

The Business

Designing your business is a creative act

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Contents

Preface	5
Why read this document?	7
Context, Climate and Difference	9
Ban the Business Plan	11
Understanding Business	15
Designing your own Business:	17
Stage 1: Evidence Modelling	19
Stage 2: Relationship Modelling – part one	23
Stage 3: Blueprint Modelling	27
Stage 4: Relationship Modelling – part two	31
Stage 5: Priority Modelling	39
Stage 6: A business needs a customer	45
Stage 7: Consequence Modelling	49
Conclusion	61
Appendix	63

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Preface

This document is an attempt to explain how creative people can use their skills to develop an original idea into a business idea and eventually into a business proposal. It has been tested and developed in the action learning environment of the NESTA Academy and the approach has been drawn up and edited by creative entrepreneurs.

Why read this document?

Starting a business with no experience and at an early stage in your career can be very uncomfortable. People around you may doubt your ability, your choices and your ideas.

This document describes our approach to how to make an idea happen. It provides a working framework which releases you from the uncertainty of thinking "Is this the right way to do it?"

The aim of this document is to help you get to a point where you can answer the two main questions that any business proposal needs to answer:

What is it that I do?

For example, "I am a service design company".

Why should anyone care?

For example, "Because the service sector makes up over 70% of the economy, and currently there are only a handful of service design companies."

Not only will you be able to answer these questions, but we will give you a design process which will help you to develop and articulate these answers into what we call a business proposal.

The proposal that you will write needs to describe the following:

- What you are offering
- How your customers will benefit from your idea
- How you and your employees will benefit from the idea and as a result create a sustainable business
- The "story" of how your business will survive and grow

Context, Climate and Difference

What we find when talking to creative people, who are at the beginning of their careers and are working for other people rather than for themselves, is that they are probably not earning big money and are unlikely to be making significant career decisions. However, one indication of maturity in the career of a high flying person is their ability to go from a **basic application** of skills and relationships to a **strategic application**. For example, they are able to move their creative ideas from a product or service that influences just a few customers to one that influences an entire industry.

Working for others does not sit very well with those of us who want to take control of our lives, have a passion to change the way things are done, and want to do it in a hurry. These are the motivations for most people when starting up their first business.

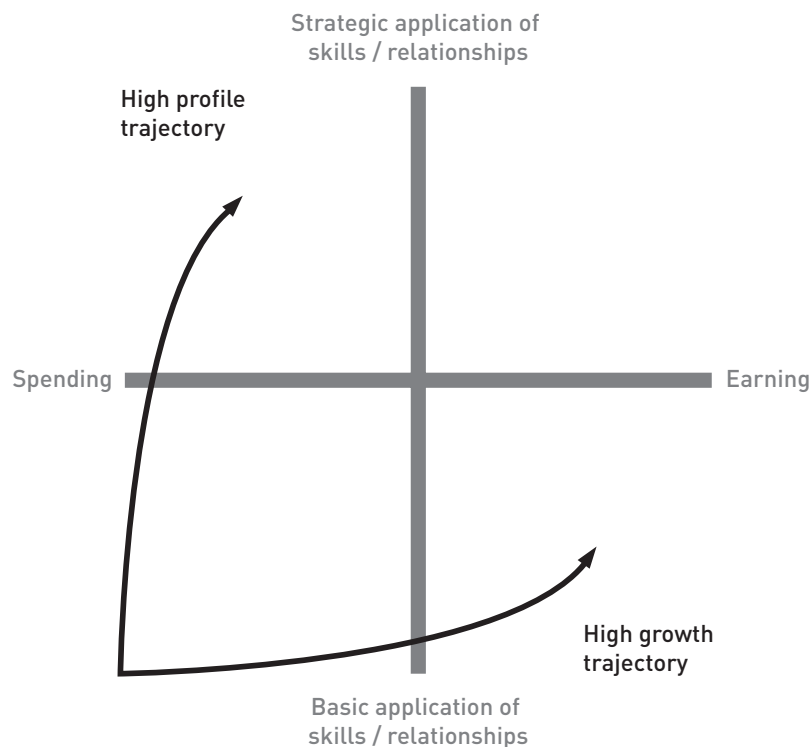
The Creative Pioneer Programme (CPP) has specific objectives, and is also looking for specific outcomes. In the first place, we are trying to help develop people with little or no business experience. Secondly, we are trying to do this in a way that you will not find in any business school, by attempting to use the key skills that creatively trained people already have. Finally, we are looking for high risk propositions that can succeed through sheer ambition, a really innovative approach, the creation of new intellectual property, or pure talent.

We want to help create businesses that will make an impact in one of two ways. The first is by being pioneering and inspiring others to copy their approach or mode; the second by creating growth in the business and employment.

When starting their first project, most creative people are motivated more by the need to develop skills and relationships and to create a profile than by a desire to make lots of money. They hope that the challenge that the project represents and their creativity in meeting the challenge will result in recognition from their peers, the creative industries and the industry press, and that this will lead to financial reward. This approach does not focus on business activity but instead on generating media coverage and a higher profile.

The outcomes we are looking for to measure success – impact through imitation and impact through growth – are dependent on a different model. We believe that you cannot motivate people to imitate the way you do things without your activity being out in the market place. This means that you need to be doing it and selling it. The same could be said for a growing business; you have to be creating a demand.

We have developed a model which describes the trajectory of a creative career as illustrated in the graph below. The graph has two axes – the application of skills/relationships and spending/earning. We have plotted two trajectories, one describes a profile-driven business and the other describes a growth-driven business.



Looking at the two trajectories, the graph shows that adopting a high profile strategy without engaging in the market place will require more resources (both time and money) with fewer returns than adopting a high growth strategy by engaging early with the market. Of course this is not an either/or kind of game and you are going to have to produce some sort of balanced approach.

Ban the business plan

Traditional methods of developing a business involve engaging with bank managers, business support agencies or family friends, all of whom are likely to ask you to develop a business plan before they will consider putting money into your business.

Creative individuals find this alienating because it is based on the assumption that business is governed by a set of rules that needs to be learned.

We would like to propose a new approach that uses the inherent skills of creative people to design a business. In order to engage in this process you need to accept three basic facts about businesses:

1. A business requires income to survive

This has to be based on a demand for the product or service produced by the business.

2. There has to be a plan to develop that demand

A business without demand is like a car that is running out of fuel. It can still go. It can even go very quickly but at some point it is going to stop.

3. People will not pay for a product or service unless they get a reward

This is usually some form of benefit through having the product or service.

Stop. Read those facts again. Accept them or reject them.

What makes these three facts come to life are imagination and communication and as creative people have these key attributes, we believe that they are naturally adept in business. Unfortunately, this is not traditionally how people think about creative individuals and business creation.

However, The Harvard Business Review in February 2004 stated: "An arts degree is now perhaps the hottest credential in the world of business." So do not be put off by this attitude.

It is also important to realise that 'Creativity, Innovation and Entrepreneurship' is the mantra that major business gurus are preaching in business schools around the globe.

We already know that you are entrepreneurial and have been seizing opportunities all your life. We also know you are talented, particularly in the field of creativity. However there also has to be an element of innovation in your business. So it is important to understand the difference between Creativity and Innovation, and that you are able to identify, articulate and develop the innovation in your idea.

Innovation itself is commonly defined as the “successful exploitation of new ideas”.

The Creative Pioneer Programme selects business ideas that demonstrate new applications of creativity and show signs that they could be commercially sustainable.

Our view of innovation is that it is the challenge of managing your own creativity and that of the people you work with, so that your ideas can be implemented and picked up by a customer allowing the business to benefit financially from a range of new and useful ideas.

The next few sections show how a person’s natural creativity can be used to turn a creative idea into a business idea by utilising the traditional design process model.

Sanity Check

So, we have broken down business principals into three basic facts. However, for some people taking those first steps is not that simple, because it may mean making a few changes to the way that they are currently using their time.

Piers Roberts of Designersblock has isolated four areas of possible growth available to you when using your time.

