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Getting to Know You

It's hard for a start-up to know who to sell to, until it takes the time to discover its own identity



The company: Valens Energy is a small, two-man energy services shop specializing in microturbines, an energy-efficient technology that produces both heating and power for buildings, without reliance on the conventional electricity grid. Valens helps its customers manage the selection, design and implementation of these systems.

The situation: Valens has landed a handful of feasibility studies and other consulting contracts, but after one year in operation it has yet to make a full-scale microturbine installation. The founders are relocating to Toronto, where thousands of buildings could make use of microturbines. But with limited time and resources, Valens's partners need to figure out which market segment should be their first focus.

ALEX BONEBAKKER AND GEORGES ARBACHE surveyed their office with mixed feelings. The area was small and unembellished – a computer here, a phone there – but it had served them well. For the past year, the modest space had been theirs at no cost – the contribution of a university program aimed at helping recent graduates launch new ventures. And thanks to that free space, they'd been able to launch and run their company, Valens Energy, with little more financing than the founders' savings from their own small businesses.

But in only a few short weeks, the company – a systems integrator specializing in energy-efficient microturbine technology for building heating and power – would be moving to Toronto. The founders were excited about getting closer to their intended customer base, but Bonebakker and Arbache were also a touch nervous: Once they moved, their over-

head would be much higher. And while their early efforts had yielded many meetings and a handful of evaluation and feasibility study contracts, they still had not landed any of the large integration jobs that would have to be their bread and butter.

BY SOME MEASURES, Arbache and Bonebakker had come a long way since they first met while

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completing their degrees in civil engineering. They formed Valens Energy as they approached graduation, after being introduced to alternative energy generation by class projects and consulting projects. The pair began planning a start-up that would help companies understand and adopt energy-efficient systems like microturbines. Then each fell into the management roles that suited their backgrounds and personalities.

Arbache, who was born in Montreal and raised in Europe, opted to handle business

work, enlisting professors and experienced family members to serve on an advisory board, adding expertise in marketing, strategy, government relations and accounting.

THEIR PLAN GOING FORWARD was to exploit a conspicuous gap in the microturbine industry. While the systems could boost energy efficiency by almost a third, it was an unfamiliar technology for most building owners. With perhaps only half a dozen installed in all of Ontario, few owners or property managers

gather the necessary resources for a project. They quickly focussed their energy on arranging an exclusivity deal with the sole Canadian distributor for the leading microturbine manufacturer. They also bolstered their mechanical engineering talent pool through an alliance with an engineering firm.

Valens hoped to be involved at several points along the process – first, assisting clients in understanding their current energy use, then assessing the alternatives available, co-ordinating installation and extracting a recur-

Valens would require only six projects to reach break-even. Given its low capital needs, the target seemed quite achievable

development, acting as the public face of the firm. He was a confident presence, a natural salesman with an entrepreneurial streak. Earnings from his first venture, a photography studio, helped to support Valens through its early start-up phase.

Bonebakker, who was more soft-spoken and naturally analytical, agreed to handle supplier issues and to develop tools for auditing energy use. In school, he had excelled in his coursework, earning a prize for the design and development of a wind-based cogeneration project and graduating with first-class honours. Later on, he found a job in the engineering field, but also demonstrated his investment chops by working as a client rep with a mutual fund firm.

Their first collaboration was the development of a range of tools used to quantify savings from microturbine installations. They moved quickly to seize on their support net-

work, enlisting professors and experienced family members to serve on an advisory board, adding expertise in marketing, strategy, government relations and accounting.

Properly planned, installed and monitored, these systems would offer their owners a fast payback and a solid internal rate of return: Even after paying Valens a healthy fee as a systems integrator, clients could expect a payback in little more than 18 months, depending on site conditions. And with adequate upfront development of a business case, clients could be assured that a microturbine solution would be appropriate to their specific energy needs. (To this end, Valens spent its first year in the incubator building a set of simple tools aimed at helping clients in the feasibility and "pre-feasibility" periods, helping project returns on investment and determine project viability.)

Once a client had selected a microturbine solution, Arbache and Bonebakker saw their role in the food chain quite clearly: They would be the co-ordinators that would pull to-

ring stream of revenues from maintenance, monitoring, auditing and ongoing refinement.

