An new venture is an upcoming business, not already knowing what it should exactly do and which direction to go. The new venture has an idea, maybe a product or service, but it lacks a entrepreneurial management. This has to be evolved while the company is growing - the way it is evolved is crucial. If it is going the wrong way it can kill new venture in the early day.

Therefore Drucker stated that the management in the new venture has four requirements:

- Focus on the market
- Financial foresight
- Building a top management team
- Finding the founders appropriate role

In the following sections we will discuss these requirements in detail.

1 Focus on the market

When a business fails there is very often the same explanation for die failure. Peter Drucker cites two of them in his book.

- “Competitors took our market away with a product not very different from ours”
- “They started selling to customers we had never even heard of”

When a new venture does succeed, more often than not it is in a market other than the one it was originally intended to serve, with products or services not quite those with which it had started, bought by customers it did not even think of when it began, and used for a lot of purposes besides the ones for which the products were first designed.

There are several rules that have to be taken into account to achieve these goals, which are described in the following paragraphs. Take advantage of unexpected and unseen
markets Univac for example developed 1950 the first computer. It was designed for scientific work. Univac did not even consider to send out salesman to other customers because they were convinced that businessman would not even know what a computer was all about. IBM had also constructed a computer for astronomical calculations, but they accepted orders from businesses. And 10 years later around 1960 Univac still had the best computer but IBM had the marked.

Take unexpected as an opportunity not as an exception Shortly after World War II a small Indian engineering firm bought the license to produce a European-designed bicycle with an auxiliary light engine. The bikes did not sell very well, but there was a substantial amount of orders for the light engine only from a certain area. He was curious, and traveled to the area where the orders came from. He found out that farmers used the engine to power their irrigation pumps that had been hand operated before. This businessman started to produce small irrigation pumps and revolutionized farming in Southeast Asia. Today he is the worlds leading manufacturer of small irrigation pumps.

It’s also important to spend time on the market with the customers. Because this way one can find out what the customers really want, and find unexpected opportunities. The greatest danger for a new venture is to know better than the customer what a product or service should be.

2 Financial Foresight

When your venture has success on the market it is usually growing fast. In this second phase there should be a focus on the financial health of the company. A lack of this financial focus in a rapidly growing venture causes most of them to awash in red ink and be sold to a bigger company.

Entrepreneurs starting new ventures are rarely unmindful of money; they tend to be greedy and focus on profits. Drucker says that this is wrong. You have to concentrate on cash flow, capital and controls - establish cash-flow analysis, cash-flow forecasts and cash management.

Growth has to be fed. In financial terms this means that growth demands adding financial resources rather than taking them out. Drucker warns to always watch the growth. With a growth in sales (or billings) exceeding 40 to 50 percent, a venture should change its capital structure. A company should go “public” or vice versa.

Another factor to watch is the growth in volume. The threat here is that everything works perfectly on the market but then manufacturing costs, administrative costs, service, distribution, simply everything is going out of control. Once one area gets out of control all areas do. Here again a growth of 40 to 50 percent seems to be the critical figure. For keeping the control the venture should find the critical cost areas. Such critical areas could be product/service quality, receivables and inventory or manufacturing costs. After finding these areas concentrate on them and change the control structure. With an eye on this it is easy to keep control. But be aware, once control has been lost, it is hard to recapture.
3 Building a Top Management Team

The new venture has established itself on the market and its financial structure is under control, but when a company has grown to a certain size it needs a top management team. Otherwise it won’t be able to grow any further, or will fail.

The problem is that a top management team has to be established before it is actually needed. Because a team needs time to work properly. But a growing new venture usually can’t afford a top management team. Drucker has a recipe how to build a top management team with little money.

First you have to think through the key activities in your company. Two key activities are always present the management of money, and the management of people, the others depend on the company e.g. research, marketing, customer-relation...

Second the most appropriate person for each key activity has to be found. Usually this is achieved with a brainstorming where everybody notes down for which key activities he is the best choice. And for which activities one of his colleagues is the most appropriate. Mostly there is agreement who is most appropriate for a specific key activity.

The Third Step is to establish the team informally. This means that there is no big announcement that Mr. Miller is the new head of the R&D department. And at first they receive no extra payment. They have to learn how to perform their tasks first. And when the business has grown bigger and needs a top management team it has one: This informal established Team. And then the firm afford to give them bigger salaries.

4 The founders appropriate role

After the management team is established or better while choosing the right people for the team the funders of the venture have to ask themselves where is the right place in the company. They should also ask this question after a significant change in the business. If the funders do not accept the change of their role, they might destroy both the business and themselves.

They tend to begin by asking, “What do I like to do?”, or “Where do I fit in?” Drucker states that the right question is “What will the venture need objectively by way of management here and out?” More questions to ask are “What am I good at?” or “Does the venture need me, and in what ways?”

Edwin Land, for instance, the man who invented Polaroid glass and the Polaroid camera, ran the company during the first twelve or fifteen years of its life, until the early 1950s. Then it began to grow fast. Land thereupon designed a top management team and put it in place. As for himself, he decided that he was better in scientific information than management - so he established himself as the head of the basic research.

Another example for a founder who did it right is Ray Kroc, the man who built McDonald’s. He remained president until he died, but he established a top management team to run the company. Until shortly before his death, he visited two or three McDonald’s restaurants a day to check the cleanliness and the food quality - he named himself
the “marketing conscience”.

Soichiro Honda asked himself the question “Where do I belong?” before the new venture was even started. He did not start his venture until he had found the right man to be his partner and to run administration, finance, distribution, marketing, sales and personnel. Honda himself decided to belong in the engineering and production - that decision made the Honda Motor Company growing to one of the biggest companies in their business.

5 Need for Outside Advice

A businessman usually need independent, objective outside advice to discuss and to review his decisions. This advice is rarely found inside the enterprise because everybody in the company is involved in the problems the company might have and cannot be independent.

References