

ENTREPRENEURS

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Venture capital can come at a high cost

INNOVATION DIARY



PHILIP SALTER

DRAGON'S Den might make entertaining television, but it delivers a warped view of venture capitalism. A new paper from Coutts, *The Price of Growth*, suggests entrepreneurs have a much more distant relationship with venture capital than the one portrayed by the media.

The standout findings are:

- 72 per cent of entrepreneurs do not believe venture capital is the best way for a business to realise its growth prospects
- Only 19 per cent believe venture capital delivers sustainable growth
- 24 per cent believe venture capital investment increases the risk of business failure
- Only 37 per cent believe venture capital investors are interested in or understand entrepreneurs
- Only 22 per cent of entrepreneurs believe that venture capital investors have a good reputation

Both entrepreneurs with experience of venture capital, as well as those without, prefer to grow their business through cash flow/profit. And for good reason. The interests of venture capitalists aren't always completely aligned with the entrepreneur. The former might favour rapid over sustainable growth. Nick Wheeler (profile right) has taken no outside investment, growing Charles Tyrwhitt through profit. He thinks "it's longer and harder, but ultimately better, because you don't end up being told what to do by a venture capitalist, which can happen." Of course, venture capital can work wonders. Silicon Valley would be nothing without the risk capital available to scale up new tech ideas. But taking outside money can come at a cost and even if it's on the table, it's rational for many entrepreneurs to turn it down.

Twitter: Philip_Salter

Philip Salter talks to Nick Wheeler: Founder of the well-known retailer Charles Tyrwhitt

IT'S not uncommon for successful entrepreneurs to be modest, but it rarely comes across as entirely genuine. The self-effacing Nicholas Charles Tyrwhitt Wheeler is the real deal.

For Wheeler, the customer is king. He says: "One of the defining moments in my whole life was when I worked at Harrods and they put me in the golfwear department. I spent a day with the guy who had then run it for 20 years." At the end of it he made a list of ten things that he thought he could do better. He came in the next day and was called into the office. He thought he was being promoted, but he was moved into luggage. Wheeler knew he didn't want to run his business like that. Even now, he greets all new starters, saying to them: "Look, all I want you to do is to think, if this were my business, what would I do and then do it?"

As a business grows it's necessary to rely on other people. At the start he was able to do everything, but now when he goes to the warehouse in Milton Keynes he says you almost can't see their hands because they are moving so fast. This, he thinks, goes for every part of the business.

Like most people who always wanted to start their own business, Wheeler never liked being told what to do. Although he had a fantastic time consulting at Bain & Company for a couple of years, he thinks he was born to be an entrepreneur. Although he hesitates, checking himself: "I say that now but, as you probably start to look at things with rose-tinted spectacles. What you remember is not necessarily the truth." Wheeler splits entrepreneurs into two categories – those who are born with it in them and those that later spot an opportunity.

Wheeler's boldness of vision is in his facility to accept what is within his control. As he accepts that others are better at certain things than him – resisting micromanagement and allowing growth – he also accepts that he has no power over broad shifts in the market. Charles Tyrwhitt sells through shops, mail order and the internet. Wheeler's

A modest shirt-maker with an inspiring outfit



Nick Wheeler reflects on his success

business is profiting from the relatively high take-up of internet sales in the UK, but he doesn't see this growth as guaranteed: "What rate this will carry on growing is difficult to say and I'm not in the business of trying to predict what it is going to be. If it carries on growing and people stop going to stores then our focus will be on the internet. While if it stops growing our focus will be more on stores. We are in the lucky position of not having to look into a crystal ball and decide. We just follow the market." Wheeler thinks "the really important thing is to look at what the customer wants."

