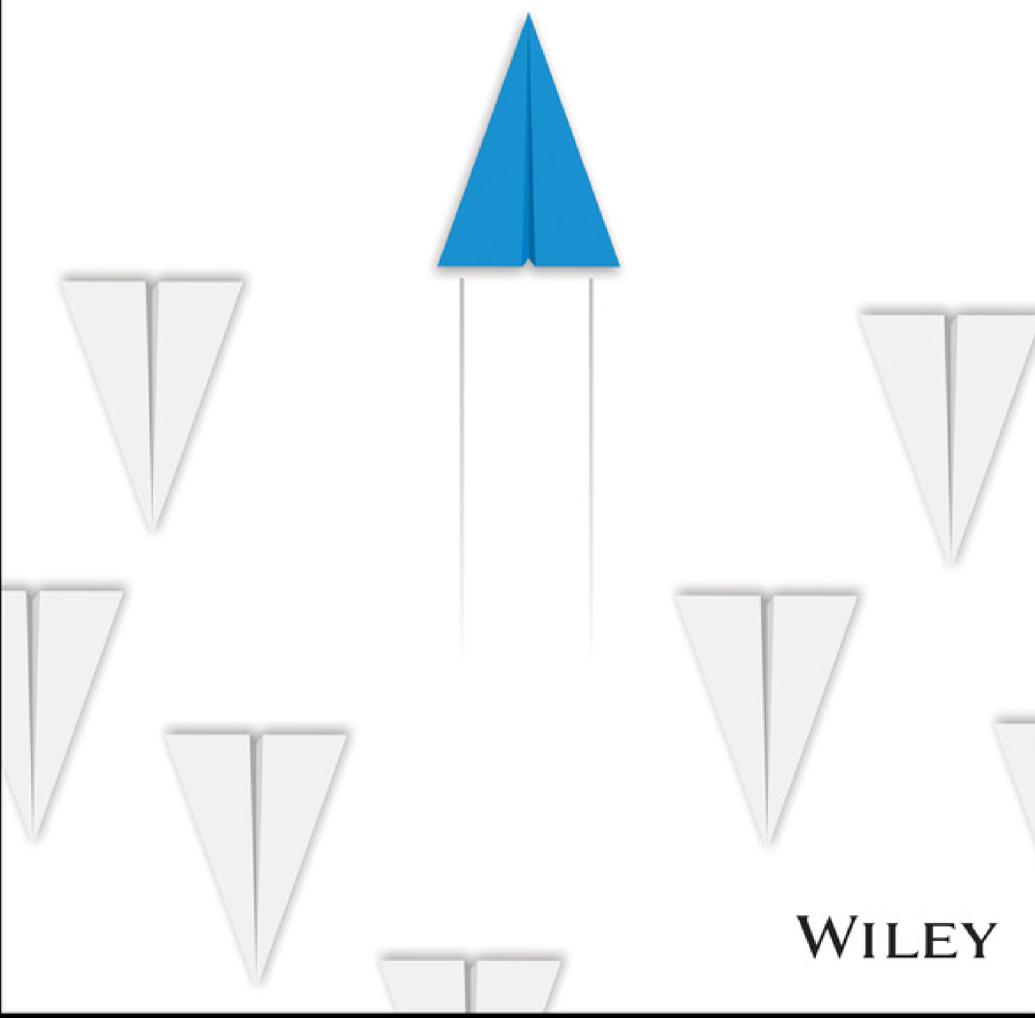
lars tvede & mads faurholt

entrepreneur

building your business from start to success



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“*Entrepreneur is a great practical guide on how to build a company and become inspired to make things happen, from guys who have done exactly that, many times over. You can learn to be an entrepreneur. You can have a go at making your dreams reality. You can learn a lot from this encouraging, fun and accessible book.*”

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Jimmy Maymann, Entrepreneur, Investor, former CEO of Huffington Post

"*It is surprising how much useful guidance and information Lars and Mads have managed to squeeze into this book. I would definitely recommend it strongly to any ambitious entrepreneur.*"

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Sophie Trelles-Tvede, Entrepreneur, winner of Forbes 30 under 30 Europe and Nordic Business Forum 25 and Under in Northern Europe

"*The book provides a comprehensive scope of practical decision-making tools and philosophies to overcome all the unavoidable obstacles and challenges every start-up founder faces on the journey. A must read for any aspiring entrepreneur.*"

Mads Fibiger, CEO & Co-founder, Organic Basics

"*This book covers in depth how to build a company whether you are dreaming about starting one, have already started or are running a larger organization.*"

Peter Holten Muhlmann, Founder and CEO of Trustpilot

"*Mads and Lars explain all aspects and considerations of a business in thorough and precise detail. If you read this book and add your own naive persistence, you will succeed. Moreover, funny enough I never really saw myself as an entrepreneur, having read* Entrepreneur, *I now do, and I'm proud of it! - Thank you for that Mads & Lars!*"

Kaspar Basse, Founder and CEO of Joe and Juice

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CONTENTS

INTRODUCTION BY PETER WARNOE

'Peter, do you think we can . . .?'

I don't know how many times I have heard these words from Lars Tvede, co-author of this book – but it's many. For instance, once when we were three couples sailing his boat along the Italian coast, he suddenly asked:

'Peter, do you think we can drink beer under water?'

I guess I didn't, but Lars soon became quite insistent and before I knew it, we were three guys in scuba gear deep down drinking beer. (You hold it upside down, blow air in and swallow, as beer comes out. I have it on video.)

Another example: in 2017, Lars was invited as speaker for the Danish Growth Fund's annual meeting, a yearly flagship event in Danish venture business attended by government ministers, leading investors and entrepreneurs, etc. However, about half an hour before he went on stage, he pulled me aside in a hallway and asked with a smirky grin: 'Peter, do you think I can end my speech by saying "Fuck you"?'

I thought he was joking, so I laughed it off. OK, mistake, because when he later jumped on stage, he immediately pointed me out in front of the 1900 delegates and proclaimed that I didn't believe that he would end this speech by saying 'Fuck you'. 'Just watch me', he continued while staring at me from the stage. OMG!

Towards the end of his speech, he called me up on stage, put his arms around my shoulders and then pulled up a PowerPoint slide of a now famous email from Marc Andreessen to Ben Horowitz, which ended with the words 'Next time do the fucking interview yourself. Fuck you'. I am not sure I would have done this, but people actually laughed.

Two years before that, in April 2015, Lars called me and said, 'Peter, I met the craziest guy at a TEDx event. His name is Mads Faurholt'. He then rambled on and on about how clever Mads apparently was. Next thing I knew, Lars had invited Mads and his girlfriend to go sailing in Greece. That became the beginning of a great friendship leading, among many other things, to the production of this book.

