academic background and my years of working closely with successful entrepreneurs observing business on the outside, I have finally uncovered and described the development process which intuitively all natural born entrepreneurs use when starting and building a successful business. I call this development process *the rhythm of business*.

While you may be familiar with some of the steps in the rhythm, or even all of the steps, it is critical that you understand that they are not separate and unrelated but are part of a whole and that you need to make this whole an ingrained part of your thinking. You must develop an instinctive understanding of what needs to be done, when it needs to be done, and why it needs to be done, if you are going to be successful in business.

To start and run a successful business you need to learn as much as possible about your customers' wants and needs. You must also determine which business concept is best able to provide your customers exactly what they want and need. And even after a business is started, you must continually refine the business based on actual customer input and then relaunch its products or services so that the business always comes closer and closer to satisfying customers' real wants and needs. This repetitive cycle is how business progresses, and having *the rhythm of business* means that you "feel" the timing for, and that you understand the nature of each step in this cycle.

Customers Create the Rhythm

In order to start and build a successful business, a customer orientation is needed. Customers drive business and create its basic rhythm. You have to satisfy their wants and needs, not the other way around. Customers don't care at all about your wants and needs. The risks associated with business decrease with increasing knowledge of your customers. Far too many entrepreneurs talk a lot about the marketplace without ever getting into the nitty gritty of customers. Who they are and what they really want and need.

However, even after you've found your market opportunity, opened up your business and begun satisfying your customers' wants and needs, you still must never lose sight of your customers. Why? Because your customers' wants and needs are not static. They change over time due to a wide variety of factors such as politics, technology, life styles, economics, etc. The dynamic nature of your customers' wants and needs naturally complicates the task of trying to satisfy them. It means you are trying to zero in on a moving target. The longer it takes to zero in, the more likely your customers' wants and needs will have changed. It is true that in some industries, customers' wants and needs change faster than in others. But no matter how fast or slow they change, the point is they do change. And as they change, your product or service and your business methods must also change.

Doing the Dance—Step-by-Step

How do you take advantage of these openings in the marketplace? Through *the rhythm of business*--coming up with ideas for products and/or services that satisfy customers' wants and needs, continually testing the ideas in the marketplace, analyzing the results of the tests, and then refining your business based on the results of your analysis. Repeatedly going through these steps throughout the life of a company--in other words, continuing to dance--is how the growth of your understanding of your customers and the growth of your understanding of the "best" business concept takes place. This ongoing cycle is *the rhythm of business* and it is a rhythm every entrepreneur has to follow if his or her business is to gain and maintain success. The more aware you are of the cycle and the more accurately you follow it, the better your business grows. Below I've defined the four distinct steps which make up what I call one "Customer Interaction Cycle" in the ongoing rhythm of business. And remember, this Cycle is true whether your business is old or new, large or small, employs thousands or just one--you:

- Step 1-- Planning is identifying a product and/or service based on an understanding of customers' wants and needs, selecting a flexible, low-cost business concept to deliver those products and/or services, and determining the resources needed to carry out your plans.
- Step 2--Preparation is doing everything that has to be done to "prepare" your products and/or services and the business concept selected in Step 1. More than any other step of the cycle, Step 2 entails making hundreds of detailed decisions and taking hundreds of detailed actions as you gain access to and deploy the resources needed for Step 3.
- Step 3--Interaction is when you bring your product and/or service and business concept to the marketplace by opening your doors for business and interacting with your customers. No matter how long you've been in business, every time you interact with your customers you should consider that you are "testing" your product and/or service.
- Step 4--Analysis and Refinement is evaluating the results of the interaction and refining your understanding of your customers' wants and needs and of your business concept based on the results of the customer interaction carried out in Step 3.

