



What does it take to start up and grow a great business?

This expert interview is designed for aspiring entrepreneurs and business leaders who want to create and grow a successful business.

In this interview with successful serial entrepreneur, Luke Johnson (Chairman of Risk Capital Partners), by John Corr you'll learn:

- **What's the biggest mistake hopeful entrepreneurs make and how can you avoid it?**
- **What's the one thing you should do first when it comes to evaluating a business idea?**
- **What you should do differently from other investors that can result in tremendous success?**
- **5 quick tips on growing your business**
- **What's the easiest thing you can do right now to see results to build profitable growth?**

John: Welcome everyone. Today's interview is with Luke Johnson, who is one of the UK's most successful entrepreneurs, and has had a dazzling career in business, and a great writer, if you've looked at his articles in the Financial Times, and his books. Also, I thought I'd sharpen up the theme of today's conversation, which is all around how you can start up, and create and build great and successful businesses. Luke's got a book coming out in September called 'Start It Up – Why Running Your Own Business is Easier Than You Think'.

So just to mention some of the glittering things that Luke's done in the past, he's Chairman of the Royal Society of Arts, and former Chairman of Channel 4, one of the UK's major television channels; he has a weekly column in the Financial Times; one of the key entrepreneurs who built up famous businesses such as Pizza Express; and now he's Chairman of Risk Capital Partners, who have some investments in

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Page 1 of 8

some great businesses here in the UK, such as Giraffe Restaurants, Patisserie Valerie, and Gail's Artisan Bakery. I love their bread, love having it every day. So, I love the products, so let's maybe hear a bit more about Luke. So Luke, could you tell us a bit about your background and how you became an entrepreneur.

Luke: I became an entrepreneur, like a lot of people, by accident. I was at university, I was at Oxford studying medicine and I was all set to become a doctor and a colleague and I were having parties for undergraduates, these fairly riotous affairs, and the Dean in charge of discipline at my College, Magdalen, said if we continued I'd be sent down, which is kicked out. So we came up with the idea, my partner Hugh and I, of moving the parties to a local nightclub, and then we thought of the idea of charging on the door as well, and the club itself would take the money over the bar for drinks. And so that's what we did, and on the first night, when we were both 18, I remember I arrived 20 minutes early and there was a queue, and I think in that moment I thought, this is what I want to do; I want to run and build businesses because I saw it as exciting, and creative, and I felt this was a fruitful and unstructured universe where you could invent your own future, rather than the somewhat more hierarchical world of large organizations and the professions. I liked the idea of the freedom and independence. And so broadly speaking, that's what I've done ever since.

John: Could you tell us a little bit about your new book, 'Start It Up'?

Luke: 'Start It Up' is derived from my columns in the Financial Times which I've been writing for a number of years now, and before that for the best part of ten years I wrote a similar weekly column in the business section of the Sunday Telegraph here, and my focus is almost exclusively on entrepreneurs, and everything from their motivations to how they come up with ideas, to forming partnerships, to raising bank finance – you name it, everything that I can think of about starting and running your own business.

So this is not a text book I've written; it's more a series of connected thoughts on the subject of being an entrepreneur, both people who are one-man and one-woman bands, and those who are running companies that perhaps employ hundreds, or conceivably thousands, of people. I think the difference with me from most financial journalists or commentators is that I'm actually in the trenches. I'm Chair, and owner and director of quite a number of different businesses, and have been for 25 years or so. So I bring practical real-life experience to bear, and to a degree I write about that, and so I think that is my strength.

John: Perhaps if we could ask you, given your experience, **what's the biggest mistake hopeful entrepreneurs make, and how can we avoid it?**

Luke: I think the single specific error that quite a lot of entrepreneurs make that I would advise them essentially not to do ever, is to give personal guarantees. I

What does it take to start up and grow a great business?

think it's a grave mistake. Very often banks, sometimes property landlords, or leasing companies or what have you, will ask for guarantees from individuals for loans or leases or what have you, and I would suggest to everyone that there is always another way.

