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Winning Credibility

A guide for building a business from rags to riches

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Preface:
What is this book about, anyway?

As the saying goes, "Nothing happens until a sale is made." It seems that success in business, as in life, often boils down to whether somebody "bought it" or not. But throughout our many *entrepreneurial* adventures – and we have had more than a few, sometimes as company founders, and sometimes as board members or investors – the big clients were always hard to get. We repeatedly failed to win the really important deals, the ones that would have helped us grow the company in a significant way, because we lacked something or other.

What is more, these defeats were not without irony.

For example, because we lacked financial stability, we often lost deals that would have made us financially stable; or, because we did not have enough blue-chip references, we were unable to close the very deals that would have provided them. But whether it was a lack of financial stability, client references, domain knowledge, or something else, really did not matter; what mattered was that a catch-22 of some sort never failed to hamstring our most important opportunities.

After a while, we began describing these catch-22s as "credibility hurdles," because it became obvious that we lacked the necessary credibility to close the big deals. In a frustrated search for possible remedies, we turned to textbooks on sales force management, solution selling, employee motivation, and more. And although all of these topics were relevant and important, they overlooked the fundamental reason why we were suffering defeat and rejection in the sales department – why people were saying "no" rather than "yes." Whenever we lost a sale, whenever a prospective client rejected our spiel, it meant that we were not believable, *that we lacked credibility.* And unfortunately for us, the existing business textbooks could not help us with this elusive topic.

Being problem solvers at heart, we rose to the challenge of remedying our credibility shortfalls ourselves. What we needed was a better company image, one that would aid our sales efforts, rather than hinder them. Obviously, if a company already had a long history of growth and success, plenty of clients, and an abundance of media coverage, then the credibility was already there. The challenge, of course, lay in developing an image of credibility for a company that lacked these things – a company that was brand new, without clients, and which nobody had heard of before.

In the end, after much trial and error, we were able to overcome our credibility shortfalls and go on to close the largest of deals. But along the way, we realized that even though most people already appreciated how important credibility is – that to get ahead in business, they absolutely must have it – very few people actually knew *how* to get it. And because we had come up with so many novel and "out of the box" methods for developing business credibility, we felt obliged to write a book about all the techniques we used, the lessons we learned, and the many observations we made on this most fascinating subject.

The resulting book, *Winning Credibility: A guide for building a business from rags to riches,* is not a replacement for all the books on "how to succeed in business" or "how to be great at sales." Instead, it is an integral complement to both. Without raising or borrowing millions of dollars, this book explains the art and science of crafting a company image that others will hold in high esteem. A company image that will be associated with success and staying power – even if the company is brand new; with customer satisfaction and on time delivery – even if the first client remains unwon; and with praise, promise, and upside – even if the business plan is still wet.

Although the process of building a business from rags to riches is never easy, the tips and techniques in this book can smooth out some of the bumps in the road. To that end, the chapters in this book are arranged in a logical sequence, but not in terms of importance or significance (although we do believe that ethics is both the most important and the most significant topic, and so its placement is fitting). Instead, the layout is based on ease of attainment.

For instance, it is easier to develop business credibility by instituting a solid ethics policy (discussed in chapter 2), than by chiselling your vision into a focused and clear business plan (discussed in chapter 3), which in turn is easier than building a depository of domain expertise (discussed in chapter 4). Harder still are chapters 5 and 6, which explore how credibility can be established through infrastructure, suppliers, and partners. The all-important topic of client references is discussed in chapter 7, with an emphasis on how to win, use, and retain them. Chapter 8 explores the unparalleled credibility that the media can provide, while chapters 9 and 10 delve into the intricacies of management teams, board members, and investors. An overview of industry analysts comes in chapter 11, followed by the art of growth in chapter 12, and the science of financial stability in chapter 13. And lastly, chapter 14 provides some final thoughts on the subject of business credibility.

However, just because the chapters are arranged in a specific sequence, does not mean you have to apply them sequentially. For instance, you might secure media coverage and investors (discussed in chapters 8 and 10) ahead of customers (discussed in chapter 7). And there is nothing wrong with that. But whatever the sequence, it is important to leverage success in these areas to fill the gaps in other areas (e.g. using media coverage to win customers, or using customers to develop partnerships).

