

LIFE ON THE STARTUP FRONTIER: New Economy Concepts and the Application of Deming's Theories on Management

By Christian Buckley and Arthur Close

A version of this article entitled “Life on the Software Frontier” was first published by IBM developerWorks at <http://www.ibm.com/developerWorks/>

Abstract

Life in a startup is fast. Too many companies fail because they are unable to set and achieve milestones. As if bringing a new concept to market isn't tough enough, they fail to recognize the cause – a lack of metrics, leadership, and process. Startups *inherently* fail. But why? The reality is that far too many of today's thought leaders on management have it all wrong.

The Oregon Trail, 1803

Life on the early American Frontier could be harsh, and sometimes very short. Towns emerged practically overnight. Populations in some areas exploded, only to recede and fade within a few short years. With limited life-sustaining resources in the untamed wilderness, ghost towns began to dot the landscape within a few short years of the migration westward.

Why did some of these people fail? Arguably, not every problem was man-made. Newly developed farmland was more susceptible to drought and pestilence, which, at times, destroyed crops and valuable grazing land. But more often than not it was due to shortsighted management. That's right. Poor planning, pure and simple. Many of the pioneers failed to create a constancy of purpose, and work together toward a common goal. Instead, they allowed greed to drive their activities – greed for gold, greed for land.

The history of the American Frontier is a history of the “quick win.” Get lucky and move on without worrying about long-term success, or even sustainability. For some it was gold, for others it was land. These examples are easy enough to identify. But for most of the men and women who made the journey from distant lands to the untamed wild of America, the goal was larger than that – it was the freedom and the opportunity to build a new life.

This closely parallels the beginning of many modern day companies – an individual or team of entrepreneurs attempting to build a better product, to better meet a customer's needs, to find a better way. But even the best intentions require proper planning. Townships on the early American Frontier were built upon the hopes and hard work of its people, but even the best intentions do not ensure success. The government's decision to build the railroad 100 miles away from a well-established town could transform any thriving community into a ghost town, and usually did.

Back in the modern business world, many companies have experienced the same misfortunes. Would-be entrepreneurs who mortgage their lives and their belongings to build a business find that sweat equity alone cannot guarantee success. Many do not understand that startups inherently fail. As if bringing a new concept to market isn't difficult enough, too much is left up to fate. They are more likely to pick the wrong technology or invest time in the wrong market segments than achieve even moderate success. And yet, by first fully evaluating their opportunities and adhering to some basic planning guidelines, much of the risks and uncertainties can be managed.

In some ways, the “New Economy” and the proliferation of startups with questionable business models, is much like that of the outdated (and typically unethical) pyramid schemes of recent history. The business model is designed to make money off of the work of others, versus the

normal producer-consumer relationships. But when does someone actually build or buy a product or service? Products and services are a businesses' natural resources – when transactions disappear, the company dies. Worldwide recession trends have proved that the pyramid model cannot survive, just as history has shown that towns on the Frontier failed when natural resources were scarce – or disappeared entirely.

Analysts, investment groups, and venture capitalists are as much to blame as the startups. They fanned the flames by directing funds and support toward a growing number of startups with weak business models and little hope of meeting revenue goals. A great example of hype replacing sound business policy was that of the digital broadband providers. Here were a group of quickly formed companies built on bleeding-edge technology, with business models highly dependent on rapid customer adoption and the network effect, which is the reduction in cost of goods sold as the number of customers increases toward capacity. Analysts provided few words of concern over investments in these overly optimistic and unproven business models with their unrealistic revenue projections. For the analysts, greed also clouded sensibilities. Focus turned from business depth to profit potential. Instead of stressing the risks involved with these firms, feedback to investors became lackadaisical. "It all depends on your investment horizon," claimed Kathie Hackler, an analyst with Gartner Group. "The small private firms offer the biggest potential returns, either by generating big market caps or by being acquired along the way. Some, of course, will tank. The larger, more established companies promise stability, with slower growth."(1)

Delaying the inevitable, some of the firms with the most inadequate business models and overstated revenue projections found new ways to rid themselves of their funding burdens. "From out of nowhere, the dot-coms (purchased) mass media ads at an annualized rate of \$7.4 billion, according to Advertising Age. That figure nearly (matched) the U.S. ad spending of DaimlerChrysler, Ford Motor, General Motors, Honda, and Toyota combined (in 1999). The big difference, however, is that automobiles are a trillion-dollar industry with established brands, while most brands in the fragmented commerce field are unlikely to survive."(2)