So I would say never give a personal guarantee to a bank or similar institution, and ultimately if they therefore won't lend you the money, look elsewhere, because conceivably things could go wrong, and God forbid you never know what the future might bring, and therefore what you don't want to do is face the possibility if your business goes wrong – which is always a chance – that guarantee will be called and that you could lose everything; you could be bankrupted, you could lose your home. And so I would strongly advise entrepreneurs, or would-be entrepreneurs, not to give personal guarantees, if, conceivably humanly possible.

In terms of other mistakes – rather than mistakes, if I turn it round and say one of the other things I advise entrepreneurs or would-be entrepreneurs to do is to consider seriously forging partnerships rather than doing it just on your own. In other words team up with someone else, and possibly more than two of you.

Research shows that teams of entrepreneurs are much more likely to make it, and make it big, and my personal experience has been, I've virtually always worked with other people, I've very rarely been the exclusive owner of something. I prefer it; it's more sociable, you get a mix of skills. On those days that you are feeling pessimistic with any luck your partner is feeling more optimistic; it gives you someone with whom you can discuss the trials and tribulations, the agony and the ecstasy if you like.

Clearly you need to be careful and thoughtful about how you find a partner, and whom you team up with, and I recommend you do things like have a formal partnership agreement. But I think it makes a more enjoyable journey, and likely a more successful one.

John: Lots of people have lots of ideas every day of great businesses they could create. On the one hand it's easy to come up with ideas, but what's the one thing we should do first when it comes to evaluating a business idea?

Luke: I don't think there is a single outstanding thing that you should do. I think, as you say, lots of people have ideas, and in a way the ideas is almost the easier part. I think the execution is the tough part. It's actually carrying out the dream and that's where a lot of people make mistakes.

I would say you are much more likely to succeed as an entrepreneur if you have what I call domain knowledge, which means you have a true in-depth understanding of the market, the industry, customers, competitors, and so forth, that you are targeting. So this almost certainly means you've worked in the field before, as an employee I guess. I think if you start from cold and suddenly wake up and say I want

What does it take to start up and grow a great business?

to be in the software business, or I want to be in the restaurant business, you will make mistakes and more than likely you won't succeed.

So I think even if you haven't worked in the field before you have to do extensive research before you decide to yourself, gosh, I can see a better way of doing this; I know the answer; this would be a good field to enter. It's rarely that simple and I don't think it matters whether you've seen the idea being implemented successfully abroad or wherever, I think you need to really have done a lot of homework indeed, and that almost certainly means having spent many months, if not years, working in the sector, understanding the dynamics, knowing the technical details and possessing that domain knowledge.

Most of the more successful entrepreneurs I've ever met are in fact experts in their field before they've started the business, and very often they've learnt, if you like, at someone else's expense, ie acquired an education in a sphere of undertaking, and then gone out on their own, rather than just taking the plunge and saying, I want to be a restaurateur, I'm going to open a restaurant, and I see that for example in the field of restaurants a lot, and I'm afraid to say for an awful lot of those people it's a flop, because they don't know what they're doing.

John: What have you done differently from other investors that has resulted in your success?

Luke: I don't know. I'm not sure I have. I think we're all guessing, and amateurs in some ways. What have I done differently? Well, the truth is not everything I've done has been a success – I've had some setbacks as well. You try to learn, obviously, from the failures wherever possible, try to improve your hit rate.

What have I done differently? As I say, I've always tried to work with partners, a variety of different partners, depending on the business and the sector, and time. I don't think I have a unique selling proposition for either myself or Risk Capital Partners. I'm just being honest here rather than pretending that we have particular intellectual property that means we can detect and grow businesses that others can't. I think it's about working hard, I think it's about self-discipline, I think it's about self confidence.

I suppose one thing that I'm not embarrassed to do is have a public profile - I write a weekly column in the FT. I think a lot of entrepreneurs are extremely nervous about publicity, possibly with good cause. However if you take the example of Richard Branson, millionaire, almost certainly one of the UK's most successful entrepreneurs, he's always taken exactly the opposite route, which is maximum publicity and profile, which has always seemingly helped his businesses. I'm not quite in that league but I suppose I do take the view that if you have a profile you should use it, because you do get deal flow that way and people will perhaps take you more seriously than they might otherwise.

Obviously if you are honest and so forth in your advice, as I try to be in my recommendations in my column every week, then you will alienate some people and you just have to accept that's par for the course. It's one of the outcomes of going public with your views, as I do once a week in the FT. And I do writing elsewhere – I write a monthly column in Management Today, for example.