Lastly, to reinforce the various ideas and concepts covered, we have added a multipart case study to the end of each chapter. Each part of the case study tracks the fictional story of John Harding and Diane Brewer, and their new business, Pattern X Systems. By watching

John and Diane build their business from rags to riches by using the credibility-building principles outlined in each chapter, you will gain a better appreciation of their applicability.

So, what are you waiting for? It's time to get credible.

1. Fundamentals:
The bedrock of credibility

"No, I don't think so." "Not today." "I'd like to, but … no … I can't." These are tough words to swallow, even for those of us blessed with iron stomachs. We tell ourselves it's a numbers game – that it's just business and nothing personal, but whom are we kidding? Rejection stinks. It makes us question ourselves, makes us wonder why some people hit the pay dirt while others just hit the dirt. And it does not take long for us to realize that in business – in the world of sales and salesmanship – everything boils down to *credibility.* It is the difference between success and failure, between a signed contract and an empty bank account, *and what 95 percent of today's businesses are missing!*

If you really think about it, many unhappy endings in business are the result of a credibility deficit. For instance, when a bank rejects a loan application, it is not rejecting the application per se, but rather, the applicant's credibility. *The bank does not believe repayment will be made.* When a product offers a stellar return on investment (ROI) and nobody buys, the company is short on credibility. *Prospective clients do not believe the product will perform.* Venture capitalists and angels pass on investment opportunities for the same reason. *The projected returns are not believable.* And when management talks up the company's future but employees still rush for the exit, the same principle holds true. *The employees do not believe in the business.* Although other factors also play a role, such as flimsy credit reports, unrealistic business plans, weak salespeople, and meagre incentive programs, the usual culprit is a weak company image, bereft of any credibility or standing in the marketplace.

But given its importance, what exactly is "credibility," and what makes a company "credible"? *Webster's Dictionary* defines the word as the quality or power of inspiring belief, and in business, there are many "qualities" that a company can possess to make it "credible." Good examples include a highly regarded management team, a strong set of partners, a well-known board of directors, lots of media and analyst coverage, and plenty of customers.

Of course, if you raise millions of dollars in venture capital, then you can buy credibility. With enough cash, you could hire the best management team money can buy, recruit equally good directors, and pay top dollar for a leading public relations firm. But what if you do not have millions of dollars in the bank? What if you are trying to build a business on a shoestring budget? What then? How should you go about developing the necessary credibility for your business?

Well, that is where this book comes in. In the following chapters, we will cover many low-cost methods for developing strength in areas such as domain knowledge, partners and suppliers, client references, media and analyst coverage, and much more. Each chapter explains how to develop these areas for maximum credibility.

But before jumping into the meat of this book and its lessons, let us pedal back to the beginning for a moment. As the old adage goes, the house is only as strong as its foundations. For this reason, the process of developing "winning" credibility begins with motive, validation, and commitment.

Motive

Motive is the reason people do what they do – the reason they start a business or work for one. For most, the motive is simple, straightforward: *money.* If we had millions of greenbacks in a suitcase, somewhere, we would probably be doing something else. And there is nothing wrong with money being the primary motive … *unless it is the only motive.*

Let us explain.

There are two types of people that attend college: the type that does not care about the material but wants to make an "A," and the type that does not care about the grade but wants to understand the material. Ironically, the person intent on learning the coursework is likely to make the "A," while the person focusing solely on the grade often falls short. Why? Because one of them has the right *motive,* the end result of which is a good grade. The other, being solely interested in the end result, usually botches the very coursework required to achieve it. Hence, one person gets both a good grade and a thorough understanding of the subject matter, while the other gets neither.

Now, this example is important, because it illustrates the underlying theme of how motive influences a company's chances of success. Starting a company purely for the end result (e.g. making a bundle of money by selling the business or taking it public) stacks the odds against the founders, investors, and employees from day one.

How so?

