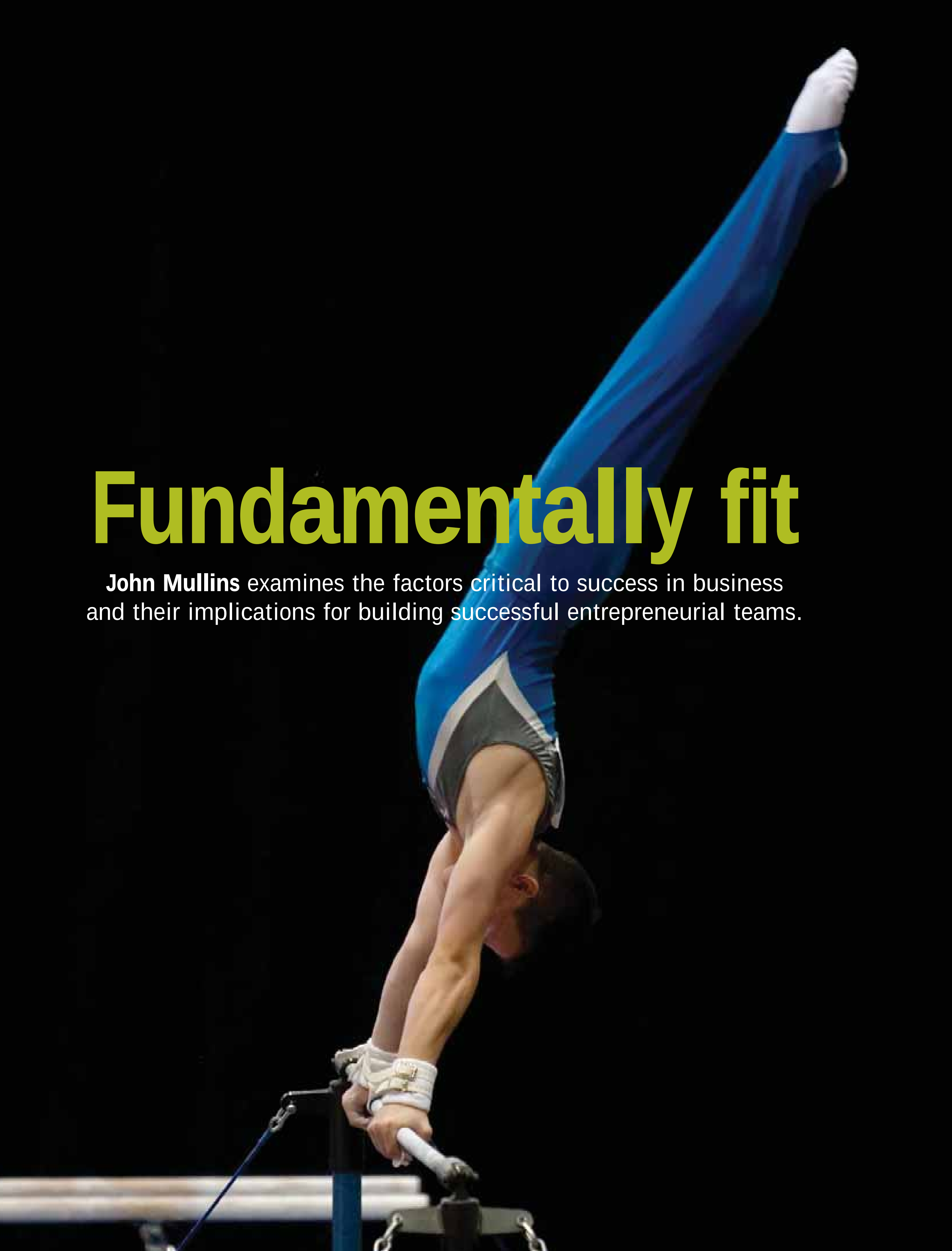

Fundamentally fit

John Mullins examines the factors critical to success in business and their implications for building successful entrepreneurial teams.

Just as physical fitness is fundamental to an athlete, so every entrepreneurial venture has its fundamentals – a superior product or service, an efficient supply chain, motivated people and so on. These are the basics without which no business can survive for long. In the sporting world, the top tennis players, the footballers in the World Cup and the runners on the starting line of an Olympic marathon are superbly fit. Fitness is required. But it takes more than fitness, of course, to win a Wimbledon title or an Olympic medal.

So, what separates the great athletes from the good ones? The great ones consistently meet the critical success factors for their chosen sport, whether they are speed, balance, eye-hand coordination, tactical savvy or something else. An ability to execute on these critical success factors is the difference between great and almost great. Might the same be true for entrepreneurs?