Figure 1 illustrates how the steps in *the rhythm of business* develop your understanding of your customers' wants and needs and of the best possible business concept from your starting levels of understanding to where your business approaches the ideal level. The positioning of Step 1 (see Figure 2 which is a detailed closeup of one complete customer interaction cycle), reflects that you have begun the business development process. Step 2 is where you prepare to move into your customers' "space" and "interact" with your customers. Step 3 is when you actually interact with your customers (i.e., you are open for business) and Step 4 is when you analyze the information gathered in Step 3 and refine your understanding of your customers and your business concept. As you can see from Figure 1, every customer interaction cycle follows a rhythm--*the rhythm of business*--going back and forth as you try out new ideas, test the ideas, analyze the results of the tests and then develop a better product and/or service and a better business concept to more fully

satisfy your customers. And as you can also see from Figure 1, this cycle repeats and repeats as you move closer and closer to the ideal business. It never stops!

Figure 1

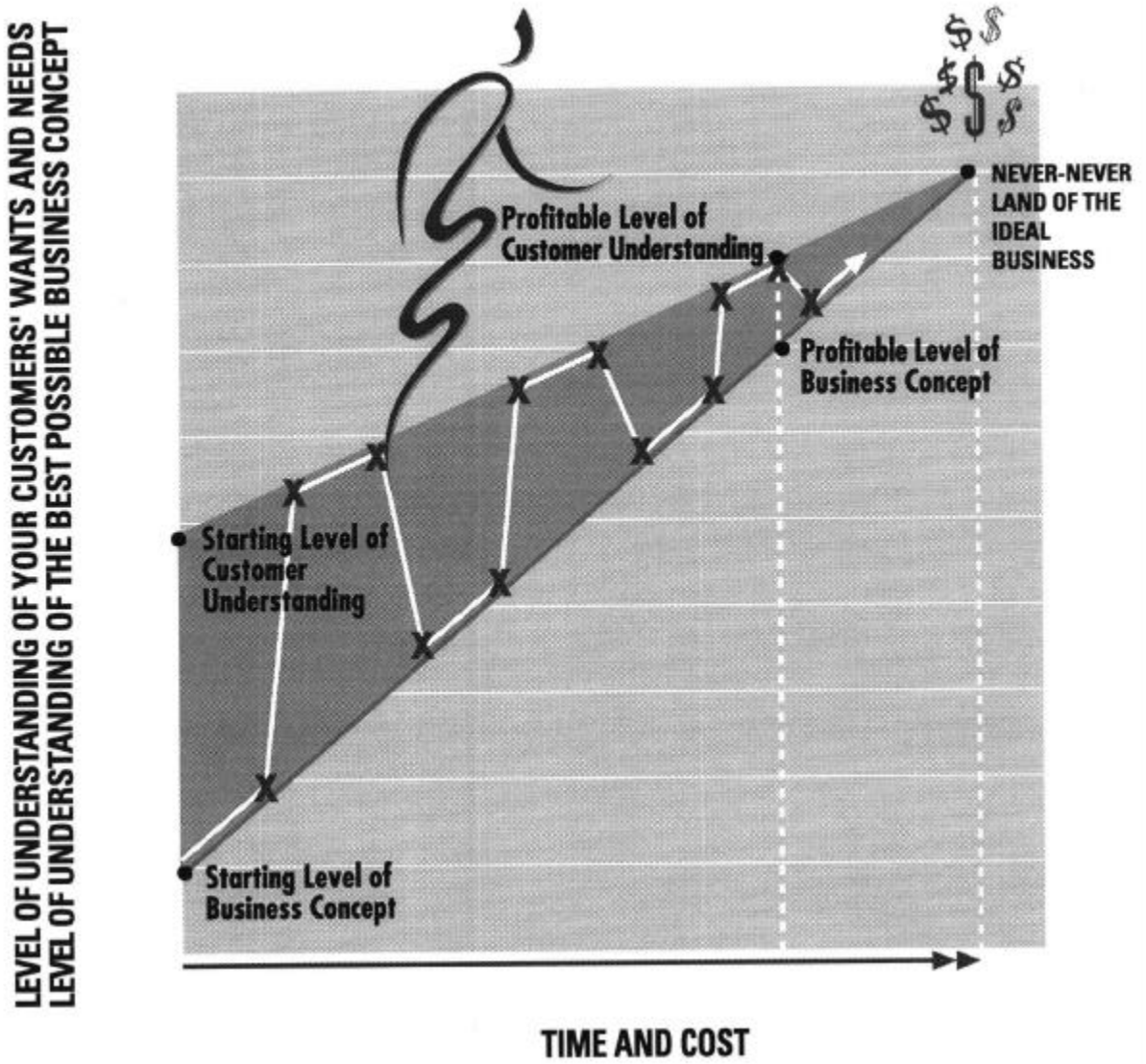
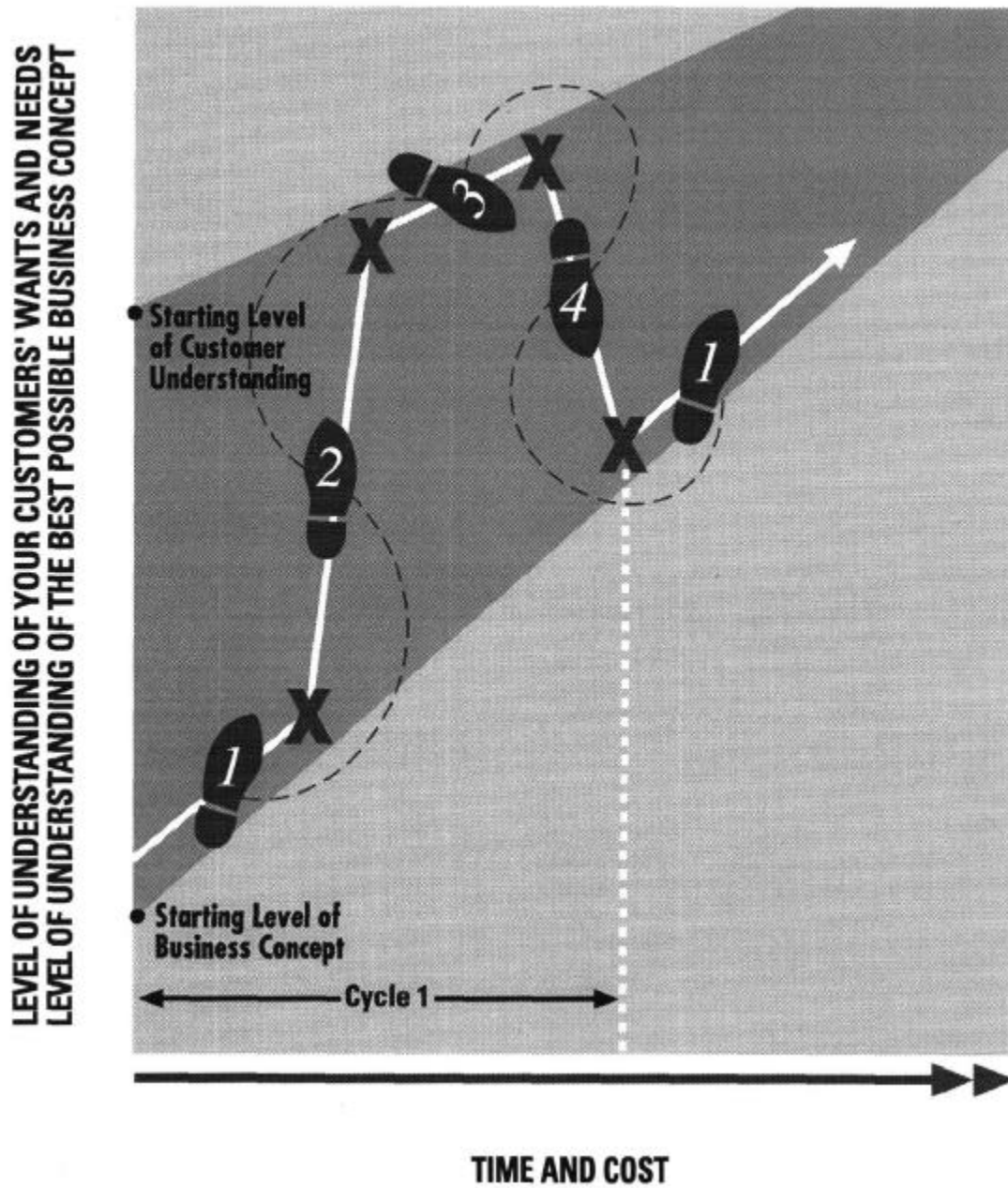


