

Start-Up Part I

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[MUSIC PLAYING] [Start-up Part 1] [Coming Up With The Idea.

Organize Your Ideas. Overcoming Obstacles. Bringing Your Concept To Market]

ROBERT L. JOHNSON: The first thing is you have to congeal the idea in your mind that this thing works. [Robert L. Johnson, Co Founder, Black Entertainment Television, BET, Washington, DC] And what I usually do is I sort of just think about how it'll all come together, almost like putting a puzzle together in your mind. You say, what do I need to do this? I need programming. I need distribution.

ROBERT L. JOHNSON [continued]: I need content. I need capital. And you sort of put all those-- at least what I do is I put all of those things in my mind, and then I start going through the Rolodex in my mind and say, OK, where will I get the capital? What's the distribution platform I'm going to use? How do I get a hold of content? And once I'm clear in my mind that these things exist,

ROBERT L. JOHNSON [continued]: I know that they're out there, whether I have them or not, I know they're out there. Then, the next thing is, you prioritize it. What's the most important thing to do to use to start this thing?

ERIC RYAN: My best quick tips for entrepreneurs is one, make sure your idea is really good. [Eric Ryan, Co Founder, Method, San Francisco] And what we did was, don't ask your friends, because they're going to tell you it's good, no matter how crap it is, because they're your friend. So you've got to get a panel of people together from a cross-section of experts who will give you real, honest feedback. So what we did was we brought the entire thing to life

ERIC RYAN [continued]: as a concept book. We gave it to 30 people. And we didn't tell them come back and tell us what's good or not. We said come back and tell us why this idea is going to fail. Really shoot holes on it. And then, it's their job to tell you why your idea is bad. After hearing that feedback, if you're able to make corrections to anything that was shared, and you feel really good about it, then move forward.

ERIC RYAN [continued]: And if you move forward, don't quit. And I've heard that the biggest difference between successful entrepreneurs and failed ones are the failed ones just quit a little too soon.

WARREN BROWN: When I started baking cakes, I used to bring them to places and share them with my friends. [Warren Brown, Owner, CakeLove and Love Care, Washington, DC] And one time when I brought them to a family reunion, I had to travel by plane to New York City, and I brought this cake that's on a white plate underneath blue plastic Saran wrap. You couldn't really see what was on the plate, but you could tell it was a baked good.

WARREN BROWN [continued]: And all the people that I was passing along the way kept on saying, oh, is that cake for me? Oh, I want some. Let me have some of that. And hey, is it my birthday? Is it my birthday? You know, share it with me. Share it with me. Over, and over, and over again. In DC, and when I got to New York, same kind of thing. And I'm waiting by curbside to get picked up, and I realized like, you know? This cake is just a magnet.

WARREN BROWN [continued]: People are drawn into it. And I said to myself, like, if I can keep making that, people will keep coming. So let me just make cake, and everything else, hopefully, will sort itself out.

LEXY FUNK: You have to have a unique product and a unique angle, and you have to also articulate it very, very well. [Lexy Funk, Owner & President, Brooklyn Industries, New York City] It has to be different than what is out there in the market. It has to have a hook. For us, the hook was the

billboard, the recycled, the made in Brooklyn, the name. All of those things together as a package really resonated with the editors, and then with the customers,

LEXY FUNK [continued]: and that's what launched the product, and that's what launched the beginning of our company.

CHRIS MACASKILL: There's usually one attribute to a brand that you think of. [Chris MacAskill, Co Founder, Smugmugcom, Mountain View, CA] When you think of Apple, you probably think of the ease of use. You may think of style. But there's not too many other attributes you think of. So we didn't make long lists. We were looking for the thing. One or two things that really made us different from everyone else, that was the thing we would have to defend at all costs. And that thing was, your photos look better here.

CHRIS MACASKILL [continued]: It was just that simple. Other people can have cheaper prints. They can do their value proposition. That's fine. They just can't do ours without us defending our territory, as hard as we can defend it.

