

## **The Cruel Reality**

**By Andy Freire**

**May 2004**

---

*This paper is included in Passion for Entrepreneurship, Aguilar, 2004.*

---

*A smooth sea never made a skillful sailor*

ENGLISH PROVERB

Preparing a project is thrilling, and setting it in motion, all the more so. There is no greater satisfaction for an entrepreneur than to start to make a dream come true. Two dates are indelible in my mind: January 2, 1997, when we received the initial capital to start Officenet, and February 7, 2003, when the capitalization round for Axialent closed.

In more than one way, implementing the project is the opposite of the previous steps. Preparing a business plan and looking for investors are processes that have a beginning, a stage of maximum energy and a conclusion, whether or not successful. On the other hand, executing the project is starting on a road that does not necessarily have an end point. Moreover, here is when we most need to develop humbleness as we discover how unlike daily reality and our original business plan are. EVEN IF WE STUDIED THE MARKET AND THE OPPORTUNITY VERY CAREFULLY, EVEN IF WE DEFINED OUR VALUE EQUATION AND STRATEGY VERY SERIOUSLY, REALITY WILL ALWAYS FACE US WITH UNFORSEEN SITUATIONS AND UNEXPECTED CHALLENGES. IMPLEMENTING, SETTING IN MOTION AND TURNING THE PROJECT INTO A SUCCESSFUL COMPANY IS THE ENTREPRENEUR'S TRUE TEST.

#### SETTING OFFICENET IN MOTION

Officenet's first months were pure adrenaline. We had to combine six simultaneous processes: summoning the best people for the team (as seen in Chapter 9); establishing contacts with suppliers; choosing the products we would be offering; developing a commercial strategy; setting up logistic operations, and implementing the technological system. All of this was not in the business plan. Although Santiago and I had listed and grouped activities, we had not imagined what it was to execute them all simultaneously since day one!

In this initial stage I discovered a key attribute of the good entrepreneur called multitasking. Multitasking is the ability to engage in multiple tasks. People in the corporate world tend to focus on one main activity, to which they dedicate 80 percent of their time (unless they are general managers and thus allocate all their time to coordinating a group of experienced managers). However, to be an entrepreneur implies "playing several instruments" at once. The hardest part is that each instrument must sound well and in tune with the rest of the "orchestra." At the beginning, one is usually general manager, operations manager, human resources manager, commercial manager, photocopying manager and cleaning manager...

We hired all the initial Officenet staff on April 1, 1997, having decided to start selling on May 1. We dedicated that month to setting up facilities and systems and training the team. I recall that up until the night of March 30, we had no chairs. Over twenty people would come to work the following day and we did not have where to sit! The chairs only arrived at eleven at night. Santiago received them and assembled them; the following morning to work we went!





While I lead the staff coaching, training people on products and strategy, Santiago took care of selecting our technology supplier. Then something happened that, looking back, is rather funny, but which was anything but funny at the time.

Once he had chosen a supplier, Santiago said to me:

“OK, I need the people to start loading the products into the system and then train them.”

“But if we still don’t know what products we’ll be selling, how are we going to load them into the system? Besides, I need the staff to train them!”

This lack of coordination was a “reality shock.” We had outlined a detailed plan for the first ninety days’ operations, but reality was imposing its own obstacles and challenges.

For instance, the deposit personnel had no idea of the difference between the different types of paper or what a die-cutter was. It was funny because Santiago and I were in charge of quite a lot of the initial training based on what we had learnt in the States, yet there were many aspects of the business that we still failed to understand. Then we brought in suppliers to train us better.

Thanks to my work at the Iniciativa Foundation, I knew something about group dynamics and that helped me form a very well consolidated team. The members of the original staff that continue to work at Officenet meet yearly on May 1st to celebrate the anniversary of the beginning, a fact which constitutes another proof of their cohesion.

As almost everyone was aged roughly 20 and inexperienced, my role as a leader was very demanding during the early days of Officenet. At Axialent, on the other hand, we started out with a very entrepreneurial general manager in each operation, which made my life a lot easier.