Still on the Oregon Trail, 2003

Much like the brave souls who settled the American Frontier, many CEOs and managers of new organizations find that despite unrestrained optimism, life can be harsh in a start-up. Oddly enough, the competitors don't always die or leave town, the customers don't leave established businesses in droves to come to the new guy, the financiers and supporters sometimes have a change of heart and stop providing the backup needed to keep going, and the environment is sometimes just too wild and difficult to tame. The fact that these issues are unanticipated or unprepared for is what connects all these problems. Anticipating and preparing for the future is management's role in a new organization.

In the excitement generated by all the potential of a new business, many "little" tasks are forgotten or considered unimportant at the time. Despite the fact that the business plan efforts outlined and promised specific tasks by targeted dates, some tasks just don't get done, let alone done on time. Of course, Deming and other thinkers have written guidelines and coached many business people on techniques for getting all the jobs done. Deming wrote the "14 Obligations" to help improve the decision maker's perspective on getting the big and little jobs done... so what goes wrong? What happens to the focus of the employees, the suppliers, the bosses and the customers? Who makes the decision to postpone or demote the priority of actions when the execution of them turns out to have been critical, in hindsight?

Reputations are built by accomplishing that which has been promised. Credibility with everyone connected to the program is enhanced when tasks are executed on time. Even future bankrolling is influenced by your company showing promised progress. Execution of goals is the sum of ALL the parts of the work done during the previous day(s).

What these examples illustrate is the lack of proper process and planning in the development of New Economy firms. The key to success is good management, which includes:

1. Organizational planning before building
2. Hiring the best people
3. Developing and instituting the proper product development methodologies
4. Developing an effective culture
5. Maintaining a constancy of purpose

Deming provides clear guidance as to the proper duties and activities that constitute good management. Unfortunately, many believe that their understanding of Deming and/or their customers allows them the freedom to avoid certain duties. We've all heard the common management mistakes when it comes to making decisions:

- "What I've done is good enough."
- "Those rules don't really apply to us."
- "We don't have time to institute process – we need to move too quickly."
- "We don't have any competition in this space."
- "We'll cross that bridge when we come to it."

Leave it to the mainstream media to highlight the extravagances of the new breed of companies that began popping up in the mid-1990's, classifying the lack of traditional prerequisites for a sustainable business not as questionable or troubling, but as "unconventional" and "trend setting". The September 27, 1999 cover of Time magazine is a perfect example of the blind coverage given to the New Economy. The cover read: "Get Rich.com: Secrets of the New Silicon Valley," and the story byline emphasized all the things that were wrong with this movement. "Can't program a computer? Not tech savvy? Not a problem. If you've got a hot Internet business idea, Silicon Valley's astonishing start-up machine will do the rest."(3)

It had come to the attention of the mainstream media that there were businesses being developed and funded with no traditional product to be made, business plan to follow, or skilled employees to be hired. And yet the lack of these traditional business prerequisites (and common sense) did not stop them from perpetuating the vision of the road to riches, even at the cost of education – as concluded by the same Time article. "E-commerce niches are getting claimed so quickly that there might not be time for business school anymore."

With traditional business models in question, a shift in values began to occur throughout many industries. Untested, questionable, and sometimes expensive business concepts were launched without even an attempt to validate assumptions. Some of these concepts, each put forth with much fervor by their startup creators, somehow gained acceptance by pundits on the New Economy Frontier:

- To build a customer base, give your products away for free. Customer acquisition is more important than short-term revenue. "Every company has to figure out what it's giving away and what it's selling...If you're a fast-moving industry and you want to gain market share, this strategy is paramount."(4) Companies like AllAdvantage and GoToWorld.com that had business models that relied solely on advertising dollars and paying web surfers for spending time online reading their banner ads. To sign up for either program, users had to complete an online form asking for name, postal address, email and age, among other things. Then, after downloading some special software, users would see targeted ads whenever they were online that were based almost entirely on their surfing habits.