WITH THAT FOUNDATION IN PLACE, the partners, relying on Internet and database searches, began to quantify the size of their market. While there were few microturbine installations in Canada, there were some 728 commercial buildings in Toronto that would be suitable candidates for a microturbine, and at least 2,200 industrial facilities with the right scale and power needs.

Valens would need only a half-dozen projects to reach break-even and establish positive cash flow. With low capital requirements and minimal fixed costs, this target seemed quite achievable. Still, their advisers cautioned the entrepreneurs against excessive optimism. "Never mind how many prospects there are," Bonebakker and Arbache were instructed. "Think about how you're

INNOVATIVE IDEAS.
RELEVANT EXPERTISE.

going to find those six clients, how you're going to pitch them and how you'll manage to close the sale."

Even if the overall market size was cause for celebration, the sales cycle was still cause for consternation. In its first wave of marketing, Valens called dozens of targets. While only a small minority dismissed Arbache and Bonebakker offhand, their rich pipeline of leads was not yet yielding many sales.

They did get a couple of small bites in the hotel sector. Buoyed by that early success, the founders settled on it as a target market. Hotel operators represent an industry with a voracious appetite for energy and a considerable interest in controlling costs. Still, they worried whether it was the right choice, or simply a misstep due to their early success. Would energy management really be a spending priority for hotels? How cyclical would capital spending be in the hotel industry?

In discussions with friends, advisers, students and others, the founders were pulled in a range of directions. Some argued that data centres and hospitals, with their need for redundant power, would be natural targets. Microturbines, after all, could still run during blackouts and would reduce their customers' needs for grid electricity.

Some argued that Valens should focus on new building development. Once an investment is made in boilers and other equipment, convincing owners to add more equipment or upgrade their infrastructure is difficult, they reasoned. New buildings under construction, with no costs sunk into old technologies, might be more open to starting fresh with energy-efficient microturbines.

Others urged the founders to pursue large, consolidated property-management firms that own or manage multiple buildings: Sell and demonstrate the technology once, the logic

went, and Valens could count on multiple sales for each of the client's buildings. The list of suggestions was almost endless: Government building managers would be motivated by politics and policy to choose energy-efficient power sources, some said. Others suggested manufacturing clients, whose factories might be more energy-intensive than office and residential buildings.

IN SHORT, THE FOUNDERS WERE DELUGED with off-the-cuff suggestions for sales strategies to pursue. But these suggestions lacked substance. They required more research, which would take time and industry connections – luxuries that Valens didn't have. It needed an immediate decision about its sales focus and a sales strategy to execute.

What the founders did know is this: Microturbine technology, now in its second generation of development, was ripe for sales. Far more reliable and efficient than its forebears, Valens saw the technology as poised for rapid adoption. If Valens wanted to participate in this market – and forestall its suppliers, competitors and partners from usurping their place in the lucrative systems integration role – it would need to make some moves quickly and secure a roster of clients and a portfolio of success stories.

Arbache and Bonebakker were ready to make the jump into the Toronto market. With a timely technology to address the acute pain of rising energy costs, both men were confident they could find a small but profitable niche in which to build their business. But with so many potential market segments to pursue, the founders needed to identify which target would be the most accessible and responsive. If they failed at this task, the prospects for their young business would be dismal indeed.

The Expert View

By John Plinius

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Many young start-ups suffer from a devastating affliction: Sales Attention Deficiency (SAD). These poor young firms have trouble focussing on a single addressable market. Usually offering a broadly applicable technology or service, these entrepreneurs' attention moves aimlessly from opportunity to opportunity. When SAD leads a young company to enter too many markets with too few resources, it can very easily be fatal.

Valens, with a technology that could readily be used in a broad range of markets, seems to be at risk for this disorder. The good news, however, is that SAD is entirely preventable. For Valens, the better news is that it's not too late to find a focus.

Here's why Valens should be worried about SAD: If it pursues clients opportunistically across a range of industries and markets, each successive client "win" fails to add any additional traction. Hospitals won't be swayed by success stories from hotels; manufacturers won't be impressed with testimonials from office complex managers. Valens will struggle to

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understand the needs, decision processes and sales cycles unique to each market, but end up mastering none. In short, SAD leads to MAD – Mismanagement and Disaster.