Today, I know Mads very well privately and as a businessman. Personally, I don't think 'crazy' is the right word to describe Mads. 'Impressive' would come closer, but also 'efficient' and indeed 'very fast'. About the latter – as a student, Mads set a speed record by completing his Bachelor's degree at CBS (Copenhagen Business School) within one year and nine months against a norm of three years, and amazingly, he achieved this while having two demanding jobs on the side – one of them managing 50 sales people. He then went to MIT where he graduated with his Master's at age 23, after which he became one of the youngest associates ever in McKinsey & Co. This is what I mean by very fast.

Working at McKinsey sounds like a great job, but Mads soon – pretty fast again – moved on to Rocket Internet, where he quickly became CEO of 3500 employees in Asia at Groupon. This was when he was still only 26 years of age. While living in Asia, he also co-founded numerous web companies, including Zalora, Lazada, Zanui, The Iconic, Airizu, GlassesOnline, HelloFresh and Foodpanda. In 2017 he raised $50 million for his company CompareAsiaGroup. As I write this, his other businesses include CompareEuropeGroup, CompareLatAmGroup, Startech Asia, Private Equity Insights and others.

Like Mads, Lars is also fast, even though this might not be the first impression you get of him. In fact, he typically appears calm, if not even slightly absent and perhaps nerdy. But then take a look at his career: after dropping out of college for a year to travel in South America, he returned to Copenhagen to graduate and then completed a Graduate Diploma in Business Administration at CBS within three years – it normally takes four – while *in parallel* taking a Master's degree in engineering. Oh, and while also *in parallel* co-founding several companies. Aged 19, he and a friend bought a summer house in Spain with money they had earned in their spare time during their studies.

Then he had a hectic career in marketing and finance while also being part-time professor and censor at a university and writing the first few of his by now 15 books. Eventually, he ended up as chief corporate dealer trading bonds, forex and futures for what is now the dairy giant Arla Food, after which he became a serial entrepreneur within tech, lifestyle, property and finance.

One of my personal observations about Lars is an amazing tendency to get things done and deliver on his plans, even though he does the latter partly by often having, say, 10 alternative plans, out of which one (almost) always works.

It appears to me that Lars sees business partly as a sport. For instance, some years ago, he had a portfolio of investments in global top quartile hedge funds. However, as they failed to deliver his expected 15% annual return, he set up his own investment company to see whether he could beat them. During the following six years, he grew an initial investment of CHF 20 000 plus a private pledge into approximately CHF 50 million in cool cash, after which he rather abruptly stopped trading, cashed out most of the money and spent it on charity, a villa in Mallorca, a Learjet, a collection of sports cars and his ever-since beloved boat.

Lars is convinced that he cannot sell, and as he also doesn't like to manage people, he typically starts his companies with one or several partners for those challenges. However, apart from that, he is very flexible in the challenges he takes on. For instance, he has built up businesses dealing within anything from satellite communication to mobile information services, property development, financial trading, wholesale food trading, IT supplies and more.

His latest and probably last and thus lasting adventure is within venture capital, which of course is an ideal way to combine his two favourite playgrounds: serial entrepreneurship and finance. To be more specific, he co-founded Nordic Eye Venture Capital with me in 2016.

Being who he is, he subsequently virtually disappeared for four months, ploughing through mountains of literature about venture business, after which he reappeared and declared that the venture sector had been lousy in Europe for decades but that there were several ways to do much better, out of which the most important, funny enough, was helping portfolio companies very actively with the one and only discipline he believes himself to be incapable of – sales.

Fortunately, this is *my* home ground, and together with our great team, we proceeded to produce 203% return (IRR) within our first full year, where we also returned more than the entire investor commitments in the fund in the form of a single distribution (dividend).

As I read the manuscript for this book, it struck me that there is nothing in it that at least one of the two authors hasn't done hands-on, and for the most part, they both master what they write about here to near-perfection.

Take, for instance, raising money for start-ups. Mads has done this from numerous investors, including Summit Partners, JPMorgan, Kinnevik, Goldman Sachs, The World Bank, Alibaba and SoftBank, and Lars has raised capital from various venture funds plus Intel, Deutsche Telekom, Reuters, Loral, BT, Telecom Italia, Lucent, Kirch Group and Singapore Press Holdings.

Another example: the book describes media activities and marketing via social media. This is also home ground for the authors – between them, Mads and Lars have probably done more than 1000 interviews and public speeches. Moreover, Mads was a radio host as an 11-year-old child and again in a TV series about start-ups when he was 31. Lars has been a guest host on Danish radio and TV plus CNBC. Furthermore, between them, Mads and Lars now have more than 50 000 friends and followers on social media.

In other words: these guys are rather experienced, including from the famous School of Hard Knocks, and both have closed down failing operations, hired the wrong people, failed to close vital contracts and messed up stuff like the rest of us. However, they have also created spectacular successes and made profitable exits, ranging from trade sales to asset sales and public listing. Furthermore, Lars has won numerous international awards for entrepreneurship and technology, including the Wall Street Journal Europe Innovation Award, the Red Herring Global 100 Award, the Bulli

Award (twice) and the IMD Swiss Start-up Award. In *The Guru Guide to Marketing*, he is listed as one of the world's leading thinkers in marketing strategy.

I guess what I mean to say is that they really do know what they are talking about. And I should add that even though I personally have been an entrepreneur since I was 23, there was much in this book that I actually didn't know.

I hope and trust that any reader will enjoy this manuscript as much as I did.

Peter Warnoe
CEO, Nordic Eye Venture Capital

entrepreneur

PART 1.

ABOUT ME AS AN ENTREPRENEUR

1. My entrepreneurial role
2. My personal effectiveness
3. My public impact
4. My face-to-face impact

Do you want to own your own business? Become an entrepreneur? In this section, we describe the many alternative roles as self-employed and/or entrepreneur: why and how to learn from practice before possibly taking on the harder and more ambitious tasks.

We also look at how entrepreneurs can tackle the huge workload and a high risk of stress and health problems. It is all about efficiency – 'work smart, not hard', as one might say. Or at least smart if hard.

But how do you do that?

In the third chapter, we move on to study aspects of your ability to make a personal impact and break through when it really matters. People who work in large, well-renowned companies do not always have a big personal impact – they work well within the shelter of a powerful and well-known organization which can sometimes make the impact for them. But in start-ups you often need to get noticed and force your will through, even though your business is small and perhaps rather rickety. So how do you make an impact in everything from sales meetings and negotiations to public speeches, media interviews, on social media and more? We share some practical tips that can help you with this.

