

## The Start-up Mega Stars

The BRW Upstarts list shows that fast-growing start-ups are innovators and market leaders.

Not all new companies are alike. Upstart companies are starkly different from the 110,000 businesses started in Australia every year. Soon after inception, these meteorites shoot across their industries. They raise the performance bar, requiring large companies to change strategy, and they knock out unwary competitors. Some upstarts will be sold, others will falter and a few will fail. But many continue on a fast-growth trajectory to become big brands and businesses within 1 year.

Early this year, BRW set out to find Australia's fastest-growing start-ups, the outcome being BRW Upstarts list. We call these companies Upstarts because they are aggressive, occasionally arrogant, and are changing the way business is done. To qualify, companies must be less than four years old, and have made at least \$500,000 in revenue in the 2003-04 financial year (See About the Survey, page 3).

Forty companies eventually made the list (see table, page 4), and each was analysed and surveyed. Some of the companies might one day make it to the BRW Fast 100 list (which looks at fast-growing small and medium-size enterprises that have been in business for 4 years or longer). Some of the Upstarts entrepreneurs might make the BRW Young Rich list (if they 40 years or under) and possibly even the BRW Rich 200.

BRW Upstarts research reveals a group of well-off serial entrepreneurs who begin well planned businesses from home, and in a few years, become market leaders. The entrepreneurs tend to be exporters. More than half (54%) export, and 36% get more than 5% of revenue from exports. Half say they have international partners.

They are serious about innovation: one third of the companies are spending more than 10% of revenue on research and development. Only 12% say they spend nothing on R&D.

Although they have not yet celebrated their fifth birthdays, many have already changed their industry for the better. Nudie Foods Australia, with its strikingly different fruit juices and brazen advertising, is a typical Upstart that gives its customers an innovative new product experience. It has pushed the giant juicer Berri to respond with new products.

Most of the Upstarts are between two and four years old. Their 200-04 revenues range from Nudie Foods \$12 million to \$500,000 for the fashion designers Ginger & Smart. Most of the Upstarts were started by men and more than half were started by people in their 30s.

Phile Ruthven, the chairman of the business information company IBIS World, says one Australian household in seven now runs a

serious small business. Ruthven says: "The Upstarts list includes the smart Generation Xers and the change of mindset they represent. The concept of being an employee has no appeal to the younger generation. They either work for corporations with a contract mindset and view themselves as their own business or they run their own business. Although this terrifies the baby boomers, it is normal for the Gen Xers and those following. It won't stop this century."

Forget the conventional image of the founder of an Upstart being a high school drop-out who goes into small business. The BRW Upstarts are extremely well educated and qualified; only two had done no study after finishing high school; 25% have MBAs.

Many have completed other courses and joined networks, which they say were very useful, including the Young Entrepreneurs course at the Haas School of Business at the University of California Berkeley, AusIndustry's COMET programme, Young Entrepreneurs Organisation, The Executive Connection and networking functions and conferences run by industry associations. Elisabeth O'Brien, the founder of Australian Celebrations Training, says that doing a masters of marketing helped her to understand intuitive marketing. "I was impressed by the combination of solid knowledge and gut feeling.

Most Upstarts are experienced entrepreneurs: 70% have started businesses before and have corporate backgrounds.

More than half the companies were started from home. Start-up costs for 28% of the founder exceeded \$500,000 although most of the entrepreneurs (49%) say it cost \$21,000-5000,000 to start the business; 10% started with less than \$5,000.

Nearly half the businesses were on the drawing board for between seven months and two years before they were launched; 54% took less than six months to plan. A few opened just after a few weeks of planning. Chris Gray, founder of corporate marketing communications company, ICON International Communications, says it took three weeks from the initial idea to the launch. "The initial business plan was written at home over a number of late-night sessions, and the business was started in the lobby of a Sydney hotel on a clunky old laptop and rented mobile. We did not have any premises for the first few weeks of operations."

Only half the businesses were profitable from day one, but nearly all (90%) were profitable after several years. The Upstarts are rewarding themselves with handsome salaries. Nearly half (46%) are paying themselves more than \$100,000 a year, 10% earn more than \$200,000 a year.