KENNETH R. BANKS: Well, from the very beginning, we've always tried to be able to separate ourselves from the market, to create some kind of-- to identify a market niche, and to find a place where we could provide services better than anybody else. [Kenneth R. Banks, Owner & President, Banks Construction, Baltimore] And how you do that? Construction is a mature industry. It's an industry that-- there's 1,000 construction companies

KENNETH R. BANKS [continued]: around. So how do you really differentiate yourself between your company and another company? So what we decided to do early on is specialize? And we specialized in something that I term fast-track construction. And we developed the expertise and the programming to be able to start and finish construction projects faster

KENNETH R. BANKS [continued]: than anybody else around. So we gained that expertise.

TONY HSIEH: When I first heard of the idea of selling shoes online, it definitely seemed like the poster child of bad internet ideas. [Tony Hsieh, CEO, Zappos, Los Angeles] But what convinced me that it could actually be a business was that 5% of the footwear market-- which the footwear market is \$40 billion, so 5% was \$2 billion-- was already being done by paper mail order catalogs

TONY HSIEH [continued]: back in 1999. So in my mind, the market opportunity was there. At the very least, I thought the web would surpass catalog sales.

SETH GOLDMAN: Well, the ideas for creating a less sweet beverage started with back in business school, when I was in Professor Barry Nalebuff's class, and we were doing a case study of the beverage industry, and we both agreed that there was something missing out there. [Seth Goldman, President & TeaEO, Honest Tea, Bethesda, MD] But we didn't actually come up with the idea to launch Honest Tea until several years later I went for a run in Central Park.

SETH GOLDMAN [continued]: And I was working in the investment field at the time. And I had given a presentation, and then went for a run in Central Park. And once again, was thirsty, and went to the beverage cooler, and I didn't see anything that really appealed to me. And so I emailed Barry and I said, you remember that whole case study we did of the beverage industry? How we both agreed there was something missing out there? Well, I'm ready to do something about it.

SETH GOLDMAN [continued]: Tea really came to be the perfect drink, not only because it is the world's second most popular drink, and it's healthy, and you can make great tea. But my co-founder, Barry Nalebuff, had come up with the Honest Tea, which for me was a great way to connect an idea of a beverage company with an idea of a socially responsible business.

TONY HSIEH: I think the most important thing is just get started. [Tony Hsieh, CEO, Zappos, Los Angeles] Whatever the original idea is, it's always going to change, because you need to be able to see how customers respond, and how employees work, and so on. And really, I think the biggest hurdle is just like when you go running.

TONY HSIEH [continued]: The hardest thing is just getting out the door. And so don't worry about coming up with the perfect idea. Because no matter what you plan, it's going to change anyways. What's more important is just getting started. [MUSIC PLAYING] [Market Research On Customers & Competitors. Identifying Your Target Customers. Devising New Growth Strategies. Researching The Competition. Utilizing Industry Research. Using Sampling & Demos To Get Feedback]

STEVE BELL: The essence of marketing is knowing who your customer is and what do they want. [Seth Bell, Founder & CEO, Pacific Crest Industries, Sumner, WA] And you could take all the marketing stuff in the world, it's all fluff, if you don't know who your customer is and what do they want. What do they need? What do they need to be satisfied? When you've answered those two questions, when you define your customer and you define the product,

STEVE BELL [continued]: then you can meet that need. To define our customer, we've hired marketing research firms that actually interview our customers, our dealer customers, and we also interview our direct final end user customers, and we compile data on demographics.