1.
MY ENTREPRENEURIAL ROLE

Being an entrepreneur is about creating something new, moving into the unknown and maybe starting on projects where you can really foresee neither the outcome nor the financing. Many 'self-employed' people are 'entrepreneurs', but you may be one without being the other. For instance, a self-employed dentist is probably not an entrepreneur, and someone running a wild new project within Google might work as an entrepreneur but not be self-employed.

We believe it is important for anyone who has a dream of becoming an entrepreneur to understand which entrepreneurial roles exist and what they entail. In this chapter, we study various entrepreneurial roles and personal traits that increase the likelihood of success with start-up projects. We also consider the risks and benefits that are likely to occur when selecting the entrepreneurial life.

'I want to become an entrepreneur.' That's what both of us would say often when we were young students.

But what does that mean? When we were 15 or 18, we thought it meant only one thing: getting a brilliant idea and starting a company to pursue it. However, life has since taught us that there are many other ways to be an entrepreneur. And while there are many 'hows', there are also many 'whys', so let's start with those.

Why do people become entrepreneurs?

Statistics show that most entrepreneurs are highly motivated by:

- *money*: hoping to achieve financial freedom
- *freedom*: hoping to gain control over their lives and work.[1]

But there may be many other motives. For instance, quite a few people start their business as a result of frustration in their former job. Perhaps they were irritated by stupid bosses or unambitious co-workers. Possibly they felt that they didn't fit into the 'system' and were fired for exactly that reason.

For some entrepreneurs, the decision to start their company was a matter of self-image. Where their parents perhaps dreamed of owning a house, the next generation can dream of getting their feet underneath their own table.

Others may be primarily driven by a passion for motivating co-workers, or for delivering excellent products to the clients, working with cutting-edge technologies or trendy new styles.

There may also be more professional motives. Entrepreneurial work is very all-round and therefore offers a high degree of responsibility and a palette of different challenges that is almost impossible to find in normal jobs. An entrepreneur in the early stages can thus be sales, marketing, product and HR manager at once. Some will find this extremely stressful, but others – great entrepreneurs – will find it extremely fun. Some would also like to sit at the top of the pyramid and feel that the way to the top seat is shorter if they create the company themselves.

Some are attracted to the challenge and hardship – they almost regard entrepreneurship as a sport, if not a test of manhood (this includes women). These are the people who love to test themselves and find out where their limit is. 'How far can I go?' they might think. Let's face it: there are probably some adrenaline junkies among entrepreneurs, though others might rather end up as hobbits on their reluctant way to Mordor.

What kind of entrepreneur?

If you recognize yourself in any of these roles, the next question is: what kind of entrepreneur do you want to be?

In many people's imagination – and in our own, too, when we were younger – it is probably quite simple. You get a brilliant idea in the shower one morning. 'Bingo!' There it was! Then you persuade a bank to lend you a few million. A few years and a lot of work later you sell the company. And then . . . off south to the beaches!

Now we have become older, but none of us has seen such a course of events. Why not? First, brilliant ideas rarely arise out of the blue and in an instant. They evolve over time, in fits and starts. Second, a bank will not lend you money to implement your idea unless you pledge full collateral for it. Because why should they? To potentially earn 5% interest but risking a 100% loss if the company goes down, as it very well might? And third, we have never known entrepreneurs that settled themselves on a beach after they sold their first company. Maybe it happens every now and then, but as far as we can see, the typical successful entrepreneur loves work and immediately starts the next project as soon as there is time available.

What if I want to become an entrepreneur but lack the great idea?

Start-ups with great ideas need all kinds of profiles early on. Perhaps you are not the idea man but still have the passion to pursue the entrepreneur life. All start-ups are looking for help and resources and appreciate any approaches they receive. And lots of people have become entrepreneurs by joining others' start-up projects early on.

It has become easier!

For sure, being an entrepreneur is typically very hard, but in our opinion, conditions for entrepreneurs have improved in important ways in recent decades. It has become a lot cheaper and technically easier to start new companies. Certainly, the amount of red tape may have increased, but overall costs of setting up a basic operation have dropped massively. For instance, software and hardware have become significantly cheaper, as have flights, and you can now use video conferencing free of cost. Furthermore, there is access to plug-and-play tools, cloud computing, crowdsourcing, focused and thus inexpensive advertising opportunities, global payment systems, effective logistics services, smartphones, tablets, etc., all of which are easy and inexpensive to use. Therefore, a lot that was previously expensive and cumbersome can now be dealt with cheap or for free. Overall, we believe that with the exception of salaries, running costs for many types of start-up have declined by as much as 90% over the past two decades.

Moreover, network effects sometimes can help start-ups to create huge value very quickly. In the entrepreneurial environment, the word 'unicorn' is used to describe companies which achieve a market value of more than $1 billion. In the 1990s and earlier, it took typically at least 20 years for the greatest winners to get there, but since then it has gone ever faster – Airbnb, for example, did it in less than five years, Snapchat within a year and a half and Slack within just nine months.

IT HAS THUS BECOME A LOT CHEAPER AND TECHNICALLY EASIER TO START COMPANIES.

Another advantage for modern-day entrepreneurs: today there exist several great online networks for entrepreneurs in all developed nations, such as Young Upstarts, Sandbox, Fast Company and YourStory. Here you can regularly seek advice and inspiration as well as find useful contacts. Appendix D contains a list of 76 of the best in the English language.

In addition, many new businesses manage to create large companies without having to invest much in equipment or production. As often pointed out, the world's largest property landlord, Airbnb, owns no hotels. Facebook, which is the world's largest media company by far, has no production of media content, and Uber, the world's largest taxi company, owns no cars. Therefore, they have been able to expand incredibly quickly.

So yes, in many ways it has become cheaper and easier to be an entrepreneur, even if taxation and legal tangle might have pulled the other way.

All of this, plus a new set of management tools called 'lean start-up', has contributed to a significant change in the entrepreneurial landscape. We see ever more 'micro-multinationals', which are global companies with limited staff and investment needs. And the fact that you can now start a company for less money means that investors such as venture capitalists (VCs) can spread their investments across multiple projects – some of them leaning towards the 'spray and pray' principle in which they invest small amounts in many start-ups. Finally, even on the funding and exit side, there is significant innovation, where the recent development of ICOs (initial coin offerings) is a prominent, if at times problematic, example.

Lifestyle or growth entrepreneur?