The concept behind this strategy, as implemented by now-defunct companies such as AllAdvantage.com, GoToWorld.com, and FreeDSL.com, is that customer acquisition is the number one priority of the business, and by "on boarding" customers rapidly by giving away products and services, revenues would quickly follow. Unlike short-term giveaways

that tend to add onto an existing product or services being sold, this strategy has not resulted in long-term success. The mistake is not capturing the revenues needed to maintain operations.

- Public relations are more important than building a brand name. “Branding is dead...Create an event that evangelizes your vision. Establish venues, virtual or real, where you can bring together customers and key industry players. And use your web presence to share what you know.”(5)

Companies have become entranced with “creating a buzz” instead of building substance. Public relations should be approached much the same as brand building activities – with a strategy. Most successful PR campaigns are built over months and years of planning, and rarely, if ever, succeed as the result of a single event or advertisement.

- Self-service is an acceptable substitute for customer interaction. The Internet will allow remote, dynamic servicing of customers, allowing less interaction with customers, under the moniker of “web-based business services”.

The truth is, impersonal self-service tools and applications will never entirely replace person-to-person customer interaction. Companies should provide options for self-service, allowing customers a choice. With the proliferation of web-based support systems and detailed phone services, many firms have found they are able to offer person-to-person interaction as another class of service – at a profit.

- Building to “flip” is a viable business model. “Let GolfServ turn your website into a golfing mecca. Players can track handicaps, schedule tee times, review course information and scorecards, buy equipment online, even take lessons.”(6)

Never before has modern business seen so many companies vying for a quick sale versus long-term viability. Of course, it sometimes makes sense to merge or liquidate assets of companies. The difference, however, is that the new wave of companies have been heavily weighted with business plans that are little more than extended advertising for a product or service that has no chance of sustaining a real company beyond the initial investments. At the height of the New Economy madness, some venture capitalists even preferred this company exit strategy, as it afforded them a quick turnaround on their investment dollars. Is a company based almost entirely on tracking a golf tee time really a viable business model?

- Name recognition breeds product success. “The key to success is brand building (a blitz of advertising and marketing) – developing company recognition on par with America Online or McDonald’s. To do that, startups need cold, hard cash and lots of it.”(7)

It has been said that, as a startup, having too much money can be as bad – or worse – than not having enough money. The idea that name recognition is the key to success was the mantra of numerous companies, such as Pets.com, Boo.com, and Phone.com. But it wasn’t name recognition alone that built companies such as America Online and McDonald’s – both of these companies developed products and services that appealed to their customers, and built ongoing strategies around these products and services that included areas such as branding, messaging, market sizing, product placement, and other aspects of the four P’s of Marketing: Product, Price, Placement and Promotion.

- Build it, and they will come. “The handful of companies...scrambling to build the biggest and baddest e-business power tools – all sit on an unmistakably huge opportunity: building the infrastructure behind the commerce of tomorrow. So huge, in fact, that it might leave Web firms with the notion that buying any or all of these technologies is a Net Economy panacea.”(8)

No solution will ever be a customer panacea, but it’s always a good strategy to try and resolve a number of large customer business problems. The “We’ll Build It For You”

strategy has been largely dismantled, as companies have come to realize that with a standard build, you do not get any customization. Services companies, especially, have learned that custom implementations are what customers want and need. Instead of basing their futures on standard versions, some custom chip manufacturers and component technology firms have made vast inroads in decreasing their supply chain organization overhead, decreasing manufacturing times as well as overall product costs, allowing more and more companies to consider custom solutions. And thanks to some of the leading software and product data management firms, the methods of customer-to-manufacturer customization are becoming very flexible – even allowing teams to collaborate entirely over the Internet.

- If we get big fast, we'll survive.

The reality is that a bad business model is a bad business model, no matter how big your employee parking lot gets. WebVan raised almost half a billion dollars in it's short life, and yet it succumbed to some of the common New Economy mistakes listed here. In business, the old adage holds true – size doesn't matter. Take a look at the most recent failure – Enron. Once the leading energy management firm in the United States, and in the Top 10 of the Fortune 500, Enron allowed itself to make some bad decisions, thinking it's sheer size could buffer it from the rages of a storming economy...

No company is going to entirely escape falling into at least one business mistakes – if not one of these, then some variation. However, the trick to avoiding the “perfect hindsight” issue is to use some 20/20 vision in your forward planning, and that requires effectively setting goals.