So I suppose that is one difference. I think a number of the other differences are not necessarily a good thing; I mean, my career has been too focused on the UK – I think that's been a mistake. Virtually all the businesses I've owned and run, and do own and run, are based here, and I think in a global economy that's wrong, and I will try, and am trying, to diversify more, such as I've got involved overseas as well as a form of balance, because too much dependence on just the domestic UK economy is not healthy.

John: One thing I was going to say is the food in your restaurants is always great. I take my family there heaps, one time after the other. It sounds a really dumb question – the food in a restaurant should always be good but often it isn't, which has sort of led me to wonder is – I can see all of those formats working really brilliantly in the United States and being five to ten times bigger.

Luke: Can you? I'd like to think someone could. I mean, whether we could ever translate some of the businesses – obviously I don't any longer run things like Pizza Express and [inaudible] which I started and no longer own, but I'm very much involved still with Giraffe and Patisserie Valerie and Gail's, and yes, I think they could work there.

I've run restaurants in America. It's a very different market – you've got legal and cultural, financial and other differences that are crucial, property differences and so forth, employment differences, that mean that it's by no means straightforward. The one thing I would definitely say from my experience with the restaurant business in America is it's more competitive and so probably margins are lower. It's easier for people to set up – the barriers to entry are less.

So actually the UK is a pretty good place to do business in the restaurant sector, I've found, and I've also done business in the restaurant field in France, Germany, and in Spain, and again I would argue probably the UK is a preferable place to do business than those in restaurants. It's marginal – they've cut VAT, particularly in France, dramatically for the hospitality sector in the last ten years, which has given the sector a big boost. I'd like to see them do the same here actually, whereas we've increased VAT here – it's 20% now, which is very unhelpful. But nevertheless, employment law in places like France, and competition, are very intense. So I'm biased, and I suppose I'm probably lazy. I quite like the restaurant business in the UK still despite the economic challenges. Having said all that, probably in the long-term view, the UK will be as the rise of India and Asia and so forth carry on, a smaller player in the overall global economy and therefore having more exposure to those growing places – in South America and Asia and so forth – would be a good idea.

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John: As we've touched on the topic of growth, you could give us five quick tips about growing our business?

Luke: Well it depends what you mean by growth. I guess you mean topline, which is sales rather than profits which you can in theory always achieve by keeping static revenues but cutting costs. Obviously that's a finite game because you can only cut costs so far. So I'm assuming you mean the former, not the latter, which is growing topline.

Well, it's about innovation, which means introducing new products; it's about telling the world about your products, marketing, using every means possible, which is not just paid for – it's PR, it's digital means, it's visibility on the High Street often, for the sort of businesses I'm involved.

So I think it's innovation, new product development, it's marketing. I think proper incentivisation is crucial. I think particularly in a dispersed business with remote locations, like retailing or restaurants, to a fair degree a branch manager is almost running an autonomous company of their own, and if they're properly incentivised then it makes a hell of a difference as to their performance. So I think getting management incentives in remote locations right, that mean they are properly encouraged to succeed, and by the same token proper recruitment policies as well to hire the right people, is vital to any degree of success. So I think that's the third utterly crucial leg.

What else? Well, providing value. In a modern age everyone is looking for the best price, and price comparisons are dramatically easier than they used to be – the internet and so forth has meant that everyone has to be pretty transparent.

So I think the era where you could, so to speak, quietly comfortably rip the customer off has gone, and a lot of companies that rely on that for excessive margins to compensate for other inadequacies, that's history. So therefore you've got to run your business as efficiently and productively as possible if you want to be able to offer the customer best value. So I think that's the way of growing sales because if you are more efficient, more productive, buy better, manage better than your rivals and therefore can offer the same but cheaper, you should take share.

I suppose, actually if you step back there are two ways to grow, aren't there – there's either a growing market that you address, or if you are in a mature market, is taking share. I think for many of us in recent times, since the credit crunch, it's been about taking share; ie we're in a stagnant market, we've got to steal our neighbour's customers. And so that is about things like offering better value.