You can divide entrepreneurs into two main types. The first are lifestyle entrepreneurs. They are the ones who found and run, for example, a restaurant, a paint shop or a dental clinic. For sure, being a lifestyle entrepreneur requires some risk taking and typically a lot of work and determination, but it does not necessarily require great creativity (nor does it exclude it either, of course). But it is characterized by a limited growth ambition.

VCs typically don't invest in lifestyle entrepreneurships, since the profit potential is often quite limited and the founders are rarely interested in selling the company and therefore are not able to provide a reasonable return to foreign investors either. Also, lifestyle entrepreneurships are often related to some single person's unique skill or talent, which adds to the risk for an investor.

The second category are growth entrepreneurs. They are the ones who get their project to multiply or 'scale', as people in the industry often call it. If your restaurant is the first of an international chain of restaurants, you have 'scaled' it. For instance, McDonald's was a burger business and the McDonald brothers had little scaling ambition. However, then they met Ray Kroc, who offered to start scaling it for them and eventually bought them out for $2.7 million (we can recommend the movie 'The Founder'). Similarly, James Oliver is a cook, but instead of working as an employee or lifestyle entrepreneur, he became a growth entrepreneur.

The McDonald brothers were innovative but not growth entrepreneurs, but most growth entrepreneurs need to be both very innovative in terms of new technologies, products or business practices and able to drive scaling.

Some entrepreneurs start only one company that they keep for life. Often, after some years they will continuously pull money out of their company and invest it in other things such as property or private equity funds, but without starting new companies. Others, meanwhile, become 'serial entrepreneurs' – they constantly see new opportunities which tempt them. An extreme example is Richard Branson, who has founded around 500 companies within lots of different sectors.

Perhaps the explanation of the difference between single-company founders and serial entrepreneurs is that those who keep the same company for life are most fascinated by people management, whereas serial entrepreneurs may be more fascinated with ideas.

How big is the risk?

Is it risky to be an entrepreneur? The literature is full of studies of what proportion of start-ups go belly up. You might find some that say that around 90% fail, or that 75% fail within three years. We have looked at the statistics, and they are . . . err . . . confusing.

But let us give some examples. Shikhar Ghosh from Harvard Business School found that 75% of all companies receiving VC investments do not give a profit to these investors.[2]

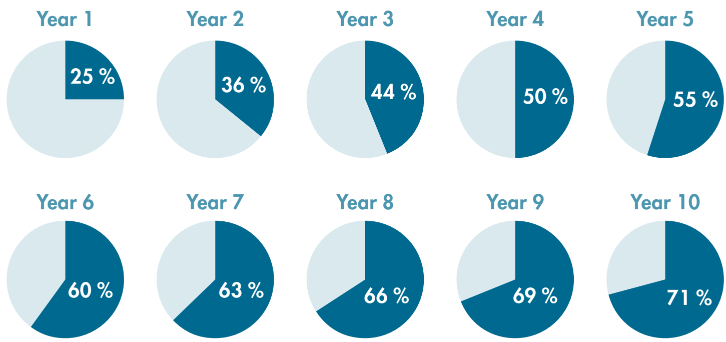
It can be worse. A major study covered 2462 Israeli technology start-ups over many years. Among these, 46% went out of business. Splash! Even more alarming was that about two-thirds of those that had received investment from venture capital firms failed. Two-thirds! And even worse: no less than 96.5% of the 531 of the companies that had received incubator investments failed.[3] (Incubators are facilities for young start-up companies offering special service functions – we describe them in more detail later.) Now it must be said that incubators invest in early stages where the risks are higher but so are the potential gains; nevertheless, these are not pretty numbers. Just think about it: nearly 97% failed!

An even larger study included close to 10 000 US start-ups that had received venture capital funds between 1975 and 2007.[4] It showed that 87% of start-ups led by first-time entrepreneurs did not (not!) succeed. Of those which were led by entrepreneurs that previously had tried and failed, 80% failed, and of those whose leaders had previously managed successful start-ups, 'only' 70% failed. Clearly, past performance is no guarantee of future results, as bank disclaimers often say.

NEARLY 97% FAILED!

Let's conclude that entrepreneurship is not easy. And then there are the statistics showing the proportion of start-ups in the United States that fail within a given period after founding:[5]

US business failure rate, year-over-year, % of business failed.



Another survey shows that among 4841 German internet and ecommerce start-ups up until 2004, 21% failed, but bizarrely a *higher* proportion, namely no less than 53% of the 895 of the companies that received VC funding, went out of business.[6] Oops!

There are numerous other studies, but comparing them is challenging. For instance, the data may involve growth entrepreneurs only, in one country, for a short time span, often within a limited sector, and typically only with companies that have received a certain kind of external funding, e.g. from the VC funds. In addition, there are widely divergent definitions of 'failure' and 'success'. To fail, for example, in some studies may be referred to as going bankrupt and in others not providing profit for a venture capital fund. (When we use the term 'fail' later in this book, we simply mean that one does not live up to their own expectations.)

But again, the studies make one thing quite clear: it's hard. The typical impression people in the venture capital industry express is this:

- Approximately 25% of lifestyle entrepreneurs fail within the first three years or so.
- Approximately 75% of growth entrepreneurs fail within the first three years or so.

Venture capital funds are therefore cautious. A typical VC fund receives around 500–1000 investment proposals per year. They do a quick screening of them all and might then give a closer look at perhaps 100, where, for example, they meet the founders once or twice. Among these, they might perform deeper studies of 20 or so. And then, they might end up investing in maybe two.

What happens with the two perhaps that they invest in out of, say, 700? A rule of thumb in the industry says the following:

- 30% go bankrupt.
- 30% survive but nevertheless provide a negative return of the fund's investment.
- 30% survive but provide a roughly break-even result for the fund.
- 10% go extremely well and may even give a 1000% return or more.

So, it is 10% of the two out of 700 that do really well, so now we are talking about the order of one company out of 23 500 that reaches the stars. Again: The number is very uncertain, so think of it only as an indicative range.

In any case, if anyone asks whether starting companies is risky, our best answer would be: 'Yes, unfortunately, the risk is huge. Especially if it is a growth entrepreneurship.'

And this is despite the fact that it has become cheaper and easier to start your own business. Nevertheless, we would recommend a lot of people to at least try, because if you know more about the task than others, the chances of success increase a lot. And after all, it has also become far cheaper to fail.

How can I reduce the risk?