The Internet bubble of the late 1990s instantly comes to mind. Hordes of new companies emerged from the abyss of greed, with the single-minded purpose of making their owners as rich as possible as soon as possible. What the business would do, or how it would attract and retain profitable customers, was of secondary concern (and oftentimes, if one bothered reading some of the S1 filings that were lodged with the United States Securities and Exchange Commission in 1999, it was not a concern at all). Starting a company on such values is like building a house on a brittle foundation: eventually it will collapse. And when the cracks begin to show, such companies often decide that a comprehensive "restructuring" effort is in order. What they are really saying, in translation, is that they need to rebuild their business on a set of new operating principles (the old ones being "get rich quick").

We are not saying that you should not keep the prospect of making money in front of your eyes when starting a business. *You should!* But you stand the greatest chance of becoming a successful "rags to riches" story by not focusing on the "riches." A far more important thing to keep in the forefront of your mind is the journey ahead – the journey of building a solid and profitable company. This is like focusing on the coursework in college, on the road that leads to where you want to go, rather than just the destination itself. Only then will the "A" be made and the megabucks earned. The role that motive plays is best underscored by an entrepreneur we once met, who told us: "Building a business is so hard! I wish I could hibernate until my business is successful." Because the road ahead did not matter to this particular entrepreneur, it is probable that her hibernation would have lasted for a *very* long time.

This principle holds true not only for founders, owners, and investors, but also for employees, managers, and executives. For instance, salespeople obsessed with making quota seldom do. Why? Because their hunger for success makes them lose sight of the most important aspect of business: *customers.* To achieve success, to earn the big bonuses and commissions, they have to stay focused on the customer's needs rather than their own. *They must have the right motive.*

Validation

Validation, along with many of the other topics discussed in this book, has strong ties to motive. Looking back at the Internet bubble again, the overpowering motive of getting rich through an initial public offering (IPO) eclipsed the need to validate an idea or concept before launching a new company. In a hurry to make a quick buck, entrepreneurs neglected to conduct market research, exaggerated revenue and profit forecasts, and grossly underestimated the competition. These myopic actions were driven by greed, and investors learned a lesson or two when the air finally left the market.

To build credibility for a new business idea – regardless of whether it is a new business concept or an expansion of an already robust and successful product line – there is no better way than by validating the idea through market research. So many times a business plan is a dry husk, loaded with analyst references and all sorts of other prolific pieces of data. But that is not enough. How much more convincing could a business idea be if entrepreneurs interviewed prospective buyers, explained the venture they were considering, and asked for honest feedback? How much validation and credibility could they gain by documenting the responses? Not to mention the market insight and relationships that would naturally emerge from such interviews.

Unfortunately, many people who attempt to properly validate an idea often nullify the entire process by letting their personal bias get in the way. They are so enamored with the idea, so overcome by its charm, that they refuse to acknowledge any negative information. In their mind, the idea is a winner, a sure bet. All of us, at some point in our lives, have fallen victim to "happy ears" – to hearing only what we want to hear. But during the validation process, you must be objective; if anything, focus more on the negative information than the positive – look for reasons why an idea will *not* work.

Even worse than letting personal bias ruin your market research, is not bothering to do any research at all; *the business then becomes a hit-or-miss proposition.* When you rush to start a company and find sales lagging and success hard to come by, chances are the underlying research was inadequate. Fortunately, it is never too late to go back and fix the problem. Seeking fresh market data and validation, while the company is still above ground and kicking, can give you an opportunity to change direction before it is too late. What started out as a television repair shop may, after you have completed the necessary research, become a computer repair shop – *and vice versa.*

In fact, market research and validation is an ongoing, continuous process. Staying in touch with analysts, industry experts, professors, reporters, and other "live" sources will help keep the business moving in the right direction. What is more, no amount of media coverage, high-profile board members, or third-party endorsements can make up for an unsound business concept. If you do not validate your ideas, then it's only a matter of time before the chinks in your armor become gaping holes.

