Entrepreneurship: Key Aspects

Why Kindergartners make better Entrepreneurs
Lessons from the Marshmallow Challenge

Business graduates:
- Want to plan their way to an optimal outcome, then execute on the plan
- Adding incentives (cash!) only makes the problem worse – planning goes up and the average tower height goes down!

Kindergartners:
- Don’t waste time on the perfect plan
- Experiment over and over until they find a model that works – test the “assumption” (the marshmallow) early and often = effective

Known vs Unknown Problems

- Entrepreneurs make the mistake of acting like they are executing on a known problem
- Need to recognise you are tackling an unknown problem!
- We waste time and money on a guess that turns out to be wrong
- Need to apply the right tactics to quickly validate assumptions
The Planning Mindset

• Much of our training has foundations in a planning mindset
  ➢ we plan and then execute on the plan

• This works when we know the exact outcome and the path to get there!

Entrepreneurial problems are ambiguous and uncertain

Planning mindset ➔ Experimentation mindset

The right process:
➢ Identify your assumptions
➢ Use a prototype to test your assumptions
➢ Adjust
➢ Repeat!!
The Planning Mindset trap

- In deep uncertainty, planning feels like progress
- Making a plan and hitting milestones feels like progress
- Can lead you into failure
- Remember this – you have an alternative!

You don’t have to stick doggedly to your business plan

The Socio-Cognitive Dynamics of Entrepreneurial Ideation

Boland & Kolb
2012
Classical view of entrepreneurial business development

- Existence of an opportunity
- Discovery of Opportunity
- Decision to exploit
- Resource acquisition
- Entrepreneurial strategy
- Organising process
- Performance

The Socio-Cognitive Dynamics of Entrepreneurial Ideation
Boland & Kolb, 2012

Entrepreneurial Ideation Process

- Problem engagement
- Social & Conception Experiment
- Trial Idea Hypothesis
- Active Experiment
- Incubation

The Socio-Cognitive Dynamics of Entrepreneurial Ideation
Boland & Kolb, 2012
The Marshmallow...

“We basically test something out in small area with very few funds. If it works, great, we’ll put more money into it to kind of make it successful, but as an entrepreneur, you wake up every single day, you make decisions, and you move on. And a lot of times your decisions are right, a lot of times they’re wrong, but you learn from them, and you just continue to plow forward.”

Quotation from Boland and Kolb Research

Social Experimentation

“Once we had the capital, we said you can’t really go after it until you experiment, until you try, until you listen, until you talk to customers, until you actually just get your hands dirty, and before you could actually step it up and put it out as a kind of a business line that you could count on. So we said, “Hmm, that might be worth piloting, [but] we’re still learning [and] we’re going to just kind of sit down and do a full brain dump, probably in July, and say, ‘What’s everything we learned? How do we take it up to the next level?’”

Quotation from Boland and Kolb Research
Social Levels of Ideation

- Outer Group
- Close Outer Group
- Inner Group
- Trusted Partner
- Entrepreneur

Sounding board, source of ideas

Social capital
Shared experiences
Common language
Different backgrounds

Social Ideation

“I’m analytics. One of the partners is technology. One of the partners is strategy. Generally, we’ll describe what . . . the challenge is . . . and then we’ll just start working our way around the table. People start to throw out their interpretation of what the problem is. You know, “I think it’s like this,” or, “I think it’s like that.” I would draw pictures. There are a couple of other guys that are very visual that will start drawing pictures. Other people aren’t; they just start laying out examples. Some people will use metaphors.”

Quotation from Boland and Kolb Research
Learnings from *The Socio-Cognitive Aspects of Entrepreneurial Ideation*

- The entrepreneurial process is not linear
- Entrepreneurs need to test their idea soon and fast
- Learn and adapt
- Successful entrepreneurs test and ideate with others

*Boland and Kolb*
What is the “bottom line” that all entrepreneurs must possess? Many authorities believe that the energy and spirit is the key factor.

A lot of people have grand ideas, only few have the drive to make the dream come true.
12 interesting facts...

1. The average and median age of company founders when they started their current companies was 40.

2. 95.1% of respondents themselves had earned bachelor’s degrees, and 47% had more advanced degrees.

3. Less than 1% came from extremely rich or extremely poor backgrounds.

4. 15.2% of founders had a sibling that previously started a business.

5. 69.9% of respondents indicated they were married when they launched their first business. An additional 5.2% were divorced, separated, or widowed.

6. 59.7% of respondents indicated they had at least one child when they launched their first business, and 43.5% had two or more children.

7. The majority of the entrepreneurs in the sample were serial entrepreneurs. The average number of businesses launched by respondents was approximately 2.3.
9. Only 4.5% said the inability to find traditional employment was an important factor in starting a business.

