

10 Fehler bei der Unternehmensgründung (und wie man sie vermeiden kann)

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Introduction

1 STARTUP COUNSELING IN PRACTICE

In this presentation I will discuss the experience we have collected with Campus, the CyberForum, and earlier business angel and venture capital activities. Even though this does not have general model character, it can surely serve as a startup guideline in order to prevent common problems.

1.1 BACKGROUND

I was still a student when I first got involved in a startup business. My partner was an engineer without German citizenship – seeking for a German who understands commerce. I perfectly matched point 1, my commercial knowledge however was even worse than we esteemed at the start. But, believe it or not, the business is still active today.

In the years to follow, I frequently accepted similar engagements. After the founding of a regional capital venture company (Chancen-



Kapital Karlsruhe), I finally decided to provide my gathered skills to the creation of a public utility institution – the CyberForum.

The CyberForum counsels startup and young TIMES businesses in the TechnologieRegion Karlsruhe. The objective is to provide and secure new jobs. Meanwhile we have assisted more or less closely in over 200 projects. Our core task is the counseling of young businesses – the basis of this presentation.

www.cyberforum.de

1.2 OBJECTIVE

Obviously it is not my goal to denounce the mistakes of others. I rather want to trigger a simple process clearly stated in the Internet address of a Web site maintained by the German Ministry of Economics and Labor,

www.aus-fehlern-lernen.info ,

meaning “learning from mistakes”.

Summary

In the scope of counseling young entrepreneurs, we frequently come across similar problems:

- *Enthusiasm instead of analytics – the idea lacks profound development*
- *Secretiveness – secrets don't sell*
- *False modesty – the firm's name seems to be secondary*
- *Carelessness – whoever needs contracts*
- *Improvisation – we cannot plan*
- *Tempo – where's acceleration?*
- *Blind flight – accounting isn't sexy*
- *Optimism – the customer pays cash*
- *Speechlessness – there's no message*
- *Thriftiness – we can't afford marketing*
- *Self-deception – see things in the eye*
- *Immobility – time will tell*

This summary shall not be all. Some suggestions will follow, how to take these hurdles. There is no guarantee for success, however considering these practice-oriented recommendations can improve chances of survival in the jungle of market economy.

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„Good judgment is usually the result of experience and experience frequently is the result of bad judgment.“ (Robert Lowell)

The Toughest Job in Market Economy

2 STARTUP SNARES

2.1 ENTHUSIASM INSTEAD OF ANALYTICS – BLINDED BY LOVE!

Every startup business lives from the idea that inspires its entrepreneurs. Finally self-employed! But this does not mean you can do whatever you like. Now the client takes over the part the former boss used to play and puts on the screws.

The essential importance of the client is often underestimated in the assessment of young businesses. It would be absurd to follow a personally exciting idea without knowing the related market chances. Rather than freezing in a state of passion, it could be useful to “disguise” as a customer and solicit quotes from the most powerful competitors, e.g. Then you can start answering some questions such as:

- *What are the sales markets and their trends?*
- *What are the market potentials for individual product / customer groups?*
- *Who are the competitors and what is their market share?*
- *How are competitive and substitutive products positioned? Prices, distribution channels, advantages?*
- *What are the problems that might affect market entry?*
- *What are the expected technological developments?*
- *What are the present and expected regulations and directives?*

<http://www.infoquelle.de/Marktanalyse/Marktanalyse.htm>

In the scope of a first consultation, we routinely ask the young entrepreneurs: “Who are your competitors and what are they currently planning?” And we are no longer surprised to hear the

answer: “We have no competition!” This response however clearly indicates that the topic has not earned enough attention – simply comparing the own future product with the current market offer. There might still be enough time for prices to drop, novelties to ripen, and performance to improve!

2.2 OPENNESS PAYS

How much secrecy is adequate to your business idea? Who may not find out? Unfortunately many startups overestimate the innovative nature their idea. Some even fear, the consultants might copy them after a first insight in the scope of initial presentation.

