

Source Articles from

THE WALL STREET JOURNAL.

CLASSROOM EDITION

Chapter 8 Business Organizations

This article from the March 2004 *Wall Street Journal Classroom Edition* offers a beginner's guide to entrepreneurship. "Notice What It Takes," by Journal reporter Paulette Thomas, offers seven essential qualities for a successful entrepreneur, along with real-world examples of just how big a difference these qualities can make.

Before reading the article, you may want to look up the following terms: surmount, ergonomic, depreciation, dispassionate, cachet, node, paraphernalia.

Even the most realistic entrepreneur underestimates the difficulties in building a business.

Sure, everyone foresees challenges in raising money, managing employees, assessing the competition. But ask anyone in the real world: Those obstacles are just the beginning.

You never know what else will come your way. A war? A recession? Technology evolving and becoming obsolete before your eyes? Excessive growth?

What sets apart the entrepreneurs who surmount these obstacles from those who don't?

Here, we give you some of the answers. Having these qualities is no guarantee of success. But if you don't have them, you'd better figure out how to get them.

A Clear Strategy: A well-defined plan can keep a ship on course when the winds would otherwise blow it off the map. For example, Metaphase Design Group, which designs ergonomic products, has defined its mission as pursuing only high-end, intensively researched design work for its clients. Hiring Metaphase can cost a company \$100,000 to \$500,000 for each product design.

Once Metaphase has redesigned a product, companies then have to revamp their existing manufacturing equipment. For instance, one client

recently worked with Metaphase to design a sewing machine for Sears, Roebuck's Kenmore line, and spent close to \$1 million to adapt its manufacturing to accommodate the new machine.

In the 1990s, such expensive design wasn't an issue. But in today's economic climate, all anybody seems interested in is cheap, cheap, cheap. There is downward pressure on prices everywhere.

But rather than going down-market, Metaphase has stuck to its gold-standard plan. Adhering to that strategy gives its leaders the backbone to turn away lesser business that dilutes its mission. Often, when company founder Bryce Rutter makes a pitch to a potential client, he starts with Metaphase's past work and particularly its economic results. He wants to demonstrate to potential

clients that ergonomic design pays off—that people will pay more for products that are easier to use. He also plays up the expertise that separates Metaphase from the competition.

As a result of that focus, Metaphase is thriving amid a slow economy.

Flexibility: Successful entrepreneurs have a plan, full of detail and rich in data. But they are willing to abandon it when the customers don't follow. They cut losses and retool fast.

Neil Peterson started Flexcar in Seattle, an innovative time-sharing plan that he hoped would

"You never know what else the gods will throw your way. A war? A recession? Technology evolving and becoming obsolete before your eyes? Excessive growth?"

Source Articles from *The Wall Street Journal Classroom Edition*

attract business from drivers who didn't want to buy a car and were frustrated with traditional rental agencies. Though it was popular in Europe, he wasn't making headway in the U.S.

"The automobile is part of the culture here," says Mr. Peterson. "But, in general, people are moving away from an age of ownership to an age of access, meaning people want access to things but they don't want the costs involved with ownership. And we're effectively giving them that access minus the costs."

So Mr. Petersen refined his marketing campaign around that theme. His first step, which he has repeated in other cities, was to partner with local public-transportation boards, universities and businesses to help market his program.

Mr. Peterson also pushed price. The average cost of owning or leasing a new car, including things such as gas, insurance, depreciation and the car payment itself, totals \$625 a month, according to the American Automobile Association. The average member in a car-sharing program spends less than \$100 a month on car expenses.

The work paid off. Flexcar's network has grown to 10,000 members in six states, covering such markets as Chicago, Los Angeles and Portland, Ore. It plans to expand to 30 more markets by 2008.

A Realistic View: Some entrepreneurs, enamored of their vision, swallow it whole and lose the dispassionate judgment they must exercise. "They have to be able to strip away the hype and be brutally honest with themselves and their backers," says James Schrage, professor of entrepreneurship and strategy at the University of Chicago's graduate school of business. "Investors want to see seasoned analysis, logical reasoning," he says.

Such clear-eyed thinking helped the founders of Hat World recognize that they were in over their heads after they acquired Lids, a rival hat chain that was going under. The deal would nearly triple Hat World's size to more than 400 stores and expand its reach to 47 states.