Wheeler admits he has learnt a lot and made mistakes in the process. "Typically the things you learn are the things that people have told you on day one. Like that retail is all about location. Everyone tells you that, but it's funny how you don't really believe things until you actually find out for yourself." And despite the tough economic conditions the business has doubled in the last three years: "We hope we are going to double in the next three years." Although everyone tells him he should get into the Bric countries, he is hesitant of over-expansion: "It's about controlled growth." Plenty of companies would give away equity

by the bucket load for controlled growth in which their business doubles over three years.

The interview ends with an anecdote that I think is telling of both the man and the business. "You get this undeserved air of power because I started the business. It's quite funny really. I put my email address on every single product that goes out, so I get emails from lots of customers. I get emails saying that Nancy in the call centre is fantastic. I pop around and see Nancy and say 'well done' to her. And I'm thinking I'm more scared of Nancy than she is of me. And she thinks it's just fantastic. That's what it's all about."

CV NICK WHEELER

Company name: Charles Tyrwhitt
Job title: Founder and chairman
Turnover: £105m
Number of staff: 532
Age: 47
Born: Ludlow, Shropshire
Lives: Oxfordshire
Studied: Eton and Bristol University
Drinking: Mint tea
Currently Reading: *Born to Run*, by Christopher McDougall
Favourite business book: *Steve Jobs*, by Walter Isaacson
Motto: "Anybody can do it"
Talents: Falling off horses
Hero: Vashon James Wheeler – my grandfather – who carried on flying after his crew had baled out
First ambition: To have my own business

Your idea to make millions is worth much less than you think

PLEASE ensure you're sitting down because I want to shock you. Despite the popular wisdom, most "amazing" and "brilliant" business start-up ideas and inventions are worthless. Yours, mine, and just about everyone else's. They have no value. Scream and shout all you like, but after backing over 80 start-ups and reading more than 10,000 business proposals sent to my website, I'm convinced of this. "But that's rubbish", I hear you say. "What about Facebook or Skype, or closer to home, Dyson? These were all brilliant ideas, and they're now worth zillions." Yes, but I would argue that their value now is due to their fantastic commercial progress and talented management. "Fine,

CONFESSIONS of a SERIAL ENTREPRENEUR



RICHARD FARLEIGH

but surely when they were just at the idea stage they were worth something?" Not much. There have been plenty of ideas, just as clever, which crashed and burned. It's a bit like saying a winning lottery ticket is valuable before it is even drawn.

The general reluctance to accept a low investment value means many inventors and new businesses struggle to get funding or to involve other people. Not long ago, I was

presented with the idea of launching an upmarket consumer magazine. I was shown a few sample pages and a draft supporting website. It all looked good and the two founders were certainly talented and very bullish about their idea. Their valuation? They wanted £100,000 invested for 20 per cent, valuing the idea at £400,000. My valuation? You guessed it, zero. I didn't invest. Similarly, a few days ago I received an email from a fellow in Australia who has researched on-line gambling there and believes he has found a niche to start a new business. He wants Au\$250,000 (about £150,000) for half of the company, which hasn't even been incorporated yet. He gets his half for free, so he's valuing his research efforts and idea at

Au\$250,000. Looks like his hourly rate for dreaming up business ideas may be well over £10,000. On-line gambling? Hardly earth shattering innovation. Life wasn't meant to be that easy, and it isn't.

I am not saying these ideas won't work; it's just that all their risks lie ahead. Interestingly, the businesses are also asking me to give ongoing input and management advice, but they place no value on my time or expertise. They will probably need guidance from somewhere – my view has always been that the bigger role in a company's success or failure is the quality of the management rather than its product.

I will concede something

though. Some research, such as that coming from universities, can be extremely profound. You often have very talented teams of people, leaders in their field, who put in years of work to generate innovation and knowledge. I find that exciting, especially given the quality of research done here in the UK. Interestingly, university spin-out companies tend to raise commercialisation money at modest valuations. Perhaps like me, they know that the real challenges lie ahead.

Since the mid-1990s Richard Farleigh has operated as a business angel, backing more early-stage companies than anyone else in the United Kingdom.
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