These are:

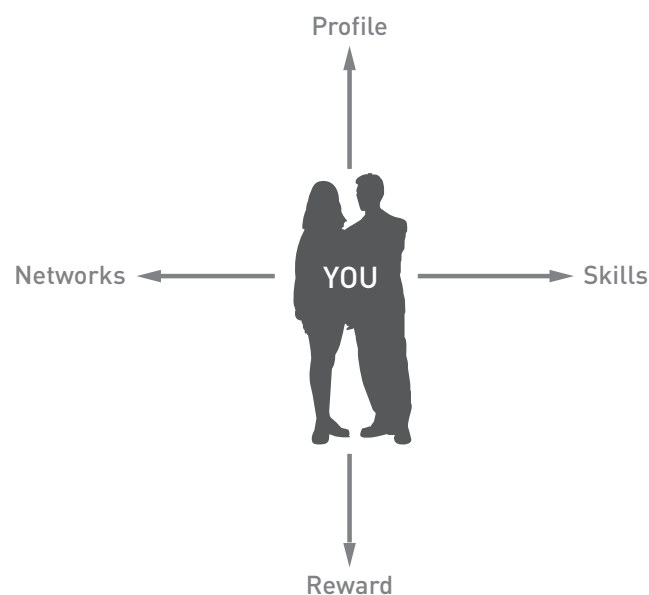
Profile – this is the endorsement that others, such as your contemporaries, your competitors and your critics, give to you and your work.

Skills – skills are the experiences that you can claim; this might be working for a dream company as a freelancer, it might be travelling to research a particular technique or method of production, it might be producing work to a deadline.

Reward – Personal rewards, Social rewards, Creative rewards, Financial rewards.

Networks – you will need to create support for your idea, and the quality and effectiveness of this support is proportional to the quality and extent of your network.

So if you are currently working in a bar you may score on the reward side of the chart, but what is it doing for your skills? You may be doing a lot of freelance work which is developing loads of skills and a good network, but what is it doing for your profile? If you are eagerly developing a high profile but are not making enough money to survive, are you doing the right thing?



Exercise

It is worth recognising that some activities are best undertaken at specific times. Some people work best in the mornings, others in the evening. In addition to this, the times you think best creatively may not be the best time to do something that requires accuracy such as cash flow. You should be aware what is taking up your quality time.

Look at a typical week and plot how you spend your time.

e.g. You may spend:

20 hours freelancing

10 hours working in a bar

2 hours training

5 hours reading and researching your business idea

Take each of your categories and then run them through the model. Ask the question 'How much does this activity benefit the following areas: Profile, Skills Rewards and Networks?'

Now are these activities actually moving you to the place you want to go? If yes, then move on through the document.

If no, then take some time to answer the following questions:

What will you need to change in order to get where you want to go?

How will you know that you have achieved this change?

This exercise will not in itself get you where you want to go, but it is a good way of working out if you are on the right path and, if not, it shows what you need to change in order to start your journey.

Understanding Business

It is important to understand that your business is not solely about you. There is an 'otherness' to a business. When working very well the business can exist without your input. You can sell a business and it can go on without you. As a founder of a business, you can die and the business can exist beyond your life. You can merge it with another company and it can be amalgamated into something bigger and better.

So there are two aspects to a business.

Firstly: You.

When starting a business you are in the driving seat and will have a major impact on what the business does, how it does it, who it does it for and why. Therefore the character of the business is based upon the character and values of the founder(s). This character, or culture as it is more commonly known, can only be expressed through activity.

You are in control of this activity and if you want your beliefs to be known you have to accept: the need to "Practice what you preach"; and that "Seeing is believing".

Secondly: Your Business

You are not your business, your business employs you. This is not a philosophical statement; it is a matter of fact. A business should not be just a group of individuals, nor simply a place for freelancers to work. A business is a separate entity with a legal structure and rights and obligations that you need to nurture and protect. A business should also have a clear direction, a clear purpose, a clear audience, and a clear reason for existing.

The next section of this document will start to lead you through the exercises that will start to distil this clarity.

Designing your own business

We are going to introduce you to seven stages in the development of your business:

- Stage 1 Evidence modelling**
- Stage 2 Relationship modelling - part one**
- Stage 3 Blueprint modelling**
- Stage 4 Relationship modelling - part two**
- Stage 5 Priority modelling**
- Stage 6 A business needs a customer**
- Stage 7 Consequence modelling**

Stage 1 – Evidence modelling

Determining a vision for you and your business is usually a simple task for an entrepreneur, as with all moments of inspiration it pops into the head. “I can see my business. I have a vision...” But can you articulate this vision? Can you describe it or draw it, and above all do you understand the consequences for your business of this vision? Evidence modelling is a process which explores these questions.

The first step is to create the evidence of your ‘future history’. We use a model developed by Marshall McLuhan as a framework for this exercise. Marshall McLuhan was an academic who came up with the phrase “The medium is the message” as well as the term “Global Village”. His research field was communication technologies. He believed that the real impact of communication technologies depends on how they activate the senses and how they determine the way we organise experiences.

In McLuhan’s view, media is a far broader term than simply radio, newspapers, books, etc. He included trains, roads, jet planes, computers, photography, money, electricity and many other means by which people communicated. He saw all these “media” as having an impact on society; either one of acceleration or one of disruption. He created the Tetrad model which describes four impacts of any new media on society.

What does it enhance?

He believed that media extended functions, speeding up one function and creating a bias in favour of that function. Electricity has significantly increased the automation of everything, and will continue to do so.

What does it obsolesce?

The law of obsolescence can be related to the idea that products or services come in pairs, and the former, allowing the latter innovation, consequently is diminished as a form. Electronic media causes the obsolescence of print media, for example.

What does it retrieve?

The third law, retrieval, supports McLuhan’s notion that each new media environment turns the older environment into an art form. Therefore digital music finally dominates and the vinyl analogue single becomes an art object, worth millions of pounds.

What does it flip into when pushed to the limits of its potential?

The fourth law, reversal, suggests that when a system reaches the limit of its energy, it tends to reverse into a form that will drive itself into obsolescence and enhance a conflicting characteristic. For example, if a car sharing service was very well designed the consequences could be an increase in car congestion, therefore decreasing the positive effect of the car sharing service.

Exercise: Collecting evidence of your future self

Evidence allows you to imagine what your business will be like if your vision for it is successful.

The question to ask yourself is 'If my business were successful how would I recognise it?'. For some people this would be seeing yourself on the front cover of a magazine or newspaper. For others, it is having a high profile presence on the high street.

But we are not just interested in vanity here. If you are pioneering a new way of doing something, what will be its impact on the environment? What would your business change?

Once you have imagined this impact construct evidence of the consequence of this impact. For example, if you are creating a new transport service around car sharing what is going to be the impact on the insurance industry?

Create an insurance quotation from an insurance firm which shows the impact of this idea.

Another example maybe a video which explains all the new systems necessary in the office of the future.

We want you to create a persuasive visual argument to support your idea. This could become an important sales tool for you in the future.

Having determined your vision for your business you need to make sure that you have a compelling argument to attract collaborators to help implement your vision as well as arousing the desire in your customers for your product or service.

Designing the future

Having stress tested your vision against potential need as well as the scale and scope of your customer base, the next step will be to start to set:

- Milestones / goals and objectives
- Development needs and activities

The reason for this approach is that whatever steps you may be taking over the next twelve months, it is vital that they form part of a planned direction. Knowing that the work you are doing today is building your skills and the business capabilities towards tomorrow, will give meaning and purpose to your actions.

The Planning Process



To do this you must follow this process through by considering your overall business vision in its widest sense then identifying the options available to ensure its achievement, and finally, focusing down to identify the milestones and steps essential to reaching your ultimate goals.

You will also need to consider all the constraints and development gaps, which must be addressed if your vision is to become a reality.

You are bound to find gaps and holes. Do this exercise roughly and then use relationship modelling and blueprint modelling to start to fill in the gaps.

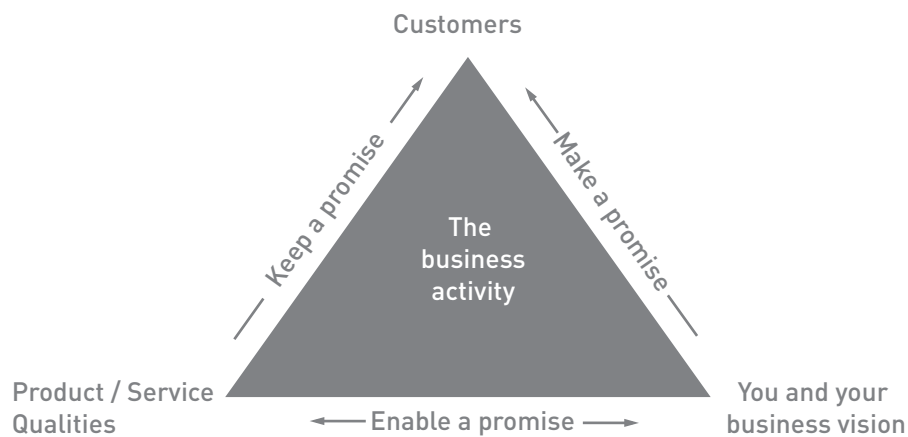
Stage 2 – Relationship modelling part one

There are three aspects to creating a sustainable business. The first is to have a clear idea of what you want your business to do. The second is to develop a business process that allows you to offer this to customers or an audience and allows you to sell it for more than it costs. The third is to know that in all likelihood there will be an audience or market for what you are going to offer. We have pointed to our three core principles (**see page 9**). All three principles need to be accounted for in order to make a business and these three areas need to be balanced.

