Chapter 2 – Launch Smart: what to do (and, especially, *not* do!)

Three businesses in four succeed in the first year. So far so good, but only 20% of the remaining three quarters make it to the sixth year. I find that figure truly shocking. So, what causes this terrible waste of time, effort and money?

In the majority of cases it's simply insufficient income that causes failure. I'm not talking about generating first sales. In fact, preoccupation with the first sale is extremely dangerous. Don't be distracted from the real objective, which is to achieve a sustained high volume of sales that drives a consistent profit. A second related issue is spending money on the wrong things. Spending money sucks in time, drives down margins and does not buy you the time to achieve sustained sales. The objective of every start-up is survival. Survival depends on having more cash coming in than going out. Cash coming in depends on sales. Anything else is window dressing.

Let me set the scene.

How not to do it!

Virgin Vie was Virgin's attempt to take the cosmetics and toiletries world by storm. The highly energised management team were gearing up for success and were intent on making everything perfect. With a war chest of some £20 million behind them, they felt invincible. The management team's strategy was to rapidly roll out a network of high-street stores. Vast sums were spent on design consultants and branding experts. Millions were devoted to engineering the products. Elaborate designs for stores were rejected in favour of ever more sophisticated ones; each made the Taj Mahal look like a utilitarian block of council flats. The 'perfect' design was finally settled upon, and a hugely expensive flagship store on Oxford Street was fitted out to its precise specifications. And this was all before Vie had made one single sale! Preconceived notions tested on 'focus groups' were relied on at every turn.

As the company developed, I would frequently visit the head office in Chichester. Every time I visited, the number of staff appeared to have grown exponentially. When I asked why they were recruiting so many staff I was told that all the staff would be working flat out as soon as the business hit the forecasts in the business plan. My visits would also involve a close inspection of the operational and financial set-up. I looked in awe (well, actually, horror!) at the elaborate (and hugely expensive) stock-ordering and warehouse systems they had put in place, not to mention the finance and accounting systems.

When I had the temerity to ask whether these complex systems were really necessary for a business that was yet to achieve any major sales, they simply scoffed and told me again that once the business hit its targets they would be invaluable.

So, what happened when Virgin Vie launched? Initially, the Oxford Street store had a lot of visitors – but few turned out to be customers. People were attracted to the store because of the brand but very few spent money once they were inside. Something was simply not right. Feedback from real customers (not those focus groups) quickly suggested that the products did not have a Virgin 'feel'. The problem was that the management had wasted so much money in the set-up phase on things they did not really need that they were beginning to run out of money now that sales had fallen vastly below forecasts. The grumbling among the management team began. They wanted to spend money on new marketing campaigns and to revamp the products but they had already emptied their war chest. Fortunately, Richard Branson and I had been adamant from the start that Virgin Vie should also be sold directly through Tupperware party-style cosmetics evenings. And while visitors were not spending in the high street store, the feedback from Virgin's direct sales force was positive. Customers felt the evenings were unique events at which they could purchase premium products at discounted prices. The sales staff also liked these events, as they saw themselves as Richard Branson-like entrepreneurs.

Over the next few months, commissions and incentives were reviewed and refined, home-delivery packaging was designed, and a host of other changes were made ahead of launch. Time pressure meant they had to learn on the job. Perfecting the offering had to wait. Yet today Virgin Vie is one of the leading direct sales cosmetic companies in the UK, and is the country's second-largest direct selling company with annual sales in excess of £60 million.

What about that elaborately fitted-out Oxford Street store? Well, it required a further injection of funds before eventually being closed down!

Virgin Vie was extremely lucky. It had both a household brand and financial backers with deep pockets to support it during the radical revision of its strategy. Can you imagine what would have happened if Vie hadn't had the Virgin brand? I suspect the retail stores might not have had a single customer without it. If you'd ploughed all your capital into an extravagant retail launch only to realise that you weren't generating any sales and that there was no impetus for visitors to your stores to actually buy anything then you'd join the statistics as another failed start-up. And you'd rue the money spent on accounting systems and the like that were never needed.