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PERSPECTIVES

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March 2017



ENTREPRENEUR OR GONETREPRENEUR?

12 pre-requisites for B2B success



Most of the first wave of tech unicorns and start-up billionaires were B2C businesses. The likes of Amazon, Google and Facebook started out by solving problems for people, rather than for companies (even if the latter two ended up making most of their revenue from corporate customers).

As a result, the technology landscape has changed massively for consumers over the last 15 to 20 years – arguably much more so than it has the workplace. But dramatic changes are afoot. There is huge excitement about the potential of B2B tech companies to have a transformational impact on many aspects of business. Massive amounts of capital are flowing into a new breed of start-up, focused around the tech hubs that have emerged over the last couple of years. A host of new buzzwords has been created – FinTech, HealthTech, AgTech, MediaTech and the like. Early starters like Palantir, Tableau and WeWork have created huge value for their shareholders. And at the other end of the alphabet, Australia's Atlassian demonstrated that this can be achieved without the need for much external capital at all.

But the barriers to B2B success are huge. In the B2C space, the risks for consumers of trying something new were incredibly low. All

they had to do was install a new app on their phone, or try a new service like Netflix. If they didn't like it, they could just delete the app, or cancel at any time with little consequence. Gaining visibility with consumers was very hard, but if people heard a buzz and liked what they saw, they'd sign up. If the product was good enough, they'd keep using it, and the start-up would thrive. The founders' lofty ambitions would be boosted by huge licks of capital from enthusiastic Silicon Valley VC investors. In one of the ultimate corporate games of winner takes all, trillions of dollars of value have been created, in most cases by a single company in each segment.

With a B2B business, it's not enough to have a phenomenal product that can generate significant additional revenues for your customers, or help them cut costs or improve efficiency. You must still persuade a large company to commit time, effort and money to implement your product or service, and to address all the associated risks, real

or otherwise. These decisions aren't the result of a split second of excitement. They may involve dozens of people and take months to make, even to launch a proof of concept. Internal vested interests and old guard competitors have time to defend their turf, argue the case for the incumbent solution, and make your life a nightmare. In short, most of your prospective corporate customers are conservative, and their love of the status quo is deeply entrenched.

Geoffrey Moore's book "Crossing The Chasm" is a must read for every B2B start-up leadership team. It gives a great explanation of the growth challenge faced by startups who are trying to sell to corporate customers, and how to leap the massive gap between the few visionary early adopters and the much larger cautious majority.

But success isn't just about sales. I've followed B2B start-up successes and failures closely over the last decade, and have had the pleasure and good fortune to work with a



couple of dozen inspiring businesses during that time. It's clear that there are many pitfalls to be avoided along the way if you want to build a truly valuable and impactful B2B business, and I'm delighted to share them here. If even a single one of these applies to your business, or one that you're thinking

Is the product or service truly specific to the problem in question? What technical problems need to be overcome, can these realistically be delivered, at what cost and over what timeframe? These are simple criteria, but I've seen many examples where there's an insurmountable gap between

"Your solution might save an entire trillion-dollar industry, but that doesn't mean that the industry will adopt it."

of joining or investing in, then take a very long, cold, hard look at whether and how the problem can be addressed. Because if it isn't, the odds are that you'll go from entrepreneur to gonetrepreneur all too quickly.

1. Size. Is there a big enough prize? Are you addressing a big enough problem? Not just in customer or societal or even revenue terms, but in terms of the bottom-line improvement in profit that can be delivered. If there's not enough bottom line impact, not enough people will care. This may seem obvious, but remember also that times change. If your solution has a shelf life limited by the subsequent emergence of other technologies, then your ability to create real value will be massively constrained.

2. Effectiveness. Does the proposed solution work in practice? And does it work in a way that will resonate well with customers?

theory and practice. Theranos is a \$9 billion dollar example of just how important this is.