Setting Goals

Goals are part of the meticulously built business plan. Market research, interviews with potential suppliers, possible alliances during certain phases of growth, and the identification of specific deadlines for reaching the goals are required in the business plan proposal. All the goals are selected based on the current knowledge – and the optimism – of the entrepreneur. An entrepreneur's charisma and salesmanship can heavily influence (or warp) the goals that are supported by solid research. This means that the first few drafts of the goals and the plan will often include a number of guesses.

A clear vision of the ultimate goal of the organization is crucial to setting all of the other goals. As in software development, it is important to understand the full scope of the problem space before undertaking the effort. You don't start coding unless you know the issue you're trying to resolve. It helps to visually model the elements of the problem domain, identifying the connections and all of the actors of the system. From that point, it is much easier to identify the measurable work.

Whatever the product or service, measures of the daily, weekly, monthly and quarterly measurable work is required to ensure that progress is being made. *(Often, there is major confusion as to what should be measured, not to mention downright mystification as to the level of measurement required.)*

There are four basic performance measurements that are applicable to every organization:

1. Safety – if neither your employees nor customers feel safe around your product or service, you will fail to stay in business.
2. Quality – if the customer doesn't believe that the goods or services you are selling will do what they want, you are doomed.
3. Cycle Time – if they can't get it when they need it, the results are self-explanatory
4. Costs/Profits – this is the LAST of your worries, and is directly tied to how well you are performing on the other three. Profitability allows you to stay in business but it is not the reason to be in business.

Proper setting of goals is crucial to the usefulness of the business plan. Understanding that measures are there to help you and your employees, but they are not the reason you exist will help you through the next issue. Changing the plans and the goals is necessary when the world won't cooperate and bend to your will.

To paraphrase Carl von Clausewitz: No business plan survives first contact with the customers and competitors. As the real world begins to act and interact with the emerging start-up organization, goals will require modification. These modifications can take the form of changes to quantities, size of revenue streams, deadlines moved forward or back, numbers of employees hired, areas of expertise required, and/or others. It is how these changes are handled that directly impacts the future success of the new organization. Changes need to be:

- well researched (based on facts)
- communicated to everyone involved
- reviewed and agreed to by the participants
- properly adjusted throughout all the connected goals
- monitored for relevance (set-up good feedback loops)

Flexibility in levels of achievement and dates of completion is acceptable, as long as all of the ramifications are understood and managed.

Since modifying the organization's goals will occur, how do you make the correct changes? How can you confirm they are correct before "losing your shirt?" This is all described by Deming's Plan, Do, Check, Act (PDCA), and is based on the proper application of theory. It is the combination of a plan and a theory that allows the construction and selection of effective measures.

- Accounting-based measures of performance drive employees to achieve targets of sales, revenue, and costs, by manipulation of processes, and by flattery or delusive promises to cajole a customer into purchase of what he does not need.(9)
- A committee appointed by the President of a company will report what the President wishes to hear. Would they dare report otherwise?
- Fear invites wrong figures. Bearers of bad news fare badly. To keep his job, anyone may present to his boss only good news.

Even if the measures are carefully selected and faithfully used, if the receiver frowns upon the message or considers the information to be incomplete due to "special knowledge" the receiver has gained through wishful thinking, then the data becomes useless.

Measures

All measures should supply accurate information usable for making good decisions. To paraphrase Dr. Deming - if you don't know how to use the answer to improve your process, the calculation(s) were a waste of time. Sometimes, managers and employees consider measurement techniques fads because the value and methodology are misunderstood. Many of the discarded tools would work if they were executed properly.

A decision maker must understand the origins of the data AND how it was manipulated. Remember that each method of calculation has implications and limits, as does the source of the data.

For instance, an electronics component company that makes different types of transistors would be interested in calculating the profit of each type of transistor they make so they know which makes the most money. Let's assume that the types of transistors made are sold at different prices, are produced at different rates, but the cost of material is the same. Assume that the labor

costs are fixed on a per hour basis and that the set-up to manufacture the different types of transistors also varies.