The easiest way for you to begin to understand what a business does is to think of it in terms of promises. You promise your customers that you will deliver either a product or a service, your customers will have an expectation that this promise is going to be kept and you are going to have to work with others to enable that promise.

The triangle between you, your customer and the qualities of your product or service is summarised as business **'activity'**.

The promise



At this stage in the development of your idea into a business, you may see yourself as having a particular set of personal skills and interests which lends itself to a particular role in the business. This document will help to identify how that role fits into your business activity. But first it is important to realise that a business has a number of different areas and in all likelihood you are not going to have roles in all of them.

The challenge therefore is:

1. To identify where your personal skills and interests fit in with your business operations.

Blueprint modelling will help you develop an operational plan.

2. To understand what you need to add to your skills in order to create a complete set of skills for your business.
3. To begin to identify what you have to do to build the relationships you require.

Relationship modelling will help you with this.

Relationship modelling identifies four areas of activity in which you can develop a role: **Generator, Realiser, Distributor, and Customer**

What do we mean by these areas?

Generator – this role describes the process of forming and synthesising ideas. It is important in creativity, and in concept development. This is probably the area with which you are most familiar. It is possibly the area where you think all your strengths lie, and if this is the case where you are tempted to spend all your time.

Realiser – this role describes the process of transforming raw materials, in our case ideas, such as a film script or piece of sheet music, as well as physical materials, into a finished product. You have probably tried your hand at many different aspects of this, but possibly not to the extent and with the amounts of detail now needed.

Distributor – this role describes the purchase of finished products or services for resale or the co-ordination and distribution of finished products or services. It is unlikely that you have a huge amount of experience in this area.

Customer – this role receives, buys, or consumes an item or service. This is the part that you are truly most familiar with. You have been a customer all your life.

We believe that you probably only have the interest, skills, and expertise in certain areas of your business. Frequently it will be too expensive for you to acquire the expertise that you will need to undertake all areas. Certainly your business will slow down whilst you develop this expertise.

All four areas need to be in place for your business to survive. But your business does not need to do all these things. The best way for your business to survive will be through building relationships with others.

In order to work out how to get all your areas in place, we use another model called Blueprint Modelling.

Stage 3 – Blueprint modelling

Blueprint modelling is an exercise which helps you describe how you imagine the business would actually be “done”. We have called this **business operations**.

There are lots of different types of business. We have identified seven (see the Appendix) and they all specialise in different sorts of activity. For example, a jeweller is going to be very different from a TV channel. However, even in this extreme example there are similarities. All businesses, whether product or service based, have a ‘rhythm’. This rhythm will consist of a client engagement phase, a design/construction phase and a delivery phase. These activities take place either in front of the customer, which we will call “onstage”, or out of sight of the customer, which we will call “backstage”.

The activities involved in these three phases look like this:

Engagement Stage: This is the time that it takes to plan who your prospective clients are and to persuade them to buy products or services from you.

Development Stage: This is the time that it takes to develop your product or service for your customers.

Delivery stage: This is the time it takes to get your product or service to your customer.

What is key to all businesses is to understand how much of this time you can charge to your client. It happens to be about half. Everything in grey in the model overleaf is time that needs to be covered by your margin – the difference between direct costs and hours charged. You cannot bill your client directly for research and idea development or the cost of selling to customers. This is why businesses which cannot get out of the engagement stage or are stuck in the research and development of a brief will ultimately fail.

	BACKSTAGE	ONSTAGE
ENGAGEMENT:	Research	Networking / Trade Shows
DEVELOPMENT:	Developing brief/ideas/products	Development meetings with client
DELIVERY:	Creating final design/idea	Present to client

How is it going to work? We think this is the time to get out your pen and paper and start to draw how you see your business working. We call this process Business Blueprinting.

Business Blueprinting Exercise

This is a simple way of mapping how your business will deliver its products and services. The process involves drawing, using a flow diagram, the various stages of the generation, realisation and distribution of a product or service.

Look into the future, 3-5 years ahead, and answer the following questions:

How do I imagine my business operating?

How will I find and engage clients?

How will I generate what they want?

How will I distribute what I generate?

One aspect of operations is often forgotten – the money. You need to be able to show when you will be paid and how you will collect the funds.

It is important to remember two things:

1. The entire process needs to be mapped; and
2. It should be mapped in very small steps

Start by imagining answering the phone or an email from someone who would like to buy your product or service. Now draw all the processes you need to go through to deliver it to them. Create a box for a process and an arrow to the next process. The principle is the same as any flow diagram.

There are a couple of interesting outcomes from this process. You can see where the critical stages are, where bottlenecks may occur and where the process might break down because you don't have the expertise to complete this section. This will allow you to see exactly how much of the business you need to develop and manage. Secondly there are probably lots of processes which happen at the same time so you may need to have a number of blueprint maps to create the whole picture. Thirdly we started this exercise by assuming that you had a product and service. You cannot make this assumption. In most cases you are going to have to develop the product or service and should blueprint this section separately.

So re-do the exercise whilst looking at the Onstage/Backstage model to identify which parts of your business are happening onstage and which parts backstage.

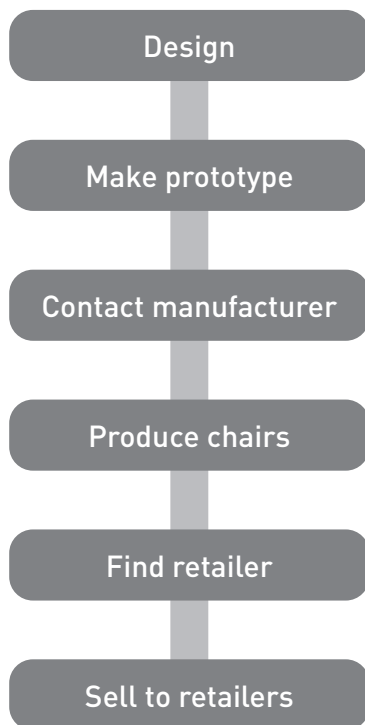
Draw separate blueprints for Onstage and Backstage activity and integrate this information into your existing Blueprint.

This will give you an insight into what your business does.

Stage 4 – Relationship modelling part two

Each business blueprint is going to look slightly different. In its very simplest form, you will have had to map out how you are going to come up with the idea, how you are going to have the idea realised and how you are going to deliver it to your customer.

So an example of a product based company may look something like this.



This however is just the first step in understanding how your business works. Each of these areas may be controlled by you or someone else. Think about the following:

How do you know who to look for?

Why would anybody want to come on board to help with your vision?

What sort of deal can you expect?

The first step is to know which of the four key areas your blueprint contains.

Remind yourself of what we mean by these areas.

Generator – this role describes the process of forming and synthesising ideas. It is important in creativity, and concept development. This is probably the area where you are most familiar. It is possibly the area where you think all your strengths lie, and if this is the case where you are tempted to spend all your time.

