# Understanding Entrepreneurs

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## Victory for the American dream

Hamdi Ulukaya, a Kurdish immigrant, has built a US dairy empire on hard work and gut instinct, discovers *Jonathan Moules*

**Hamid Ulukaya, Ernst & Young World Entrepreneur of the Year, has built Chobani, his Greek yoghurt company, into the number one brand in the US in just six years: 'We run the company the way we want to run it, with the motive of nothing but good.'** Rebecca Marshall

If anyone were worried that the American dream was at risk, immigrant Hamdi Ulukaya is living proof that it is not.

In just six years, Chobani, his Greek yoghurt business, has become the best-selling yoghurt brand in the US, with almost $1bn in annual sales and a workforce of 2,000 people. It is the kind of growth expected of Silicon Valley technology start-ups, not a manufacturing operation in upstate New York.

Mr Ulukaya, who was named Ernst & Young World Entrepreneur of the Year at a ceremony in Monaco on June 8, emigrated to the US in 1994 from his family farm in the Kurdish community of eastern Turkey. At the time, he could barely speak a word of English and was certainly not considering a career as an entrepreneur.

"I didn't plan to go into business," he admits. "It was a discovery for me."

Chobani was born when Mr Ulukaya, while tidying up his desk, found an advert for a former Kraft factory that was about to be closed after 75 years. He threw the ad away but later retrieved it and paid the plant a visit. On the first of many occasions when he has trusted his gut instinct, he decided to buy the plant with a $1m government loan.

"I also found myself through this journey of five or six years; building that plant was also building myself," he says.

He hired five of the 55 people that Kraft were making redundant and spent almost two years perfecting his product.

"One of the best things about entrepreneurship is not knowing," he says. "It proves that a small start-up, if it does it right, can change [a market]."

Greek yoghurt was less than 1 per cent of the US yoghurt market when Mr Ulukaya started Chobani. Now it is about 50 per cent. "Our brand is number one," he adds.

"We insisted that it become a main item of the daily aisle where everyone shops. Then we were in the factory and worked weekends, evenings, Christmas and Thanksgiving – every day," he says. "And we focused on our product. What I am most proud of is that Chobani is a people company," he continues. "We run the company the way we want to run it, with the motive of nothing but good."

Ten per cent of Chobani's profits after tax are given to the company's charity, Shepherd's Gift Foundation.

Chobani has capitalised on a close connection with its customers and did not spend a penny on marketing in the early years. "You have to have a mission that aligns with the consumer's mind. People will take your brand to the next level if they love it, and they are attached to it, and they find something that they like about it," Mr Ulukaya says.

With expansion plans in mind, Chobani has just opened a plant in Idaho, and is eyeing other opportunities further afield.

"We are exploring the UK, and lokoing forward to investing there," Mr Ulukaya says. "But the most important thing to do is to have the perfect product before we make more of it."

He adds that he settled on upstate New York because it felt like home. "I'm not sure whether I would have done this in Turkey," he says about Chobani. "It is important for an entrepreneur to do his work in an area where it feels like home. Then you can bring your own work into the world."

Winning the award has shown him that everything is possible, he adds. "I came from the eastern part of Turkey as a Kurd, and made my home in America and [started the company]. This means that anyone who has a dream, don't let it go, just work for it."

**Watch a video interview with Hamdi Ulukaya at www.ft.com/understanding-entrepreneurs-2013**

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# Throw away the suit and know execution matters

**Guest Column**
DOUG MONRO

I have five top tips for people thinking of starting their own business.

First, don't do it! If you do, you'll be letting yourself in for an immense amount of unrewarded hard graft, a series of failures and the need to keep bouncing back a thousand times when things don't work.

Burning yourself out without knowing if it will ever pay off is certainly not for everyone. If you ignore me and do it anyway, then give it your all. If you start a business halfheartedly, you will not succeed.

Second, it is important to understand your own risk profile. When is the right time for you to a start a company? What financial and personal risk can you afford to take? Do you really know your market? In my case I had corporate experience, an MBA and start-up experience before becoming a founder, so I learnt on someone else's dime.

Next, people matter. Surround yourself with really great people who believe in what you are doing and whom you trust and enjoy working with. Treat them well – and that includes investors.

Fourth, don't forget that execution matters. Even if you have five competitors doing the same thing, you can still win if you execute better than them. Luck has nothing to do with it. Spend less time at conferences and coffee mornings, and put more into building and selling a great product. Test, learn, get feedback and iterate fast.

Finally, never wear a suit if you can help it. People who are more concerned about dress code than substance are not worth working with anyway.

Once these rules are established, you will find the UK is broadly entrepreneur friendly.

We have a decent education system, good infrastructure and a flexible labour market. Culturally, we are not as risk hungry as the US, but that is changing.

We now have celebrity entrepreneurs as role models, and even television shows promoting start-up businesses, for all their flaws. We have tax breaks for company founders, such as Entrepreneurs' Relief, as well as for investors, such as the Enterprise Initiative Scheme.

In the consumer internet sector where Adzuna operates, the UK does not have the history and concentration of start-ups that have developed in Silicon Valley over the past 30 years. But we do have other advantages, including a diverse culture and workforce, and access to London's media and financial services expertise. For global businesses, London is still the best place to be headquartered.

There is, however, always more the government can do, particularly to reduce the administrative burden on start-ups and their employees. The requirements of Companies House and HMRC remain labyrinthine even to an experienced business manager and qualified accountant like me. What is needed is not rocket science: get everything online, put it in layman's terms, ask for things only once and only those that are needed, and simplify them.