Some sources of variation in the performance of young companies, such as having patent protection or organizational processes and capabilities that are not easily imitated, have been noted in the literature on sustainable competitive advantage. But my research suggests that there's something else that can account for such variation. That "something else" is a management team's ability to execute on the few critical success factors – no more than a handful, usually – that account for much of the difference in performance in companies within an industry.

Just as in sports there are a few key attributes that separate the great from the good, the same is true in entrepreneurship. A key difference between winners and losers is that the winners figure out the factors critical to succeeding in their particular industry and then build their teams accordingly. The losers either do not identify these critical success factors or do not possess a team capable of delivering on them. Even in relatively unattractive industries – such as airlines or retailing – some companies perform quite well, while others are left in the dust. Entrepreneurs who succeed in those difficult industries have been able to identify the critical success factors specific to their industry and assemble a team that can execute on these factors.

Identifying your industry's critical success factors

"How do I determine the critical success factors (CSFs) for my industry?" you may ask. "Are the answers found in the trade press, on the Internet or in strategy textbooks?" No, unfortunately not. Knowledge of the CSFs for an industry resides in the experience of those who have learned – often the hard way – which things must be done right. Whether you have such experience or you must access that of others who have it, there are two key questions to ask to identify your industry's CSFs:

- Which few decisions or activities will, if done incorrectly, almost always negatively affect company performance, even if most other things go right?
- Which decisions or activities, done correctly, will almost always deliver disproportionately positive effects on performance, even though other mistakes are made?

In retailing, the industry in which I spent much of my business career, the CSF is, as they say, location, location, location. Retailers in great locations can get other things wrong and still perform well, at least for a time, while they figure out the rest of the puzzle. Those in poor locations, despite doing most things right, often struggle to survive. That's how powerful CSFs are. As Starbucks' Howard Schultz recalls of the company's early days, "Our process of site selection was enormously time-consuming, but we couldn't afford a single mistake. One real estate error in judgement would mean…a minimum of a half million dollars at stake." The Starbucks team apparently selected well, for he continued, "Of the first 1,000 stores we opened, we opted to close only two locations because of site misjudgements."

To identify the CSFs in your industry, ask the two questions above of 15 or 20 thoughtful, successful entrepreneurs and executives in your industry. You'll get a variety of answers, of course, but a consensus will likely emerge on the same few themes. That's what you are looking for.

What are the CSFs for high-tech entrepreneurs?

Palm Computing founder Jeff Hawkins, a tenacious sort, was not about to give up hope after a less-than-successful launch of Zoomer, his initial entry into hand-held computing. The first thing he did was to strengthen his team by hiring Donna Dubinsky as CEO. Dubinsky had a proven record of managing →

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→ high-tech teams and delivering results. More importantly, her appointment also released Hawkins from a managerial role he had never wanted to play, leaving him free to concentrate on learning from the mistakes made on the Zoomer in order to develop a handheld that had real market appeal. Hawkins and Dubinsky learned some important lessons about what it takes to be successful with high-tech innovation.

First, they learned that developing new technology was the easy part. Many high-tech entrepreneurs could do that. Second, and far more important, they learned that what was crucial in the high-tech world – the real CSF – was linking the promise of technology with genuine, but perhaps unarticulated, customer needs so that real customer problems are solved. "Nobody will invest in you to solve a non-problem," says Vinod Khosla, a co-founder of Sun Microsystems and now a prominent venture capitalist in California's Silicon Valley.

As any capable business person knows, satisfying customer needs is nothing new – it's critical in any industry. In high-tech, though, doing so turns on three CSFs. Getting these elements wrong dooms the business. Getting them right gives it a good chance of success. What are they?

- Understanding customers' real problems or needs, or, more graphically, the customer's pain
- Understanding an area of technology and what it can and cannot deliver, both today and tomorrow
- Harnessing the technology to resolve these problems or needs

For high-tech ventures, sometimes the technology comes first and a customer need must be identified that it can relieve. At other times, the customer need comes first, driving the engineers to develop a solution. Either sequence works, as long as the meeting of the two, the third element, comes to pass.