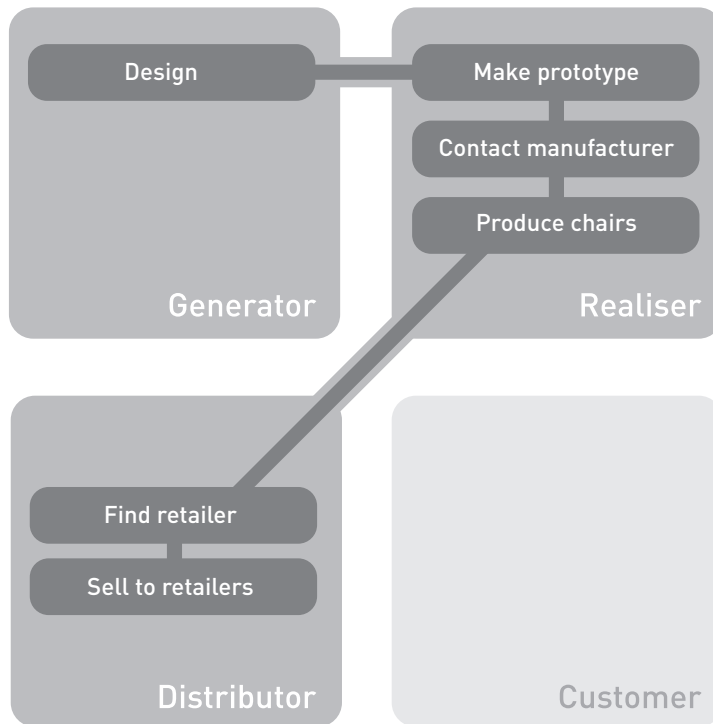
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Customer – this role receives, buys, or consumes an item or service. This is the part that you are truly most familiar with. You have been a customer all your life.



In order to become familiar with this, map out the areas as you see them over your blueprint, as in the example below:



This example highlights the fact that there are only three areas linked together in this relationship.

At this stage in the design of the business it is important to look at the implications of the decisions you have made. The example illustrated shows that the person has made a decision not to sell directly to customers and instead is going to work with distributors and intermediaries. There is nothing uncommon about this type of relationship. However, the implications for the business are significant.

- The distributors will need to charge something for their service. This can be a commission or a mark-up on your price, such as from wholesale to retail.
- Some distributors cover whole countries as in the film industry, others are all independents, as with fashion retailers. This may mean making one relationship, or developing hundreds.

The more work you can do to understand the most effective relationship for your idea at this stage the better. You are prototyping your business and you can have many iterations of the design at this stage prior to committing any real time, energy and money to the start-up process.

We have identified seven different sequences (see the Appendix). They all have very different characteristics. Some combinations are very specific to a particular sector and some are more generic. Some combinations are dependent upon scale to be effective and some combinations limit the scale of a business. In order to be a successful combination each relationship needs to be one of mutual trust and support. If, however, some relationships collapse they will have a significant effect on the activity of the business. It is therefore important to have a good understanding of who is supporting who in each of the relationships.

In order to give some guidance to the implications of choosing a particular sequence, you will notice that with each sequence we have tried to define the positive and negative effects of each sequence using the following categories:

Sector

Typical examples of industry sectors that use this sequence.

Business profile

This section is a guide to the earning potential for the business.

Where does the value lie?

This section is a guide to which areas of the sequence are most significant for the business.

What is critical about the relationship?

This section is a guide to how to create the best outcomes and how to avoid the pitfalls.

Exercise

1. Take your blueprint model and highlight the areas that correspond to the four key areas (generator, realiser, distributor and customer – not all four need to be present) then overlap which areas out of the four you wish to include.
2. Identify the areas where your skills and interests lie.
3. Who do you need to build relationships with to cover the other areas?
4. Who is giving or receiving the money in these relationships?
5. What will be the implications of your relationship sequence on how much you will need to charge and when you will be paid?
6. Is this something that you will be able to manage? If not what additional resources will you need?

If you are having difficulty balancing your needs and the relationship sequence try remodelling it after reviewing your blueprint.

In most activities the more practiced you get at something the better you become. However, business does not work like this. The moment you start your business you are immediately competing against everybody else who is engaged in that activity. You cannot place a learner sign on your website, headed paper or at the beginning of a presentation. For example, if you wanted to make a TV film it will be judged against every TV film in the same format even if someone else already has twenty years of experience.

This isn't meant to panic you. Be reassured that all businesses are keeping their eyes on the 'new kids on the block'.

How do you build relationships?

There is a natural tendency for businesses to want to build relationships. Each business depends on another for its survival. So you are always either buying products or services from others or are supplying products and services to others.

When you are in the buying role, you need to be clear about what you want, when you want it, the quality and consistency, how much it will cost, when and how you are going to pay. What really effects the clarity of this relationship is the degree that your request can be interpreted. If you are looking to buy a computer from Dell, you can have a high expectation that it will arrive as you had expected.

If you are buying some consultancy time from a web designer/specialist, it is more difficult to determine what is a reasonable amount of work to expect for the amount that you are paying.

So what is the difference between the first and the second? They are both a transaction based on a product and service for a fee. They will both deliver something. But the difference will be that Dell will have clearly defined what it can and cannot do. You may well be party to developing that. They will also have clearly developed what they will charge and they will also have told you when you can expect delivery. This is the minimum that you can expect from any relationship.

Why would anybody want to come on board to help with your vision?

What is critical is that your relationship is in the form of a win-win situation for both parties. This is achieved by following our third principle:

People will not pay for a product or service unless they get a reward, usually some form of benefit through having the product or service.

Historically business relationships were purely about transactions. The manufacturer did not necessarily care about the customer's needs or wants. This is no longer the case because we live in a world of abundance. Every business has a large number of partners to choose from to build relationships with.

What then differentiates your relationships with a supplier or distributor and other people's relationships with the same supplier or distributor is the experience. A good experience will prolong and strengthen the relationship; a bad experience will bring the relationship into question.

Building relationships is therefore about interaction through activity.

In order to build a true relationship it needs the following qualities:

- You need to be informed about your customer's or partner's needs. Ignorance about them is very dangerous.
- A relationship has not been established just because you say it has, both parties need to be involved. Otherwise you just have the tendencies of a stalker.
- Relationships are based upon attitudes. Initially trust and honesty are fostered and then the development of ties, all of which need to be earned and sustained.
- Relationships engender a mutual way of thinking and the depth of this can be measured by longevity and the frequency and quality of transaction.

In traditional transactions the customer is seen as the antagonist who has to be persuaded to choose a particular option. When building a relationship the customer is instead seen as a resource with whom the firm can create a valued solution. The position is based on co-operation. Firms will not work with each other from a win-lose perspective but they will benefit from a win-win situation, where the parties involved will be better off as partners.

What sort of deal can you expect?

Everything that has been written about how to build relationships really skirts around the main issue. You are a learner. You are starting from the ground, zero, or less than zero. Currently you will be able to call on your academic background, early stage business contacts, your academic networks and your work experience. But you will also need to start knocking on doors, picking up the phone and talking to people about your ideas.

When you start these conversations you must know:

- What you want out of the relationship
- What you are going to add to your partner
- Why it will benefit them

If you can answer these questions before you make that call, you could be at the start of a good relationship. If you can't, then you have to be prepared for rejection or the beginning of a long courtship.

Maintaining relationships

Establishing your relationships is just the beginning. The key area that you have to pay attention to is you and your partner's needs or expectations. They need to be able to trust you.

There are four levels of trust in any relationship

- Generalised trust: this is derived from social norms. In our case business norms – essentially your reputation and experience. Currently you probably have very little.
- System trust: this depends on laws, regulations and contracts. This is an easy yet vital area to understand because it is the minimum level of expectation from a business and demonstrates that you are trading legally.
- Personality-based trust: this depends upon the customer's perception of your reliability.
- Process-based trust: this is based on your reputation with the customer and can only be built through activity.

In order to maintain these different levels of trust you need to be able to deliver on your promise. This might be as simple as paying your bills on time, delivering a well developed brief, being professional and keeping people informed of changes.

No matter what the relationship is, remember your partner's requirements are going to be constantly changing. Do pay attention to how they are shifting and be prepared to accommodate these changes.

Stage 5 – Priority modelling

You have to love what you do and you have to create the right rewards to enable you to do more of what you love.

To balance this you need to be making a return on your time and effort. Rewards can be in four different areas:

- Personal rewards
- Social rewards
- Creative rewards
- Financial rewards

What is important is that you need to be comfortable with the returns that you require, your investors require, and your relationships require.

We have come across a model which begins to describe the variety of comfort zones that exist. This model has come out of extensive research on the diversity of approaches that different creative industry businesses use.

Running a business in the creative industries is a non-stop balancing act between two poles: one end can be considered 'Reward' and the other 'Meaning'. Finding a way to manage the 'Reward-Meaning' axis is the goal of all creative people. It should not be approached as something which only has one way. There are a variety of ways that allow you to connect your personal returns with financial returns.

The term 'Reward' used here is a way to summarise all the extrinsic factors that allow you to run your business, essentially the demand you have created and the return which that demand stimulates.