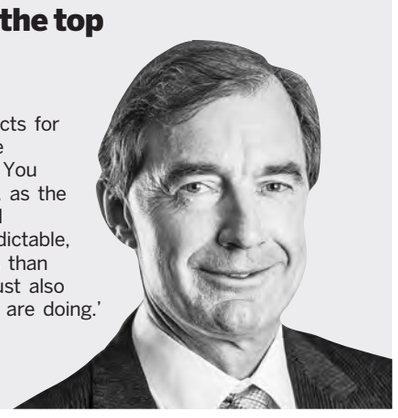
On taxation, payroll tax breaks to get young businesses going or incentives for employees to profit from stock or options in companies they help create are always welcome.

It is time to tax global corporations properly and challenge their transfer pricing schemes. We need to create a level playing field for all businesses operating in the UK, irrespective of where they are based.

The government should also sort out the banking system to create real competition and customer service, train more computer scientists to fill the talent gap and make the London markets more attractive for technology initial public offerings, to stop us selling so many great British businesses to big US corporations who do not pay UK taxes anyway.

*Doug Monro is co-founder of Adzuna.co.uk, the classified ads search engine*

**Words from the top**
Craig Heatley



'Two essential aspects for an entrepreneur are courage and belief. You must have courage, as the path to success will invariably be unpredictable, with more variables than anticipated. You must also believe in what you are doing.'
**Founder, Heatley Group, New Zealand**

# Angels, peers and banks get behind SMEs

**Funding**

Alternatives can fill the financing gap, says *Virginia Marsh*

It took a plane ride to the other side of the world for Glenn Gaudet, an Australian entrepreneur, to secure additional financing for his fledgling vehicle-safety business.

Even though Mr Gaudet has a record of success, when he needed further backers he went to London. Australia may have one of the strongest economies in the developed world but, he says, interest in fundraisings by small technology companies is weak to non-existent.

"We thought [the fallout from the credit crunch] would last a year or so and that then the market would get back to normal. Six years on, it hasn't."

In much of the developed world, entrepreneurs continue to struggle to raise finance. In the UK, for example, loans to SMEs fell by 3.5 per cent in the year to March, according to the Bank of England.

Like many, Mr Gaudet has turned to alternative sources – in his case angel investors provided £300,000.

The biggest lending gap is in the £150,000-£1m range, says Jonathan Willis, chairman of the Ideas Factory, the angel network that financed Mr Gaudet.

Founded in 2010, it already has 30,000 potential investors on its books and has supported about 45 enterprises.

Angel investing is also taking off in the Middle East. The proportion of SME bank lending in the region is traditionally lower than in developed markets, opening the way for private investors, says David Moleshead, chairman of Envestors Dubai, part of Braveheart Investment Group, the listed Scottish SME specialist.

In the past three years, it has been approached by more than 1,000 companies. Of those it puts forward to investors at meetings held a few times a year, 30-40 per cent secure funding.

Within alternative financing, peer-to-peer (P2P) lending – online marketplaces linking lenders and borrowers – is arguably the most positive recent development for SMEs. Nesta, the innovation charity, says P2P lending could provide £12bn, or up to 10 per cent of commercial lending in the UK, within a decade.

At present, P2P's share of commercial lending is negligible. As of mid-May, 1,950 companies had borrowed through Funding Circle, the UK market leader, with an average loan size of £65,000. But it recently lifted the maximum for loans to £1m, up from £50,000 at its 2010 launch.

It is also expanding the market: about a third of borrowers say they would not be able to raise finance elsewhere.

Receivable, or supply-chain, financing, where banks advance clients the value of their outstanding invoices, is also increasing, says Raman Rai, global head of business banking at HSBC. In 2006, HSBC had such operations in 12 countries; now it is in 26.

Since the onset of the financial crisis, entrepreneurs have also been able to draw on significantly increased support from government and multilateral agencies.

Between 2007 and 2011, the value of government-guaranteed loans increased by 65 per cent in Turkey, 80 per cent in Chile and 86 per cent in Italy, according to the OECD.

In Japan, the biggest provider of credit-guarantee loans, more than a third of SMEs receive this form of finance.

India's scheme has also rocketed, rising from Rs61m ($1.1m) in 2001 to Rs69bn in 2010. Yet its SMEs remain chronically short of capital, says Krishna Tanuku, head of the Indian School of Business's centre for entrepreneurship development.

A big issue, he says, is that most SMEs and micro-businesses have little or no contact with banks – the vast majority work in the informal sector.

But he says the growth in incubators is promising; he expects hundreds more to spring up in the next three to four years.

Nevertheless, many banks say they have stepped up SME lending in developing markets. Since 2008, Standard Chartered, the Africa, Asia and Middle East specialist, has doubled its loans to the segment (companies with turnover up to about $40m) to $22bn, says Tim Hinton, global head of SME banking.

'Companies need to present a better face than they would have done in the past'

But he says that since the financial crisis the "bar has been raised", as banks themselves face greater scrutiny from shareholders and regulators.

"Companies have to build strong business plans," he says. "They need to present a better face than they would have done in the past."

Property lending is one of the growth areas, he says. Entrepreneurs in the bank's markets are increasingly developing secondary investment portfolios in property, assets that can be used as collateral.

HSBC reports good growth in SME lending in developing markets. But Ms Rai says it is also "open for business" in mature economies: last year it set up a £4bn fund for the segment, lifted to £5bn, in the UK; this year it has established another, worth €1bn, in France.