Frequently we are confronted with the precondition to sign a secrecy agreement regulating the related responsibility that the news doesn't spread – as honorary consultants we shall even accept a penalty clause and the burden of proof in case of leakage. Later on, we often come across long existing competition products, publications concerning the idea, other persons who independently had the same idea – because it is in the air, ...

In the rare case that ideas are new and interesting enough to go through the trouble of protection we ask a patent attorney for advice. Patent is the only way to really protect the originator. However, if the idea or the current state of development does not meet patent requirements, then the secrecy agreement isn't worth a penny. In this case it can be more useful to invest in further refinement in order to clear this hurdle – or check on lower forms of protection, e.g. utility model, trademark, design patent, copyright, publication, ...

In any case, to market an idea with success, you must first proclaim it. Not only the customers must “buy” the idea but employees, providers, and financiers as well. In this context, openness can open many doors – inspiration with appropriate innovation has more impact than waiting in secrecy for the rescue investment.

A computer scientist once told me: “I was first with the basic idea of Yahoo.” My answer applies to all startup entrepreneurs:

„There are tons of ideas. It's the accomplishment that counts.“

2.3 WHAT SHALL THE CHILD'S NAME BE?

Many startup entrepreneurs have to change the business name due to violation of trademark or other name regulations. This can be checked in advance, in order to prevent extra expenses.

Obviously, coincidence is not an adequate source for a name that will decorate correspondence, products, and packaging and shall be memorized by customers! The business name is the first and most important figurehead – the flag we hold up in the midst of competition.

It pays to give this issue an extra thought: starting with a collection of fancy names, selecting by pronunciation, association, ..., ending with at least five pleasing alternatives. In a next phase, the alternatives must be checked by the local chamber of commerce and a patent attorney who also searches large databases by similarity. Finally one or two names are registered as Web address and trademark. By the way, you can also contact a professional for name development, e.g.

<http://www.namefinding.de/>

2.4 CARELESSNESS – WHO NEEDS CONTRACTS?

More than half of all business formations are based on more than one partner. However, clear agreements are often missing, e.g.:

- *Articles of partnership*
- *Articles of management*
- *Codes of procedure (division of work, competencies)*
- *Scheduling*

Within the CyberForum, attorneys offer general solution packages

concerning the typical contracts in the scope of a business founding. In over 50% of the startup businesses we support, changes in partnership or management occur within the first two years. This fact calls for solid contracts in order to avoid conflict and trouble – even among friends. And the expenses are well invested right at the start since they are by far lower than when agreements turn out to be missing.

Another useful approach is the preparation of a road map with the aid of a project planning tool. We often observe that the basic discussions concerning this task can considerably improve the quality of the venture. And once you're at it, prepare a meaningful business plan. You will need it later on for capital procurement, management by objectives, and preparation of an action plan.

2.5 IMPROVISATION – WE CANNOT PLAN!

Many young entrepreneurs feel swamped by the fluctuating business situation, the vagueness of customers, and the flexibility in competition. However, you need the goal in order to choose a path – there is no way around it.

Two core tasks of an entrepreneur are: defining goals and developing strategies. The result of these efforts must be communicated in clear and accurate language – typically in the business plan. Preparation and continuous maintenance of this useful document provides powerful support primarily for the own clearness. It would be silly to live uniquely from improvisation and neglect basic planning.

During our business plan reviews, we often come across the following problems:

- *The plan lacks detail analysis, e.g. the interaction between planned turnover and required capital – if you want to sell beer in the summer, you need the crates by winter.*
- *Costs are underestimated, e.g. insurances or sales activity (!) are ignored.*
- *Reserve was not considered, e.g. new products or services might demand extra introduction efforts caused by teething troubles.*

- *The future sales opportunities are almost always overestimated – growth shall continue and in 10 years all Europe will buy the product.*

A short list of the essential items in a business plan is presented on the Web site of the [CyberForum](#) (search "Businessplan"). The Landesbank Baden-Württemberg provides detailed information on the preparation of business plans on their startup Web site

[Gründerportal](#).