For example, it might be:

- the number of T-Shirts you sell every year.
- the investments made by other people into your business as a result of its success.
- the number of record labels that have made investments in the new music delivery system you developed.

These external factors partly lie beyond your control as they depend on market dynamics, collective patterns and unforeseen consumer behaviours, as well as upon your own approaches, energies and temperament.

In the creative industries, the pole 'Reward' is just one half of the game. 'Meaning' represents all the intrinsic factors that have meaning for you as a person or organisation. These intrinsic factors usually lie within your control.

You are the originator of certain values and visions that make your business life meaningful.

For example:

- Spending maximum time with friends while you work
- Enjoying 100% autonomy or working 6 months a year abroad
- Having a balance between creative projects and financial projects

How you steer your business along this invisible line between 'Reward' and 'Meaning' is an everlasting challenge. Your positioning will change over a period of time, and the extrinsic and intrinsic values will also change. There is no way of finding a once-for-a-lifetime solution here. This model represents a kind of Yin & Yang of your changing business life. It effects two important areas of your work:

Strategy or business behaviour: It helps you to personalise your business strategy according to your own context of work and clearly focuses your marketing efforts. Successful businesses are about interacting well with clients and suppliers, and doing this profitably. At the same time you have to take care of your own values. You cannot simply buy back credibility within your peer group once you have lost it.

Leadership and motivation: You get a chance to create meaning for the people who work with you. If your team understands your strategic position, they will also understand your weekly action plans. If you are to embed your values into your business, they should be reflected in the way you treat other people.

We want your business to be in tune and in line with your values. Because if it isn't, at some point you (and the people who work with and for you) will not want to get out of bed and go to work. You probably know the feeling: at sometime you must have had a job which you hated so much that you could not be bothered to get up and go to work. Why would you want to create a business which did the same thing?

The Art of making clear decisions

Some enterprises survive mainly on social, personal or creative returns. Traditional not-for-profit organisations or charities are two examples. Some organisations meander from one end of the spectrum to the other, creating high financial returns followed by a period of purely social, personal and creative returns.

If we think about our initial careers we would say that creative people like to see the creative, personal and social returns as being of higher order at the beginning of their careers, and then they drift increasingly towards financial returns as their lifestyles change and their needs develop.

There is a whole universe of opportunities that opens up for you once you consciously begin to maneuver along the line. Here are just three of many examples of how you can use the Reward-Meaning model for developing your strategy:

The best of both worlds

Position your organisation right in the middle between 'Reward' and 'Meaning' and always try to get the best of both at the same time. It allows you to go for compromise solutions: partly you are trying to pursue your 'own thing', partly you are trying to satisfy your client. Every new job is a new chance to negotiate the middle-position.

One after the other

This is another strategic option. For a limited time, you put one pole on top of the other and create a hierarchy of values. For example, one year you could work for the 'established market' and maximize financial rewards; the next year you might work for your own personal rewards and not care about market values.

Split

Split your brand into two parts. One part of your business offers products for the extrinsic end of the market (in order to gain financial rewards), the other part is purely dedicated to your intrinsic values. Both ends are set up not to interfere with each other.

Love risk?

As you will experience, the Reward-Meaning model cannot be separated from your private life. One important area to look at is your relationship with risk. Most people will see you as taking a risk by starting your own business. This may only be a small risk as two thirds of new businesses that are VAT registered are still trading after three years.

Your motivation may not be to break the mould by opening a new business; it might be purely due to necessity. You may well believe that the only route you can take to see your ideas come alive is by doing it yourself.

Is this really risky?

Yes, because you are going to be judged not by your peers but by your customers and suppliers, and the only feedback you can be guaranteed to receive is the withdrawal of their support (and this usually means their money) if they do not like what you are doing.

So it is important that: you are comfortable with the level of risk, it is in your control and that you are able to manage the consequences.

So what is your true relationship with risk? What would you choose to put on the line to make something happen? It is also important to realise that there is a variety of different things that you put on the line; some of it is money, some of it is relationships, some of it is yourself.

Traditionally, entrepreneurs are viewed as needing to take risks in order to achieve returns, and this is certainly true where you require large amounts of money to start a business. But as we are now in the world of the knowledge economy where ideas are at a premium, the risk becomes less financial in the period of starting up and more personal, because you have to share your ideas and place them in the public arena.

At this early stage ideas are going to be the only value in a business.

Business Values Exercise

- Create a 'Mind Map' of external factors as indicators of market success.
- Personalise your strategy-line. Choose three external and three internal key factors and place them as symbols around the poles 'Reward' and 'Meaning'.
- Step on the line and find a physical position that is comfortable for you. What kind of tension do you experience? What makes you move in which direction? Find at least two alternative strategic options.

The purpose of knowing where you stand on the Reward-Meaning line is to allow you to make consistent decisions about how your values effect your business activities.

You should therefore be able to link your priority modelling to designing your future. This allows you to revisit your vision as your priorities grow and change.

Stage 6 - A business needs a customer

No business can function without a customer and underpinning this fact are our three very basic principles:

1. A business requires income to survive

This has to be based on a demand for the product or service produced by the business.

2. There has to be a plan to develop that demand

A business without demand is like a car that is running out of fuel. It can still go. It can even go very quickly but at some point it is going to stop.

3. People will not pay for a product or service unless they get a reward

This is usually some form of benefit through having the product or service.

An idea will have you as a focus and a business idea will have your customers /clients as a focus. There are therefore three defining qualities that make an idea more than just an inspirational creative idea:

For a business idea:

1. There should be a clear need for your solution and you should be defining a new problem.
2. The need must have sufficient potential to create a demand, that in turn has to be sufficient to sustain a business.
3. There should be sufficient financial reward for you within your idea to be able to support your immediate business needs as well as your future business requirements.

When we talk about need, what is exciting about creative individuals is that they have the imagination to sense latent needs where none were apparent before. For example, who would have thought that file sharing software would produce a revolution in the music retailing industry?

But if we look at this in a bit more detail: The real need that file sharing was solving was the need for cheap music, also the here/now culture that technology has fostered, followed by the need to stick two fingers up to the mammon that is the record industry by teenage technologists who were early adopters of the technology.

The company that has really been able to exploit this is Apple who have now captured a large proportion of market share. Not only were they able to take advantage of technology, they have also been able to take advantage of their brand which has constantly stuck two fingers up to larger players in the industry.

This ability to open up market spaces where none existed before is exciting because it challenges the existing competitive landscape. Secondly, it allows you to build a new monopoly even just for a short while, and as we all know, monopolies allow you to grow without competition.

So alongside the questions:

What is it that I do?

Why should anyone care?

You need to add:

Will my solution generate sufficient reward for my needs?

How am I going to work alongside any competition?

To summarise, we need you to appreciate that if you are going to engage with our approach to designing a business, then we need you to commit to the following steps:

1. In any career, you need to move beyond your basic skills towards strategic skills, and drive for financial returns over and above building a profile.
2. There are basic business facts and any growing business needs to acknowledge them.
3. Your personal values, energy and ambitions are going to define your working style and environment and set the differences between your business and others.

Most creative individuals rely on their creativity in their businesses. But these businesses rarely exist beyond the creative people themselves. This may not be an issue now but it is an issue for the future. In order to be a creative business person you need to accept that your business will exist beyond you. If your business lives beyond your direct involvement, it will mean that your creative ideas will have been transferred and embedded in others. It will also mean that you can extract financial, creative or social value from your business whilst working on other ideas.

A business as an activity

We know that one of the objectives of a business is to turn activity into income. This can only be done by responding to your customers' needs. This response has to be appropriate, clear and reasonable.

It is **appropriate** when the business responds directly to a customer's needs.

It is **clear** when the client or customer is aware of the business commitment to them and their response to that commitment.

It is **reasonable** when there is the successful exchange of money, and how successful is usually down to either repeat business or the strength of relationship between the business and the client.

The methods usually used to support this relationship – communication, branding, values and promises, and product or service positioning – come under the banner of marketing. However, what marketing is in essence is being explicit about your obligations to your customers and clients and their obligations to you.

Before we go down the route of spending any more time developing the business, you need to check that your activity meets a genuine need, or that you can convince people that they have a need for your product or service.

If you cannot prove this then there is no point in going on.

It is more important to work out who your customers are before you work out how you are going to behave with them, because in this world customers come in many shapes and sizes, and you need to be able to react to all of them.

Who are your customers or clients going to be?