I think another leg, perhaps the fifth if you like – I think that's five - is service. I think that's underestimated. I think in both the restaurant, the hospitality field, but in many others – be it car repair, or be it mainstream retail – an awful lot of businesses,

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services is underestimated. I think training your staff, recruiting them properly, having a culture of great service, such that you get repeat business, is vital, and it's very hard to achieve. If you look at those who are masters at it, like the Four Seasons hotel chain for example, they make it their very core if you like, it's the soul of their business, and they are exceptional. Costs a lot of money but it pays dividends because they can charge a lot, customers come back, they have to invest less in marketing, etc.

So I would say those are my five recommendations for ways to grow a business.

John: We talked about the topline. I guess, finishing off, what is the easiest thing we can see right now to see results in growing profitability?

Luke: Well, I think you want really good quality financial information, because I think if you have that every single cost line, every single costed product, or output, the margin of cost of each item etc., then you can probably analyse right, where are we spending money, where can we make savings; which products are not profitable, which can we afford to lose.

When I look at my businesses I look at things like which shifts can be cut in terms of labour, which outputs are not making a proper return, which menu items are wasting money, and be it manufacturing or service. I think a proper truly rigorous analysis of your financials should yield the information to tell you what's working and what isn't. And that probably means, if for example it's a retail chain for, cutting loss-making branches. If it's a manufacturer it probably means examining your SKUs and deciding a whole raft are not very profitable; and it's about saving where you can.

I think one of the more disappointing aspects I find in the current debate about public sector cuts in austerity Britain is this concept that any cut is bad and that even the smallest reduction in expenditure is terrifyingly painful. This is all ludicrous. A lot of businesses in the last number of years have had topline falls by 30% or more; they therefore have to cut their costs by that at least, and they managed it and stayed in business. If you have that overwhelming pressure of meeting a payroll at the end of the month, otherwise you will be insolvent, it's extraordinary what can be achieved, and the discipline of having to do more with less, which an awful lot of businesses – I would say the vast majority - have been under for recent times, is actually not necessarily a bad thing. It drives your productivity and progress to a degree, and without it I think most businesses are in danger of becoming complacent, and overstaffed and unproductive.

So the rigour of the marketplace, where if you make excessive returns, almost certainly competition will set up next to you and you will then have to get better, and it's a wonderfully invigorating pressure that I think should not be underestimated, and the fact of the matter is that most of the government's monopolistic thing that faces no competition whatsoever. Moreover, government

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never goes bust, so therefore there is neither the discipline of having a rival setting up next to you offering what you're doing but cheaper and better and therefore you lose all your customers, so either you improve or die, and nor does government have the threat which forces people to up their game or going bust. I think there was a good phrase by Dr Johnson, wasn't there, something along the lines of, 'Sir, there is nothing like the prospect of an execution in the morning to concentrate a fellow's mind.' And I think you hear the endless whingeing from all directions in the public sector and those who feed off it of how the cuts are horrendous and unspeakable, impossible. This is all nonsense. If those characters were running their own businesses and faced with the conditions that many entrepreneurs have been over recent years, in a number of countries actually, which have faced precipitous declines in revenues and so forth, they'd make the necessary adaptations, and that's survival of the fittest. That is what is the engine that I think partly drives human progress. As I say, I think it's a good thing not a bad thing, and so therefore those who are only ever complaining that there are cuts and we need more money, I just don't agree with them.

John: I guess before we should finish up Luke, we should say that you have been absolutely brilliant; I've really enjoyed hearing your answers. I have before me a fantastic copy of Luke's new book, *Start It Up: Why Running Your Own Business is Easier Than You Think*. I'm sure anyone who has been on to the Financial Times has really loved your writing, so I recommend the book. Of course, you can get it online at Amazon.com, or Amazon.co.uk, or all the other Amazon affiliates around the world; and of course if any of them are still alive and have not gone bust, at good bookshops along the High Streets, while they're still there. So, Luke, thank you very much.



John Corr is the Managing Director of Close Quarter, a firm specialising in helping ambitious leaders transform the value of their businesses by helping them accelerate delivery of what matters most to their customers, profits and growth.

John is the current global President of BPGroup.org, a leading global community of professionals dedicated to sharing best practice in performance improvement, business turnarounds and process management.

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