3 BOTTLENECK IN THE PROCESS OF GROWTH

3.1 TEMPO, TEMPO!

In practice, the founding process – from the decision to the first contract – can easily take up to two years. A possible result: financial resources are spent, the innovative advance has melted away, and the entrepreneurs still lack sales experience. Consequently the CyberForum aims at supporting young businesses in early sales figures, e.g. already after six months. Obviously seed capital ventures with a long development phase represent an exception. Still the following applies in any case:

*„Not the big gulp the small,
but the fast the slow.“*

And acceleration demands, e.g.:

- *Concentration on ready- or soon-to-sell products and services as well as customers open to innovation – „pioneers“*
- *Approaching customers already before finishing the products (learning by doing)*
- *preparing business models that offer careful customers a step by step introduction and guarantee the right of withdrawal*
- *Considering seemingly secondary topics such as packaging, logistics, and commission rates right from the start*

- *Involving cooperation partners, e.g. suppliers, service providers, and licensors instead of doing everything on ones own*
- *Advancing with determination without repeated discussions or doubt*

3.2 ACCOUNTING ISN'T SEXY

... and just the right task for spare time. But startup entrepreneurs never have spare time. Almost all critical situations I have seen in young businesses were caused or at least worsened by failure in accounting and controlling.

Usually it is inefficient to handle accounting on one's own. The founder's valuable time is needed for development of the business idea and the customer relations. Furthermore, professional accountants are usually cheaper than internal staff members. Establishing internal accounting and controlling might make sense once the business has achieved a consolidated state.

However, it is very important to demand full service support from the accountants. Monthly reports must immediately be prepared, discussed, and compared with industry standards. Furthermore, a significant chart of accounts is useful in order to estimate results and costs of individual sectors, e.g.

Make sure that important transactions such as depreciations or allowances are not generally booked with the annual statement. Accountable values are booked – in case of doubt as estimated or target figures!

Erroneous accounting can have tragic effects especially if essential decisions such as the allocation of capital or the entrance of partners depend on current figures. Just in case this happens to you, I bet you won't find it sexy.

3.3 MONEY MOVES THE WORLD

When young entrepreneurs start without a detailed business plan, we often meet a situation which is fairly easy to avoid: the lack of a general financing concept. First the available equity capital is spent and then the acquired seed capital. When money becomes tight, the

search for new financial sources starts – and frustration grows with the awareness that neither banks nor VC companies are interested.

This is definitively too late for appropriate action. It is much easier to start with several scenarios, to control the cash flow, and to search for financial resources well before the shortage, if appropriate. The German Federal Ministry of Economics and Labor, e.g., even offers software to assist liquidity planning.

<http://www.bmwi.de/>

Even though the average startup entrepreneur is turned down by VC companies, we can often show alternative ways to acquire equity capital. This starts at the MBG (non-profit-investment-company for small- and medium-sized companies in the state of Baden-Württemberg) and continues with business angels, strategic partners, and sometimes even family members – not to mention the efficiency of saving energy. In the broader sense it is also applicable to equity capital.

3.4 WHO AM I?

In the course of an official exposition tour, the Minister showed great interest in our project and asked one of our startup founders: “What is your idea?” The immediate answer composed of foreign words, technical terms, and jargon aimed at describing a complex mathematical method joining geometry and statics. The minister listened carefully – but didn’t understand a word. Nevertheless he asked the next entrepreneur the same question: “And what do you do?” Since this respondent had observed the previous situation, he decided for a short explanation: “I join people!” Visibly happy to understand, the Minister remarked “Ah, a marriage bureau.” “No,” said the entrepreneur, “an Internet provider!”

Most young startups cannot put what they plan to do into one concise

sentence. They lack the ability to reduce their idea to a short and convincing presentation.