You can base all this on a gut feel. However, we want you to have evidence. This is called market research, and one of the best sources for market research in the UK is the British Library Innovation Center. Unfortunately, the only way around this question is to go and do the research.

So at this point you need to be confident that your idea is going to fly.

Exercise: Make explicit what you want to do

I have identified that need W is not being met by anybody (or certainly not well enough). I propose offering X as a solution to this need. Y will be the benefit to my customer /client and for this I will expect to charge Z.

You should test this assertion. You can do this informally by talking to your friends and family, but ideally you should also be talking to your potential end users.

The next question is how big is this group? Roughly and realistically how many people can I get my idea in front of? How many of them will buy it? Is this a big enough group to meet my needs? If yes then proceed, if no then think again. You could improve your idea or look at increasing the number of people you can reach with your offer.

This roughing out of the scale and scope of your business idea is important. At this stage it is easy to reframe the idea, develop it or chuck it out and start again. Remember you are designing a business and if your initial analysis of the problem is flawed, then you will probably come out with a flawed design.

Stage 7 – Consequence modelling

The business decisions you make will always have financial consequences.

Developing a successful business is not just a matter of having the right ideas, the right creative talents and resources and the right attention to detail; important though these things are. It is also vital to be able to understand the business as a series of interlocking financial relationships. These relationships link your pricing decisions to your cash flows, your choice of location to your monthly outgoings, your production methods to your potential output and, ultimately, your desire to succeed to your ability to do so.

To be in full control of your business, you must be able to analyse the financial consequences of decisions that you take and of changes in the business environment. This is relevant for **all** business owners, not just those for whom making a lot of money is a significant motivating factor. The aim is to have a good understanding of how your business works as a financial entity and what the primary risks are that could threaten its viability.

Where to start?

A good place to begin this process is by considering your answers to the following list of questions. The list is not exhaustive and you may have other questions you want to add to the list but it does cover much of the ground you will need to become comfortable with:

The first set of questions are going to be driven by your views not on your work or your creativity but your lifestyle. More significantly they will be informed most by your current experience which at an early stage in your career may not be materially driven. These views will change over time. But it is worth noting that everybody wants a home, some people want their own families, we all need a holiday or to travel now and again, and most of us want to retire at some stage. All of these are helped by having a certain level of money. Setting up your first business must be a step towards some of these goals.

- How much money do I want to earn a year?
- How hard do I want to work?
- How do I feel about employing others/working with partners?
- What is my attitude to taking risk (financial or otherwise)?
- How self-disciplined am I in my approach to building my business?

The next set of questions are really about the capacity of your business. How big does it need to be in terms of sales in order to support your lifestyle? How are you going to achieve these figures? And what are other people already doing to achieve their own figures?

- What annual turnover (sales) would make me feel my business is properly established?
- What do my competitors charge for their service/product?
- What do I want to charge for my service/product/time to my clients?
- How am I going to generate the level of sales I need to achieve?

In order to get a complete view of your decisions and the possible consequences of them we need to consider your business costs. These are split into two categories:

Direct Costs These are the costs that you incur as a direct result of making a product or selling a service eg. raw material costs, labour and advertising costs

- If my business makes and sells products, what are the direct costs (materials, labour, distribution, design, advertising and marketing) of producing one unit of each product?
- If my business is a service business, how much of my time will I need to spend developing and marketing the services I am offering?

Indirect Costs or Overheads These are the costs that you and your business incur even if you produce or deliver nothing

- How much do I want to pay myself as a salary?
- Where will my business be located and what costs will that incur (rent, business rates, utilities, phones, broadband etc)?
- What professional services will I need (lawyers, accountants, insurance etc) and what will they cost?
- How much will other items (postage, office supplies etc) cost?

So at this stage we have an idea about what we need in order to maintain our desired lifestyle, what we are going to do and what it is going to cost to maintain what we are going to do. We may also have to spend some money on equipment such as machinery or computers which the business will then own as an asset. This is known as **capital expenditure**.

- How much will I need to invest in equipment (computers, machinery etc)?

We also know that it is highly unlikely that we will have clients or be making money for a period of time, and even after that period that it may be sometime before we really start to make a profit. Over this period the business will need to be financed in some way: borrowings from friends, loans or a bank overdraft are the most common forms.

- How will my business be financed in the period before it begins to make profits (often 2-3 years or more)? NESTA? Other external finance? Bank loans? Equity investors?)

All businesses face risks of various kinds, such as the risk of losing business to competitors, of having the supplier of a product component go out of business, or of transport costs increasing because of the rising price of oil. It is critical to understand as fully as possible the risks your business faces.

- What are the main factors that affect/determine the basic profitability of my business? (Price competition? Supply bottlenecks? Ineffective marketing? Poor cost controls?)
- Roughly how sensitive to each of these factors is my business?

Finally at the early business stage we know that we are pretty much making up the numbers, but as soon as we have started the business we are beginning to generate numbers that are more accurate and meaningful. It is important to start to record these numbers as soon as they are available because you can begin to see how your business is performing. You can choose how you wish to do this. Some people think that this is scary, and one reaction to this is to put all your receipts in a bag and only look at the figures once a year three months after you have submitted them to your accountant. But it is much more scary to work for a whole year without knowing what you are earning, whether you are making any money or what you owe...

- What financial systems and controls does my type of business need to have in place?
- How am I able to check quickly whether I am making money or not?
- How often do I perform a proper analysis of the financial performance of my business?

All these questions can seem daunting, particularly if you feel that you don't know what you are doing. However, the aim is not to come up with a set of "perfect" answers (not least because your business and the environment it operates in are always going to be subject to change), but to think as carefully as you can about the consequences of your decisions for the financial performance of your business. If you have answered all of these questions you are going to be in a much better position than most new businesses, because you are starting to anticipate the "what if?" questions asked by other people (such as your bank manager) such as:

- What if a client does not pay you on time? How is this going to effect your ability to pay me?
- What if your manufacturer is unable to deliver on time? How is this going to effect me?
- What if I lend you this money and you are not able to pay it back?

It is really useful and important for you as a business owner to be able to answer "what if" questions of this sort.

Some Useful Tools (to help with those “what if?” moments)

If you have answered most or all of the questions listed above, you are in a good position to start modelling your business in detail. Microsoft Excel (or another spreadsheet package) is a very good tool to use for this purpose, as it allows you not only to store numerical information about your business in a single place but also to perform “what if” analyses simply and quickly.

The most critical tool is that of cash flow. Cash flow shows how much money you have coming into your business and out of it at anyone time. The main reason this is significant for a new business is that you need to ensure you have sufficient money to pay your bills when they are due. It is therefore extremely useful to be able to identify possible problems in advance and decide what you might do to overcome them.

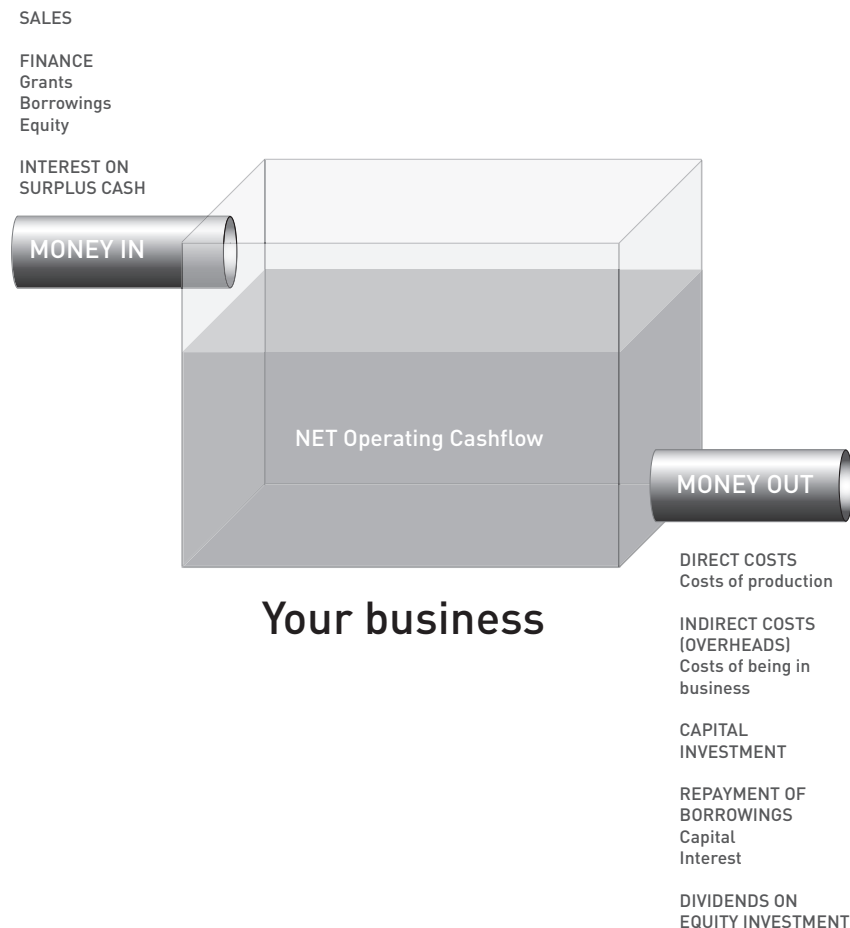
Excel can be used to construct cash flow projections for your business in a very flexible way. Figure 1 (overleaf) shows in schematic form one way of viewing the various categories of cash flowing into and out of your business. Cash coming in includes:

- Sales revenues
- Financial investment (grants, borrowings, equity)
- Interest on surplus cash

Cash outgoings include:

- Direct production costs – costs of materials, labour, packaging, advertising etc that are linked directly to making and selling your products.
- Indirect costs – rent, utility bills, insurance etc. that you incur whether you make and sell your product or not.
- Capital investment – buying fixed assets that you will use in your business, such as computers, vehicles and machinery.
- Loan repayments and dividends – repaying the principal and interest on any business loans you may have and paying dividends from profits to any equity investors you may have.

Figure 1: Business cash flows



This picture excludes:

VAT Being VAT registered just means you are an unpaid tax collector. Being able to reclaim VAT on 'inputs' is fine, but if you don't end up a net payer of VAT it means your business is not 'adding value', ie. not making money. It **is** important however to make sure you have enough cash in the bank to pay any net VAT you have collected over to Customs and Excise – many businesses have failed because they haven't!

Income taxes (Corporate and Personal) If you aren't generating a pre-tax profit over time, your business won't be making money.

Certain accounting concepts such as depreciation of assets, provisions for bad debts, stock losses etc. that enter into what your accountant will calculate as your profit for the year won't necessarily affect whether or not your business has more money in the bank at the end of the year.

Using Excel – An Example

Figure 2 (page 57) is a section of an Excel spreadsheet for an imaginary business that both makes and sells products and also sells services of some sort (perhaps a designer who makes and sells her own pieces and also acts as a consultant for other companies). It shows a number of input assumptions that are used within the spreadsheet to derive the projected cash flows shown in Figure 3 (page 58). These assumptions are based on answers to the questions we have already posed.

At the top of Figure 2 are the input assumptions that drive the cash flow model, relating to cash inflows.

In the yellow block are some basic sales assumptions for the two parts of the business, showing sales volume and price assumptions and also the first month that sales are assumed to be made. To the right of them is shown the amount of grant finance that is to be received from NESTA by the business, along with a loan that has been arranged, and the months in which the money will be received and in which repayment is to commence.

Below that in the grey blocks are the assumptions relating to cash outflows. There are two groups of assumptions about direct costs per unit of output and the various main categories of indirect costs. The amount to be spent on capital equipment (vehicles, machinery, computers etc) is to the right of these, showing the amount assumed to be spent and the month of expenditure in each case.

Finally, in brown, there are assumptions for the average interest rate received on positive cash balances in your business account built up by the business over time and those paid on any overdraft balances the business builds up. One big assumption is that we are going to need an overdraft: **How big an overdraft am I going to need and when will it become critical to have one?**

Figure 3 shows the cash flows projected within the spreadsheet based upon these assumptions. The layout for this sheet is generally similar to that used by NESTA creative pioneer awardees in their quarterly financial monitoring reports.

The projections are monthly for the first year and then annual for the two subsequent years. This gives a more detailed picture for the short term, enabling possible cash flow problems to be identified and remedied quickly, while providing enough of a longer-term picture to get a feel for the business' true commercial potential.

The cash flows are arranged in the same basic logical fashion as in Figure 1.

Cash inflows from sales and the receipt of loan and grant finance are in the top section and beneath that are the various cash outflows associated with capital investment, loan repayments, direct and indirect costs.

At the bottom of the sheet are shown the total net cash flows in each period and the cumulative cash balance of the business. The latter is simply the total cash in minus cash out over the whole period covered by the projections.

The Results Summary block at the very top of the sheet (see Figure 2) summarises the total cash in minus the cash out over the course of each year. These annual net cash flows are shown over a three year projection horizon. It is generally understood that three years is about far enough away to be able to predict something useful at the start up stage. One year is not really long enough for a business to have proven that it can survive and five years is probably too much guesswork to be realistic.

The spreadsheet is set up to calculate the cash flows automatically, based on the input assumptions. This allows you to start to look at how sensitive your business is to change. This is significant because at this stage you will be able to see that a drop of 10% in sales (for instance) may well have a significant effect on your ability to pay bills. It will also allow you to see how sensitive your business is to discounting your fees. A drop in 10% of your fees may well have a significant effect on your ability to pay your bills.

Changing the relevant input assumption(s) and noting the change in total cash flows shown in the Key Results section will start to give you answers to the sensitivity questions. For instance, to see how increasing the business' sales prices by 10% changes total cash flows, you would increase the "Unit Price" and "Hourly Rate Charged" figures in the input assumptions by 10% each and note the change in the total cash flow over the three year period (this does of course assume that raising prices would have no effect on sales volume; if you believe that not to be the case then you would have to also adjust the sales volume assumptions accordingly). That is the problem with complex systems: it is rarely the case that you can change only one aspect of the equation without it having an effect on some other part of the equation.

What you need to acknowledge is that your decisions have consequences for your business. You can anticipate that impact by modelling the numbers in Excel or a similar application. You can communicate your awareness of the strengths and weaknesses in how you feel your business will run over a three year period by acknowledging the assumptions behind your financial modelling. You don't have to be an accountant but you do have to understand basic financial record keeping procedures and the principles of cash flowing in and out of your business.

Top Tip:

This exercise is not easy. You need to have faith in your idea. Also you need to make sure that your assumptions about the market need are correct. Too much time spent in academic institutions leads to leaps of the imagination which may not stand up in the “real world”.

If you are creating a new market, there will be little evidence to support your assertion that this market will exist. In this case, you will need to find plenty of evidence of the market’s potential. Identifying the size of the market is vital. But even if you have a large market and a strong demand you need to know that there is sufficient margin in your offer to support your business. Remember our three major facts about business.

In our statement we ask you to test that you would be able to charge for fulfilling a client’s customer’s need. We are not expecting you to be able to say how much, but we do expect you to have a clear understanding of who would pay for it and why, and what will be their upper limit.

Conclusion

This document is reaching its third incarnation and with each Academy it has evolved. Creating a business is not something that is ever going to be pinned down to a single method, and what we have done here is describe The Academy approach. This approach has been developed for an audience of creative people with little or no business knowledge, and the process is conceived to be a creative process.

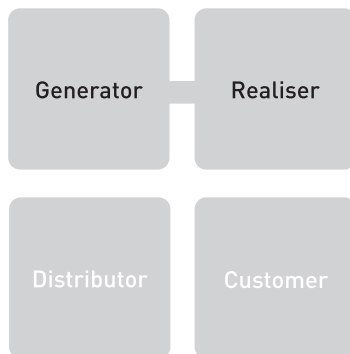
We want you use this document as a guide to that creative process, and look forward to seeing the results.

Appendix

Relationship modelling: what are the combinations?

We have identified here seven different combinations which when formed create very different types of business. This list does not include all of the combinations and so should be treated as a list of likely combinations.

1. Generator – Realiser



This relationship describes the traditional designer/maker business.

Sector

This business type can exist in many different sectors but traditionally has been fashion, jewellery, textiles, glass, and ceramics. With the advance in digital technology, music, animation, and film are now also included.

Business profile

These businesses tend to be small because they depend upon the authorship of the owner and do not necessarily consider the customer as part of the relationship. They will probably only have developed small levels of income because the businesses have a tendency not to have a plan to develop demand, as they spend all their time making and being creative. Success therefore is dependent upon luck and happenstance.

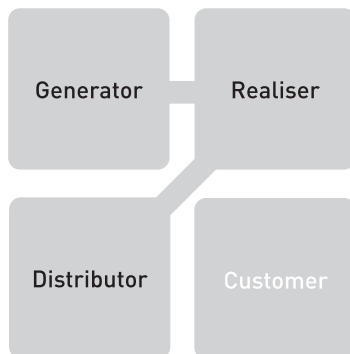
Where does the value lie?