There are numerous factors that can reduce the risk of start-up failure. Here are a few samples (they will, along with many others, be explained in more later in the book):

- Your chances of success increase dramatically if you have at least one co-founder, whom you have worked with before and know very well. If you previously have had a job in another start-up, it will increase your chances of success even further. All of this has been borne out by statistics (more on that in Chapter 10).
- In the beginning, you have no need for either a business plan or a lot of money, as you will typically spend the first several months or even years creating a 'minimum viable product', which you test with potential customers. Your plan can at this stage simply be on a large piece of paper and might consist of nothing else but bullet points. In addition, you should use a spreadsheet with some simple back-of-the-envelope calculations. And you will need some PowerPoint slides that tell your story, short and simple. Nothing else. You should review all this every week, if not more often. The purpose at the start is to learn, not to do (see Chapter 12 for more details).
- It is not embarrassing if you make some dramatic change of direction ('pivots') at the start. In fact, statistically, this increases your chances of success (see Chapter 12 for additional information).
- The statistics also show that it will further enhance your chances tremendously if you get a good mentor and/or follow blogs from entrepreneurial gurus (this will be further explained in Chapter 10).
- Your greatest commercial risks are (i) a poor product/market fit, (ii) internal strife, (iii) generally, investing heavily before you have clearly proven that you have a product that enough

customers really love and want to pay for, (iv) accelerating parts of your project before other parts are up to speed, and (v) failed transition from early adopters (the earliest users) to mainstream customers (more about this in Chapter 14).

As mentioned, these examples are just a few of the many we will show throughout the book.

Alternative paths to the entrepreneurial life

Earlier, we wrote about the traditional view of the entrepreneurial life, which was suddenly getting a brilliant idea, then building a company around it. However, there are lots of different kinds of entrepreneurial life. The following 12 are probably the best examples:

1. *Working in a private equity fund.* Private equity funds buy large and often controlling positions in private companies and then typically implement several programmes to create more value, then sell their positions again. This work may sometimes be relatable to the traditional entrepreneurial life.
2. *Late co-founder.* A friend has founded a start-up and it is beginning to do well. You are invited to join as an investor and 'co-founder', even though the company has already existed for seven months, for example.
3. *Franchise.* You acquire the rights to become a reseller or franchisee for a growth company such as McDonald's (franchisee is someone who has bought the rights to do business with other people's trademark and products, etc.). As a franchisee, you may, for instance, build retail stores or other local distribution. Admittedly, it is based on someone else's idea, but it's still your business. And you are working as an independent in something that might be called an entrepreneurial project.

4. *Hobby-becomes-business.* You have a hobby that you think is more fun than your day job. Perhaps you decide to make a website about your hobby and build up a large network of like-minded people. One day you may conclude that since you now know a great number of potential customers within this area – and they know you – there is a basis for starting your own business.

5. *Internal venture.* Some companies actually work as serial entrepreneurs, thus creating plenty of opportunities for their staff to start entrepreneurial lives.

6. *Intrapreneur/spin-off entrepreneur.* You work in a large company and you – or someone on your team – have had a brilliant idea. You now propose that the management team implements this, but they respond that although the idea is fine, to fit it into the company's profile is hard. You therefore propose they make a new spin-off company to implement the idea there. The company may finance the first few months or years of operation, perhaps against a 50–80% stake, and you get the remaining shares, but at the same time your salary is reduced to a minimum. Thereafter, the rest is up to you. Incidentally, there are some businesses that are doing serial spin-offs, i.e. lots of them, giving plenty of opportunities for employees to become entrepreneurs.

7. *Consultant to start-up.* You develop on a consultancy basis a solution for a customer – for example, a software solution to a specific problem. Afterwards you start thinking, 'if the customer would pay so much for this, there are probably others who are willing to do so as well'. Thus, you're starting a business that turns this one-off solution into a scalable product. Or maybe you are wondering why the employer in the consulting firm you are working for bills the customer three times as much for the work you are conducting as you receive in wages. So why not become your own employer?

8. *Independent lifestyle entrepreneur.* You incorporate a little business to become your own boss.

9. *Lifestyle to growth entrepreneur.* You are a lifestyle entrepreneur but while being so, you develop an innovation, which allows you to scale your project.

10. *Skunk works.* The concept skunk works originated in Lockheed Martin during the Second World War and is still being used with great success today. This means that a company allows some of its employees to work on projects that run outside the normal management routines. Lots of successful companies – including many of the largest multinationals – have skunk work programmes and the work which is conducted there typically has a strong entrepreneurial flair.

11. *Sweat equity.* You work unpaid as a consultant for a start-up business, but only because you will receive stock options or shares in that business. Or here's a variation: you work for a start-up for a beggarly salary and stock options. The company goes really well and suddenly its stock options are worth millions. One day, with a few of the other people, you choose to quit the job and make a new start-up, financed with the earnings.

Oh, right, and then # 12:

12. *The brilliant idea.* You get a terrific idea during your morning shower, find investors and build your business.[7]

However, note that many of the 12 paths to entrepreneurship are far less risky than # 12. And many who implement # 12 have previously cut their teeth trying one of the other 11 approaches. Also, remember that many who have success failed once or several times before, and the horrible entrepreneurial statistics do not cover this aspect. So if, for example, 80% fail but everyone tries five times, most will arguably succeed eventually.

MANY WHO HAVE SUCCESS FAILED ONCE OR MORE BEFORE SUCCEEDING.

Mads on how to practise entrepreneurial work as a young person

As a 14–15 year old, I bought a wholesale stock of discounted clothes with my pocket money – and then I walked into a store and tried to sell it. It cost me a lot of money, but it was one of many times when, while young, I practised my entrepreneurial capabilities – many years before I really began in earnest. Actually, my last time at Groupon and Rocket Internet was probably also a kind of 'sheltered workshop' for entrepreneurs, where I learned a lot by helping to create around 15 companies under a common framework. There is nothing wrong in practising – actually, quite the opposite. You wouldn't participate in a very difficult sports competition without training first, would you?

Lars on his first time as an entrepreneur

I had a lot of practice in business as a young man. During my studies in college, I helped a friend importing containers with cakes, which we distributed to supermarkets, and together with another friend I sold antistatic screen cleaners to computer companies. I also borrowed money and invested it in the stock market. At the age of 19, I bought a country house in Spain with a friend with money which in my case was earned during my leisure work. For me, buying the house was 50% about learning the ropes of buying and restoring a house. I just wanted to learn. And although none of my first businesses was a major success, I learned a lot from them and got familiar with the basic processes of running a business.