3. Commercial viability. Is there a commercially viable business model? Will you be able to make enough money to be profitable, and to generate an adequate return on investment, once the business reaches scale. B2C unicorns were launched with a build (consumer attention) and they (paying corporate customers) will come. Availability of capital was driven to a significant degree by the level of consumer traction ("monthly active users"), on the basis that companies with a large presence would be able to find a way to monetize their success. A B2B business must have a viable revenue model from the outset – and beware providing your service for free at launch, as this may very literally devalue it completely in the eyes of your customers. Conversely, with the right approach you may be able to generate sufficient income to cover much of

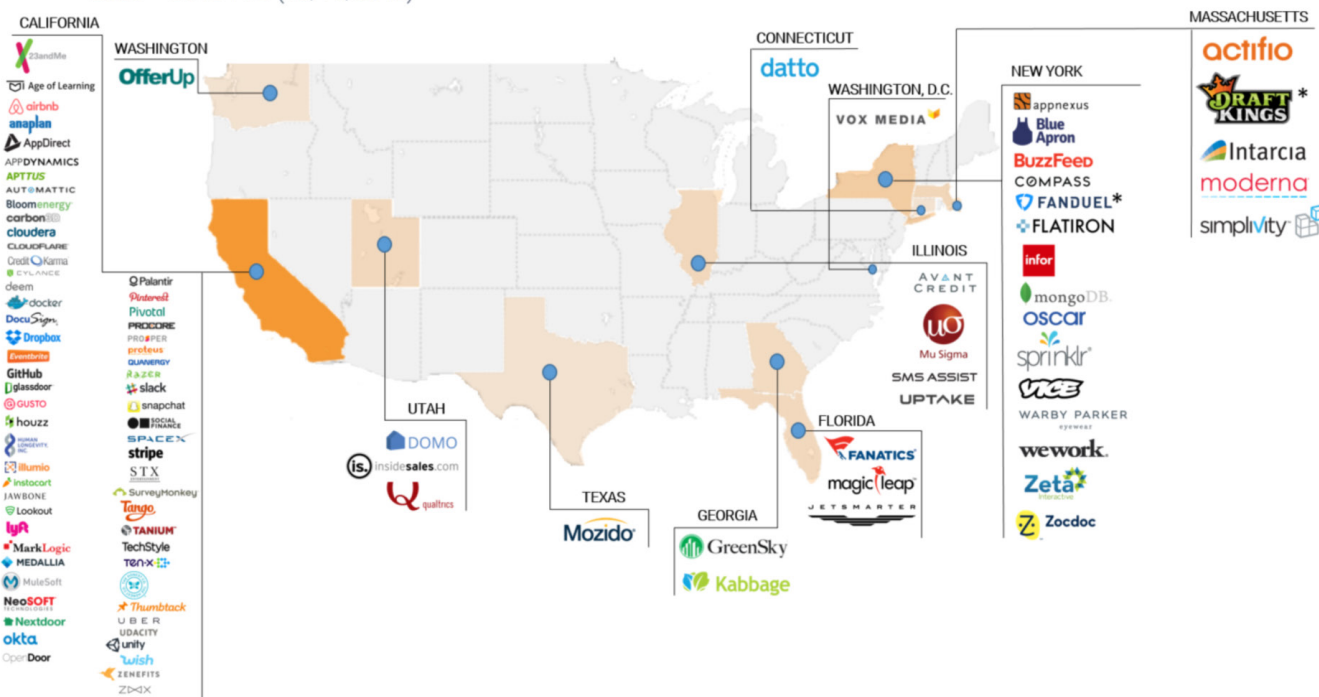
your operating cost from an early stage.

4. Scalability. Can the solution be scaled up efficiently and rapidly? And when you do so, will the effectiveness and cost/efficiency of your solution improve? Will this enhance the strategic position and commercial competitiveness of the business? This is essential if you are to build a commercially sustainable business, and needs to take account of technical, operational and business model considerations.