# Good-quality products can be made for low earners

**The Godrej Group** is helping to forge India's economic independence with a portfolio of diversified products, says *Jonathan Moules*

**Entrepreneurial activity in the 69 GEM* countries in 2012**
By geographic region (%)

| | Latin America/ Caribbean | Middle East/ North Africa | Sub-Saharan Africa | Asia Pacific/ South Asia | European Union | Non-European Union | US |
|---|---|---|---|---|---|---|---|
| Nascent entrepreneurship rate | 11 | 4 | 15 | 5 | 5 | 4 | 9 |
| New business ownership | 7 | 5 | 15 | 5 | 3 | 3 | 4 |
| Early-stage entrepreneurial activity (TEA**) | 17 | 8 | 28 | 10 | 8 | 7 | 13 |
| Established business ownership rate | 8 | 5 | 13 | 10 | 7 | 6 | 9 |
| Discontinuation of businesses | 5 | 6 | 16 | 3 | 3 | 4 | 4 |
| Necessity driven (% of TEA) | 22 | 34 | 33 | 26 | 21 | 34 | 21 |
| Improvement driven opportunity (% of TEA) | 51 | 37 | 47 | 50 | 47 | 43 | 59 |

*Source: Global Entrepreneurship Monitor 2012 Global Report* * Global Entrepeneurship Monitor ** Total entrepreneurial activity

The potential to generate wealth from the populations of the world's largest developing economies has been much debated since Jim O'Neill, the British economist working at Goldman Sachs, coined the acronym Bric for the most obvious examples: Brazil, Russia, India and China.

However, long before this debate got under way in 2001, the Godrej Group, the Indian conglomerate with interests ranging from high-tech engineering to consumer products, had already proved that such income creation was possible.

The Godrej Group currently has a market capitalisation of $3.8bn, employs a workforce of more than 28,000 people and has operations in more than 20 countries. It is estimated that 500m people in India alone currently use at least one Godrej product or service each day.

Adi Godrej, the current chairman, says that the key to the company's success has been in meeting the needs of the world's largest groups of consumers, who also happen to be those with the lowest incomes on the planet.

"We like to use the term 'bottom of the pyramid'," he says. "In the developing world, there are hundreds of millions of people whose incomes are limited. Therefore, they can only consume products if the prices are affordable. We specialise in providing them with good-quality products at a very affordable price."

By way of example, Mr Godrej talks about the hair dye market, where the Godrej Group has the best-selling brand in 25 countries.

"L'Oréal is the world leader, but we have the largest-selling hair colourant," he notes. "Ours is a powder we sell in a sachet, and it sells for a tenth of the price of the L'Oréal cream hair product. "It is not a question of competing on price. It is about innovation that meets the needs of low-income people."

Although Mr Godrej is clearly looking to the future of his family's company, he is building on a long legacy.

From its beginnings as a lock manufacturer in 1897, the Godrej Group quickly expanded its operations into a wide variety of consumer goods and services, earning the respect of – among others – Mahatma Gandhi.

Its founder, Ardeshir Godrej, a staunch nationalist, believed that his country's economic degradation was even worse than its political subjugation. He claimed that freedom could not be won unless India became self-reliant.

The Godrej Group has played its part in helping India to achieve this goal, with a portfolio of products that now extends from edible oils to cosmetics, and from agricultural products to property development.

The group has around 100 manufacturing locations in India and abroad. Each generation of the Godrej family has spoken about its deep commitment to worker welfare, human development and environmental matters.

"We distinguish ourselves in a few areas," Mr Godrej says.

"First, we use top-class business processes. We measure all our decisions, whether in marketing, advertising or acquisitions, based on economic value added. We also have a large number of our employees on variable remuneration, based on economic value added."

The Godrej Group was also one of the first companies in India to invest in enterprise resource planning technology, bringing in these systems 20 years ago.

At about the same time, it became one of the first companies to introduce 360-degree evaluations of everybody in the company, a management innovation that it adopted from GE, the US conglomerate, with which it had a joint venture at the time.

"It is a good way of learning how to be a better leader," Mr Godrej says. The top 10 per cent of those coming through this assessment system are put into leadership roles, Mr Godrej adds.

The bottom 5 per cent are weeded out of the company if they do not respond to coaching.

Family ownership has its pluses and minuses, but remains a positive for the group, Mr Godrej admits. "It is the greatest employee stock-option scheme ever devised," he notes. "Clearly family members are very devoted to the business."

However, he stresses that the best solution is to combine the merits of family ownership with stringent management disciplines.

**Words from the top**
Paul Nijhof

'It begins with a clear vision, focus, and drive. Passion for your customers, market and product are essential. I also strongly believe in teamwork. We are living in an age where it is important to find the right people . . . to speed up the approach of the market.'
**Chief executive, RFS Holland Holding, Netherlands**

# A revival of an ancient art for the modern era

**Taiwan**

Teamwork and a shared goal put fine porcelain back in the mainstream, writes *Liz Bolshaw*

Franz Chen has long had an entrepreneurial spirit. As a 12-year-old growing up in Taiwan he learnt an essential lesson.

"I sold iced lollipops on sticks during the summer vacation," he recalls.

"I purchased them from a wholesaler and any left over I shared with my friends. I realised that if I didn't create value for someone else I would have no way to share a bit of pie," he says.

Franz Collection has revived the ancient Chinese art of fine porcelain and redefined it for a modern era. Today, the decorative pieces are sold in 56 countries through more than 4,000 stores. "Porcelain is a dream material: a symbol of eternity. It has survived for thousands of years without changing colour or form. It describes the essence of a culture," says Mr Chen. "After all, the British named porcelain chinaware."

The company owes its birth to $3,000 given to Mr Chen and each of his three brothers by their mother. "We pooled it and decided to start a trading company and small factory."