Figure 2



Getting “IT” Right--Eventually

In business, no one gets it right the first time. You have to listen to your customers, listen to your employees, listen to your vendors, listen to your investors and, eventually, by following *the rhythm of business*, you will succeed as Drucker and Kahn noted--most likely in a different

market than the one you started with different products and services sold to different customers but most importantly with a profit that allows you to continue to change and grow as the wants and needs of your customers change and grow.

When you look at the diagrams I've drawn of *the rhythm of business*, keep in mind they are just that--diagrams. Depending on the business you are in, this whole process--Steps 1-4--may not be done in neatly marked cycles but simultaneously. For example, each time you want to analyze the results of interacting with your customers, you may not be able to completely stop doing business. Some businesses such as mail order catalogues and "1-900" information provider services lend themselves to clearly delineated cycles; while other businesses such as restaurants and retail stores may require interacting and refining simultaneously.

It's like the difference between football and soccer. In football, the offense has the ability to huddle after each play. You have the opportunity to assess what has happened during the last play and to decide what you should do next. You can change players. You can even change your entire game plan. In soccer it's different. You don't have the ability to stop playing the game and huddle. You have to do the assessment and make the changes on the run. The practical realities of business are more often like soccer than football, and complicating the rhythm even further, the lines between the steps are blurred. In every step, you have to deal with some planning, you have to deal with some details, you have to deal with some analysis. And different parts of your business may be engaged in different steps of a customer interaction cycle at the same time. But these complexities and varieties are again what makes business exciting and challenging and are why I emphasize that business has rhythm.

Feel the Timing

In every customer interaction cycle, you must keep a watchful eye on how much time is elapsing and how much money you are spending. When you "feel" the time is right, you move your business on to the next step. And in saying "when you feel the time is right" I mean that the end point of each step in a customer interaction cycle is often hazy. How do you know when it's right to move onto the next step? You have to "feel" when it's right. It might be when you're 50% ready or 70% or 90%. With any business decision there are always a million maybes which is why, in the end, after you've considered all the "hard" data, your decisions always come down to a "feeling."

So, your timing, which is the moment you put your "feelings" into action, is very important and yet very difficult to determine. Unfortunately, there are no set rules. The fact of the matter is that no one is standing on the sidelines signaling to you. Yet "feeling" that point in time--when the benefits to be gained from continuing in one step or moving onto the next--is essential. Knowing that there is a rhythm and what the steps are in the rhythm is the "knowledge" aspect of *the rhythm of business* and timing is the intuitive aspect of *the rhythm of business*. Completing a cycle in *the rhythm of business* leads to an increase in your level of understanding of your customers' wants and needs and an improvement in your business concept's ability to satisfy those wants and needs. Each time you finish a cycle, you should see an increase in customer sales. Of course, during any cycle, it is possible to misread your customer feedback or not get enough feedback and

temporarily go in the wrong direction. But if you understand *the rhythm of business* and run a business with it in mind, in the next cycle you will be able to correct your mistakes.

Never Stop Dancing

And in all the excitement over improving sales, make sure that you do not stop the process. You can NEVER develop the perfect business. The most anyone can hope to achieve is a near perfect business for a specific point in time. Next week, next month, next year, next decade what you are doing today may be completely wrong. So, don't lose the rhythm. You must continue to dance. You must continue leading your business through the steps of one customer interaction cycle after another. Once you stop dancing, the business loses its ability to change and any business that cannot change is in jeopardy of falling prey to the latest trends, the newest technologies or a new competitor.