Try the “elevator message”: Imagine the boss of your prime customer enters the elevator and you have the time between 4th and 12th floor to tell him why to choose your product. This is a useful technique to learn how to generate enquiries and turn contacts into faithful customers. Here are some more suggestions:

- *Think from the customer's perspective, not the creator's*
- *Emphasize the benefit for the customer*
- *Focus on the essential and promote only this*
- *Do not come up with alternatives – we offer what we are convinced of*
- *Use illustrative language – Martin Luther's Bible is a good example*

3.5 IF YOU MAKE A GREAT BEER – YOU DON'T NEED TO MAKE A GREAT FUSS ABOUT IT

Wouldn't it be wonderful if – in the sense of this title – good products could speak for themselves? The irony of this slogan in particular is, that it points out one of the most advertised beers in the world ...

Many young entrepreneurs still make the mistake to turn down marketing activity for reasons of economy. In the words of Henry Ford: “If you cut down advertisement to save money, you might as well stop your watch to save time!”

Even if large-scale campaigns are too expensive, it would be fatal to abandon the possibilities to call for attention at almost no cost. Guerilla, mosquito or virus advertising, e.g., are efficient methods to achieve good results at low investment compared to competition. They demand entrepreneurial creativity to develop methods such as:

- *Customers canvass customers*
- *Interactive Internet shop*
- *Fighting for top rank in Google, Yahoo, ...*
- *Attractive press releases*
- *Joint presentation at trade fairs*
- *Cooperative marketing with suppliers and/or customers*
- *Intensive customer service after sales*

- *Everyone is a salesman!*

In order to cut down threshold fear, advertising agencies within the CyberForum often have special startup offers for young entrepreneurs. Good advertisement is not necessarily expensive – as long as it clearly communicates the offer's benefit. Consequently, intensive briefing is far more important than a high budget.

4 STUMBLING BLOCKS IN TIMES OF CRISIS

Even a well established businesses can be struck by a difficult situation – this can happen any time. Young entrepreneurs lack experience with these situations and often don't have the reserves for immediate action. In these moments, professional crisis management is needed.

4.1 SELF-DECEPTION OR SEEING THINGS IN THE EYE

Self-knowledge is the first step towards recovery. It takes a realistic evaluation of the situation, even a clear sight of unpleasant things, in order to be able to analyze current figures and data. Usually the crisis can be foreseen well in advance: incoming orders drop, costs rise, competition introduces successful products or business models, a key staff member is no longer available, the business plan cannot be matched, ... In these cases, a simple extrapolation might show an upcoming liquidity problem within six months, e.g.

Nevertheless, hope rules the action plan: "it's just a matter of time!" A good consultant who knows that thing called pipeline, e.g. 100 requests lead to 30 quotes, followed by 10 negotiations, ending in 3 contracts, will ask where the orders shall come from. And if the 100 requests are missing today, tomorrow's sun won't rise with 3 orders.

It would be too easy to blame lame economy, unfair competition, or even poor staff members in this case. Is the bank responsible for not conceding credit? In the end the entrepreneur must bear the consequences and face the situation.

4.2 IMMOBILITY: TIME WILL TELL

In the midst of a business crisis, there is not much time for extra consideration. Cost reduction activity, sales efforts, negotiations for a respite – all this takes time and needs to be applied in time. Now's the time that flexibility pays. Rapid changes are demanded – and this works best at low fixed costs.

Even the most sophisticated recapitalization concept is useless when time is short. This is why it is important to have an experienced consultant at hand who can join all involved persons at a table in order to develop useful solutions. If appropriate you should consider filing for insolvency in sufficient time. Better an end with a good scare than ... In this context, please read the interview with the insolvency practitioner Rolf Rattunde in:

www.aus-fehlern-lernen.info/

Conclusion

Entrepreneurship is the toughest job offered by market economy. And it is also worth while: Self-determination, creating the new, earning money – these are interesting prospects for those who make their way on a thorned path.

Facing this risky situation, it can be a good thing to learn from the mistakes of others, e.g. those mentioned in this presentation. Maybe you just have to hold on to your strategy before success settles in – you can always delay the big party...

In the introduction I announced ten mistakes. Finally I described twelve and it also could have been twenty. But who wants to disclose everything right from the start?