But the brothers went abroad to study, leaving Mr Chen with the factory. It started by making polyresin gifts, using rented premises and rented equipment. "We didn't own anything," recalls Mr Chen, but soon "we were almost the largest manufacturer in the world".

The ultimate goal remained producing fine Chinese porcelain, however, and in 2001 Franz Collection was launched.

"We use modern techniques to enhance the tradition, including lower firing temperatures to use less energy and computer imaging and 3D printing in the design."

Mr Chen does not take personal credit for the success of his business. "Having a team is what has made this company grow," he says.

**A new start: Franz Chen has revived the production of fine Chinese porcelain**

"Our shared goal is to revive the glory of Chinese porcelain and promote its values to the whole world."

While about 20 per cent of Franz Collection's range is new, "it's not like the fashion business where we have to produce a complete new collection each season", he says. In fact, some of Franz Collection's best-selling pieces are long-lived.

Almost 12 years after it launched its "Papillon" line of butterfly products, the range remains popular. It has sold more than 100,000 pieces. "We can say this is a classic," says Mr Chen. "Porcelain is like love," he adds. "It's very fragile but it can last forever if you treat it well."

# Long queues gave inspiration

**Indonesia**

Local knowledge and the ability to act on an opportunity are key, says *Liz Bolshaw*

When a young Budiarto Halim saw the length of the queues of people bearing bundles of cash to buy Motorola's "brick phones" in 1991, he glimpsed the potential of mobile communications for a country made up of 17,000 islands.

Mr Halim and Ardy Hady Wijaya, his brother-in-law, began what was to become Indonesia's leading mobile retailer from a small shop in west Jakarta.

Today, Erajaya employs 5,000 people and sells all the major brands of smartphones and tablets, as well as own-brand handsets.

In 2005, after experience in executive positions in other companies, Mr Halim took up the reins "to professionalise the business and take it to the next level".

Starting a small company from scratch, he says, requires detailed hands-on management, but developing a larger concern needs "planning, delegation, monitoring and control".

Finding staff with the right skills is a challenge, he says. "Indonesia is growing and there are many companies fighting for the same resources. There are no people 'ready to go'. We have to train them."

Erajaya completed an initial public offering in December 2011, partly, says Mr Halim "to make the company more attractive" as well as to fund acquisitions, such as Teletama Artha Mandiri last year.

While the market may be flooded with cheap Chinese handsets, Mr Halim says the growing middle class in Indonesia favours the major global brands. BlackBerry dominates, with Apple growing in popularity. "People in cafés don't keep their mobile phones in their pockets," he says. "They put them on the table where they can be seen."

Phones are replaced every seven to 13 months and Indonesians will typically carry two handsets.

The company's ecommerce business is "growing by 100 per cent per year", says Mr Halim and the market appetite for tablets has sparked deals with, for example, Asus and Acer.

Erajaya is developing plans to work with partners in Myanmar, Vietnam and Thailand, says Mr Halim. "We understand Indonesia, but different markets require local knowledge."

# Natural ethos nets success for Slovenian fish farmers

## Premium, healthily farmed fish that comes with a freshness guarantee is finding a market in Slovenia and beyond, writes *Kester Eddy*

**Fishing for profit: Ugo Fonda applied his expertise in marine biology to fish farming. After his death, the company has continued to be run by his daughter Irena and her brother Lean, both biologists** Arne Hodalič

Irena Fonda leans over the side of her boat and throws a handful of food pellets into the waters of the northern Adriatic. After a pause, the water is suddenly alive with fish, thrashing just below the surface.

"They are not right today; they are normally waiting for the boat. It's probably because of the storm," Ms Fonda shouts above the wind.

The boat is just inside the Slovenian waters of the Bay of Piran, in the northern Adriatic: ahead is an array of circular fish cages, up to 12m in diameter, holding around 1m sea bass that Ms Fonda and her brother raise from the age of seven months to five years. A few metres behind us is the maritime border with Croatia.

There are scores of aquaculture – fish farm – operations in the Mediterranean, but none quite like the Fonda Piran Sea Bass farm, which is small, currently yielding a mere 50 tonnes of fish annually. The industry benchmark for profitability is five times that, and farms in Greece and Turkey are typically 500-1,000 tonnes or more.

The Fondas, Irena and brother Lean, are biologists, who – with their now deceased father – in 2001 took the profits from their underwater engineering business and turned their scientific minds to producing a better-quality, healthier sea bass than those of the large commercial farms.

To prove the point, Ms Fonda points to the depths. "You see, the nets are overgrown with algae. Most farms use antifouling agents, but these are bad for nature and I'm sure it's bad for the fish," she says.

But eschewing chemical methods means using divers to clean the nets manually, a time-consuming, expensive process. Nonetheless, the Fondas apply this ethos to every aspect of the operation, from identifying the highest-quality fingerlings – juvenile fish – bought from hatcheries in France and Italy, to sourcing the very best fish-food producers.

They also harvest the fish in super-cooled brine – effectively putting them to sleep – to cause the least stress. The result is sea bass with a lean, tasty body that has been tested to reveal mercury levels at just 4 per cent of the legal limit.

Despite prices of between €16 and €25 per kg at the farm shop – a 100 per cent premium over sea bass from large commercial farms – demand is outstripping supply.

For good reason, says Curt-Daniel Scheffler, executive chef at the Kempinski Palace Hotel, in the nearby resort of Portoro.

"Irena Fonda presented her fish during the hotel's pre-opening phase [in 2008]. I could see straight away that this was a very ambitious company, with a high-quality [product], very different from 'factory fish', with automatic feeding and chemical net treatment," he says. Fonda sea bass has been on the Palace menu ever since.