Risk is relative

Here is our take on start-up risk in a nutshell: when you think of risk, you must of course also think of the alternative. If you start a business, for a certain period you will live with extreme uncertainty, and it may well end up going wrong. But if it actually ends well, you get into a situation where you never – never! – again in your life need to have economic problems. Thus, you can achieve the ultimate financial freedom. And what exactly is the alternative? That you go through your whole life dependent on an employer to keep you financially secure – and if you do lose your job, you can get into quite big financial trouble rather quickly. Our point is that entrepreneurship is indeed risky, but the same can apply to a traditional career as an employee.

When you ask the elderly what they regret about their lives, they rarely mention something that they have done, it is usually something they did *not* do. Therefore, if you dream of creating a company, try. If it fails, then you know that you at least tried, you just couldn't make it work. If, however, you do not try, you might wonder to your dying day what it perhaps could have resulted in.

This ethos of trying for all the world is also very common among entrepreneurs: 'True failure is failing to try' has almost become an industry motto, and that is how we see it. When our days are about to be counted, we want to feel that we tried the best we could – even if some of the things we tried failed. By saying this, we certainly do not mean to say that failure should be glorified, as you sometimes hear in the entrepreneurial sector, but merely that it may be the biggest mistake of all not to test your potential.

THE BIGGEST MIS-TAKE IS PERHAPS FAIL-ING TO TRY.

What does it require of my personality?

Successful entrepreneurs have different personalities, yet we believe that there are some common characteristics that increase the likelihood of success substantially. Here we must admit immediately that we have never met a person – and certainly not ourselves – that lives up to all of these characteristics. But at the same time we would like to add that, at least in our opinion, you are able to train some of your personal weaknesses away. Working as an entrepreneur will most likely make you far stronger.

The first useful trait is *showing initiative*. When people are annoyed about something, they complain to their friends on social media, etc. We all do. But some people may afterwards say, 'OK, no more complaining. Let's fix it instead!' Then they come up with a proposal for a solution. 'Let's do it!' Such initiative is one of the typical features of entrepreneurs.

In parallel, entrepreneurs often tend to *think of continuous improvement*. When they enter a restaurant, for example, they immediately consider how they would change it. Therefore, there are constantly myriad possible projects running through their heads. Their attitude is that they typically do not improve anything by fighting the existing but by creating an alternative.

What else could help? One of the most important attributes among entrepreneurs is arguably that they are *self-motivated*, i.e. they can work persistently without being ordered to do so. This leads logically to the next property, which is to have a *passion for a project*. All start-ups include hard work, and it's difficult to be self-motivated in the long run if there isn't a significant part of the project which they really enjoy doing or are dying to see succeed.

With passion follows being *impatient to see the end result* – and when the results are achieved, entepreneurs immediately become impatient to improve this result. For the typical entrepreneur, everything had to be finished yesterday.

However, the impatience should not result in unproductive anger or irritation; instead it must play out through *ability to do high-speed work*. Great entrepreneurs tend to think quickly, decide quickly and get daily problems shot down as if with a machine gun. In younger start-ups, time is almost always a serious scarcity factor and therefore it is useful to have people on the team who can execute fast, fast, fast. A symptom of this personality trait may be that they took their education very quickly, had demanding jobs while studying, completed several studies simultaneously or started a business while they were studying.

Another qualification: entrepreneurs often have brains that are *optimized for speed, chaos and uncertainty*, just like in a football game, where everything can happen any time.

Every start-up has poor days (and poor months, plus probably poor years) and therefore entrepreneurs should also be quite *resistant to adversity*. Preferably very resistant. Part of this robustness or resilience should be that they don't care if they are looking like idiots, a trait which requires considerable self-confidence.

Typical entrepreneurs *look forward and do not dwell on the past*. When something has gone wrong, they draw their conclusions and remember them, but then they quickly forget the rest because it does not interest them. Thus, they look forward but still learn from their mistakes.

They have *professional pride* and therefore they do everything in the best possible way, even if the work is not interesting or particularly important for them. If, for example, they have boring jobs during their studies, they try to perform well anyway.

Entrepreneurs should be *able to immerse themselves in a task*. Entrepreneurial jobs require that they can familiarize themselves with a subject sufficiently well to see how things can be improved.

Also, many entrepreneurs are quite *curious*. They are 'what happens if I press this button?' types.

They are also typically *cooperative* types. People who think that everyone else is an idiot rarely find it easy to be part of teams or to build good social ecosystems. Trust but verify is a better attitude, which means that you should trust people but still conduct sanity checks.

In addition, an entrepreneur should be *persistent*. When everything starts to fall apart, they are still working – very hard. This accounts for most athletes as well. Think of how they might be up at 4 a.m. to train very hard just to have a small chance of receiving a medal in the future. In other words, strength of character and will to fight, even if the reward is questionable and at best very far in the future, are important and may actually have a bigger impact than intelligence, physique, training or experience.

Along with this strength of character is that you can *postpone a potential reward*; there is a willingness to work hard for years for a reward which may, or may not, come in the future.

It is also helpful if entrepreneurs in their youth have *tried low-paid jobs* as this makes them more earthbound and helps to put their struggles into perspective.

Are you able to postpone a reward?

'In the late 1960s and early 1970s psychologist Walter Mischel from Harvard conducted a famous study with children.'[8] They had a marshmallow in front of them and were told that if they could wait 20 minutes to eat it, they would receive one more.

It turned out that the children who did not eat it, and thereby exercised greater self-control, performed much better in later life. From childhood they could control their urges. An entrepreneur must possess a great ability to delay reward, and a 20 year old who, for example, is very concerned about work/life balance, is hardly an obvious entrepreneur.

Entrepreneurs are typically also more *optimistic* by nature than the average human being. Although they do not know what their job will entail, they have a fundamental belief that they will manage to grow and learn with the assignment.

There are some elements of the way in which people deal with information and decisions that tend to differ between typical entrepreneurs and non-entrepreneurs. The most popular professional personality assessment is probably the Myers-Briggs Type Indicator, which divides people into 16 personality categories. Regarding information, they are distinguished based on whether they mostly focus on the basic information they take in or are more interested in adding meaning to it. For instance, one historian may find it interesting to describe an event in history very carefully, while another may be more interested in fitting this event into a grand 'big history' pattern and thus giving it all meaning. The former is called a 'sensing' personality and the latter an 'intuitive' personality. CPP Inc., the company that publishes the Myers-Briggs Type Indicator assessment, in 2017 published a study showing that entrepreneurs were on average far more *intuitive* than sensing.[9] Entrepreneurs tend to focus on seeing the greater patterns and the bigger meanings.

Another main dimension in Myers-Briggs is the mental structuring of the outside world: do you prefer to take a final view of things once and for all, or do you prefer to stay open to new information and options? The former mentality is called 'judging' and the latter 'perceiving'. The study found that entrepreneurs were far more likely to be *perceiving* than judging.