Commitment

Commitment is closely related to motive. When building a foundation of credibility, one of the best ways to sabotage it from the start is by lacking commitment. A classic example in the technology sector are academics, who give rise to new breakthroughs and then try to commercialize their inventions without leaving their academic post. *The "part-time entrepreneur," if you will.*

Being short on commitment can kill a company before it ever gets off the ground: the new Vice President of Sales who does not want to relocate, so he supervises the sales team remotely from a thousand miles away; the Chief Technology Officer who does not want to part with his teaching position at the university, so he only works on Mondays, Tuesdays, and Fridays; the founder who is too busy managing his other business interests to pay attention to the new venture; or the investor who only puts up half of what the business really needs. Clearly, commitment is the third component of the foundation. On their own, motive and validation cannot move a company forward. If the founders, investors, and employees do not take the company seriously, neither will anyone else. If they send a signal to the marketplace that the business is nothing more than a hobby, a toy with which they like to play, then the marketplace will respond accordingly.

Commitment also implies a certain "tolerance for risk." You are not truly committed to something unless you are willing to see it through to the end. *Come what may, you are not afraid of failing utterly and completely.* Oftentimes, would-be entrepreneurs believe they are up to the challenge of starting a business or tackling a difficult job. Psychologically, they are ready to go the distance without fear of failure – *or so they think.* But when they finally become entrepreneurs and discover that things are less than perfect, that risk and peril lie in ambush ahead, their commitment falters.

Nobody ever said it was going to be easy.

And that is what many people often forget: building a successful business is hard work. If it were easy to get from rags to riches, then everyone would do it. In the beginning everything sounds so simple, almost effortless: incorporating a business, renting an office, putting a sign out front, and cashing cheques. *Nothing could be easier.* Then the illusion wears off and the real work begins, and just as naturally, they give up. They are just not prepared for the commitment that is truly required. To be sure, the road to success is not a painless one, but those that follow it with commitment usually end up finding the pot of gold.

In summary, think about these three things for a moment: *motive, validation,* and *commitment;* think about how much credibility they can provide in and of themselves. Cement them into the bedrock of your business by doing things for the right reason, knowing your stuff, and committing 100 percent. *It is as simple as that.*

When you are serious about the business, about making it successful, it means you have the right motive and it will show. *You are not trying to make a quick buck here; you are building a real business.* If you are able to recite concrete statements from your research that support the company and its future, then you have done your homework and people will notice. *You know what you are talking about.* And if you are 100 percent "in," full tilt, then prospective customers, investors, and employees will know you are here to stay. *You are not going to bail out on them.* The process of building business credibility begins with these fundamentals.

Case study

In a shimmering skyscraper that reached for the clouds, John Harding sat behind his desk and dreamed of running his own business. The idea had been gnawing at him for months now, slowly mustering strength and resolve until it became a clarion call he could not ignore. The inspiration first came to him during an outsourcing project. The company was outsourcing its Information Technology (IT) infrastructure, and John was asked to evaluate the gamut of possible suppliers.

John Harding did not enjoy supplier selection assignments. The sleazy salespeople always tried to curry favors with him, and there was more smoke and mirrors than actual substance. But this project was different. He quickly became fascinated with the subject of outsourced hosting, and could think of nothing else. It was a new industry to him, and one that seemed to brim with moneymaking potential. After all, how difficult could it be to rent an empty warehouse, make it bombproof, and then manage a few dozen servers there? The profit margin would cast shadows over the highest buildings – *or so he thought.*

It surprised John, however, that none of the suppliers operated a facility in the local market. Rather, they were all located in "tier one" cities, such as Atlanta, Los Angeles, and New York, and served smaller districts remotely.

That was when the light bulb went on.

After selecting a supplier and personally overseeing the transition, John believed he had learned enough about the outsourced hosting business to start his own. He would target second- and third-tier cities, which were almost void of competition. It would require some investment capital, but he had a few good relationships, a solid reputation, and thought the idea was sound. However, before passing any career-ending resolutions, he decided to carry out some research.