Palm's results – a hit from day one

Palm Computing demonstrated its new Palm hand-held organizer at a trade show in January 1996. Half of the more than 400 trade show attendees took Palm up on its $149 pre-order offer. In April of that year, Palm began shipping. *PC Computing* magazine wrote, "The Pilot 1000 is an outstanding product: It's fast, easy to use, and inexpensive.... If you're searching for the ultimate palm-size organizer, look no further." Hawkins and Dubinsky knew they had a hit when computer columnists failed to return their review units. Throughout the remainder of 1996, the Palm Pilot organizer gained popularity. By the end of the Christmas season, the Palm Pilot had won over 70 per cent of the US handheld market. That year, the Pilot received 21 best product awards from the press, consistently beating Microsoft's handheld launched in the autumn of that year.

It took Palm only 18 months to sell 1,000,000 Palm Pilots, but Hawkins and Dubinsky refused to rest. To maintain momentum, the company worked vigorously to develop new and better versions of its handheld. The Palm III hit the market in March 1997. This version was slimmer than the original Pilot and weighed only six ounces. Gartner Group said, "The product delivers exactly what existing users want." A still thinner version, the Palm V, was next. While the Palm V had no functional difference from the Palm III, it was a more attractive product. As Hawkins said, "The goal was beauty. Beauty, beauty, beauty. I didn't want any distraction with other things." The Palm V sold for $449, weighed four ounces and was equipped with rechargeable batteries. Palm VII took a jump into the wireless world. Equipped with an antenna, it could send and receive emails and Web clippings.

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What investors want to know

Do investors care about execution on the critical success factors? Absolutely, they do. It's what keeps them awake at night. It's the best protection they have after they've decided to invest in a nascent entrepreneurial venture. No wonder they'll fixate on it before they settle up. As one leading investor noted, "We really dig into the management team. We want to be totally confident that this team can deliver on the promises they have made. We do that by looking at their experience, by assessing how well they understand their industry and their customers. We want to know about their leadership in terms of the CEO and the heads of engineering, R&D, and marketing, or whatever the most important functions are for any given opportunity."

A management team that can execute is the holy grail in venture capital circles. But what does great management look like viewed from up front, before events have unfolded? Is it about character? Chemistry? Drive or motivation? Perseverance in the face of adversity? Is it industry experience? Is it glib salesmanship? Is it technological expertise? Is it "having done it before," as Louis Borders had done in book retailing before his ill-fated Webvan adventure?

In my research, I learned that great management is about all of these things and something more. Do character, drive and perseverance matter? Sure. Is industry experience relevant? Of course. Does the ability to sell matter? Absolutely; it's what successful entrepreneurs do much of their time. But successful selling is not to be confused with a dynamic personality, as the naturally introverted Jeff Hawkins attests. Most of these elements are like fitness to the athlete. Helpful, even necessary, perhaps, but not sufficient for greatness.

What astute investors look for in people they back – and people is the right word here, for entrepreneurship is most often a team sport – is simple, really, but not obvious to most aspiring entrepreneurs.

Investors want to know that the lead entrepreneur has identified and understands the CSFs in the industry he or she proposes to enter, as well as the market and competitive environment the company will encounter. A credible, fact-based assessment of the domains of attractive opportunities can provide the evidence. That's step one.

Step two, the crucial one, is that the lead entrepreneur has assembled a team that can demonstrate by past action, not words, that its players, working together, can execute. Execute on each and every one of the few CSFs that the venture's industry will require. Or, alternatively and equally satisfactory, that the entrepreneur has identified what's necessary as well as what's lacking on the entrepreneurial team and acknowledged the need to fill that gap, perhaps with the investor's help.

If you want investors' backing for your new venture, make an effort to understand the CSFs that your venture will face. If you haven't worked in the industry you plan to enter, find some people who have. They will know the few factors that are crucial, those that account for much of the difference between who wins in your industry and who are the also-rans.

Most successful entrepreneurs will tell you that they made lots of mistakes along the way. Having the right team, a team that can execute on the CSFs, is a crucial element in recovering and learning from those mistakes. What have successful entrepreneurs learned that you should ask about the CSFs in your industry and about your entrepreneurial team?

- What are the few – only a handful, please – critical success factors in your industry? What support can you provide to show that you've identified them correctly?
- Can you demonstrate – by past actions, not mere words – that your team taken together can execute on each and every one of these CSFs?
- Alternatively, have you identified which CSFs your team is not well prepared to meet and how you will fill out your team to meet them?

Look in the mirror and ask what you personally bring to the party. Then fill out your team with people who can deliver what you yourself do not have or cannot do. Fill it with people who are different from you, people who can deliver on the CSFs for which you are not suited. Then jump into the race. Maybe you and your team will be the ones who re-write the record books in your industry. ■

Resources

John Mullins, *The New Business Road Test: What Entrepreneurs and Executives Should Do Before Writing a Business Plan,* FT Press, 2006.

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