MAURICE STONE: So before we go into a market, and before we implement anything in our company, we must know the demographics, the statistics, the economics, around each of those ideas, or each of those plans, or each of those cities, or points that we plan to move to. [Maurice Strone, Chairman & CEO, Intrepid Holdings, Houston] It's important to know what your consumer, or your patient, or your provider, which is a doctor, or hospital, or clinic

MAURICE STONE [continued]: is doing in the marketplace. If we don't research who's on Medicaid, who's on Medicare, who's on insurance, what the demographics look like in this market, or what the demographics look like in that market, we won't know where to place our services. We won't know where to put our clinics. We won't know where to deliver our pharmacy services, or any of the other services that we do.

KEVIN HULL: As far as how we shopped the competition, or used the competition, to build our business out of the chute is that we went through and looked at a ton of our competitors' websites. [Kenneth Hull, Owner, Texas Custom Signs, Austin] Looked at a ton of our competitors' storefronts. Went in and visited the locations.

KEVIN HULL [continued]: As far as what methods that I took to build that process, I kind of took the Wal-mart approach, and I looked at the websites, I looked at the locations, looked at the products, and said these are the things-- wrote down notes as to what they were doing great, what they did good. Everything from the colors of the website,

KEVIN HULL [continued]: or feel of the website, or easability to the website, to the way their display areas looked, or the products that they were offering. After going through 50 to 100 websites of competitors, even local competitors and nationwide competitors, I showed our web designers these-- I showed him like, four to five websites that I liked specifically and said,

KEVIN HULL [continued]: take a look at these websites. We don't want to duplicate them, but get the feel from what our competitors are doing. And that's who we're going to be competing with, and that's who I shared-- I shared the information with them. I also shared other industries, but I shared with them successful-looking sites, and said hey, take a look at these, and get a feel for them.

BETTY HUTH: In the beginning, I found out who my target market was by reading surveys that the

Professional Photographers of America had done on who buys photography. [Betty Huth, Co Owner, Huth and Booth Portrait Studio, Brandon, FL] 80% of all photography is bought by women. And so my market is mainly women. And the children and family market

BETTY HUTH [continued]: is the mother who makes the decision that the children are going to have their photographs taken, or that the family is going to have a family portrait done. So my market is women who have discretionary funds to spend on photography.

DON KATZ: So I looked at-- like to me, you have to look at demographics. [Dan Katz, Owner, Wine Symposium, Irvine, CA] Can this business be supported, and is there a need for such a business? Because this is a totally new business for Orange County. There's a lot of wine culture here, as far as-- there's a lot of wine shops with tasting elements to them, where people can come taste and buy what they like on like, one night of the week.

DON KATZ [continued]: But I really wanted people to sit down and have the wine bar experience. So I kind of, you know, did a little research did my demographic studies, looked at how I would run the business, created a menu. The best way to do a demographic study-- I learned this at school-- is look at all the magazines that you might advertise in, and who

DON KATZ [continued]: might be your target customer base, and ask them for press kits. Because they already do demographic studies, and they're going to send you what their core audience is. So you can pull the statistics from that and their readership. That's one way. And then the US Census Bureau is another way. And you can go on their website and track specifically to the point that per zip code, what kind of money

DON KATZ [continued]: is in that zip code? The average household? You know, what they're spending their money on. Then you look at like, the National Restaurant Association. You look at the trends on how much people are the spending their money out. Wine consumption, I looked at wine consumption trends. Wines that are on the upswing. The movie Sideways came out, which was really nice timing for it.

JOHN MICHELSON: Our research in the beginning was definitely a key to us be successful. [John Michelson, Co Founder, Leaf Sald, Austin] Research included actually going to different places. . We went and visited, I would say, probably five different restaurants that were either very similar to what we ended with, or something along the same lines as the type of environment that we wanted, so that we could literally-- I mean,

JOHN MICHELSON [continued]: I sat in a sandwich shop in Chicago for an entire two hours, and just counted how many people they could get through the line, and watched how they did it, how many people they had behind the counter. You know. so everything from just logistically, how one restaurant owner decided to make their concept work. We were looking for, I would say,

JOHN MICHELSON [continued]: the target demographic was somewhere between 25 and 40, female. So we were asking them, our Realtor, about every location that we looked at. Are there offices around here? And there are hospitals in this neighborhood? Are there doctors' offices in this neighborhood? law offices? Things like that. And so we leaned on them to get that information.