The transition was long and rocky. Even restocking the stores was a problem. Hat World had a great relationship with its own vendors, but it would take nearly a year to fill 260 Lids stores, which had been depleted of quality inventory.

Beyond restocking the stores, the Hat World team had to decide what to do about Lids' corporate philosophy, which was fundamentally different from their own. "Lids executives tended to be big spenders," says Bob Dennis, who was brought in as CEO of the merged company. "They were basically saying, 'Let's build this thing up so we can [draw] in public.' ... It created an unmanageable base. We're the opposite. We get done with a nickel what some get done with a dime."

But Lids' big spending had helped create powerful brand recognition—much stronger than Hat World's. Hat World's new management was willing to draw on Lids's strengths. They liked the look of the stores and the cachet of

the Lids name. So they decided that all new Hat World stores would go by the Lids name and store model—and, that eventually, all Hat World stores would migrate to the Lids name.

Ethical Behavior: Need we say it following Enron, WorldCom, Tyco and the host of other governance scandals that have befallen Corporate America? Investors and government regulators are operating on Level Orange vigilance. Bad behavior has a way of catching up with a business.

If you get into trouble, "you should fix the problem honestly," says the University of Chicago's Dr. Schrage, "or if you can't fix it honestly, you shouldn't be in that business. It's that simple."

A Robust Network: Successful entrepreneurs make it a point to do favors when they can, because they know that their turn to ask for help will come.

Jill Blashack had gotten tired of running her small Minnesota gift shop, and sold the business in 1993, looking for something more rewarding. At a trade show, she took along some of her old gourmet food inventory. The gourmet food sold like crazy. But could she find a way to sell it without opening another little shop?

She chewed over the question at a meeting of her girlfriends. Someone mentioned Creative Memories, a successful scrapbook company that sells through home parties. Ms. Blashack's friend introduced her to the president, who generously shared advice and her financial results.

Ms. Blashack decided to sell her gourmet products, at home parties, under the banner Tastefully Simple. Parties were perfect for sampling the prod-

*"We get done with a nickel
what some get done with
a dime."*

Source Articles from *The Wall Street Journal Classroom Edition*

ucts, and an army of party hosts could distribute the products far and wide. Each party was another node in her network, and growth became exponential.

Today, Tastefully Simple operates out of a \$1 million headquarters in Alexandria, Minn. Sales last year hit \$78 million, and the network of sales representatives has grown to more than 10,000.

An Ability to Deal With Technology: Every entrepreneur has to make peace with the fact that technology changes nearly all aspects of his or her business. It might lower costs—for you or a competitor. It could make your product obsolete or make it the must-have.

Evolve or get left behind, says James Bird, a film producer in Cincinnati. Mr. Bird’s firm, a digital video-editing company called Post Production Services, had invested heavily in computer editing equipment during the early 1980s, serving such clients as ad agencies that needed to create commercials. Given the high cost of entry, he had few competitors.

But when personal computers arrived in the mid-1980s, technology took a giant leap that left PPS behind. A little Apple Macintosh, for instance,

could handle the tasks that once required a \$150,000 graphics machine. By 2001, sales had fallen 15% from the prior year.

Mr. Bird’s solution was to go backward and forward simultaneously. PPS returned to its roots of being a full “creative” company, handling all elements of production. And it pushed ahead with the newest technology, investing nearly \$1 million in new high-definition video equipment.

The new work now accounts for about one-third of PPS’s work. And overall revenue is up more than 15%

Passion: Not much can surpass the single-minded drive of an entrepreneur committed to solving a problem. Grant Goodman, in Phoenix,

runs a heavy-trucking company and uses environmentally friendly biodiesel fuel to reduce pollution in his city. The higher costs deterred him, but only temporarily; he’s planning to manufacture his own biodiesel fuel, at least at break-even costs.

His passion for the best way to do business is helping to solve environmental problems for others. And selling his services as a “green” company can’t hurt either.

“Every entrepreneur has to make peace with the fact that technology changes nearly all aspects of his or her business, even if the company isn’t in tech.”

© Pearson Education, Inc. publishing as Pearson Prentice Hall. © 2005 Dow Jones & Company, Inc. All Rights Reserved.

QUESTIONS FOR DISCUSSION

1. Why is it important for all entrepreneurs to be prepared for changing technology?

2. How can entrepreneurs avoid getting caught up in the hype surrounding their product or service?

3. What other qualities are essential for success as an entrepreneur?