5. Buy-in. Do customers themselves see that there is a problem that needs solving? As a simple example, Nokia never understood the need to introduce an iPhone style phone until way too late. In other words, you can lead a horse to water... You may have a solution that could save an entire trillion-dollar industry, but that doesn't mean that the industry will adopt it. Augmented reality company Netpage brought forward a fantastic platform that gave any printed material all the interactivity and functionality of web page, but couldn't persuade enough publishers to adopt the service, let alone pay an economic price for it. If the patient won't take the pills, you're wasting your time, energy and capital in trying to help them.

6. Access and reach. Can you get access to enough of the right customers at a sufficiently senior level? Most senior decision-makers in companies are beset by

THE UNITED STATES OF UNICORNS: PRIVATE COMPANIES VALUED AT \$1B+ 2009 – 2016 YTD (12/19/2016)



(*Companies have merged and are co-headquartered)

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short term problems and challenges, and so you must cut through a lot of noise to get a hearing. Attention spans are shorter than ever, and even strategically critical initiatives can be disrupted by short term fire-fighting. Warm introductions to the right people will make a massive difference, so choose your board and partners with this in mind. Meanwhile, persuading companies to change long-established approaches and entrenched software is challenging, so often the impetus needs to come from the top.

7. Motivation. Even if customers understand the need for the solution, will they be sufficiently motivated to act now and buy? Or will they procrastinate, for

mobile devices, acquired and/or introduced new capabilities, and embraced a different business model. We're using Microsoft 365 as part of our back-office platform for Atomli, which has proved very cost effective, and straightforward to implement. The result if Microsoft's re-invention? The company's share price has doubled, outpacing both Apple and Google over the last couple of years.

8. Credibility. When they are ready to buy, will customers be prepared to buy from your company? Will they trust you to implement effectively, and to deliver the solution reliably for the medium to long term? The more tightly integrated your technology will be

you offer great value for money.

9. Know your enemies. In many cases, your product or service will displace an existing solution. So do you have an effective way to combat the vested interests that will fight hard to oppose you? The status quo typically has a loud, influential voice and extremely deep pockets. Existing vendors will likely have a cozy relationship with your prospective clients, even if their product doesn't work that well, or is very expensive. Indeed, the more cost-effective your proposal compared to the incumbents, the more likely it is that the latter will be able to outspend you heavily in defending the relationship. And if your product is intended to help an entire industry restructure, be especially wary of those that will lose out if you are successful.

10. Structural barriers. Are their industrial or other structural barriers to your success? If your solution has to be implemented by one stakeholder, but the benefits accrue to another, there can be a gap between investment and reward that is insurmountable by an individual company. One example is the hydrodynamic efficiency of ship hulls. The cost of applying low drag anti-fouling lies with the ship owner, but the benefits flow to whoever charters the ship (approximately 70% of fuel bills are the responsibility of charterers). It took the introduction of an independent accreditation system, initiated by Richard Branson's Carbon War Room,

"Warm introductions to the right people will make a massive difference, so choose your board and partners with this in mind".

months or years? Think about Microsoft, one of the ultimate B2B tech success stories. It seemingly ignored the fact that mobile phones were fully fledged computers for the best part of a decade, refusing to shift its corporate mindset and business model. It's share price flatlined at around \$25 from mid 2002 until early 2013. Happily (as a user of Microsoft products at home and at work), a huge amount has changed since then. It has changed the way products are delivered, finally making the Office suite available on

into your customers' systems, the more this matters. It's all too easy an excuse for the naysayers on your customers' team to point to your small scale and remind their bosses that "no-one ever got fired for hiring IBM" (I note with irony that IBM itself nearly died as a result, with its share price falling over 75% between August 1987 and August 1993). Nevertheless, this makes early sales harder to achieve, but conversely makes it much harder for you to be replaced once your solution has been implemented, particularly if



to bridge the gap. Today, 76,000 ships are registered, giving stakeholders the ability to make simple, reliable comparisons. In other words, don't take on the world! Even if you can find a way to persuade individual companies to buy your product, be wary if success needs you to reconfigure the way an entire industry works.