They were also *thinking* rather than 'feeling'. Thinking people, according to the Myers-Briggs definition, will largely base their decisions on objective principles and impersonal facts, whereas feeling people are more moved by personal concerns and the people involved. Thinking people are thus more rational, and this applies to average entrepreneurs.

The other findings in this study were entirely as one would expect. Entrepreneurs showed far higher orientation for *creativity, extroversion, risk-taking, impulsivity* and, most of all, *autonomy* than did non-entrepreneurs. But interestingly, they were not more competitive.

Finally, it must be said that there is a significant preponderance of people with *personality disorders* among entrepreneurs.[10] A large psychological study of entrepreneurs showed a markedly elevated tendency to depression, substance abuse, ADHD and bipolar personality deviation, while half of them had close relatives with hereditary personality deviations. The consequence is that some of those who were perceived as a bit weird in school amazed their young friends by later becoming entrepreneurial stars. Perhaps many entrepreneurs also tend towards a fanaticism and savagery that makes them strive to achieve the target, regardless of the personal cost and the outside world's response. As an entrepreneur, you typically need to be able to piss off some people and keep going where most people would stop.

Who are most successful?

Of course, while one question is how entrepreneurs differ from the average population, another is which of them are most successful. One study from 2008 divided a number of entrepreneurs into two groups according to their personality and behaviour, namely the 'lambs' and the 'cheetahs'. The behaviour of the lambs was described as follows: 'graze in circles, feeding on the feedback and direction of others.' These were popular among investors and succeeded commercially 57% of the time.[11] Fine, but how about the cheetahs?

These were rougher, as their nickname implies. Cheetahs would move quickly and aggressively, work very hard, demonstrate persistence, set high standards and hold people accountable to those standards. Every single one of these produced high returns for their investors – each and every one.

The conclusion, which has been confirmed by other studies, showed that social skills were great, but only when combined with an enormous propensity to get things done. So perhaps a good question to ask yourself, when considering making or leading a start-up, is this:

'Do I have an exceptional propensity to get things done?'

The ability to get things done is obviously largely about *grit*. Navy Seals often learn that when your body tells you that you cannot do any more, you have actually reached only 40% of your capacity. Soldiers and sportsmen with grit continue beyond that. Beyond these professions, a number of studies have shown that grit is a better predictor of success in life than IQ or natural talents.[12]

Twenty-three Indications that You can Thrive as an Entrepreneur

- You show initiative
- You are self-motivated
- You are impatient
- You work quickly
- You are mentally optimized for speed, chaos and uncertainty
- You are resistant to adversity
- You look ahead, but learn from your mistakes
- You are thinking of sustained improvements everywhere around you
- You have professional pride
- You can immerse yourself in a task
- You are quite curious
- You are cooperative
- You are persistent
- You can postpone rewards
- You are generally optimistic
- You have had rather thankless routine jobs in your youth
- You are intuitive and interested in big pictures and broad patterns
- You are creative
- You are open to change and thus not inclined to seek a definitive answer to questions
- Your decision making is based on objective principles and impersonal facts rather than on people involved and personal concerns
- You can be impulsive
- You may have a moderate personality deviation
- You have enormous propensity to get things done

Can entrepreneurship be taught?

There is no shortage of people claiming that entrepreneurship cannot be taught – either you have it or you don't. Yeah right, and the same goes for music, acting and such. But we believe that as in any challenging task, the combination of practice, talent and, yes, instruction tends to be optimal. There are lots of colleges and universities that teach entrepreneurship, and they have got much better at it over time. Our opinion is that studying entrepreneurship can be useful. By the way, one of the best education programmes in the industry is the Kauffman fellow program, in Palo Alto, California, which takes two years. Each year, 20–30 students are picked from among some 200 applicants.

Do I need to be an expert within the sector?

If you are a lifestyle entrepreneur, it's probably easier to be an insider within your industry, but growth entrepreneurs are often outsiders or what are called 'outsider entrepreneurs'. Actually, this seems to be a rule more than an exception. For example, Elon Musk revolutionized the online payment, battery, aerospace and automotive industries (Zip2, PayPal, SpaceX, Tesla, SolarCity, etc.); Steve Jobs revolutionized the movie, computer, mobile phone and music industries (Apple, NeXT, Pixar); Reed Hastings revolutionized movie distribution (Pure Software, Netflix); Richard Branson revolutionized, among others, the aircraft industry (Virgin); Chip Conley revolutionized the hotel industry (Joie de Vivre Hospitality); Travis Kalanick and Garrett Camp revolutionized the taxi industry (Uber). These people were all outsiders to their industries.

What do the statistics say? In fact, they say that about 55% start their businesses within industries in which they had never worked previously.[13] Karim Lakhani from MIT said, after analyzing the activities of the innovation platform InnoCentive:

'Actually, we found that the probability of success increased in areas where they had no formal expertise'.[14]

Why? Perhaps insiders have too much tradition and reverence for the area. A degree of ignorant naivete can be a force.

A DEGREE OF IGNORANT NAIVETE CAN BE A FORCE.

Is it really as hard as they say?

Most entrepreneurs we know, and especially those from growth start-ups, describe their work effort as very intense. Think of it as a rocket that must reach stable orbit and uses an ultra-macho booster to get there – fast. A study of British entrepreneurs showed that a third regularly worked more than 70 hours weekly, and two-thirds did more than 50 hours per week. On top of this, half were planning no more than two weeks of holiday at all over the next year and 14% expected not a single day off.[15]

However, to deliver such enormous work effort within a short time requires not only dedication and tons of work hours but also personal efficiency, which we will address in the coming chapters.

Is it economically worthwhile to become an entrepreneur?

Bill Gates made tons of money starting his business, but from general risk-balancing principles, it is on average not worth it financially to be an entrepreneur.[16] Indeed, a study showed that entrepreneurs over a period of 10 years on average earned 35% less than what they – given their qualifications – could have earned in jobs per hour with the same effort. This was partly because of the hard work and partly the many bankruptcies.[17]

However, please notice the word 'average'. We have already looked at some factors that can improve success rates and we need to look more at business models in the next chapter, where it will be apparent that some models are on average much more promising than others. One study found, for example, that growth start-ups with original technologies/business types have better chances of success than me-too start-ups (companies that basically do the same as others).[18] Thus, if we could make statistics of competent entrepreneurs who went after thoughtful, scalable business models, the picture would probably be quite different and better.