But widespread success was initially elusive. Ms Fonda admits that their original assumption – that the public would recognise and pay for high-quality fish – was extremely naive. "People just saw our fish was more expensive, and asked why. It was very disappointing," she says.

At first, almost the entire production went to Italy, which has a more discerning fish-loving public. But even with the higher prices achieved there, the operation was unsustainable.

The team reviewed their strategy, selling via a newly created website, Web Store Fonda, guaranteeing the freshness of each fish with an individual tag, dating the catch. They also offered to deliver fish all over Slovenia in special boxes, packed with ice.

Almost overnight, a public that had shunned sea bass on the slab carrying a 20 per cent premium began changing its mind. Having won a string of domestic entrepreneurial awards for the Fondas' efforts, the brand is now well established in Slovenia, which accounts for 70 per cent of sales.

Yet the business still struggles. Despite official policies to encourage private enterprise, a project to double the size of the farm was delayed for three years by ministerial red tape. And the banks have tightened credit lines – a near-crippling blow to a business that needs four to five years' investment before any return appears.

But as the Fondas' fame spread, an increasing number of people asked to see the farm. "At first, we just welcomed visitors, but it began taking too much time. So we started charging, showing tourists the cages, feeding the fish, and then having a little degustation afterwards, with local wines and produce," Ms Fonda says.

Around 1,200 tourists last year brought in €40,000 – a small proportion of total farm revenues of €1m – but it needed no new investment.

"We need three lorry loads of feed per month in summer, at about €30,000 a time. That has to be paid," she says.

The Fondas have invested in new equipment and educational material, expecting to double numbers to about 2,500 visitors this year. But there are limits. "It's a good way to add value to our brand, but we do not have the structures for mass tourism. We take each guest personally to the farm with the boat; it takes time," she says.

# Teacher saw tax benefits beyond the fringe

**Case study**
**McMillan Shakespeare**

## Businesses and staff gain from flexible salary schemes, says *Paul Solman*

Anthony Podesta has spent the past two decades on a journey that has taken him from schoolteacher to founder of a company that is valued at more than A$1bn ($950m) – all as a result of Australia's tax regime.

The entrepreneur started McMillan Shakespeare, his Melbourne-based group in 1989 after he had spotted the possibilities offered by Australia's Fringe Benefits tax regime, which was new at the time.

His venture uses the provisions of the regime to design flexible salary packages that benefit businesses and their employees.

Mr Podesta was working as a teacher of economics and accountancy when he decided to move into financial services.

"I was looking to do something different in accountancy but I didn't want to do people's tax returns," he says. "I wanted to be out there in the workplace because that's where the action is."

It was while he was creating salary packages for hospital staff that he hit upon an innovative way to use the Fringe Benefits scheme. He was soon able to expand his approach to other business sectors.

"In Australia, any [salary] benefits in the past were always the privilege of the white-collar executives in the private sector," Mr Podesta says. "Using the Fringe Benefits tax regime, I was able to create a system to break through that barrier, so that effectively today about 30-40 per cent of the Australian workforce can participate in flexible remuneration arrangements that allow people to take a combination of cash salary and benefits."

As McMillan Shakespeare expanded, it listed on the Australian Securities Exchange in 2004. From a one-man band, the company has grown to 1,000 employees, has five wholly owned divisions, and now offers a service that includes vehicle leasing and an operation in New Zealand. It made revenues of A$302m in 2012 and has a market capitalisation of about A$1.2bn.

In addition to his operations in the southern hemisphere, at the beginning of this year Mr Podesta launched Maxxia, a vehicle-leasing and salary-packaging venture in the UK.

What does he feel has been important in fuelling McMillan Shakespeare's growth?

"You have to reinvest back into the company," says Mr Podesta, who is now a non-executive director of the company. "You have to believe in your product and service, and that means investing in new and innovative ways to deliver the services, and also investing in your people.

"We've been very strong on company values and behaviours, and had a strong work ethic. We've tried to surround ourselves with really good intellects from a whole range of staff who can contribute to problem solving . . . And we've encouraged the staff in innovation and that can-do attitude to push the company forward."

# Business is revitalising Colombia's image

**Case study**
**Marroquinera**

## Mario Hernández overcame huge obstacles on the path to success, writes *Jonathan Moules*

Entrepreneurship is helping to change the perception of Colombia for the better. For many years the South American republic was mired in violence, drug trafficking and civil war. Now Mario Hernández, president of Marroquinera, the high-end leather fashion business, is part of a groundswell of companies that are working to revitalise the country's image.

From a single shop, opened in Bogotá in 1972, Mr Hernández has built a business spanning China, Italy and Brazil. His products sell in 50 stores in seven countries through exclusive distributors, and an online retail site.

But his path to success has not been easy. Mr Hernández created Marroquinera in 1978, after acquiring a failing leather accessories factory that had obsolete machinery.

After he had turned the factory operation around, Colombia was thrown into an economic crisis. This threat of liquidation for Marroquinera was eclipsed after all the factory's machinery were stolen, and Mr Hernández had to start all over again. A decade later, he had progressed from competing with local manufacturers to retailing alongside international labels. Mr Hernández reinvented the business, modernising his brand to place it in the luxury market under his name.

Inspiration for the clothing collections was garnered from European trade fairs, and Mr Hernández started making his products in China, Brazil and Peru, acquiring materials and technology from Italy and Switzerland. However, security issues in Colombia in the late 1990s forced him to relocate to Florida and manage his affairs from the US.