Ruthven is surprised that the young entrepreneurs take so much out of their businesses. "The average national income for a two-income family is \$94,000 and we know that the average small-business owner makes less than that. So this group of start-ups is doing very well financially."

Most of the companies are being run by the founders but 7% have appointed managing directors, some of whom are older, very experienced executives, who demand high salaries. For example, David MacInnes runs Plantic Technologies, which is commercializing a biodegradable plastic, and is being paid more than \$200,000.

But 8% of the Upstarts founders are not yet drawing a big salary and another 8% are drawing a salary of less than \$50,000. Angie Bradbury, founder of Liquid Ideas, says the worst part of running a start-up is the lack of money in the first few years. "I earned \$10,000 in year one as salary."

Anna Whitlam, founder of the recruiter Market U, says she started her business on \$30,000, some of which was borrowed against the equity in her apartment and \$15,000 from her mother (which she paid back in six months). "For the first six months, I did not draw a salary."

Many of the entrepreneurs put in back breaking hours. About a third of them work more than a 70 hours a week and most work from 45-60 hours a week. Only 10% say they work less than 40 hours a week.

Gray says he works in the office 3 days a week but "works on the business seven days a week." Whitlam says in the early days of a start-up, normal social life and recreations have to be abandoned. "It can be very lonely and at times drive you to despair, particularly in the middle of the night when the technology lets you down and you need to have a proposal to put before a client first thing in the morning."

Most of the entrepreneurs (72%) intend to keep expanding their companies. Only three companies plan to list on the Australian Stock Exchange soon; 8% plan to sell in the next two years and 6% plan to sell after five years. Many of the companies say they have received offers to sell. William Scott, the founder of marketing company SMART, says he has been approached by several companies to sell. "We still want to build a lot further before exiting."

But no matter what their intentions, nearly every company claims to be a leader in their field, the downside of which is that potential clients do not understand what they do. Upstart Charlie Gunningham from Aussiehome.com says: "You have a great system, many dozens of clients are using and loving it, and some people just dig their heels in and won't give you a go. Frustrating! But that's the challenge."

Elisabeth O'Brien, founder of Australian Celebrations Training, says that when a company is a market leader, it is hard to gauge the acceptance of price by consumers, Calytrix Technologies also found there were no products similar to the software tool it had created and was setting its own prices.

## Growth in any Industry

The Upstarts show that fast growth is possible in any industry, whether it is declining, maturing or emerging. The list has many industries, ranging from retail and manufacturing to technology and telecommunications.

Some industries dominate, particularly business services. The outsourcing trend, whereby small businesses provide services to large companies in their non-core activities, is very strong. These small businesses focus on a very specific niche and solve a specific problem.

The CFO Solution, for example, was set up to take over the back-office functions and day-to-day financials for listed companies drowning under the increasing cost and complexity of compliance. Its founder, Phillip Hains, says: "We only work with listed companies – no others. We have a firm grasp of what the regulators and government expect and are also planning for the future."

One industry sector that has been slow to grow in Australia has been private companies in health care, mainly because Australians expect that governments should pay for medical services. The list indicates that private operators are moving into this industry; three health-care companies are on the list: BodyOnline, Neuromonics, and Eyecare Plus. But Ruthven of IBISWorld says he is surprised there are not more.

## Why they grew

Why do the Upstarts grow so fast? One reason is that these are highly innovative companies aiming to be leaders in their field. A 2002 report by the OECD, High-growth SMEs and their contribution to employment, which examined the characteristics of high-growth companies, found that their most salient characteristic is the ability to innovate.

This characteristic is clearly evident in the BRW Upstarts. They make technical advances in products and services, develop new products and make organisational and marketing innovations. They are strongly market-oriented, forge links between their technology and markets, and adapt their products to respond to consumer trends and client demands.

BodyOnline, for example, makes 30-second video animation clips that show the effects of various diseases on the human body. The clips are sold to doctors and pharmacies. Its founder, Greg Richard says: "We grew fast because we bought new technology to a market where the Government was making technology mandatory."

