

LESSONS IN ENTREPRENEURSHIP

Unrisky business

Why should entrepreneurs bet their time and money on high-risk opportunities? Stuart Read and Robert Wiltbank report

After a successful decade making industrial process equipment that treats liquid waste, such as the leachate from landfills, to protect the water table, US businessman Bob Salter made a major change: he decided to produce drinking water products for individual users. He was attracted to an opportunity where people choose to buy the product rather than being forced to go through environmental regulation. But along with the change came technology risk, new distribution channels, and customers he had yet to serve. How could he justify an uncertain bet with Hydration Technologies Inc when he already had a respectable business going?

IT'S NOT A BET

Salter was fortunate enough to already have a customer willing to make a financial commitment, which meant he was assured of demand before he ever created a product. And that customer was the US military. Furthermore, rather than shopping for potential users to explore a possible opportunity, Salter was only willing to "go" when a genuine customer seemed committed. The fact is that potential customers only lead to potential markets, and this uncertainty represents a big bet for a small company. On the other hand, committed customers define real markets with tangible revenue.

"Two interesting things happen when you force yourself to get customers on board early," says Salter. "The first is that you might fail to get the commitments you want. But it's better to know sooner rather than later, and for a lot less money. And second, you might be surprised by the committed customers you actually find, and be led into even more attractive opportunities."

And surprised they were. Since HTI developed an individual user product, not only have other defence customers joined in but HTI has moved into disaster relief projects and baby formula filtration that prevents disease and saves lives around the world. But there is more

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The US Army invested in development at HTI and then bought the final product

to how entrepreneurs make investment decisions.

IT'S NOT THEIR MONEY

How do you know if a customer is committed? The answer: when they invest their own time and money, ensuring they have a vested interest in creating a market with you. In HTI's case, the US Army paid \$600,000 for initial product development. Naturally they gained influence over what the final product would be, but Salter's financial bet was dramatically reduced. And the Army's initial purchase was approximately \$7m.

Customers, suppliers and partners that benefit from the value your new business can create are powerful sources of capital. They are more likely to offer favourable payment terms, cash upfront for development and detailed purchase orders to borrow against, or may even sell your products and services

with theirs. By providing both capital and a market for your idea they can effectively put you in business.

IT'S NOT SO RISKY

Many people are surprised to learn that entrepreneurs are as risk averse as any average person on the street. What entrepreneurs have figured out are strategies to manage away the risk in a new venture. And one of the most useful strategies is gaining commitments from critical customers and partners as the basis for investing into an opportunity, rather than hoping for a pot of gold at the end of a big bet.

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