11. Defensible IP. So you've launched your business, gained traction with some important early customers, and started to attract attention. Can others replicate what you've done and steal the prize? Or can you defend it, whether through maintaining the confidentiality of your secret sauce, sheer difficulty of replicating your solution, scale efficiency, customer relationships, patent protection or some other means? In this context, beware patents! Much as investors may like to see that key elements of IP are appropriately protected, remember that your patent is only worth as much as you can afford to spend defending it in court. If you don't have \$5m to \$10m ear-marked purely for legal fees, competitors may just infringe and call your bluff.

12. Capital. Can you raise the money you need to get started and to grow, whether from friends and family or professional investors? The best B2B businesses can be launched with relatively little capital, and

you may be able to bootstrap. But the more successful you are, the more people will try to chase you, and capital will help you to scale further and faster. And B2B start-ups may be valued at 10x to 30x revenues, which can make it highly attractive to raise outside capital at a relatively early stage, so long as you can find the right financial partner.

Even if you've ticked all these boxes, like any business you still need the right leadership. You need a team that brings together the right combination of technical expertise, sales and business development skills, commercial acumen, strategic vision, leadership talent and the ability to motivate and manage your people. Too many start-ups are held back by management teams that are too strongly biased towards technical skills (though these are critically important), and lack diversity on many levels.

Finally, you must also give careful thought to where you will make your home.

Aspirant B2C founders learned that to be successful, they needed to locate near the action. This meant Silicon Valley in the US, or Beijing if you were focused on the Chinese market. California was the favorite choice – after all, it's the largest state in the largest developed market, and its streets throng with early adopters of cool new technologies. Today, unless you're a native mandarin speaker, it's still the best place to try out new B2C concepts, and the most profitable

market if you gain traction.

B2B is very different. A B2B start-up can reach underlying break-even with just a handful of customers, and with a couple of dozen might reach a valuation of \$50m to \$100m or more. Revenue from early adopter companies or governments is thus critical to your success. So, in theory, you could base your business anywhere where you are close to the organizations that will be the first purchasers of your products. Or you could, like Atlassian, base the business where you want to live, so long as you're prepared to travel and put a team on the ground in major markets like New York and London.

In practice, nearly all B2B unicorns to date are based in the USA. But Silicon Valley is no longer the only HQ of choice, with many new B2B start-ups based in New York, Boston and Dallas. For the record, although Pottinger's founders are both BritStralians, our tech spin-out Atomli chose New York as it's home. If you want a window on the breadth and pace of B2B start-up activity, then please visit us at TechDay NYC on 18th April. 

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Latest issue from Pottinger Perspectives:



“Come with me if you want to live” – eight seminal words, delivered in a thick Austro-American accent, etched into movie history, forever.

What makes those words so memorable? Why do they have such impact? Is it the ironic terror of following a killing machine to safety? Is it the oddly sedate, monotone delivery? Is it simply the excitement of the moment? It's hard to pin down the precise magic. But what is clear – both in this one sentence, and across the rich landscape of blockbuster action films – are the twin themes of survival against the odds, and choosing your companions wisely.

http://www.pottinger.com/uploads/1/9/5/1/19512909/pottinger_perspective_-_independence_day.pdf

About Pottinger

Pottinger is a multiple award-winning strategic and financial advisory firm.

We de-risk M&A transactions and strategic transformations by integrating strategic insight, transaction expertise and data analytics, enabling leaders to make decisions that stand the test of time.

We work with clients who are ready to think differently and act differently. Our assignments typically relate to one or more of:

- Strategy and public policy
- Mergers and acquisitions
- Partnerships and joint ventures
- Restructuring and capital advice
- Risk, sustainability and related decision-making

Together our team has advised on over 200 M&A and financing transactions, as well as many significant strategic advisory assignments. Our experience covers most of the world's larger economies, and we enjoy the complexity of assignments that extend across borders and cultures.

We are regarded as an industry leader in productivity and as a role model for investment in our people. We have been recognised by the Australian Government's Workforce and Productivity Agency as a benchmark for effective skills development and for seven consecutive years we have been awarded "Recommended Employer" by the Australian Business Awards.



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