You can think of it as follows: if you are a lifestyle entrepreneur and open a store, you must work 60–80 hours a week and have maybe a 75% chance of making your business survive the critical first three years. Alternatively, should you make an international software company, you will also have to work 60–80 hours a week and your company has only a 25% chance of survival in the long term. However, with the first kind of entrepreneurial project, you will probably not become rich, while the second, in principle, could make you a billionaire. And while the first wouldn't change the world very much, the other could potentially make a more noticeable difference by introducing new ideas to the benefit of all.

At what age should you become an entrepreneur?

We all know famous stories of very young people starting incredible growth companies. For instance, Bill Gates and Mark Zuckerberg were just 19 when they co-founded Microsoft and Facebook, respectively. Steve Jobs co-founded Apple at age 21, Daniel Ek co-founded Spotify at age 23, and Google was founded by Larry Page and Sergey Brin when they were both 25.

However, Jeff Bezos was 30 when he founded Amazon, as was Elon Musk when he founded SpaceX. Jack Ma was even older – 34 – when he founded Alibaba and Reed Hastings was 36 when he founded Netflix. Oh, and Charles Flint was 61 when he founded IBM.

On average, there is no evidence that people typically start their businesses at a particular stage of their life or career; instead it is rather widely distributed across age groups.[19] That being said, one study showed that on average people had worked 14 years before starting their own business, and 35% had worked at least 20 years before they chose to do so. Overall, according to this study, growth entrepreneurs (as opposed to lifestyle entrepreneurs) were on average 34–35 years old when they founded their business.[20]

The Startup Genome project, a study of more than 100 000 start-up companies worldwide, which we will refer to repeatedly in the following chapters, has also studied the average age among the founders of internet companies in the world's top 20 entrepreneurial cities. Here are the numbers:[21]

Average age of the founders of the world's 20 largest entrepreneurial centres

• Silicon Valley	36	• Paris	34
• New York City	34	• Sao Paulo	32
• Los Angeles	37	• Moscow	32
• Boston	35	• Austin	37
• Tel Aviv	34	• Bangalore	29
• London	33	• Sydney	40
• Chicago	38	• Toronto	37
• Seattle	39	• Vancouver	40
• Berlin	32	• Amsterdam	34
• Singapore	35	• Montreal	32

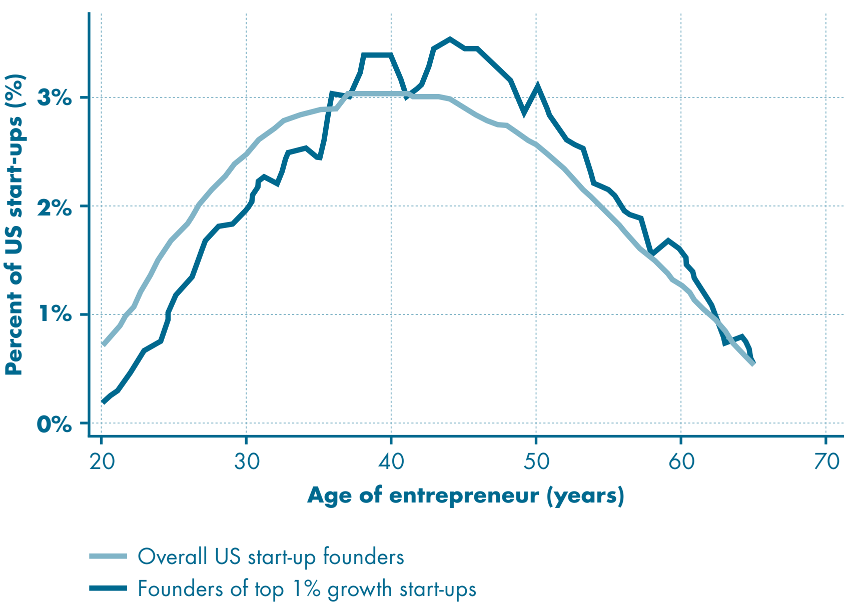
According to this study, whatever the place, the average age for founding a business is between 29 and 40 years old, with an overall average of 35 years. Incidentally, the researchers also investigated whether there was a significant difference between the average age of the founders who had success and those who had not. There wasn't – the average age was 35 years for those who were successful and 34 for those who failed.

However, in 2018, two scientists published a large study based not on a sample but instead on each and every one of the no less than 2.7 million people in the US who between 2007 and 2014 had founded a company and subsequently hired at least one person. How old were these entrepreneurs when they founded these companies?[22]

Overall, the average age was 42 years and as the figure shows, less than 1% of them were below 22 years of age. Moreover, a breakdown showed the following average ages of founders of companies which:

- received venture capital funding: 42 years
- made high-tech recruitment: 43 years
- filed patents: 45 years
- were among the 0.1% fastest growing startups: 45 years.

Founder age distribution: all start-ups and high-performance start-ups.



So, in fact, those who created the most successful companies were a bit older than the overall average: they were on average 45. And just approximately 1% of the elite 0.1% founders were 25 years or less when founding their companies.

This brings us to something else: many of those who successfully founded companies at a very young age reached their zenith as founder-managers only when they were much older. For instance, Steve Jobs was arguably a far better entrepreneur when he returned to Apple at the age of 42 than he was when he co-founded the company at 19.

The conclusion is that as an investor in growth startups, all else being equal, you should have a preference for somewhat seasoned founders. Nevertheless, we recommend considering founding companies very early in your life if an opportunity arises.

Motives for starting early in your career may be that the idea simply is there, and the team as well. Or that you have not yet obtained a car, a dog and a family and thus the social and financial responsibilities that come with those. Funny fact, btw: when we give speeches on entrepreneurship around the world, we sometimes ask how many in the audience have a dog. When we speak to entrepreneur communities, the number is often almost zero.

Typically, during your youth, you are in better health and have no serious risk of ruining a great CV with a potential start-up disaster. And if you fail, then at least you tried and learned. As a youngster, it is also easier to say goodbye to one's ego – for a young person it is OK to sit in a supermarket to earn money until the start-up project is profitable. Therefore, it might be more acceptable to such a person to tackle all the small practicalities of running an early startup. In your younger days, you are also not too specialized.

Furthermore, there is a tendency as a young person to be better at spotting new trends and opportunities. This was what Apple's Steve Jobs and Microsoft's Bill Gates illustrated in the 1970s, and what Facebook's Mark Zuckerberg and Airbnb's Brian Chesky have shown in recent times.

Another consideration could be that the younger you are as an entrepreneur, the more impressed the rest of the world will be, whereas for an older entrepreneur, some might even think, 'Is this because he lost his job?'