I never worked so hard as during the initial stage of Officenet. I was busy day and night, actually all the time except the few hours when I was sleeping. At first, nothing turned out as planned. We had had the good idea of starting operations with what we called the “plan Friends,” whereby during the first three weeks we worked for friends and acquaintances. Several times it happened that somebody asked, for instance, for paper and we sent them fax machines or something of the sort. Since they were friends, they accepted our apologies; this is how we attuned our operation and corrected flaws.

During the first week we had a purchase order a day; during the second, two to four, and as of the third week we carried a table to help us oversee seven to ten daily purchases. By the end of the first month, we no longer named purchase orders “Marcelo’s” or “Pablo’s law firm’s,” but rather “number 34” or just “35.” I recall one day towards the end of May, 1997, when Santiago and I met for breakfast to plan our first board meeting. By midday we got back to the office and there were seven orders packaged, invoiced and ready to go! It was very exciting. That moment I knew Officenet was alive.





## NOT IN THE “SCRIPT”

A little while later, something we had not foreseen in any “script” came up: internal policies. Employers asked me, “Is it allowed to smoke in the office? What is the policy regarding overtime? Must holidays be taken all together or can they be split?”

I had never thought about these things. I felt that we needed to show firmness and thus would reply very confidently, “Smoking in the office is not allowed. Holidays cannot be fractioned.” However, when people insisted –for instance, “Why must holidays be taken all together?”-, I realized that my decisions were not always justified.

Another aspect that was not in the “script” either concerned some operative processes. Two weeks after starting, for instance, we found out that there was a municipal regulation that forbade loading in central Buenos Aires after seven in the morning. Since most offices opened at or after nine, deliveries had to be made by foot! Hundreds of boxes per day by foot? It was literally undoable. We asked one of our “invisible pillars,” who had a similar business, how he managed his deliveries. The solution was hiring premises in the area where the regulation is in force. Our vans unloaded the orders of the day before seven and these were then redistributed.

Our lack of foresight was a lot more serious regarding collecting. We naïvely believed that clients would mail us their checks just like we had seen it done in the US. Given that scenario, we only needed one person in the collecting area to cash and record the payments. We had been running for six months and counted almost a million dollars in sales already when the person that was responsible for the area said to us:

“I want to let you know that we have cashed almost nothing so far...”

“That’s impossible... Are we sure we gave the right address for the checks?”

“Yes, the address is perfect...”

“How odd!”

That same afternoon, Santiago and I were walking downtown Buenos Aires when we saw a guy carrying an Officenet box. We thought it was a good opportunity to find out a customer’s opinion of our services, so without revealing who we were, we approached him and asked:

“You buy from that company, Officenet?”

“Yes, and they’re very good...”

“Oh yes? Why?”

“Well, they deliver very quickly, they have a spectacular photo catalog, they treat you very well and what’s best... they never come to collect!”

In this way we discovered that collecting was a lot harder than selling, especially in Argentina. The done thing in Argentina, rather than mailing a check, is for the supplier to collect the check from the customer’s office –and often the supplier has to complain before he gets paid.



Today, ten percent of Officenet's personnel are in collecting related activities, with "telecollectors" and a fleet of motorcyclists that travel around the city every day collecting checks. Similarly, seeking advice from more experienced people and learning from our mistakes, we solved the unforeseen problems that cropped up daily.

## VALUES

Something else we learnt as we went along was the importance of the human aspect of business problems and the relevance of values in a company.

It seems incredible but very few business plans include a paragraph on how to create a company based on values. I remember that little after Officenet started working, a few skirmishes happened between people, affecting everybody's performance. Distribution people blamed the commercial area for retaining the orders, thus delaying their dispatch and impeding delivery within 24hs of purchase.

The problem was not going to be solved by defining an administrative policy but by working out interpersonal relations. After several conversations with people from both areas, I understood that we needed to clearly define Officenet's core values. Otherwise it was impossible to determine whether each member's conduct was in line or not with the company's objective. I invested many hours visiting people I respected to ask them which were the values of their companies.

In this manner, we came up with the following conduct guideline at Officenet.

### a) Ethics. Telling the truth

Our company believes in giving staff freedom to take decisions that facilitate operations between areas and with clients. For that purpose, it is essential that the company culture is based on honesty and transparency. Officenet will never accept or tolerate any behavior that is not in line with this principle.