10. Entrepreneurs are usually better educated than their parents.

11. Entrepreneurship doesn’t always run in the family. 51.9% of respondents were the first in their families to launch a business.

12. The majority of respondents (75.4%) had worked as employees at other companies for more than six years before launching their own companies.

THE MINDSET OF THE ENTREPRENEUR
PROFILE OF THE ENTREPRENEUR

• *Self confident and persistent* in the pursuit of their objectives

• Are *motivated* to create something unique on their own

• Dislike someone else having *authority* over them

• Are *impatient* and drive themselves and everyone around them

More.....

• Can *sell* their product!!

• Are comfortable in *stress* situations and are challenged rather than discouraged by setbacks

• Are willing to make personal and family *sacrifices* in order to succeed

• Are *open* to good ideas
And more...

• View money as a \textit{resource} and as a way of keeping score, but not as a motivating source

• Are mentally tough and recognise their own \textit{limitations}

• Are more concerned with people’s \textit{accomplishments} than their feelings

More than anything....

\textbf{WORK HARD!}
Opportunistic
Passionate
Innovative
Crazy!

“If I had asked people what they wanted, they would have said FASTER HORSES”  -Henry Ford
So why look at Entrepreneurs?
What can you learn from them?

“Learn from the mistakes of others. You can’t live long enough to make them all yourself.”

– Eleanor Roosevelt
5 LESSONS FROM ASHER BOHBOT!

Founder and ex-CEO of EOH
1. Grab the opportunity

Bohbot says the idea came to him at 3am one morning, whereafter he drew a picture outlining how he thought the company would work. “I asked my employer at the time to become my first customer. A year later they did.” That customer was PG Bison, and it remains an EOH customer to this day.

2. Know what your customer wants

“It’s about seeing life through the eyes of the customer,” says Bohbot about EOH’s role. “I’m not in IT through-and-through. But what we do in EOH isn’t pure bits and bytes; we understand technology and business and pull them together. It’s the understanding of the customer and their needs that is our focus.”
3. It's not always about innovation!

Bohbot says EOH managed through the “tough times” because it picked up skills, customers and opportunities left by other players exiting the market and because it steered clear of the hype around immature technologies like the Internet in favour of more established approaches to IT. “Everyone was interested in the sexy,” he says. “But we did the so-called ‘mundane’ things.”.

4. Manage your risk

“As a listed company we can’t afford to bet the house on new technology. The bulk of our bets should be on the known, the reliable and the expected. That’s what we believe a listed company is – people want to invest for the long-term,” says Bohbot. “If you want to gamble, you can go to a casino. Some risk is necessary, but not if it makes it a double-or-quits kind of game.”
5. Grow and develop as an individual

Asked how he made the leap from industrial engineer to businessman, Bohbot says that, outside of professional qualifications, most education is a “stepping stone for other things”.

“Of the many accountants who qualify every year, not many end up being pure accountants. People move on to other things they’re exposed to. Engineers become managers... My advice to people is to grow and develop in one environment, then they don’t have to rebuild their collateral each time, which can be a waste of time.”
1. Be a good leader

Having a personality of caring about people is important,” says Branson. “You can’t be a good leader unless you generally like people. That is how you bring out the best in them.”

2. Build a powerful brand

In 2005, Branson said his goal was to turn Virgin into “the most respected brand in the world.” Branson is not far off from achieving his goal. Virgin was recently found to be one of the UK’s top three favourite and most respected brand names, and both the brand and the man behind it are known throughout the world.
3. Keep flying high

“Business opportunities are like buses, there's always another one coming,” says Branson.

4. Break Records

We’re going where no one has gone before,” says Branson, referring to Virgin Galactic’s partnership with the state of New Mexico to build the world’s first commercial spaceport. “There’s no model to follow, nothing to copy. That is what makes this so exciting.”
5. Have fun

“I’m still maybe Peter Pan – don’t want to grow up,” says Branson.

Entrepreneur and Motivational Speaker

6 LESSONS FROM VUSI THEMBEKWAYO!
1. You’ve got to practise your skills

For Thembekwayo, most of what he knows today in business he learnt during his four year period at Metcash.

“My own experience has taught me that former middle-managers of large corporates often have the skills to succeed as entrepreneurs. Entrepreneurship is a practice thing. You’ve got to practise the skills of general management, and corporates teach you that. I wouldn’t have been able to do what I’ve done today if I hadn’t spent that time at Metcash,” he says.