Mr Hernández once more transformed a challenge into an opportunity, and used the time to improve his knowledge about efficient production processes. When he returned to Colombia in 2007, he was determined both to maximise his company's assets and help his homeland. By then, his two eldest children, who had trained abroad, were working with him.

Sales have experienced double-digit growth during the past four years, rising from $12m to $20m since 2008. Pre-tax profit doubled to $2m, and headcount rose from about 300 to roughly 450 over the same period.

Again, growth has not been easy. Revenues fell in 2009, following monetary and exchange measures established by the government of Venezuela, the company's second-largest market after Colombia. However, this was offset by the good performance of the company in other countries.

In 2012, net profit before taxes decreased compared with the previous year, due to the assembly costs of new stores and renegotiations and adjustments owing to fluctuations in sales in Venezuela.

Marroquinera is built on the principle of owning the entire production process from design, through material selection to manufacture.

Mr Hernández is committed to looking after his staff; he has built homes for 25 employees and supports educational workshops in Colombia.

The key to good business leadership is "constancy, honesty, transparency and innovation", he says. "Every day there is an increased global competition in Colombia, since we are a country with open borders and have a free-trade agreement with more than 16 countries," he says. "We have to compete with quality, differentiation, price and design, and realise that we have the home advantage."

Mr Hernández came from humble roots. His entrepreneurial spirit grew out of necessity and hardship. He was born in 1941 in Capitanejo, a small town in an impoverished country on the verge of civil war. His family was forced to move to Bogotá in 1948, one of Colombia's most turbulent years. Two years later, his father died of a stroke, leaving the 10-year-old Mr Hernández unschooled and, as the oldest son, responsible for supporting his mother and three younger brothers.

One of his early entrepreneurial endeavours was constructing toys from the lids of soda bottles, which he would sell outside the football stadium. His first salaried job was as a messenger in a garment factory.

Entrepreneurship is viewed with admiration in Colombia, Mr Hernández says. "Young people view it as a great chance to move forward."

What might he have done differently?

"I would have liked to study more and learn more languages in order to be better prepared."

**Entrepreneur: Mario Hernández** Walter Gomez Urrego

# Local production can help to tackle malaria

**Case study**
**QCI**

## Home production favours Africa, says *Jonathan Moules*

Social entrepreneurship has become a term overused by organisations that either cannot make a profit or do not offer significant benefits to society. However, it would be hard to level either of these criticisms at Ugandan Emmanuel Katongole.

His pharmaceuticals business Quality Chemical Industries (QCI) manufactures low-cost drugs to treat two of Africa's biggest killers, malaria and HIV/Aids.

When the company started in 1997, it imported pills from India. But in 2007, Mr Katongole opened a $32m headquarters on the outskirts of Kampala, where his scientists could oversee the manufacture of the medicines on Ugandan soil.

Mr Katongole was able to take advantage of changes to global intellectual property laws to bring production to Africa. World Trade Organisation rules allow countries to override drug patents if they judge there is a public health emergency.

Such moves have enabled QCI to bring down the cost of a pack of 24 malaria tablets from $5 to $1.50, greatly increasing access to these vital medicines. The effects have been dramatic, and death rates from malaria in Uganda have dropped from 400 to 200 people per day.

This is still too high, Mr Katongole notes. "Our dream in the next five years is to get it down to zero," he says. "Really, nobody should die of malaria."

QCI is also the only pharmaceutical company in sub-Saharan Africa that manufactures triple-combination antiretroviral drugs for reducing the suffering caused by the HIV infection.

**Raising social awareness: Emmanuel Katongole** Yannick Tylle/Corbis

Over the past five years, the company has helped to increase the number of patients receiving treatment from 140,000 to around 500,000.

QCI has also created educational campaigns to build awareness of the syndrome in Uganda, thereby decreasing the HIV/Aids incidence rate from 15 per cent to below 8 per cent since 2007.

"Our drive is to ensure everybody who requires medicine can access medicine," Mr Katongole says. "That is what has kept us in business."

Many organisations are trying to eradicate disease through charitable foundations. Since last year, QCI has proved that this can be done while turning a profit for shareholders.

"We believe in the concept of shared values," Mr Katongole says. "We should be able to give a decent return to our shareholders but at the same time address the social issues that affect the community."

He is looking to extend the company's reach by setting up bilateral agreements with neighbouring countries in east Africa, starting with Kenya, Rwanda, Tanzania, Burundi and South Sudan. "Aids and malaria are not just a Ugandan affair," he says. "We want to get to the rest of Africa."

To this end, QCI is preparing to build a second $55m office in Uganda, funded through a mixture of equity and debt. This will enable the company to treble its production to 18m pills per day.

"We need to expand the business to gain some return on the investment, but we do it with a conscience," Mr Katongole says. "We believe the profit motive should never override the social concerns of the business."

He adds that entrepreneurship can improve the health of Uganda by helping people out of poverty through providing paid employment for local people. "HIV/Aids and malaria are mainly assisted by poverty," Mr Katongole says. QCI has created about 500 jobs through its first Ugandan production facility, and will add more when its second building opens.

The biggest challenge facing the business is drugs produced abroad and sold locally at prices artificially reduced by government subsidies from the producer countries, Mr Katongole says.

He is trying to counter this by lobbying for free-trade agreements between Uganda and these importer countries. He has also appealed directly to aid organisations to buy locally produced drugs, noting that this will help relieve poverty in the country.

Although this argument for fair pricing is not an easy one to make – especially given QCI's own focus on keeping the costs of medicines down – Mr Katongole claims that his campaigning is starting to yield results.

"Companies that are able to offer much cheaper prices through subsidies cause great destruction in the market," he says. "We believe in a local solution to a local problem."