Contribution per transistor: a simple method for calculating this “profit” per transistor is to write the formula: Revenue – material = contribution per transistor

1. Transistor A = \$6 - \$4 = \$2
2. Transistor B = \$7 - \$4 = \$3
3. Transistor C = \$8 - \$4 = \$4

Contribution per hour: since the transistors are produced at different rates per hour (even though the labor costs per hour are consistent) the results could differ as to which type of transistor contributes the most in an hour.

$$\frac{(\text{Contribution per transistor} - \text{changeover labor cost per unit}) \times \text{Quantity produced}}{(\text{Changeover time} + \text{production time for the Quantity produced})}$$

1. Transistor A = $(\$2 - (8/100) * \$10) / (8 + 100(0.10)) = \6.67
2. Transistor B = $(\$3 - (10/100) * \$10) / (10 + 100(0.10)) = \10.00
3. Transistor C = $(\$4 - (25/100) * \$10) / (25 + 100(0.10)) = \4.28

Note that the math alone doesn’t solve the issue of which transistors to make; it is a matter of understanding the data so it can be manipulated effectively. Certainly, the size of the orders from the customers can impact the profitability, a breakthrough in manufacturing techniques or set-up times can change the outcome, and new materials that can command increased revenue thereby changing the results of the equation and may make the measurement method obsolete. Each measure offers more than the solution at the end of the equals sign, understanding the implications of the source of the data can tell an experienced analyst or manager what caused the outcome.

We aren’t suggesting that measures aren’t important to the future of an organization, but the measures have to be understood by those using them. There are no magic formulas that guarantee success; only good management improves the odds against failure.

The first of Deming’s 14 points puts this in perspective:

- Constancy of purpose -- means more than the grand finished goal, it has to be translated into all the “little” day-to-day activities of the employees.

Effective management is a combination of the abilities to make correct decisions and inspire others toward the correct goal.(10) So, how do you check the measures themselves?

Start with consistency, so the information can be read and understood. Keep in mind that the measurements need to evolve so the users can absorb more information as their experience and profound knowledge grow, and the measurements can be more finely tuned as you better understand your results and learn how to ask better questions – and capture more refined data.

United Airlines, for example, has been adapting external and internal measurements to increase understanding of the maintenance requirements on each plane in its fleet of more than 500 aircraft. It used to measure the on-time performance of each flight using only industry standards. The company then developed a method of adding important supplemental data into the measurement system and then separated the two measures. By keeping the original mechanical reliability measure separate, the company could then add the supplemental issues to the new. By comparing one measure against the other, United now knows if the problems exist in the design of the aircraft (making it engineering’s responsibility) or in the methods of maintenance (the line maintenance department’s responsibility). Graphs, data tables, and even the design of the report continue to evolve as the users of the information become more sophisticated in their

understanding of the material being presented. Of course, the ultimate test of the process is whether it is showing real improvement.

Much like the frontier towns, some of the new start-ups don't have the same level of profound knowledge that the established organizations have, and as a result they falter when opportunities or threats develop.

Internal vs. External Measurements

It is very important that you compare your company to others in the industry to ensure that your internal measures are driving increased reliability. Sometimes, in the enthusiasm to look good to investors and stockholders, some people have adjusted measures with the hope of "more properly reflecting the business environment." Occasionally, those adjustments actually warp reality and neglect issues of vital importance to the future of the company. The previous list of questionable business models is a perfect example of warped reality. The problem is exacerbated when the new measures look like the old ones – usually skewed by management's "enthusiasm to fit them into the prescribed business model – and are interpreted incorrectly.

When Deming visited Ford in February 1981, "he didn't want to talk about cars or the reject rates on the production line. Nor did he deliver conventional bromides about quality, such as everything would be okay if everyone just worked a little harder. Instead, what Deming really wanted to know about were processes and people and how they were managed at Ford. He wanted to know about the executives sitting in the room, and what they understood their responsibilities to be – to the company, to their employees, and to the customer."(12)

In other words, Deming felt that how management perceived the people involved in the organization was the most important factor to understand. Measurements are subordinate to the attitudes and perceptions of those in charge. The view a boss has of the internal and external environment greatly impacts the future of the whole operation. If the steps taken by management in all the areas they control are not effectively planned then self-created issues will come to the forefront. The boss needs to understand what could occur in the future if they take a certain approach, for example:

- Hiring people who only do what they're told and who do not see the opportunities in each day will likely force the boss to become a "micro-manager."
- Hiring staff that clearly understand the goals of the organization and the daily opportunities will force the boss to readjust his or her thinking on numerous daily issues. The boss will need an open mind, because the employees will discover new paths to the goals as they interact with each other, customers, and competitors.
- Mixing the staff (hiring both types) means the boss will have to be 'micro-managing' some employees while allowing others the freedom to change directions. This could cause serious conflict within the manager and between the manager and some employees when the boss forgets who should be treated how.