Take another look at Figure 1. You can see in the example that it took three customer interaction cycles to reach a profitable business concept. However, another individual having identified the same marketplace opportunity could create an entirely different business concept and take a different number of cycles. But no matter what business is created and no matter how many cycles it requires, **THE PROCESS IS THE SAME**. There is a rhythm to business and the most critical element in this rhythm is your ability to "feel" when the time is right to move between each step of any one customer interaction cycle. As you develop your ability to feel when it is time to move between these steps you are developing your ability to feel *the rhythm of business*.

If you have an in-born rhythm, it takes fewer repetitions of the cycle for your product or service to be successful. If your business rhythm is less good, it takes more repetitions. But once you understand the process and use it, your rhythm will improve and your business will improve. And once you have found *the rhythm of business*, you need to follow it with absolute trust. The more you do, the better your business will be.

A Case Study– New World Technologies, Inc. ²

To get a better understanding of how a natural born entrepreneur intuitively uses the rhythm of business process, let's take a detailed look at Buddy Carp and David Litos, experienced entrepreneurs who have an instinctive understanding of the rhythm of business and see how they built their *Inc. 500* company, New World Technologies, Inc. (*Inc. 500*).

New World Technologies, Inc. (NWT), a Massachusetts-based micro-computer company founded in 1991 by Buddy Carp and David Litos, began operations on January 1, 1992 and commenced volume shipments of its products in June, 1992. At inception, Buddy and David wanted to "test" whether their understanding of the marketplace opportunity was correct, so they chose to organize the business as a virtual-type network organization. The underlying idea was to put together a series of alliances with companies that would each contribute to a specific aspect of the industry value chain based on NWT's guidance and expertise in product specification. They also planned to obtain needed seed capital to launch the venture through one or more of the network

members. They believed that this business concept was not only low cost, but, also allowed them tremendous flexibility to alter their business concept based upon the understanding gained as a result of real transactions with their customers.

The founders decided to seek the support of a two local companies that could assemble the computers as well as provide the needed seed capital. Specifically, these two companies would fulfill several roles in NWT's network: 1) finance the purchase of NWT's inventory; 2) assemble, test, and ship NWT microcomputers; 3) handle NWT's technical support and repair operation; 4) provide seed capital for the startup; and 5) provide space for NWT's corporate and sales offices. In addition, NWT structured a series of relationships with outside contractors, suppliers and vendors. New World believed that when it initially started operations these subcontractor alliances enabled the Company to quickly move down the learning curve and reduced its capital requirements.

However, Buddy and David believed all along that control of system configuration and integration offered substantial benefits and contributed to NWT's ability to provide its reseller customers with the highest level of system quality and service excellence available in the market. Consequently, during its second "customer interaction cycle" the Company severed its relationship with one of its network assemblers, thereby working only with one assembler, as a way of exercising more control over product delivery and quality.

At the start of its third customer interaction cycle NWT opened its own production facility in its Ashland, Massachusetts facility in 1994, and has steadily shifted production from the subcontractor to its own plant. By the start of its fourth cycle in mid-1996, 100% of system production was done internally. The advantages of total in-house control include -- consistent quality, reduced inventory levels, and greater purchasing flexibility. Further, the Company's configuration and integration operation has been designed to enable New World to assemble and ship high quality, competitively priced customer configured computer solutions within 48 hours of receipt of the resellers' order, for all standard PC-based systems. In addition, the Company has recruited and trained the professional staff necessary to implement the highest standards of manufacturing, quality, testing, technical support and customer service, along with rapid order processing and shipping.

Operating as a Network Organization

New World creates and develop its ideas and ways of doing business based on three interrelated factors -- the firm's 1) operation as a network, 2) focus on information, and 3) build-to-order, custom integration capability.

New World Technologies is an information- and response-based organization. The Company continuously collects and assimilates information from its customers, suppliers, and intelligence resources, enabling it to anticipate and incorporate strategic changes into its organizational design, products and customer support offerings, providing a flexible, responsive infrastructure which is dedicated to exceeding the requirements of its commercial reseller customers. Key to New World's operations is its direct control over final assembly through its own configuration

and integration facility which operates on a build-to-order basis and is able to produce a custom configured computer system within 48 hours from receipt of order. Most importantly, New World has become a key niche player in the personal computer industry, establishing product and support standards against which others must now compete.

