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## Six secrets of Super Startups

Whether you're an aspiring entrepreneur or a seasoned CEO looking to spin off or start again, you'll want to follow the rules that make HOT 50 firms soar

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### 1. Got problems? Your peers have the answers

You know your industry better than you know your spouse, and you graduated at the top of your MBA class. That's still no reason to think you can build a company without help. Leaders of fast-growth firms actively seek ideas and inspiration wherever they can find it.

Almost 40% of HOT 50 CEOs, for example, belong to peer groups of entrepreneurs. Organizations such as Young Entrepreneurs' Organization and TEC unite non-competing CEOs for confidential discussions of their business challenges, and HOT 50 CEOs say these groups give them a chance to share, vent and learn.

"Starting out, we were a fairly inexperienced management team," says Harry Chemko, CEO of Elastic Path Software Inc. (No. 14 on the 2005 HOT 50). "I appreciated being able to call on our peer group for a lot of information," such as when he needed advice regarding a dispute with an employee.

Business owners also draw support from their partners. Amir Adnani, who belongs to one of 31 HOT 50 owner / manager teams, credits his partner for helping him cope in the perilous startup phase. "When you're undercapitalized and you have all these other challenges that are facing you, the last thing you want is to be facing them alone," says the president of Blender Media Inc. (No. 10), a Web design and development firm. "The business-partner concept means you go into battle lined up together."

Trent Dyrsmid started his company without a partner, so he depends on external sources of advice. "I've picked the brains of dozens of people over the years," says the CEO of Dyrand Systems Inc. (No. 40), an IT services provider. He's gleaned "a boatload of information" from meeting with CEOs of U.S.-based firms similar to his, but not in direct competition with Dyrand.

A daylong visit with the head of Directpointe Inc. in Lindon, Utah, for example, taught him an important lesson in growing a company. "I learned to look at the scalability of my business," says Dyrsmid. "It's something I had thought about, but hadn't taken it to the nth degree like he did." The result: "Every single thing we do, from processes to procedures to technology, is set up in such a way that we can grow without adding significant cost."

For instance, Dyrsmid produced a sales training video (starring Dyrsmid himself), eliminating the time-consuming process of educating reps individually.

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## 2. The world cares about your product — not your birthday

Fledgling Canadian companies rarely export their product or service from the get-go. Some figure they need to be more established before venturing abroad; others figure it's too difficult to attempt; still more don't think of the opportunity at all. Don't wait: the Internet has made exporting easier than ever, and in today's hyper-competitive environment, companies and consumers have substantial incentive to buy from the supplier that best suits their needs, wherever that supplier is located-or how old that supplier is. No wonder 62% of HOT 50 firms are exporters, and that most of them have been penetrating foreign markets since their inception. Exports, mostly to the U.S., accounted for 43% of their 2004 sales.

Consider Budget Conferencing Inc. (No. 16). You might think that huge American firms wouldn't want to buy their audio- and Web-conferencing services from a small Montreal startup. But Budget Conferencing counts many Fortune 500 companies as clients. In its first year, 80% of sales came from exports to the U.S.; by 2004, that number had risen to 90%.

Budget sells to and supports U.S. clients with a Boston office and a website geared specifically toward those clients. "Our U.S. website [includes] client testimonials from U.S.-based companies," says CEO Wayne Miller. "It caters to that market." (The firm also has a similar site geared toward Canadians.) Miller believes that all startups should look outside Canada for opportunities — especially Stateside. "The U.S. market is much bigger than Canada," says Miller. "You may even get better traction there than if you rely solely on the Canadian market." His best advice for would-be exporters: know your market and enter it aggressively.

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## 3. You'll need more money than you think, but it's out there

Capital crunches are the No. 1 cause of business failure. That's not news to HOT 50 leaders. Although they started their firms with financial help from banks (38% of HOT 50 firms), friends and family (36%) and even credit cards (22%), many have run out of money at one time or another. So take this lesson from the HOT 50 rule book: overestimate how much you'll need to build your company — but don't give up if you find yourself short of cash.

Giving up must have crossed the minds of John-Eric Salameh and Marko Radosevic, managing directors of Genex Group (No. 36). In its second year in business, several of Genex's clients suddenly and unexpectedly contracted, leaving the IT staffing and consulting firm in a cash bind. "In 10 minutes, our business

shrunk by 50%," says Radosevic. Cutting costs didn't help much; the company was already running lean.

To make matters worse, Genex had a concurrent opportunity to win one of the largest insurance companies in Canada as an anchor client. But Genex would need cash to put the deal together. The partners scraped together \$150,000 of their own funds — risking "everything we owned at the time," says Salameh — and landed what's now their biggest customer.

Thankfully, personal funds aren't the only way out of financing challenges. Market research firm PFI Research Inc. (No. 33) experienced several cash-flows crunches in its early days, typically due to a surge in demand for its services. (Bonus tip for would-be entrepreneurs: you're damned if you grow, and damned if you don't.) "Employee paycheques are due within two weeks, but our clients don't generally pay for 90 days," says co-owner David Rabby. More than once, he's kindly asked clients to pay sooner than they would have. Believe it or not, it works.