Another example is Electronic Keying Australia, which uses new technology to create keys that use a wireless access control system that is cost-effective and offers more flexibility. Its founder, Steven Fine, says: "We sit between the old-style mechanical security locks, which have not changes for decades, and the expensive fully wired access control security systems. Our technology requires no wiring to the door, so our electronic keys can work anywhere and are told what they can unlock and at what time."

The manufacturer Callidan Instruments is not selling a unique product but it costs less and is better than its competitors' products. The company's design for a microwave analyzer, which measures the amount of moisture in coal, was not new but the price was competitive with alternative technologies and it is more accurate and easier to use.

Another key characteristic of fast-growth start-up companies, according to the OECD report, is teamwork: regular communication, shared decision-making, skills training and profit-share mechanisms. High-growth companies also tend to be decentralized, participatory and readily adaptive organisations.

Steve Watson, who runs the construction certifiers Steve Watson & Partners, says his human-resources strategy was the main reason he grew fast. "We shot for a flat management structure, demolished all our offices and embarked in a campaign to empower even the most junior staff. This accelerated a focus on quality management as well as client expectations with significant results."

The founder of Aussiehome.com, Charlie Gunningham, says: "Our business model is so different from what we thought would earn the most money us actually the least."

The OECD report says high-growth companies are well integrated into a network of alliances and partnerships with other companies, service providers and public and private institutions. This network is absolutely crucial. When BRW asked the Upstarts what their best strategic move had been, many said it was developing external relationships and networks. FinanceMark says developing alliances with other quality specialist recruitment companies helped it to stay focused and strengthened its unique position in finance and accounting recruitment.

HotMagna says its best strategic move was forging alliances with multinational IT vendors including Sun Microsystems.

Wireless IP aligned itself with Microsoft to fast-track sales and commercialization of its software.

Other Upstarts use a large business to champion their products. The gift company RedBalloon Days says it deliberately pursued strategic relationships and customers who would openly promote the company to staff and customers. The biodegradable-plastics company Plantic Technologies focused its limited resources on getting a multinational brand owner to adopt its technology and launch with it. David MacInnes says: "We did this with Cadbury Schweppes' Milk Tray and this achieved our goal of getting credibility for the technology as quickly as possible."

### Upstart Barriers

High-growth companies face many difficulties: obtaining finance, expanding markets, calculating the risk of alliances, finding the right partners and consultants and hiring and training staff. But the upstarts tend to nominate attracting and retaining staff as their greatest challenge. About 41% of the entrepreneurs say they have had trouble attracting the highly skilled staff they need. About 56% say they used recruitment agencies to hire staff but only half of those found it helpful.

It is easy to understand the angst when so many of these companies attribute their fast growth to their people.

"Without a doubt the reason we grew so fast was our people," says Aussiehomeloans.com's Gunningham. "The atmosphere is terrific. I love going to work where the staff are 15 years younger than me and very creative, show initiative, into R&D and are fun!"

### About the Survey

Companies must meet the following criteria:

- > Must have commenced trading after January 1, 2000
- > Must have reported at least two fiscal years of revenue
- > Must have had at least \$500,000 revenue in 2003-04.
- > Must have more than one man customer (the bulk of revenue can not have come from government grants or other start-up funding).
- > Must not be a subsidiary of a multinational.
- > Must provide third-party verification of revenue (eg: accountant/auditor)

The final list of start-ups was ranked by 2003-04 revenue.

Entrepreneurs and start-up businesses that believe they may qualify for the 2006 BRW Upstarts (must have commenced trading after January 1, 2001, and meet the other criteria as listed above) should send an e-mail to [ecaneva@brw.fairfax.com.au](mailto:ecaneva@brw.fairfax.com.au) to be included on the database and receive an entry form next December/January.

### The Hardest Part

"Maintaining constant enthusiasm in the face of a bloody difficult situation."

BodyOnline

"The uncertainty about how successful a product will be, even when you have done extensive market research."

Calytrix Technologies

"The relentless pace at which you must work with limited resources and people."

Ginger & Smart

"Ensuring business systems keep up with business growth."

ETM Travel

"Worrying how to pay the next wages bill."

Business Strategies International

"Getting used to the fact that you generate your own pay cheque."