JOHN MICHELSON [continued]: I mean, we could find some of it on the web, but a lot of it we used our Realtor to help us with that.

WARREN BROWN: I did research by going to work, bringing cakes to work, by going to parties. [Warren Brown, Owner, CakeLove and Love Care, Washington, DC] I had cake open houses, I called them, where people would come to my house, or some art gallery that I would rent out, and had cakes there, sliced them, asked people for feedback, give me your written, you know, I like this cake,

I don't like it. I'd improve this.

WARREN BROWN [continued]: I would pay for this. I did that kind of market research. It was after I had this epiphany moment and vision of like, OK, I can build a business around it, I had to say, well, what's business going to look like? What exactly is that? A cake is one thing, but how do you get there? And I went home. When I went back home, I literally took the pages out of the yellow pages

WARREN BROWN [continued]: that said bakery for Washington, DC, and I drove around, just to look at them, just to see what they were like. What does it mean that you're a bakery in Washington, DC? What do Washingtonians have in their head as, this is the bakery? Because that's what physically it would be. And nothing matched what I had in my mind it could be, should be, what would be cool, what would be neat, what would be funky?

SETH GOLDMAN: Our very first account was the Whole Foods Stores of the mid-Atlantic. [Seth Goldman, President & TeaEO, Honest Tea, Bethesda, MD] And that first summer, we would be sampling in those stores as much as eight times per store in a month. We knew that we had to reach those customers, because our product's different. And yet at the time, it was in a very conventional package. We just needed to have people taste it.

SETH GOLDMAN [continued]: Because we do so much sampling, we get lots of feedback from our customers. So our market research is a dynamic, ongoing thing. And we certainly got ideas of how we could change, how we could improve what we were doing.

ERIC RYAN: Since we didn't have a lot of marketing dollars, we would offer to do demos, which is where you offer to a retailer that for three hours on a Saturday, we will be doing demonstrations in your store. [Eric Ryan, Co Founder, Method, San Francisco] And that's a way of giving marketing support. But we use those demos because we did them ourselves as a way to get consumer learning. So as we'd be demoing the product, what I was really doing was interviewing consumers about it,

ERIC RYAN [continued]: watching how they react to it. And again, just being at the store at that level and that intimacy, in those early days taught us so much about the business, about what was going to work, and what's not going to work. And if you look at a successful business, they've baked in agility and flexibility. Like if anybody follows a plan, no business plan ever works. Because it's just that. It's a plan.

ERIC RYAN [continued]: And as you get in, you test, you learn, you test, you learn, and you keep adjusting along the way. So doing that test mark and being in-store really helped us do that. [MUSIC PLAYING] [Creating A Business Plan. What Goes Into A Business Plan. Validating Your Idea. Setting Realistic Expectations. Using A Business Plan To Pitch Investors. Updating Your Business Plan.]

WARREN BROWN: A business plan is something that is very organic, just like a business. [Warren Brown, Owner, CakeLove and Love Care, Washington, DC] Things change all the time. Adaptations need to be made, things stricken from the record in terms of like, what your goals are, if they're off. The businessman essentially has to include-- it's the playbook. It's the overall general playbook of what's going on in the business.

WARREN BROWN [continued]: And it'll include the mission statement, your executive summary, your operating plan, your need for cash, where that money's going to be spent. Cash flow statement is huge. You have to be able to demonstrate to people, listen, I want money from you, so I can spend it on these things. And this is how we're going to make the money.

