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# UP STARTS



Why Australia's  
top start-up  
companies are  
taking off

ISSN 0727-7458



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# STARTS

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## COVERSTORY

THE  
HARDEST  
PART

Maintaining constant enthusiasm in the face of bloody difficult situations.  
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.  
Careers Australia

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

# The start-up

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

**N**ot 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 10 years.

Early this year, *BRW* set out to find Australia's fastest-growing start-ups, the outcome being the first *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 36.)

Forty companies eventually made the list (see table, page 37), 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 four 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. These entre-

preneurs 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 2003-04 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.

Phil Ruthven, the chairman of the business information company IBISWorld, 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

UPSTARTS

# megastars

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 founders exceeded \$500,000 although most of the entrepreneurs (49%) say it cost \$21,000–500,000 to start the business; 10% started with less than \$5000.

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 after just 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 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 money 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 startups 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 commercialising a biodegradable plastic, and is being paid more than \$200,000.

But 8% of the Upstarts founders are not yet drawing a 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 45–60 hours a week. Only 10% say they work less than 40 hours a week.

Gray says he works in the office three 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 governments expect and are also planning for the future."

**THE UPSTARTS SHOW THAT FAST GROWTH IS POSSIBLE IN ANY INDUSTRY, WHETHER IT IS DECLINING, MATURING OR EMERGING.**

# UP STARTS

RANK	COMPANY	FOUNDER(S)	FOUNDER'S AGE	INDUSTRY	YEAR FOUNDED	REVENUE (2003-04) (\$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 Hummerston, Leon Burman	32, 34	Travel & events	2001	7,888*
4	Business Strategies International	Ivan Kaye	44	Business services	2001	5,500
5	Wagamama	Stewart Koziara	35	Hospitality	2002	5,000
6	Oyster Consulting	Richard Pearce	39	Resources	2002	3,200
7	Sales Marketing and 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 Simson	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 CFD Solution	Phillip Hains	45	Accounting	2001	1,200
26	Careers Australia	Owen Firth	36	Recruitment	2001	1,200
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	Aussiehome.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

\* Revenue does not include gross ticket sales on travel products. Total transaction value for ETM Group of Companies was \$25.4 million. \*\* Revenue is for calendar year 2004

## COVERSTORY

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

## How to attract new customers

**P**lay golf and catch the bus to work. Simple things like these provide Upstart companies with new customers. Chris Gray, the founder of Icon International Communications, says he uses every meeting, every event and every social occasion to hunt for business. "Two of the best international opportunities for our firm came from discussions on bus trips to work, and many good leads have been struck up on the fairway."

Cash-strapped start-ups with tiny advertising or marketing budgets can find the constant hunt for new customers time-consuming and stressful.

But the Upstarts relish the hunt and use every resource available to snare new sources of revenue. The strategy that works best, they say, is to use existing customers to attract new ones. Karina Heikkila, the founder of the software company Objectify, says: "No one sells our products better than our existing clients. Just one or two comments to their peers results in additional sales at the lowest possible cost."

Testimonials and written referrals are also used. Visean Online seeks a written or verbal referral from a satisfied customer to a new customer five days after a job is completed.

The education provider Eduss uses credible and independent third-party endorsements to attract new customers. Neuromonics, which sells a cure for ringing ears, uses client testimonials.

Calytrix Technologies favours product testimonials. Its founder, Mark Rheinlander, says: "In our industry, prospects like to hear how other companies have benefited from our products." Electronic Keying Australia uses case studies in their advertising and direct mail. Its founder, Steven Fine, says: "Rather than an information dump, a case study does a far better job of attracting new customers."

The entrepreneurs also love the "try before you buy" approach and offer free trials and prototypes. They are so proud of their products that they feel if they can simply get people to sample them, they will win new customers.

Telecommunications company Symbio Networks swears by its slogan 'Don't pay until it works'. BodyOnline, which sells videos showing the effects of human diseases to doctors, says the company works in a conservative market. Its founder, Greg Richard, says: "The only way to attract customers is to demonstrate."

George Deligiannoudis, the founder of telecommunications company Wireless IP, says his industry is riddled with

PowerPoint product presentations. "Our motto is 'real demonstrations', which has got us into some curly situations, but we firmly believe this approach has given us a reputation for delivery and some of our largest customers. Our ability to demonstrate it working, at every opportunity we get, is the key to attracting new customers."

The Upstarts work very hard on their pitches to prospective clients. ETM Travel says it exceeds expectations at the proposal stage. Founder David Hummerston says: "Instead of sending a proposal to Perth, we flew over for a one-hour meeting."

Ivan Kaye, founder of Business Strategies International, which assists companies to raise capital, develop growth strategies and ways to export, says: "We target customers carefully and develop a pitch that gives them something they can't refuse."

Some also use the media to win new business. Aussiehome.com says it wins awards and puts out press releases to help increase brand awareness. This helps it develop a reputation among its clients as an award winner and an industry leader.

Others use spin. The manufacturer Loaded Footwear found the best way to get customers was to spend money on public relations and be consistent with the message to consumers. Australian Celebrations Training says it successfully engaged the public relations company Spin to increase awareness.

Some Upstarts develop a reputation as a specialist in their industry. Software company HotMagna writes and publishes papers that demonstrate independent, provocative thinking and establish its technical credibility and thought leadership, says its founder, Henry Okraglik.

Recruitment company Market U positions its business and consultants as the centre of knowledge by openly sharing advice and intellectual property with potential clients who have never used its services. This leads to an excellent referral network, says its founder, Anna Whitlam.

Promoting the brand at every opportunity and with clever guerrilla tactics also wins customers, according to Mark Alexander-Erber, founder of the hotel/pub chain Pubboy. He leaves coasters and branded cigarette lighters in the pubs of the opposition, he wears Pubboy T-shirts when flying and he pays Penthouse Pets to parade in them.

Alexander-Erber says he is losing more than 100 branded schooner and midday beer glasses a week, often in country towns. "We estimate that one in every five country homes now has branded Pubboy glassware in their kitchen." He is not complaining.

AMANDA GOME