### b) Client orientation

Our commitment with client satisfaction must be reflected by respecting his rights as a consumer and searching for solutions, always in accordance with the company's profitability goals.

### c) Respect and self-esteem

Our conduct must always show integrity, trust and loyalty as well as an appreciation of the privacy, individuality and dignity of human beings. Officenet does not accept prejudicial attitudes towards race, religion, class, sex, sexual preference, age or disability.



d) Open doors

Every employee has the right to talk to any superior and to feel comfortable in so doing. Every employee can talk without a previous appointment to any level of management, including the organization's top leadership.

e) Team work

Work relations should be based on courtesy and respect. Every formal or informal coordinator should set an example with daily actions.

f) Knowing the company and its products

Every employee must know how every area of the company works. The company will train and encourage all employees to understand all processes and products.

g) Meritocracy

Officenet will recognize the merit of all employees and ensure equal opportunities according to performance. Promotions will be based on attainment of goals and never on personal relations.

h) Internal promotion

All internal employees will have priority when there are hiring opportunities. External personnel will only be hired if no employee is qualified for the required job.

i) Leaders and not employees

Every employee must act as a true leader even when they do not have a formal role in that sense. Only if our team is made of leaders rather than simple employees can we achieve our mission and define a new market standard in our activity.

j) Constant search for profits

Long term value for shareholders will be the result of the constant generation of profits. All decisions will be taken under that premise.

Defining this list was fundamental in terms of staff relations and client treatment. For instance, I recall once when we discovered that many fax paper supplies were 27m rather than 30m long as indicated in the packaging. Ten percent less is particularly serious for a business with small sales margins. We were selling supplies that effectively were thirty meters long, at a higher price than our competitors, and our accounts executives were losing bids for this reason. It amounted to a big disadvantage! Some people suggested we do the same as our competitors, but that went against our ethics. After several discussions, we decided to launch Officenet brand paper, 25m long, whose packaging specified its length. In this way, we honored our values while simultaneously achieving a competitive advantage.



In the case of Axialent, Fred and I adapted this list to the specific business. However, most points remained intact, which shows me that the definition of values is not related to the company's activity, but to the nature of the entrepreneur.

IT IS VERY IMPORTANT THAT, ON SETTING THE BUSINESS IN MOTION, THE ENTREPRENEUR GATHERS HIS TEAM TO DEFINE THE VALUES ON WHICH HE IS WILLING TO BUILD THE COMPANY. IN TIME, THAT DEFINITION WILL CONSTITUTE ITS MOST PROFOUND ROOT.

### LEADERSHIP AND FIRMNESS

I also learnt that if you set those values like the backbone of your company, you have to set the example and show firmness for them to be respected.

One day we discovered that Officenet's best salesperson tampered with the numbers to increase his fees. As the goal was to obtain a given number of clients, he would register a fictitious order from an inactive client on the last day of the month and cancel it on the first day of the following month. In this way, he increased his pay a little every month. It was not a significant amount –not over fifty additional pesos of total cost for the company- but it was a serious moral problem. We decided to fire him straight away, despite the fact he had been our best salesperson during the previous couple of years.

Our values were clear and their function was to set the standard for extreme situations where decisions had to be taken. Needless to say, I regretted the fall of sales when a less experienced salesperson took charge of that portfolio, but I chose to give our organization a clear message: OUR VALUES ARE AN AUTHENTIC COMMITMENT.

### FOUR CRITICAL ASPECTS

A US stat shows a worrisome piece of information. According to investor Jeff Jones, there are 750,000 annual startups in America, but only 15% make it past the fifth year. That is, only one in seven entrepreneurs is fortunate enough to constitute the sustainable company of his dreams.

What happens to the other six? Why aren't they successful? This has always worried me. In time, I learnt that most entrepreneurial failures owe it to one of the following four reasons:

#### 1) Incorrect estimate of the working capital required

Unfortunately, this is very common. When they project their flow of funds, many entrepreneurs think whether they receive payments in thirty or forty five days is not really important. But then reality harshly shows them that that small difference leaves them without growth capital.