Mr Katongole is not just involved in the social entrepreneurship work of QCI. He also has interests in the food and beverage production industry in Uganda, as the founder of Vero Food Industries, which processes rice and produces bottled drinking water. In addition, he is a shareholder and director of Tinosoft, the Ugandan technology company.

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# Arts of delegation provide key to success

**Leadership** The most effective people at the top understand how to let others take charge, writes *Jonathan Moules*

Entrepreneurship is often presented as the achievement of individuals, defying the odds and proving that their idea or way of doing business was superior to what went before. But there is a problem with this image of entrepreneurial champions, because the world's most successful companies have never been built on the achievements of just one person.

It is a misunderstanding partly perpetuated by the media, profiling individual founders as if they alone created their companies' successes. Some of these people no doubt believe their own PR, but the most successful are usually those with enough humility to admit their need to step back from running everything to let others take charge and grow their operations.

The celebrated British entrepreneur, Sir Richard Branson, may be among the world's best self-publicists, but he also readily admits that his most valuable skill is an ability to find good people to run the individual businesses within his Virgin empire.

Such enlightenment, however, is usually only gained by a founder through a painful learning process.

In 2001, Julia Langkraehr set up Retail Profile, which helps shopping centres develop new revenue streams by leasing the common areas for start-up businesses to run pop-up shops and promotions.

By 2007, the company was turning over £4.9m, but Ms Langkraehr was feeling burnt out. She had bought the company out of receivership in 2004, and was responsible for day-to-day finance, business development in the home market of the UK and expanding operations into Russia, managing staff and client management.

Her chairman sent her on a three-week holiday to Machu Picchu in Peru, the Galápagos and the Amazon, during which she realised she needed to step back and appoint a managing director. The first left after six months, but his replacement is still with the business. By 2010, Retail Profile was turning over £6.5m, and last year hit £7.7m, with operations in Germany, as well as Russia and the UK.

Ms Langkraehr maintains responsibility for new business, but admits that it was an emotional decision to step back from day-to-day responsibilities. "I had to look at my ego and my work-life balance and the outcome that I wanted and the pros and cons of not doing it," she says. "But I don't think the company could have grown to where it is today if I hadn't changed."

Shaz Smilanksy, founder of Electrify, a brand-marketing agency in London's Shoreditch, is at an early stage in this process. Her business, which has run campaigns in the US, Spain, Switzerland and the Netherlands, employs just 18 people. She has started handing over responsibilities to her senior managers, but admits that it is difficult to do this after being hands-on. "The hardest thing I have found about standing back is watching other people make the same mistakes you have made," she says. "This means as a company, you are making the same mistake twice."

Dan Sullivan has been helping founders to develop their businesses for the past 25 years through his company Strategic Coach. He claims that all entrepreneurs are sales people at heart, and the mistake of staying in control is often caused by the founder failing to realise that their business will need other skills to grow.

**Into orbit: Sir Richard Branson has found talented people to run the individual businesses within his Virgin empire** Bloomberg

> 'The company could not have grown to where it is today if I hadn't changed'

"I encourage entrepreneurs to take a lot of free time," he says. "It refreshes their brain but it also simplifies their thought processes. They will come away thinking there are 30 things that need doing, but will come back knowing that only five of those are necessary."

Finding people you can confide in is also important, according to John Mullins, associate professor at London Business School and author of several best-selling entrepreneurship books.

"You don't talk to the people who work for you, so who else do you talk to?" he says. He recommends joining a group such as the Young Presidents' Organisation, which has about 20,000 members in 120 countries and a focus on creating better leaders through sharing ideas. "It is a learning challenge," Mr Mullins says. "Most of us learn most through making mistakes and we learn from others. I don't think you can get it from school."

Gerard Burke has been running similar programmes to Mr Sullivan in the UK for several years, first at Cranfield School of Management's Business Growth Programme and also with Cass Business School, through his course Your Business Your Future.

"By definition, a growing business is changing," he says. "Yet many founders continue to run and lead their businesses in the same way as they did when they started."

Mr Burke talks of "heroes" and "meddlers". Heroes believe they do most jobs better than anyone else.

"Most heroes recognise they should involve other people in management tasks, so they recruit or promote.

"But these new managers don't necessarily do things in the same way as the founder did, which for many owner-managers means that they are doing them wrong."

So some heroes slip into the role of meddler. For a business to achieve its full potential, the founder needs to become a "strategist", he says.

"To trust someone else and to accept that person will do things differently is a major challenge for many. And yet, if the ultimate ambition of the founder is to sell the business or to move away from it and allow someone else to manage and lead it, then this challenge must be met and overcome," says Mr Burke.

## Awards

The Ernst & Young Entrepreneur of the Year prize was founded in 1986, and takes in 140 cities in more than 50 countries. Awards go to 1,000 of the world's leading entrepreneurs, *writes Maria Pinelli*.

The awards are judged by entrepreneurs and celebrate innovation and the creation of products and services that help build a better working world and provide the new jobs that are critical for the health of the global economy.

Winners from 47 countries attended the 13th World Entrepreneur of the Year award last Saturday in Monte Carlo. Past winners include Narayana Murthy, co-founder of Infosys, Olivia Lum of Hyflux, Equity Bank's James Mwangi, Icap's Michael Spencer and Guy Laliberté of Cirque du Soleil.

