Start-up Sutra

By Balagopal Vissa

I have been researching, teaching and advising entrepreneurs in Asia for the last decade, perched on INSEAD's Singapore campus. My intention in starting this blog was to write on a semi-regular basis about entrepreneurship in emerging Asia. Unlike the Kama Sutra for example, Start-up Sutra is not necessarily a 'how to' manual. Rather, I hope to inspire as well as inform. The ideas, issues, best-practices and dilemmas I will discuss would stem from both context-independent academic research as well as more Asia specific challenges in building new ventures.

Entrepreneurship is a *noble* career choice

In this inaugural post I want to leave you with the thought that pursuing an entrepreneurial opportunity that you are passionate about is a *noble* career choice – perhaps as noble an occupation as teaching or healing that Asian society has traditionally revered.

From society's perspective, creating new institutions (think India's Infosys), bringing about dramatic change in an industry (think China's Alibaba or Malaysia's Air Asia) and creating tens of thousands of jobs (think of all three companies), is above all, a *noble* endeavour. The fact that the passionate and driven entrepreneurs who founded these innovative companies – Narayana Murthy, Jack Ma and Tony Fernandes – became fabulously wealthy in the process was (probably) just the icing on the cake from their personal perspectives.

Despite the 'feel good' success stories like the ones above, entrepreneurship is a risky proposition. For example, one rigorous academic study on entrepreneurial success in the United States shows that only about a third of folks trying to launch a new venture succeed in creating an operating entity with revenues and only about a tenth of such new entities survive five years out. Part of the reason for these low success rates is because entrepreneurship involves pursuing novel ideas and activities and is therefore rife with uncertainty.

So, how does one improve the odds of success while pursuing the noble vocation of building a growth venture? The short answer is straightforward: spot good opportunities and execute them really wellJ! The deeper question then is to figure out how to spot good opportunities and what might executing well mean; what follows is an answer.

On spotting good opportunities

Unlike the mythical solitary genius, great venture ideas seldom occur due to brainstorming alone in a closed room. Rather, they arise when entrepreneurs interact with a diverse group of knowledgeable people, and recombines ideas from different sources. There is no magic formula to generate creative insight; yet you could situate yourself so you continually encounter a stream of interesting venture ideas.

The key is to have an appropriately configured professional network (your current stock of professional relationships) and stay alert to the problems and possible solutions that your network contacts grapple with as users of products and services. Our natural tendency is to hang out with people like us – much like how birds of a feather flock together. When your professional network consists predominantly of people like yourself, you tend to hear the same stories and the same information keeps re-circulating, leading you to falsely believe the external environment is consistent when actually, it appears that way only because you are reaching out to a narrow range of information sources.

So, difficult as it is, building relationships with people who aren't like you makes it more likely that you spot problems that can be solved profitably in novel ways. Look for people who are different in terms of age, expertise in terms of industries and functional areas, social communities, geographic location, different positions in the supply chain (e.g. vendors, partners and customers) etc.

Great venture ideas typically have three ingredients in common: (i) the opportunity stems from recognizing unsolved problems or unmet needs that can be addressed in an innovative way; (ii) the innovative idea involves creating a new market niche that is large, provides multiple revenue streams and supports scalable operations and finally (iii) the founder is passionate about the idea and has at least some relevant skills.

On Execution

Having zeroed in on what you believe is a great venture opportunity, the next step is execution. It is useful to think of execution in terms of two transitions: first moving from an idea to a nascent business with some revenues; second growing from a nascent business to an established, viable one.

The critical point about the first transition is the following: An opportunity is (merely) the entrepreneur's*conjecture* about an unsolved customer problem or unmet customer need. The only way to test that conjecture is in the marketplace with users. When you do so, your 'great idea' evolves; as you learn more about the environment and adapt, you usually end up with something quite different from your original business concept. Sometimes, this adaptation process might suggest your great idea is in fact a viable business; sometimes it might suggest the exact opposite.

The key therefore is to go through this adaptation process cheaply (i.e. with little capital at risk) and quickly. In other words, failing quickly and cheaply is better than soldiering on and burning through a lot of capital before concluding your idea was flawed. Bootstrapping is a time tested technique to validate a business idea with minimal capital at risk. The essential logic of bootstrapping is to have very little *fixed*costs, engage a few committed customers/partners, adjust to their needs and thereby learn the value of your offering and take advantage of unexpected market surprises to grow.

Once your venture starts generating steady revenues in the novel market niche that it helps establish is when you need to worry about the second transition. The critical point here is the following: Typically, once the potential of the new market niche pioneered by your venture is established, your venture will face fierce competition – from copy-cat imitators as well as incumbents in adjacent market niches. Managing profitable growth in such an intensely competitive context is a difficult challenge. Success in this early growth stage requires market focus, building adequate management control systems, raising enough capital to fund the growth and most importantly, building a capable top management team. Often, it may also involve the founder acknowledging his/her limitations and stepping aside to let a professional CEO take his/her baby to the next level. These are not easy tasks, which is one reason why many ventures fail at this crucial stage.

Successfully navigating this difficult transition would typically pave the way for an exit opportunity for the initial investors and the founders – either in the form of a trade sale or listing in public markets through an IPO.

To sum up, entrepreneurship is as noble an occupation as teaching the young or healing the sick! Yet, it is often a riskier proposition than teaching or healing – manage the risks by picking an idea that is a great opportunity for you and execute well to reap the rewards of your hard work.

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https://knowledge.insead.edu/entrepreneurship/start-sutra

About the author(s)

Balagopal Vissa is a Professor of Entrepreneurship at INSEAD. His research focuses on the people side of entrepreneurship – such as structuring effective venture teams, building entrepreneurial networks, and enhancing corporate governance – particularly in emerging economies.