This was one of the most unpleasant surprises we had at Officenet. We had made gross mistakes in estimating the number of inventory days and the amounts of payables and receivables. In less than six months, our working capital had absorbed fifty percent of the initial investment. As I mentioned in Chapter 8, we got out of the jam thanks to an additional contribution from our investors following a re-definition of the relationship between payables and receivables. We also had to negotiate better payment terms from our suppliers. Unfortunately, many entrepreneurs react too late or lack sufficient trust from their investors and suppliers and therefore, end up drowning as their business grows because of one initial miscalculation.

## 2) Failure to attain a critical mass of sales

If I had to explain in one word the fuel or “blood” that nourishes a business, I would say: sales. The problem is that it is very hard to estimate sales objectively in a business plan. Often the entrepreneur discovers that, due to an incorrect value equation or a poor implementation of the original plan, sales are less than was projected. A simple product of number of customer’s times their monthly purchase is far from reflecting reality, which is a lot more complex.

Very optimistically, the entrepreneur often estimates the number of clients he will add, but tends to forget to estimate the number he can lose and, for instance, the number he needs to win in order to sustain the business. For instance, when we closed Axialent’s capitalization round, I thought we would increase the number of pre-existing sales around 20 percent during the first year. What I did not estimate is that some former clients would stop hiring us, which happened in the US market. In my optimism, I never imagined that those clients would walk away and that that entailed having to expand our portfolio even more in order to maintain the previous level of sales. In our case, the situation was not irremediable, but for small startups and especially for people who start out without capital, failure to achieve that “critical mass” or minimum required sales within a given timeframe can be fatal.

## 3) Excessive spending in non-essential activities

Renting expensive offices and facilities, overspending on furniture or computers, on hiring consultants and lawyers or even on staff before you can afford them are examples of mistaken decisions that have no impact on the immediate generation of income to compensate the investment.

When we opened the San Francisco branch of Axialent by hiring Albert Durig, we asked ourselves: “Does it make sense to pay eight thousand dollars a month to have this office? What financial calculation makes us think we will recover those near a hundred thousand dollars per year in a reasonable timeframe?” We discovered the best thing was for Albert to work from his home, given that almost 100 percent of contacts with clients were at the client’s offices. The problem was taking calls without an office. It turned out cheaper to transfer those calls to Miami; now we have a single receptionist for the Miami, Colorado and California offices. In this way, we avoided an investment that was both enormous and not too productive. It is important to learn how to manage scarcity rather than abundance.



#### 4) Shareholders and interpersonal conflicts

The number of projects that fail due to partner conflicts is amazing. Unfortunately, few people understand that, for a company to be successful, the common interest must be above individual conveniences as shareholders. But even when such an understanding exists, often partners have very different interpretations of what is best for the company. During rough times – that is, often throughout the entrepreneurial process -, many shareholders or board members try to limit the authority of the CEO and intend to manage the company themselves, a dynamic which tends to worsen the conflict.

Sometimes the board becomes a “battle field” where two shareholders or their representatives quarrel about matters that are unconnected to the running of the company. Typically, John and Peter are partners in companies A and B. John is the majority partner of A and Peter is the main shareholder of B. Often a conflict in A where John imposes his way leads Peter to “retaliate” in B. A common example is the case of the entrepreneur whose father in law is an investor of his business and, when a marital problem ends his marriage, the personal conflict is carried to the company.

These are situations we cannot foresee in a business plan, yet happen. The CEO must develop a great capacity to foresee and tackle these conflicts, whether they involve the entrepreneur himself or a recruited manager. He must get to know shareholders and directors beyond their capacity as investors, by dedicating a lot of time to developing profound relationships with them. It is necessary to understand how they think, how they relate to people in general, and to know how to mediate and intercede to defend the interests of the company. Unfortunately, this cannot be learnt in business school or in books, but only in daily experience.