The focus of New World's business strategy is to position itself as customer intimate company by building long-lasting relationships with its commercial reseller customers and to exceed customer expectations for the satisfaction of their ever-changing computer solution wants and needs, not as a transaction-based company driven by product and price. In order to accomplish this, the Company fosters an innate ability to create and develop new ideas. By constantly gathering, processing and responding to information from everyone it interacts with, including its reseller customers and suppliers, New World welcomes change and operates efficiently, thereby giving it a decisive edge in identifying and implementing emerging technologies, and in establishing industry standards for performance, value and service excellence.

The Company gathers the information necessary to incorporate leading technologies into the development of its systems. This has enabled New World to become a recognized leader in providing the right solutions at the best overall value available. New World provides high quality, customized computer systems and peripherals, manufactured and configured according to its resellers' varied requirements.

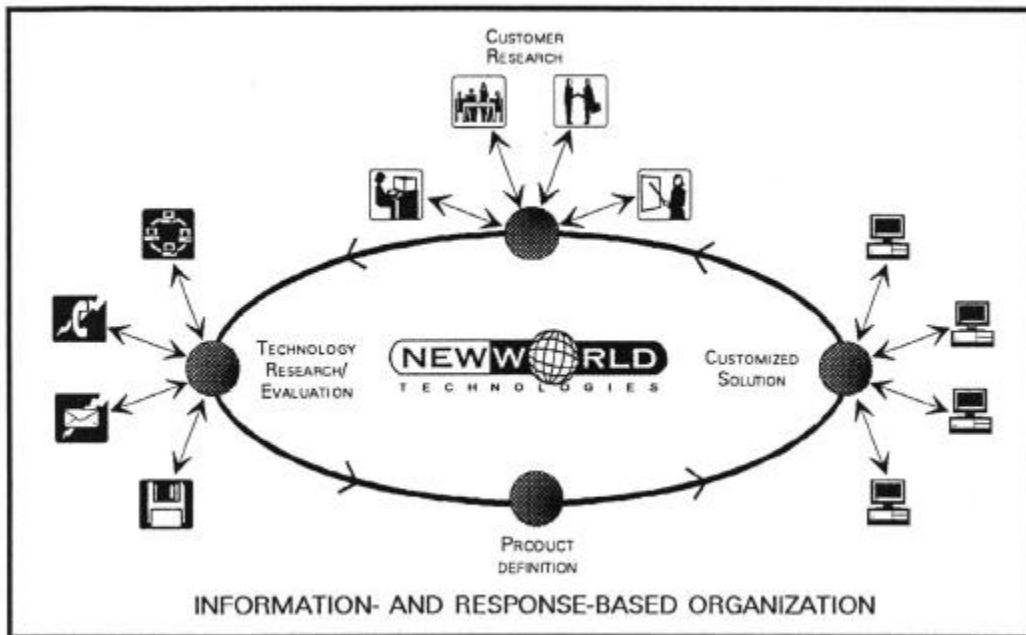
New World's expressed dedication to providing their commercial reseller customers with the best possible technology and support programs for their customers' computing needs at the best value available in the marketplace, required the Company to develop and implement, over a series of customer interaction cycles, the network structure as shown in Figure 3:

Business Concept and Strategy

New World Technologies' mission is to be the resellers' provider of choice for customized computer solutions through innovative ideas and service excellence. The Company is engaged in product specification and evaluation, marketing, "build-to-order" assembly, custom hardware and software integration, and distribution of Intel-based platform computers, peripheral products, and associated software and services to commercial resellers throughout North America.

New World emphasizes the importance of generating on-going input and information from its commercial resellers. Then, based on its detailed understanding of the industry, the Company calls upon its strategic relationships with its suppliers. By developing its own nexus with suppliers, New World gains access to new developments in technology as well as the technological development plans of the component makers. Developing and maintaining good relationships with suppliers and resellers allows New World to excel at "specmanship," the ability to identify the features the customer wants at exactly the right value point. In fact, this type of direct tie-in of manufacturers with suppliers and customers, which enables firms to take advantage of new technologies, ideas and innovations regardless of where they originate, is being hailed as the next step in the evolution of fast-response, customized manufacturing.