It becomes very clear through all these points that employees are the most important people to any organization (contrary to the current philosophy of some consultants that the customer is king). It is the members of any organization who are responsible, through their actions, for the success of the endeavor.

Next Steps

So, what happens when plans don't succeed and threats start to pile up against your operation. Will this mean certain failure? Is there any hope for recovering? "Hard times may hurt the bottom line, but they don't stop innovation. Indeed, the state of the economy, new technologies, and even regulatory shifts have had little effect on the creation of profitable new business models over the past 40 years, according to a Deloitte Consulting study of 169 top-performing U.S. companies. The majority of successful innovators – from Starbucks and Southwest Airlines to AOL and Charles Schwab – struck corporate gold by simply finding a way to profit from products and

services everyone already knew customers wanted. And many excelled in times of great economic uncertainty.”(13)

Innovation rarely comes as the result of an apple falling from a tree and hitting you in the head. Innovation is more of a process – sometimes simple and buried deep within the psyche of the individual, and sometimes methodically sewn into the practices of a team – that is put in motion by the desire to improve the status quo. While not every innovation has a functional application; however, some of the most creative inventions were developed as byproducts of less useful creations. That is all part of the innovation process.

The key is to insert the innovative process into your startup. So...what are some practical steps one can take to ensure a new company starts out in the right direction? The key to building a successful startup – and developing a constancy of purpose for your new organization – is to develop and refine this process of innovation. In his book “High Tech Start Up,” John L. Neisham outlines the basic steps to building an organization:

- Understand the process of forming a company – understand the steps, and the implications of the endeavor. Know what you’re getting into before you suddenly find yourself with people who depend on you.
- Build founder commitments – here is where the constancy of purpose applies. You must be of one mind on the vision and the strategy.
- Gather financial, legal, and strategic advice – build a strong support team, and don’t be afraid to ask them for help. That’s what they’re there for.
- Create a business plan that addresses the customer, the market, the business model, and the risks – to get funding, you need to write it. To succeed, you need to live it.
- Raise capital – capital is second only to your employees in importance. You need to understand the implications of funding sources, and the cost, and provide your team with an exit strategy.
- Launching the first product – all of your team’s hard work leads up to this day. Make sure your implementation plans coincide with your business plan, and reflect your cultural values.

Within your product strategy and development methodology lies the core of your innovative process; a process that is slowly developed and refined over the life of your organization by the people who know your product and your market the best – your employees. And, practically speaking, at the center of this process is your product. To summarize the core steps of developing and launching a product, as contained in “High Tech Product Launch” by Catherine Kitcho, there are ten primary steps involved in the product innovation process:

- Product definition – know what you are building before you begin.
- Strategic objectives – understand why you are building, for who, and for what purpose.
- Customer identification – clarify your target customer group.
- Market identification and sizing – understand your segments, your geographies, and your opportunity.
- Competition – know who else is out there.
- Positioning – understand where you stand in relation to other offerings, and how your product or service provides unique value.
- Messaging – don’t get lost in the hype. Be clear and concise.
- Marketing plan – always have a strategy, and a contingency plan.

- Launch – execute flawlessly. But don't be afraid to make mistakes, which are sometimes our best learning tools.
- Revisit lessons learned – ALWAYS stop to take a look back at what was accomplished, and see where you can improve. There's always room for improvement.

Conclusion

Life in a startup is fast moving and 'Execution' is King. If you don't hit your targets, you die. Too many companies fail because they are unable to create or tap into their innovative process. As if bringing a new concept to market isn't tough enough, many companies fail to recognize this point. But why? One theory is that the formal academic path of our business leaders is failing, and that the gap is widening between the way our leaders are trained and what they really need to know about the business world. But the truth is that these men and women lack the *practical* knowledge of the steps toward innovation.