FinanceMark

"Ensuring the company is successful while spending quality time with a young family and enjoying life outside work."

ARK Consulting Group

"The constant stress of trying to find new customers and projects to support a growing workforce."

HotMagna

"Managing profitable growth and maintaining cashflow."

ICON International Communications

"Having to be jack-of-all trades and master-of-all."

Nudie Foods Australia

Rank	Company	Founder(s)	Age(s)	Industry	Year Founded	Revenue 03-04 (\$ '000)
1	Nudie Foods Australia	Tim Pethick	43	Fruit Juice	2003	12,000
2	Pubboy	Mark Alexander-Erber	36	Hotels/Pubs	2000	9,910
3	ETM Group of Companies	David Hummertson Leon Burman	32 34	Travel & Events	2001	7,888*
4	Business Strategies International	Ivan Kaye	44	Business Services	2001	5,500
5	Wagamama	Stewart Koziora	35	Hospitality	2002	5,000
6	Oyster Consulting	Richard Pearce	39	Resources	2002	3,200
7	Sales Marketing & Real Technology	William Scott	25	Marketing	2000	3,100
8	VisionBytes	Peter Fox	41	Digital Media	2001	2,791
9	SumoSalad	Luke Baylis, James Miller	28,30	Food Retail	2003	2,718
10	RedBalloon Days	Naomi Simpson	40	Gift Experiences	2001	2,500
11	Electronic Keying Australia	Steven Fine Geoffrey Plummer	34 36	Security	2003	2,000
12	Callidan Instruments	Garry France	39	Manufacturing	2002	1,989
13	BodyOnline	Greg Richard	55	Health Care	2001	1,926
14	Steve Watson & Partners	Steve Watson	37	Construction Consulting	2003	1,830
15	Calyptech	John Maher	39	Technology	2000	1,800
16	ICON International Communications	Chris Gray	44	Public Relations	2000	1,800
17	Calytrix Technologies	Mark Rheinlander	41	Software	2001	1,501
18	Visean Online	Ian Johnston Matt Connolly	39 37	Oil & Gas Drilling Technology	2000	1,500
19	MassMedia Studios	Steve Fanale	35	Digital media	2000	1,450
20	Objectify	Karina Heikkila Daniel Beaty	39 27	Software	2001	1,327
21	Law & Finance	Kenelm Tonkin	36	Education	2000	1,320
22	Liquid Ideas	Angie Bradbury Stuart Gregor	31 36	Marketing	2001	1,300
23	HotMagna	Henry Okraglik Magnus Cameron	44 37	Software	2000	1,230
24	ARK Consulting Group	Earl Eddings	37	Risk Management	2001	1,202
25	The CFO Solution	Phillip Hains	45	Accounting	2001	1,200
<b>26</b>	<b>FinanceMark</b>	<b>Owen Firth</b>	<b>36</b>	<b>Recruitment</b>	<b>2001</b>	<b>1,200</b>
27	Symbio Networks	Andy Fung, Rene Sugo	53,33	Telecommunications	2002	1,045
28	Plantic Technologies	David MacInnes	53	Biomaterials, Packaging	2002	1,040
29	Eduss	Theo Scherman	39	Education	2001	1,036
30	Market U	Anna Whitlam	32	Recruitment	2003	1,034**
31	Eyecare Plus	Tony Hanks	54	Health care	2001	984
32	Loaded Footwear	Brendan McKeegan	35	Fashion	2003	930
33	Australian Celebrations Training	Elisabeth O'Brien	42	Education	2003	818
34	Neuromonics	Peter Hanley	41	Health Care	2001	672**
35	Wireless IP Technology	George Deligiannoudis	35	Telecommunications	2001	670
36	PicNet	Marco Tapia	47	Business Services	2002	664
37	Aussiehomeloan.com	Charlie Gunningham	41	Real Estate	2000	645
38	Wilson People Management	Ben Wilson	38	Recruitment	2002	590
39	Crux Cybernetics	Maarten Tentij	46	Software	2000	527
40	Ginger & Smart	Alexandra Smart Genevieve Smart	34 32	Fashion	2002	500