He called on friends and acquaintances who worked for major corporations, as well as a few university professors, and asked for their opinion. The response, however, was far from favorable. In fact, *no one was enthusiastic about his business idea.* Somewhat discouraged, John continued his research by calling on reporters, analysts, and even a couple of investment bankers. But those that understood the market best had an unwavering and unanimous opinion: *Do not start an outsourced hosting business – it is a bad idea.*

Although he felt disheartened, John accepted the advice was sound. Outsourced hosting had become a commodity, with price and reputation serving as the only differentiators. Furthermore, it was just a matter of time before the big players entered the smaller cities. They would be able to drive out the competition by slashing prices and using their colossal balance sheets to finance the loses. It was a classic textbook strategy.

But John's research revealed other issues as well. The recent stock market slide had put many Internet companies out of business, causing a sharp decline in the dollars spent on outsourced hosting. As a result, there was a capacity glut in the market and prices were falling. As for the old economy businesses, which were still churning out profits and in no danger of going bust, the idea of outsourcing their most valuable servers to a small company was not attractive. Concerns about security, uptime, privacy, redundancy, and other issues ran rampant, making such accounts difficult to win.

But not all was lost.

From the wreckage of John's first idea, a second one emerged, much stronger and fitter than its predecessor. From his extensive research, John concluded that outsourcing data was not a pressing need for businesses, but *analyzing* it was. Large companies wanted to know more about their customers: what they bought, why they bought it, and most of all, *what they would buy next.* A glorious vision unfolded on the silver screen of John's mind, which prompted him to call his contacts a second time. To his delight, the response was different this time. *Much different.* He had hit on something new, something thrilling.

John visited the library, interviewed a few computer science professors at the local university, and surfed the web until his eyelids begged for sleep. It did not take long for him to develop a new passion: *predictive data mining.* It was so much more exciting than storing servers in a warehouse. Predictive data mining was about the future – about holding a wet finger to the breeze and looking into tomorrow. As John's knowledge and excitement grew, he realized that his job had become a placeholder, something he would soon discard to pursue the great unknown.

A few weeks later, something wonderful happened: *John found a business partner.* Diane Brewer, a professor he had interviewed at the university, suggested they become partners and open a data mining business together. The offer sent John's pulse soaring. After all, Diane was a full professor with hundreds of publications under her belt, two doctoral degrees, and a wealth of experience. He could not accept the offer fast enough. *A partner* – wow! He was going places now … and fast.

As for Diane, the excitement lay in taking her research out of the classroom and into the business world. Wealth and freedom took a back seat to the dream of applying her life's work. And since Diane knew very little about starting and running a company, not to mention the ins and outs of the corporate world, the idea of teaming up with John seemed like a win-win situation. She had considered the idea during their first meeting, when John came to see her with questions and dreams about the predictive data-mining market. And now, with her offer made and accepted, there was no turning back.

Together they continued researching the market, carefully documenting countless phone conversations, industry reports, and newspaper articles. There was definitely a need, and a large one at that. Armed with the innovative technologies Diane had developed over the years, they had a real shot of creating a successful business. A number of companies they interviewed even expressed an interest in buying their products and services once the company was up and running. That was encouraging. The first page of the business plan was still unwritten, and yet the prospects were already lining up.

But getting "up and running" was the tough part. Besides using their own money to start the business, they would also have to live off their savings until the company earned a profit. John knew the first year would be hard; but that is what he liked about the plan: the pressure to produce *profits.* For John, profits were synonymous with *freedom*. No more bosses, and no more making other people rich – those days would soon be over.

Inspired, John and Diane considered their next move. To set up the business, they would have to work on weekends and evenings, and when everything was ready, they would resign and give their new company 110 percent. Although Diane took a "leave of absence" rather than resigning outright, John did not doubt her commitment. His gut told him the business would succeed, and so he did not mind ending his own career with a knife stroke.

Unlike many other company founders that lived in the cloud tops of fantasy, John and Diane's expectations were real: they did not want or expect to become millionaires overnight; they only hoped the company would provide them with a comfortable living. After all, they were ready to work boundless hours to make their business a success. The motive was right, the market was ripe, and John and

Diane were ready to take the plunge. They even had a name ready for their new business: *Pattern X Systems.*