By the way, these observations are not limited to '.com' high tech companies – they apply to any organization. They apply equally well to the development of a new department in a company, or to a major restructuring of an existing organization

Management's ultimate job is to hone the system so it can make the leap from continual improvement to continual innovation.(14) To do this, metrics and management must be combined in an effective manner, which means management must understand its goals and its people.

“Venture capitalists traditionally value a company on four areas: technology, management, market positioning, and financial projections. But on the Internet, new business models have replaced technology as a valuation benchmark, even though many of these models are unproven.”(15)

Business models cannot replace the fundamental blocks of building a successful business. Analysts and venture capitalists are awaking to this painful reality after slipping into the business model traps.

People are beginning to once again recognize the value of doing things right. “Business cases that simply calculate payback based on IT expenditures or show the cost of implementing and owning a technology – standard practices for decades – have justified many projects that turned out to be unjustifiable. Shareholders, like elephants, have long memories. They remember promised gains, and they're waiting for an accounting of those benefits before shelling out more of their limited funds for new projects.”(16) While the technology players may have felt the brunt of the change to the economy, the mistakes made by some of the world's fastest moving startups can be felt across almost every frontier. And the business community is seeking change. The paradigm is shifting.

American settlers learned lessons about life on the plains – sometimes the hard way – and began improving the methods that ensured (or at least improved) their chances for survival. They began developing their processes of innovation, and, in most cases, built better lives for themselves and their posterity. After the hard lessons of the last two years, the “New Economy Thinkers” are also learning how to plan and implement more effectively. No longer is the “quick win” part of the business strategy. Slowly but surely, it is being replaced by the practical.

Now is the time to maintain a constancy of purpose.

Arthur Close is an expert in operational management, and a huge fan of Mr. Deming. After spending most of his working life with United Airlines, he now consults, and also teaches what he has been practicing at the University of Phoenix in Pleasanton, California. Art can be reached at acclose@aol.com.

About Red Hill Partners

Red Hill Partners is a consortium of business and technology experts whose focus is helping both individuals and entrepreneurial companies with the tools, processes, and content crucial to achieving business and technological knowledge and market leadership. We are global advisors, writers, and educators, providing education, counseling, and research to individuals, corporations, new ventures, and associations interested in the constantly shifting patterns and prevailing practices of modern business.

Red Hill Partners can be reached at info@redhillpartners.com or by visiting our website at www.redhillpartners.com

¹ Grebb, pg.238

² Schwartz, pg.100

³ Ratnesar, pg.67

⁴ Fast Company, Editing Department

⁵ Mieszkowski

⁶ GolfServ Advertisement, Business 2.0

⁷ Pickering, pg.60

⁸ Cross, pg.139

⁹ Johnson

¹⁰ Close

¹² Gabor, pg.5

¹⁴ Gabor, pg.10

¹⁵ Pickering, pg.62

¹⁶ Sommer

Bibliography

- Close, Art. *Art's Management Truths*, Art Close, 1999
- Cross, Kim. *The Ultimate Enablers: Business Partners*, Business 2.0, February 2000
- Fast Company, Editing Department. *The Best Things in Life are Free*, Fast Company, April/May 1998
- Gabor, Andrea. *The Man Who Discovered Quality*, Times Books, 1990
- GolfServ Advertisement, Business 2.0, February 2000
- Grebb, Michael. *DSL's Sneak Attack*, Business 2.0, February 2000
- Johnson, H. Thomas. Adapted from *Relevance Regained*, The Free Press, 1992
- Kitcho, Catherine. High Tech Product Launch, Pele Publications, 1999
- Mieszkowski, Katharine. *The Power of Public Relations*, Fast Company, April/May 1998
- Nesheim, John L. *High Tech Start Up*, Simon and Schuster, 1997
- Optimizemag.com. Editor Commentary, January 2002
- Pickering, Carol. *Choking on Cash*, Business 2.0, January 2000
- Ratnesar, Romesh, and Joel Stein. *Get Rich.com*, Time, September 1999
- Schwartz, Evan I. *Lessons from the Rust Belt*, Business 2.0, February 2000
- Sommer, Brian. *A New Kind of Business Case*, Optimizemag.com, January 2002