The value in this business resides in the person who started it. If they choose to stop work then the business ceases to exist.

What is critical about the relationship?

The key to this relationship is that you need to earn enough to live and continue to develop your creative vision. Being successful after you have died can only benefit your successors. You therefore need to develop a following or collectors. The current art and craft market is not sufficiently developed to support many people without a further element, the distributor.

2. Generator – Realiser – Distributor



These relationships describe a business where the ideas person does not choose to engage with their customers. The distributor owns the relationship with the customer.

Sector

This is typified by the traditional fashion industry, film/TV, or the fine art market. There is little feedback relationship with the customer with regard to the development/formation of the idea.

Business Profile

There are many successful individuals and businesses in this arena.

Where does the value lie?

The value does not lie in the author of the idea but increasingly lies elsewhere:
Brand: Chanel is no longer alive and yet there are still Chanel collections every year.

Reputation: Ridley Scott is a brand which can attract investment in order to allow him to make his next great movie

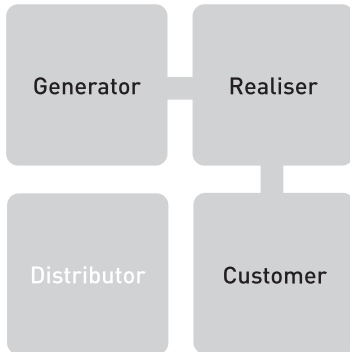
Intermediary: Damian Hirst is linked to Jay Jopling of the White Cube Gallery and was dependent upon him to get his next project to market.

If you can generate this value in yourself and your ideas, you can be selective in terms of distribution. Otherwise you will be dependent upon the distributor to get your product to market, and the distributor's motivations are always for a commercial return rather than a creative return.

What is critical about the relationship?

You will need to develop a close rapport with your distributor. The distributor will need to be able to make a profitable income from your work. You will not be paid the full market value for your work, because you will need to cut critical deals with others all of whom will require either payment or a margin.

3. Generator – Realiser – Customer



These relationships describe a company which delivers a tangible product to their customer.

Sector

There are plenty of examples of these types of company and in all different sectors.

Business Profile

The business can be any size from one to many thousand. Most of the companies probably do not have their own manufacturing capability but out source this part of the process to a third party. Increasingly traditional product based companies are now expanding into the area of service e.g. A car company will not only sell you a car but will also sell you insurance and a servicing contract. Another example is Inflate, who specialise in PVC, polyurthene and the polyethylene manufacturing process, they also offer consultancy and design services for people looking to work with these materials.

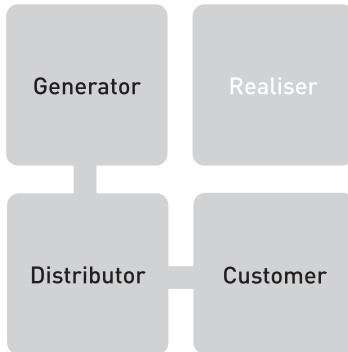
Where does the value lie?

The value lies in the ability to judge the customer requirements and develop ideas that are right for the market. By this we mean ideas that address customers' needs but at the same time retain a sufficient financial margin. Pitching ideas ahead of their time or developing products that are too late or too expensive will not create a sustainable business.

What is critical about the relationship?

Traditionally it was vital to own the means of production as this would increase your margins. Currently designers can out source manufacture abroad and benefit from currency differentials to increase their margins. It is critical to build a rapport with a maker who can produce the quality you require, the size of run you need and is reliable when it comes to deadlines. You should have a contract to cover this relationship because you are totally dependent on the maker for your business survival.

4. Generator – Distributor – Customer



Sector

There are plenty of examples of these types of company and in all different sectors. They are typified by the call centre as being the distribution aspect of the sequence e.g. First direct, Direct lines. There are, however, examples of small companies using this business model particularly in the energy sector where they sell only renewable energy e.g. Good Energy.

Business Profile

The company can be any size. This combination is becoming more dependent on technology such as the call centre and the internet.

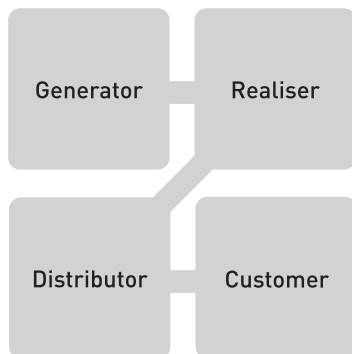
Where does the value lie?

The value in this combination lies in the ability to cut out a layer of bureaucracy or middlemen. This then increases the margins and allows for a cheaper product to enter the market. The hope is that people will then take up this new way of doing things because there are financial benefits. This is called disintermediation.

What is critical about the relationship?

Being first into the market with this type of sequence is critical to building a market position.

5. Generator – Realiser – Distributor – Customer



These relationships describe a typical product based company with an emphasis on scale and scope.

Sector

The business needs to be trading in several locations and have a certain level of scale to be attractive to a distributor.

Business Profile

The business can be any size from one to many thousand. Most of the companies probably do not have their own manufacturing capability but out source this part of the process to a third party. Once the business has got to a certain scale and is trading in many locations it becomes cost effective to get distributors on board to deal with each territory.

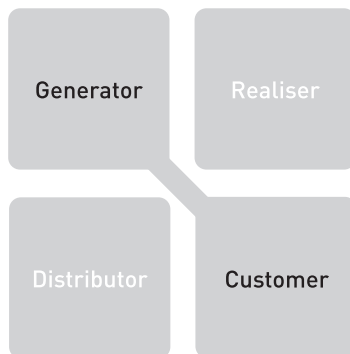
Where does the value lie?

The value lies in the ability to judge the customer requirements and develop ideas that are right for the market. The success of the relationship with the distributor is dependent on the distributor understanding the local market and local needs of the customer/client and representing your ideals through their shop. There are a number of different approaches to distribution, it may be through one party who takes on a region and organises distribution throughout that region. It may be you negotiate each distribution city by city or street by street. Or perhaps you sell a license to take on the concept. One good example of this is the franchise.

What is critical about the relationship?

You will need to build a relationship based on financial trust. You may well be fronting goods and services to the company and collecting money long after it has been paid to the distributor who will also be collecting money on your behalf and should do this professionally. You will also be very prescriptive about your brand values and customer interaction and will need to regulate this.

6. Generator – Customer



This combination describes a typical consultancy-based company. These businesses are based upon expert skill or knowledge. They are dependent upon either specialist experience or accredited professional practice. They can be a design consultancy such as Priestman Goode, medical consultancy such as your local plastic surgeon, or a management consultancy such as Accenture. Services are increasingly adding a product element to their offering so market product designers are beginning to license out their designs to manufacturers.

Sector

They work in every sector and can be any size from one person to ninety thousand people.

Business Profile

The business can be of any size but in order to grow the business you need to be able to recruit and retain the most talented people in the field and continually build a strong relationship with your customer. In addition, it will have a unique or unusual approach.

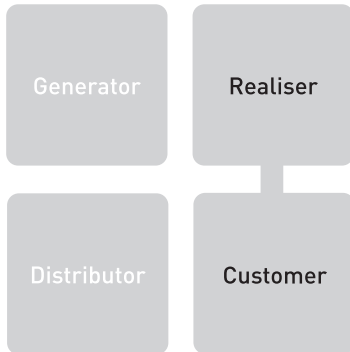
Where does the value lie?

The value in this business lies in the expert knowledge within the consultants and a clear process for the customer. Only when these two factors come into flow is any meaningful work achieved and a brand built.

What is critical about the relationship?

One bad relationship can severely dent the reputation of a consultancy because you are dependent on others recommending your service.

7. Realiser – Customer



This relationship describes a company with specialist knowledge in a general manufacturing technique.

Sector

A good example of this would be companies producing a specialist food such as your local farmer.

Business Profile

The business can be of any size but in order to grow you will need to be able to recruit the most talented people in the field to add additional value to your commodity and continually build a strong relationship with your Customer.

Where does the value lie?

The value in this business lies in the expert knowledge within the Realiser and a consistently unique product for the Customer. It is only when these two factors come into flow that you get repeat business, and start to build the brand.

What is critical about the relationship?

One bad relationship can severely dent the reputation of the Realiser because you are dependent on others recommending your service.