2. Cash is King. Learn to manage money

“First, I learnt how to manage money. The business had a very strong treasury function. Cash is king, especially if you’re trading high volumes at low margins. My worst nightmare was the MD of the treasury department. He was always asking me questions I hadn’t thought of. I admired his technique but despised our conversations. He saw the risks that we hadn’t spotted, and was the first person to tell us when we were not on track to collect our aged debtors and the impact that had on our profit and loss statements. But thanks to his attention to detail, I learnt how to manage money, and more importantly, how to be frugal. Today, if I don’t have to spend on it, I don’t spend on it. It’s amazing how far a rand can go if you’re clever.”
3. Small clever decisions lead to big profits

“One of the most important lessons any business owner can learn is that success on profit is nothing more than the accumulative sum of rand decisions. Lots of small, clever money decisions lead to big profits, and without the disciplines of frugality, money gets lost. It’s that simple. Question every single line item on a quote. Do we need it? Can we get it cheaper? This is what it’s about.”

4. Your vision is transferable

“I learnt how to manage people. Vision is transferrable. It’s your job to help your team see the future that you see. You need to get them to really invest in the process, because business is a process.”

“I learnt how to differentiate. We were operating in a very commoditised market. At the end of the day I sold mealie meal and baked beans. It’s tough to differentiate in a market that’s all about price. Some of our competitors tried the BEE route. I didn’t see the point.”

6. Sometimes you must take the risk

“All procurement officials have the same problem. They need stock to give to their end clients, but they need money to pay for that stock. In this market, most businesses want cash upfront. We turned that around and said we were happy to take the risk. I had a R17 billion balance sheet that I could leverage to offer credit. And so we went to market offering a R500 000 credit facility for stock, to be paid after 30 days. If after three months the customer traded according to certain terms, we’d extend the line of credit to R1 million over 45 days. All of a sudden the sale went from, ‘Are you going to deliver Iwisa at R19,99?’ to ‘Hold on, what did you just say? You’ll give me credit? Can I give you the order tomorrow?’”
LET’S LOOK AT THE SOUTH AFRICAN CONTEXT

Structural Factors impacting the SA Entrepreneurial Ecosystem

- The current recession
- Bureaucracy and red tape in procurement - to minimize corruption, procurement has become overly bureaucratized.
- Large and well-established SOEs prevent private companies from entering these sectors
- Large private dominant firms, who prefer doing business with long-term trusted suppliers than start-ups
- The dual economy: underserved communities suffer from lack of resources – structural barriers for small businesses
- Poor infrastructure (although relatively sophisticated on the continent)
- The education system still highly unequal and doesn’t foster creativity and innovation
The building blocks of the Global Entrepreneurship Index (GEI)

- Entrepreneurial Attitudes explain how the population of a country feels about entrepreneurship.
- Entrepreneurial Abilities are about the abilities and skills needed to start and run a successful business. The main abilities are relevant education and technology absorption. That is the ability to use technologies that already exist.
- Entrepreneurial Aspirations are about the type of businesses entrepreneurs want to build. They should want to change the status quo and not just accept it.

➢ South Africa performs above the global trend line in the GEI index. It because of a strong showing in the Aspirations indicator*


What holds us back?

- Our dual economy: start-up skills (education) – people think they have the skills to start up a business but they do not
- Our depth of capital markets is one of the strongest in the world. But informal investment is very weak - the capital markets are not evenly spread over the whole country.
- Technology absorption at the individual level – again, education impacts this
- Access to Finance
### Our bottlenecks

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<th>Issues</th>
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| Access to finance for new    | • Formal finance institutions are risk averse  
| and growing firms:           | • Undeveloped VC market                                                                                                                  |
| Access to markets            | • Due to large firm dominance (e.g. large retailers)  
|                              | • Hard to establish trust as a newcomer                                                                                                   |
| Education & Skills           | • Unskilled labour & lack of business skills  
|                              | • Lack of innovation curriculum in schools                                                                                               |
| Networks                     | • Unqualified, inaccessible mentors  
|                              | • Rivalry/trust issues                                                                                                                   |

### Policy Recommendations to address bottlenecks

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| Improving start-up skills:   | Improvement in education system (long term goal)  
|                              | Deregulation of startup ecosystem process (e.g. registering a business)          |
| Banking and finance for all: | Improvement in mobile banking systems e.g. like Kenya  
|                              | Crowd funding and angel investing                                                 |
|                              | Support SMEs with a relationship manager/mentor                                  |
| Technology absorption:       | Improve digital technologies (currently 65th globally – business 32nd, Govt 105th) |
|                              | Increase digital inclusion – broadband, smart phones cheaper and easier          |
A note on Angel Investing

➢ A person, business or group that provides financial backing for start-ups or entrepreneurs
➢ Usually found among friends, family or network
➢ On the rise as a funding option
➢ Venture Capitalists invest the money of their organization vs an angel investor who invests his/her own money

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