Since the majority of Officenet investors are institutional funds, many Board members focus on the global strategy of Officenet’s investment portfolio. Its parent companies’ decision on, for instance, greater or smaller presence in Latin America, impacts the strategies that parent company investors are willing or not to approve for Officenet. On the other hand, most Axialent investors are less exposed to these changes in strategy and they grant its management much more autonomy to decide what is in the company’s best interest and how to generate value for shareholders. In both cases, however, had investors had conflicts among them, it would have been the beginning of a process of destruction of value. Similarly, if I had not been fortunate enough to learn to live with Santiago in Officenet and Fred in Axialent as my great operating partners, both companies would have been predestined to fail.



## CONTEXT CHANGES

However well devised, no business plan can contemplate future market changes. Usually, new dynamics, which were unforeseeable during the elaboration of the business plan, appear: new competitors enter the market; new technologies are developed; new opportunities arise; costs change, and countless new situations arise that, to varying extents, influence our business favorably or unfavorably.

FLEXIBILITY IN THE IMPLEMENTATION OF THE PROJECT IS OF THE UTMOST IMPORTANCE TO BE ABLE TO CORRECT MISTAKES, ASSESS MARKET CHANGES, EXPLOIT NEW UNFORESEEN OPPORTUNITIES AND ADJUST OUR STRATEGY TO THE CHANGES IN THE CONTEXT IN WHICH WE OPERATE.

Generally, opportunities knock on our door when we least expect them. Officenet, for instance, did not start out as an Internet sales company. But the popularity of the internet changed the context and we had to integrate that new reality into our strategy. Though we did not want to define ourselves as an “Internet company,” we took up the opportunity to increase our sales.

Neither did our original plan contemplate doing business outside Argentina. What really happened was that, in time, geographic expansion became an opportunity when the electronic sales made it a normal form of growth. But we never thought the investment would be more profitable abroad, as our experience in Brazil proved. It was not planned but it turned out to be an interesting opportunity and we knew how to make the most of it.

Similarly, we never thought of opening Officenet shops. In fact, our instinct has always told us that it is not a good deal. But as it happens, the current trend in the US market is for office supplies companies to integrate catalog sale with shops. We are still not thinking of implementing it, but maybe it becomes part of a future strategy if we see it offers growth possibilities.

This is to say, we must always be on the lookout for opportunities that were unconceivable in the project’s original context but that arise through changes in the market.

## FLEXIBLE BUT FOCUSED

Where is the limit of this flexibility? The general rule consists in what we saw in Chapter 4: we must keep focused on the value equation, on the customer need we will satisfy, which constitutes the essence of our project.

Let us recall, for instance, Officenet’s value equation: “We simplify life at work by distributing standardized non-strategic office supplies to our customers in under 24hs.” Although operating outside Argentina was not included in our plan, expanding the company to Brazil did not alter the essence of our business, even though it required new investments and the implementation of adequate business operations for a different market. The same was the case with Internet sales. It did not change our focus: it only opened a new access channel for our customers.



However, selling for instance airline tickets would have meant deviating from our value equation, even if we exploited our customer portfolio and telemarketing infrastructure.

I have seen many companies lose focus and fail when they let themselves be tempted to pursue opportunities that are unconnected to their essence. A case like this that was fortunately remedied in time happened to Service Bureau Intetel (SBI). Claudio López Silva, its creator, developed a technology to control the use of telephones, emails and Internet in companies with a large staff. The system enables detecting non-work communications and thus controlling undue expenses. SBI was doing very well, but it started selling call center services to businesses, which was totally unrelated to its value equation. Claudio's reasoning was that "Since I have the technology, I can assign people to take clients' customer calls." It was actually a different business altogether, something related to human resources outsourcing and very far from SBI's essence.

When Claudio commented the situation to me, I suggested that it was preferable to set up a separate project with a different company dedicated to exploiting the opportunity. Otherwise, SBI would not do well one thing or the other.

The key question is whether we add value to our clients in the specific need we satisfy with our project by adding a new market, type of product or strategy. IF THE ANSWER IS YES, IT IS CONVENIENT TO EXPAND OUR ACTIVITY CONSIDERING WE ARE ABLE TO. IF THE ANSWER IS NO, WE LOSE FOCUS AND HARM OUR COMPANY.

---

*For more information,  
visit [www.axialent.com](http://www.axialent.com)*