Country winners enter the global contest and are assessed by a separate judging panel. The judges of the World Entrepreneur of the Year Award final receive a history of the country winners and meet the finalists in interviews and informally to hear their stories. The panel uses six criteria:

- Entrepreneurial spirit: perseverance and fresh thinking; how finalists have overcome obstacles;
- Financial performance: strategies for long-term growth sustainability;
- Strategic direction: how finalists turn their visions into reality; growth goals;
- Global impact: in terms of revenue, operations and influence;
- Innovation: anticipating and embracing change; continuous improvement and innovation;
- Personal integrity and influence: corporate social responsibility; impact on the environment; improving life in the community.

*Maria Pinelli is global vice-chairwoman for strategic growth markets at Ernst & Young*

# Innovation hubs all over world seek to follow Silicon Valley lead

**Tech start-ups**

From Helsinki to Santiago, new start-up hotspots are emerging, writes *Jonathan Moules*

When Peter Alfred-Adekeye founded cloud-computing business Multiven in 2005, he was in the obvious place to do it – Silicon Valley. Five years later, however, he relocated his operation to Zurich, one of the least likely cities for start-ups.

Some might imagine the move away from the global entrepreneurship capital would be shocking to a serial entrepreneur such as Mr Alfred-Adekeye. Admittedly the relocation was partly forced after his US work visa was rescinded.

But Nigeria-born Mr Alfred-Adekeye claims his Swiss base has many advantages over California, and even Europe's largest start-up clusters, London and Berlin, in access to talent, finance and customers.

"There is no life or death need to be in Silicon Valley," he says, noting that most of his 800-strong workforce of developers are spread across the globe.

Those programmers he does employ are far easier to find – and cheaper – in Zurich than California because there are many fewer technology companies competing for them.

Zurich is not the only attractive location. Cities across the world are lining up as start-up hotspots, from Helsinki to Santiago.

A worldwide survey of these locations, the Startup Genome, found that Silicon Valley maintains a considerable lead over all its rivals, with 20 per cent more mentors and 35 per cent more serial entrepreneurs than the global average of the sites analysed.

The average capital fundraising in Silicon Valley was also 32 per cent higher across all stages of a start-up's development.

The only country to pose a serious threat to the US is Israel, which has the largest concentration of start-ups outside Silicon Valley. Saul Singer, a former journalist on the Jerusalem Post, charted that success in *Start-Up Nation*, written with Dan Senor, a former US foreign policy official.

Israel has become a start-up hotspot despite, rather than because of, its situation in the world, Mr Singer says. It is a tiny nation with no resources and unfriendly neighbours.

What Israel does as a nation is what start-ups do as companies, Mr Singer adds. Its population is largely immigrant, like the staff of many Silicon Valley businesses, and its culture of national service in the army means Israelis learn together and bond through similar life experiences.

"Israel shows that the key is what you add to ideas to turn them into innovations," Mr Singer says. "Great ideas are not enough, you need to add a lot of drive and willingness to take risks or the ideas won't become start-ups."

He adds, however, that even a start-up nation cannot act alone. "Israel's biggest opportunity going forward is to become a hub for rising innovation sectors around the world. There's a lot of mutual benefit in combining the strengths of different countries and innovating together."

One of the more unlikely cities in Startup Genome's list is Santiago, which has been helped by the government's Start-up Chile programme. It seeks to attract early phase, high-potential entrepreneurs to bootstrap start-ups using the South American nation as a platform to go global.

Participants must establish themselves in Chile for the six months the programme lasts and, in return, they receive a one-year work visa and $40,000 seed funding. The objective, besides developing a local start-up cluster, is to create and foster networks with the local entrepreneurship ecosystem, according to Sebastián Vidal, assistant director at Start-up Chile.

> 'Great ideas are not enough, you need to add a lot of drive and willingness to take risks'

"Entrepreneurs are the ones who know better than anyone where the best opportunities are," he says. "They will know whether Silicon Valley, São Paulo, Tel Aviv or Santiago offers what they need at a specific moment, or maybe they'll decide to work in one hub first, and then move to another one. We see that a lot."

It is not about Chile competing to be the next global start-up capital, according to Mr Vidal. "The question about rivalry between different innovation hubs forgets that start-ups go through many phases, and need different things during each of those phases," he says, adding that many of the programme participants come from vibrant start-up cities such as Austin, Tel Aviv and São Paulo, and return to these cities after their time on Start-up Chile.

Brad Feld, co-founder of the Techstars programme that has helped dozens of new businesses find seed funding, has more experience than most in developing start-up communities.

Two decades ago he moved from the Boston area to Boulder, Colorado, on the edge of the Rocky Mountain National Park and started helping local companies to grow and increase in number.

Despite what may seem an unlikely place for a start-up cluster to develop, there are now more technology businesses per square mile in Boulder than anywhere else in the US, says Mr Feld, who has written a book, *Startup Communities*, on his experiences.

"Every city of 100,000 people or more can have a long-term, thriving start-up community," he says. "In fact, I've come to believe that every city of 100,000 people or more needs a thriving start-up community to be healthy.

"The start-up community is a small part of the overall economy of a city, but has a disproportionately large impact on its health, innovativeness, attractiveness, and economic wellbeing."

The notion that there is one best start-up community is "absurd", Mr Feld claims. He adds that each city has unique characteristics and should focus on taking advantage of its "natural resources", whether that is physical, intellectual, cultural or geographical.

So what about the king of the start-up communities?

"Silicon Valley is an amazing place that has been a work in progress for over 60 years," he says.

"Hopefully 60 years from now it will be amazing. But it'll have to keep refreshing and renewing itself, just like everywhere else."

**Words from the top**

Vladimír Levársky

'An entrepreneur is someone who is innovative, and inspired by the best, but will never copy them. Their efforts affect and forecast the future and they develop safeguards against unpredictable circumstances.'

**Chief executive, OMS, Slovakia**