Figure 3



Although information -- its availability, access, and application -- underlies the essence of New World's strategy, the key emphasis, which allows the Company to transform their business philosophy into practice, is placed on having the necessary information on all aspects of manufacture, from specification of the components and the control of the quality to final assembly of the customized computer solution designed to satisfy the resellers' specific application requirements.

Information Systems

New World's ability to retain customers over time rests with its continuing to be able to provide them a level of service that exceeds their expectations. Accordingly, company operations are run effectively and efficiently and the customer is properly cared for from the order placement process through the order fulfillment process. The Company's operations are supported by a state-of-the-art computer and telecommunications network (including videoconferencing) and integrates this technology with its inventory and distribution systems.

The Company utilizes a comprehensive information system that provides timely marketing/sales, production, and financial information. In order for the Company to a) maximize customer satisfaction, b) maximize employee productivity, and c) minimize overall costs, its information system utilizes the best technology available to drive, process and track orders. In addition, the Company uses real-time telecommunications technology to ensure total reseller customer satisfaction.

Strategic Partnerships

The Company actively explores the formation of strategic partnerships with key vendors and reseller customers. As a result, New World management has entered into a number of important strategic alliances with key vendors and customers.

Working closely with its alliance partners, New World has been able to obtain needed financial, technological, and informational resources while always maintaining the low cost, flexible organizational design needed to ensure its continued ability to satisfy its individual reseller customers' changing needs and wants.

Implications

In business, no one gets it right the first time. You have to listen to your customers, listen to your employees, listen to your vendors, listen to your investors and, eventually, by following the natural development process, you will succeed as Drucker and Kahn noted -- most likely in a different market than the one you started with different products and services sold to different customers but most importantly with a profit that allows you to continue to change and grow as the wants and needs of your customers change and grow.

To start and run a successful business you need to learn as much as possible about your customers' wants and needs. You must also determine which business concept is best able to provide your customers exactly what they want and need. I also emphasized that this process is ongoing. Even after a business is started, you must continually refine the business based on actual customer input and then relaunch its products or services so that the business always comes closer and closer to satisfying customers' real wants and needs. This repetitive cycle is how business progresses, and successfully applying the rhythm of business process means that you "feel" the timing for, and that you understand the nature of each step in the process.

The importance of the rhythm of business cannot be overemphasized. Many people understand important parts of this process; they know that you have to love your business, they know that you have to satisfy your customers, they know that you have to have information. But what they don't understand is that these elements are not isolated "tips" but are part of an overall process, a process that up until now has never been identified and explained.

When you understand the rhythm of business you will never feel lost or out of sync no matter what business you are in or what stage of development your business has reached. You will always know where you are, what you are doing and where your business is heading because the process incorporates concrete steps to attain business success applicable for any entrepreneur in any business.

Essentially, you have two options. You can either learn the rhythm of business and have that understanding shape your business life or you can ignore it or dismiss it. The choice is yours. And frankly how you choose will greatly affect the success or failure of your business.

Some people have an intuitive understanding of the rhythm of business. Others have to work at developing that ability. But everyone has rhythm. It's in-born, to some degree, in all of us. So, learn to follow the rhythm of business and you can learn how to be a successful entrepreneur.

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Endnotes

¹ This paper draws heavily from my book – *The Rhythm of Business: The Key to Building and Running Successful Companies* (written with David Rottenberg), Butterworth-Heinemann, 1998.

² Research on this venture is based on a multi-method, longitudinal design, emphasizing open-ended interviews with members of the entrepreneurial team, a content analysis of organizational documents and archival records, and participant observation in the company. The participant-observation model used in this study was modified to control for potential biases and the type of uncritical group-oriented support that are inherent in this approach. Following grounded theory and phenomenological approaches to organization research, transcripts of the interviews were examined for concepts and themes that characterized the company and its development process. These “emergent hypotheses” were then tested in discussions with members of the founding team.