WARREN BROWN [continued]: And I can pay you back with all the money that we've made, and we brought in. So people want to see how you're going to spend the cash, and how you're going to raise that money. In terms of sales forecasting, that's a big part of it. The personnel that will be involved in

the business, it's important to demonstrate that you have key players in positions with experience

WARREN BROWN [continued]: that have done it before, hopefully. If not, you can demonstrate some how their tenacity at doing work, and to troubleshoot. You know, the exit strategy is a big part too. A lot if you want to know what the heck's going to happen if everything goes wrong. Things in business can go wrong. They will. Something will go wrong. And if it's catastrophic, you have to have an idea as to how you can

WARREN BROWN [continued]: get out and cut your losses. It's really important to kind of take a step back every once in a while. And if it's pulling out the business plan, or pulling out something that closely associated with it, that really does help to see where you are.

LISA DRUXMAN: I think too many entrepreneurs might be held off, or put off by the thought of putting together a business plan. [Lisa Druxman, Founder & CEO, Stroller Strides, San Marcos, CA] It doesn't have to be the grandiose formal plans that you think of. Just make sure that you've really thought about, why are you doing this? How are you going to do it? And truly, how much money is this going to cost? And how much could you make?

LISA DRUXMAN [continued]: Because if you don't run the numbers, you might find out that the potential is not there compared to how much work you're going to put out. So you have to make sure that all of your goals are in the same place.

MICHAEL POWELL: Well, I think often in business plans, the common mistake is to be too optimistic. So you have to do a really worst case scenario, and say, can I survive that? [Michael Powell, Owner, Powell's Boks, Portland, OR] And I've seen a lot of business plans where people who are richer than anybody in the end of the fourth year, and somehow that never quite happened. And it's because along the way, expectations aren't met. Sales aren't as good as you'd hoped.

MICHAEL POWELL [continued]: Costs are higher. Margins are thinner. Unforeseen events happen. So you have to have in your business plan built in a high level of cushion for all the risks that are associated. It's going to take more people to do what you think you're going to do. They're going to cost more. Your overheads are going to be higher. Electric bill's going to be more than you thought.

MICHAEL POWELL [continued]: All of those little expenses, sometimes it's easy to ignore, because it seems small, add up to a serious expense. So often, I think people underestimate seriously the costs associated with being in business.

LISA MARTIN: Business plans don't need to be 40-page documents. [Lisa Martin, President & CEO, Leapfrog Solutions, Oakton, VA] As a matter of fact, at Leapfrog Solutions, we have a two-page strategic plan that sets the goals for the next year, and three years out. Not usually more than that, because technology changes so rapidly. Sometimes, I feel it lasts about two weeks in this day and age.

LISA MARTIN [continued]: But to have some guidelines, not only to make sure that you're on track as the owner, but that you communicate that with your staff. As our business plan continued to grow, what we found significant about that 12-page document, if you will, is everything that we wrote on that application came true, on how we envisioned

LISA MARTIN [continued]: the company the next year. So there is a magic to that madness, in trying to figure out what numbers are going to be at for the following year. The significance in a business plan 10 years later is that it's a living document. It shouldn't be something that you put together, and then stick in a drawer. You need to constantly be reviewing it.

LISA MARTIN [continued]: If you continue to grow, and want to go after what venture capitalist funding, angel investors are out there for small businesses, any other types of loans, you better have

a solid business plan.

ANDREW KRUSE: Our business plan began with the technology, and it was looking at, first of all, what was unique about our product. [Andrew Kruse, Co Founder, Southwest Windpower, Flagstaff, AZ] What made our product better than anybody else. Why we could potentially make good returns on that. And that's what we were looking for, we're communicating that. And then it was to say, this isn't just a product for a remote home or a cabin. This is used for numerous applications.

ANDREW KRUSE [continued]: And so, we would outline all the different places and ways that our product had been used. So we would go down the list of it, and talk about applications, and what those respective markets were, and how big collectively those markets could be, and how this business could evolve around it, and make money for ourselves, for the investor. [MUSIC PLAYING]