On the other hand, time spent getting to know a single market in detail could smooth the sales-prospecting process and help Valens better understand the opportunities. By focussing on hotel industry clients, for instance, it would better understand the market's response to its technology, allowing it to develop a more appropriate value proposition. Intimately understanding your clients' needs is key to being able to effectively prospect, overcome resistance and close sales.

If Valens found a market that responded favourably, it could then build a strong sales base there. With the stability and strength afforded by that base, it could then make calculated jumps into new markets, using some of its earnings to buy the resources it didn't have

Because if there's an affliction worse than Sales Attention Deficiency, it's Dog-With-A-Bone syndrome. I've seen countless firms train their sights on the wrong segment, and spend costly months pleading to uninterested customers. Entrepreneurial, cash-starved sales organizations simply cannot afford to pitch their wares to companies that don't have a burning need for the offered service.

Speaking of "cash-starved," here's another piece of advice for Valens – and every other entrepreneur who's selling for the first time. Ready? I hate cold-calling. Talking to people who have never heard of you and offering them products with which they are unfamiliar is an agonizing process. Valens needs to make sure that its first customers will either be large chains that can roll out their microturbine solution to multiple locations, or individual players in a tight-knit industry where word is likely to spread.

headlines, reminding business operators and executives of the 2003 blackouts and subsequent brownout threats.

Microturbines offered these managers energy efficiency, near-zero emissions, financial savings and reliable back-up generation. But their novelty in Ontario meant that most businesses were unfamiliar with the technology – and had difficulty making sense of the opportunity that the systems afforded.

The founders paid careful attention to their experience with their first clients. The hotel chains decided not to proceed with an installation, as the capital costs were too high even with the attractive payback structure. With the issue of unfamiliarity, the long sales cycle and customer resistance all in mind, the founders considered their options.

Arbache and Bonebakker decided that if they were to go forward, it would be best to use a utility model, financing microturbine installations themselves and selling heating and power directly to their clients. But this was a costly business model – one that required greater investment capital than Valens had.

After listening a bit longer to their early clients' feedback, Valens's executives realized that they had seized on the microturbine market just slightly ahead of the window of opportunity. With profitable businesses of their own to manage, the Valens founders decided to suspend the firm and to monitor the market closely. "As Ontario firms start to realize the potential of this technology and feel the pinch of energy prices, we suspect the province will follow the lead of states like California, New York and Michigan, where the technology is relatively common," says Arbache.

In the meantime, the young founders benefitted considerably from getting to know a single market. "We looked at overall trends and saw the opportunity in microturbines," says Bonebakker. "But by listening carefully to our clients and really getting to closely understand a single market, we were able to see that the opportunity hadn't yet ripened."

Note: The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The views represented here are solely those of the case authors and are based on their own professional judgment. Certain names, scenarios or identifying information may have been disguised to protect confidentiality.

Cash-starved firms can't afford to pitch their wares to companies that have no real need for their service

in its earlier stage of growth – a sales force of industry vets, professional market research, and slick collateral and marketing material. In fact, as soon as it has a first trickle of earnings coming in, the company should invest in a sales professional who knows how to establish a sales distribution system. It's possible for sales rookies to climb the learning curve while simultaneously handling the pressures of a start-up. But it's far from advisable.

So, for Valens, the key question becomes: Which is the market that it should target first? There's nothing wrong with following one's hunch – sometimes. After all, it's probably an indication of demand rather than dumb luck that the first two nibbles of interest have come from the same type of client. But Valens needs to be hawk-eyed and observant when watching its relationships with these first clients. If it encounters serious hesitation or its principals get the sense that their product isn't a priority, they should calmly look for the exits and find a new target to pursue.

So, Valens is at a good point in its journey. With a couple of small early sales, it's got a start. What it needs to do now is find focus, remembering a few rules: First, to avoid Sales Attention Deficiency, understand one market and one client inside and out. Secondly, get professional help early on. A veteran sales professional can help turn a scattershot effort into an efficient sales machine. Third, find a market where successes and client wins will translate quickly into additional sales. And finally, avoid Dog-With-A-Bone syndrome. Watch the sales cycle with your first clients carefully. If they don't really, really need your service, that's trouble. If Valens and other companies in its position commit these rules firmly to mind, they'll make smarter decisions every time.

The Outcome

With summer approaching, Valens's move to Toronto seemed well-timed. Smog and heat alerts were beginning to trickle across news