Trent Dyrsmid ran out of money at Dyrand Systems' 18-month mark. "I underestimated how much time it takes to break even and how much cash a growing company takes," he says. He was lucky enough to find an angel — an old client from his stockbroker days — who invested \$100,000. "He saved my ass," says Dyrsmid. "If not for him, I probably would have had to get a job and fund the company out of my paycheque."

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#### 4. There's no better friend than a customer's friend

Some companies advertise, and others rely on CRM. But ask the HOT 50 about their best sales and marketing strategy, and many will say, "it's encouraging word of mouth." Stoking referral business, however, is harder than it sounds; it requires building long-term relationships with customers to gain their trust, and consistently exceeding their expectations.

Blueprint Public Relations Inc. (No. 44) has managed to do just that. Rather than putting time and money into competitive bids, cold calling or direct-mail campaigns, partners Heather Chew and Robyn Osgood put "a lot of extra sweat" into pleasing their customers to generate repeat business and referrals, which together account for more than 80% of their business. "Referral is our marketing strategy," says Chew. "When we do good work for one client, we either build depth within that client or they refer us to someone else."

Virtual Causeway Inc. (No. 45) takes the referral effort one step further. Instead of relying on happy clients to spread the good word about the provider of outsourced telesales for technology companies, the firm's principals solicit referrals on a quarterly basis. "We leverage our client's network," says president Rick Endrulat. And the benefits are undeniable: about 60% of Virtual Causeway's new clients come through referrals. Endrulat recalls

one case involving a U.S. software client: "I called and asked if they have contacts in the industry that would be a good prospect for us." That exercise generated three referrals, and soon two new customers.

And it can't hurt to sweeten the pot. Chris Mallman offers discounts to customers who bring The Wardrobe Workshop Inc. (No. 49) new business. "When a client refers a friend to us, she gets 10% of the friend's purchase as a credit," says Mallmann, president and CEO of the custom clothier. The tactic, she says, "is our No. 1 source of growth."

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## 5. Forget the experts: bonuses work

Retaining top talent is critical to every company's success, and the challenge will only grow in the future. How to do it? Contrary to many recent employee polls and studies of human-resources practices, the experience of the HOT 50 suggests that cash bonuses are a super tool for motivating and retaining good people. In fact, 80% reward their employees with bonuses beyond their salaries. Why does it work for the HOT 50 but not, reportedly, for others? One hypothesis: people expect high, tangible rewards for the risk they take working for startups, as opposed to older, more stable companies.

All the staff at Blueprint Public Relations receive a hefty Christmas bonus if the firm has a strong year. "Our employees know that we all share in the success of the company," says Chew. She believes the bonuses partly explain why, in four years, no employee has ever left the firm.

Other firms, such as Procom Québec Inc. (No. 22), an IT consultancy, dole out bonuses based specifically on individual performance. At the beginning of each fiscal year, president André Couillard establishes objectives for his employees and tells them how meeting them will reflect in their personal income; at the end of every month, he gives them their results. "It's pretty darn motivating," says Couillard. Even his secretary gets in on it; although she doesn't generate revenue directly, she supports those who do. As a result, she receives a yearly bonus based on gross sales. Couillard says there is a direct correlation between the bonuses and the firm's turnover rate: no one has left since 2003, despite high churn in the industry.

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## 6. Reinvent the wheel — if you already know wheels

Ideas for entrepreneurial ventures can come from just about anywhere — heck, a past HOT 50 winner invented a fix for wobbly restaurant tables after a beer ended up in his lap. But given the odds new companies face, you'll do better in a field in which your experience and contacts will open doors and eliminate obstacles. Proof: some 84% of HOT 50 CEOs launched companies in industries they'd already worked in.

Some saw an opportunity to correct their employer's mistakes. Frank Cianciulli used to work for Bell Canada, providing clients with conferencing services, when he and a colleague noticed that customers weren't getting the personalized products they craved. "We were creating solutions and forcing clients to fit into that mould," says Cianciulli. "What they really wanted was a boutique shop." He decided to fill the gap by founding Enunciate Conferencing Inc. (No. 31). Four years later, it serves dozens of major corporations and boasts annual revenue of more than \$7 million.

Golf IQ (No. 34), a manufacturer and distributor of golf accessories, would not exist were it not for president and CEO Scott Nichol's experience in the business. Being an expert golfer helps him come up with products people really want — and can turn a profit. He was working as a golf pro when he recognized his students' need for a better weighted club, which helps improve one's swing. "I didn't like what was on the market, so I designed one," says Nichol. When local golf pros wanted to buy a couple, he began marketing the product, and Golf IQ was born. Nichol has since added to his product lineup, driving triple-digit growth over the past two years. If you're looking for the fast track to startup success, it pays to choose the path of least resistance.

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