Robert Norton of AirTight Management

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall T. Martin and the host of the show in which we interview angel investors, venture capital, family offices, private equity. Many other investors for early stage and growth companies. Hope you enjoy this episode. Interested in learning more about investing in startups, launching a new startup need to raise funding, the startup funding espresso is a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday. Time it takes to drink an espresso. You can learn about startup funding to subscribe, go to investor Connect dot org and put your email into the pop up box. Hello, this is Hall T. Martin with Investor connect. Today we're here with Bob Norton, CEO at Airtight Management or Type Management prepares and assists entrepreneurs in launching new companies and products scale through consulting and training and coaching to create high-performance cultures. Bob, thank you for joining us.

Speaker2: [00:00:59] Thank you for having me. I'm excited to explore the topic we agreed on.

Speaker1: [00:01:06] Great. So can you tell us about your background? What did you do before working with early stage companies?

Speaker2: [00:01:12] Yeah, well, the short version, because I've got a 40 year career, is I had eight years as a technologist. I was a software engineer, and then VP of engineering and chief technical officer for what today is Thomson Reuters Information Services and software and database company for the financial services market. And I ran the skunkworks there and created a lot of products. So that's kind of how I learned to create products, to have good product market fit. You know, I was charged with creating a new product every year, and every one of those became new business after that was sold to the International Thompson Organization. We I founded my own first company with the money I made there and kind of bought myself the S.O.S. That was back in 1989. I started the first high definition residential real estate company called Home View, which was a couple of generations ahead of anything else back when they were a little black, black and white photos and my last books. And I grew that to a hundred and fifty six million in revenues in five years. Got a thirty four million dollars financing from IBM. And I you know, we don't have the time to go into all the other details. But since 2004, you know, after having grown to businesses to 100 million from startup, I've been coaching and consulting and being a board of advisor and board of director for, you know, early stage companies really specializing in entrepreneurship and scaling. I produced 350 some odd training videos for entrepreneurs and CEOs in the brand, and the CEO bootcamp and airtight management is more about scaling and, you know, kind of a do it with you to implement a modular operating system and help companies build the infrastructure to scale before they do it. So the wheels don't fall off the wagon as they go faster and faster down the highway.

Speaker1: [00:03:14] Great. So what excites you right now?

Speaker2: [00:03:17] Oh, gosh. You know, I'm a very curious person and loves to be learning new things, so I think there's a lot of exciting stuff going on out there. I think that the the crowdfunding space is exciting and will give you access to more entrepreneurs of early stage capital. What's happening with block chain and the cryptocurrency markets is very exciting. You know, I think it's getting easier to get capital. And in fact, the the valuations have gone up some which, you know, is helpful to entrepreneurs, but of course, not as helpful to investors in terms of making sure they're they're picking good companies and stuff like that. But, yeah, I keep busy and, you know, running three different companies right now. So I guess I'm always excited about something, if not multiple things, and running as fast as I can, you know.

Speaker1: [00:04:07] Oh, great. Well, I'm excited about today's topic, which is how to create sustainable, competitive advantage. And I remember many years ago. Every every slide deck, every pitch I saw had a competitive advantage and had a competition matrix and everything, because you had to know who the competition was and how you were better. And I really don't see that much anymore. And I think it's something we should bring back, which is really a knowledge of the competitive matrix. And I had a startup asked me the other day, I'm trying to show my my market and so forth. And I got the market slide and I said, well, you don't show your who you're selling to and what your market niches with the market slide. That's just trying to tell people you're big or where are you going to start your competition slide tells you what market you're after and where are you going to position yourself. And he had to go put a competition slide in because you did not have one. Tell us more about sustainable competition in which what's your take on it?

Speaker2: [00:05:02] Well, yeah, I think what you're talking about is sort of a Michael Porter who's the father of competitive strategy, competitive landscape map, which tries to show some of the differentiations to make visual the white space and how you're differentiated in the marketplace. And there could be multiple viewers that because there are many dimensions to any given company with the basic one being price and value, or, you know, it can be speed and and and any other dimension that's important to the customer that the customer knows. And yeah, I mean, I think I was the first one that did that, you know, when I entered the market, because I was a big fan of Michael Porter and showing that. But I would differentiate that from a sustainable, competitive advantage. And so let me let me define that, because, you know, with the media kind of blurring the terms and not a lot of experts that have done this a lot multiple times to kind of talk about it, I think you've got to get real specific about those terms. So a competitive landscape map is sort of a two dimensional or might try to use three dimensions by having size of bubbles or whatever. And it shows the differentiation at a point in time, typically at market entry. Right. A sustainable competitive advantage is sort of a derivative of that, because it's the time series of that and how you're going to take steps to maintain competitive advantage over time, which is likely to evolve as well as your target market is likely to evolve.

Speaker2: [00:06:30] You may have a portfolio of products or you may have a portfolio of niches you're selling the same product to, and you're probably expanding your market, because if you're an early stage market entry, you don't want to be going after a large market. You want to be going after a niche of very well-defined customers because it, you know, reduces your marketing cost and increases your sales close rate and all those good things that differentiation does when you're not in a bake off against 20 other competitors. And you can say, hey, we're the go to guy or gal for that particular space or solution. And so a competitive landscape map shows that snapshot of your differentiation well on one or more dimensions. And there can be six or seven different dimensions. So there's always hundreds, if not thousands of potential niches. You can carve out and decide to be a market entry strategy. But sustainable competitive advantage is kind of what's in the background. It's how are we going to stay the best in the world at what our long term mission is? And, you know, probably everyone who's an entrepreneur has heard the Simon Sinek y thing and also Michael Porter's great book, Good to Great. The talks about the hedgehog concept and all of these three things are kind of a Venn diagram with three circles that overlaps that have some you share some things in common, but are really different.

Speaker2: [00:08:00] And I would say that Michael Porter's Uncharted Waters, I'm Jim Collins's hedgehog concept is where you're going to invest to be the best in the world to stay ahead of the competition. And if you look at Jeff Bezos and Amazon. He's on record saying, I'll always invest in speed, more variety speed delivery, more variety, and giving a low cost to the customer and not always customer focused. So he knows no matter how many millions or hundreds of millions he puts into those things. No customer ever said, I want it slower at a higher price with less choice. Right. So, you know, he's very focused and that sort of his hedgehog concept to expand from initially the market entry of books into, you know, essentially I think we're up to 200 million products or more on Amazon today. The Simon Sinek Y is sort of what the what the employee is excited about to get out of bed every day and come into work and feel they're doing good. And they're not just working to make the CEO and the management team rich, but they're they're contributing and they feel like they're they're having to value the sustainable competitive advantages in the background of all that. And it's what we're going to do to stay ahead of the competition with a series of barriers to entry that will evolve over time. And, you know, having watched hundreds of thousands of these investor pitches, you know, there's kind of a standard list of eight or 10 that slides nowadays that everyone knows.

Speaker2: [00:09:35] And you can Google and see what those are. But they they often don't. And I don't think I've seen more than five percent of companies actually present their sustainable competitive advantage. And I wouldn't recommend people put this out there in an unsolicited deck that someone they don't know. I'd only show it to serious investors. But it's the evolution of the company. And, you know, a good example of that might be Elon Musk and Tesla, because everyone sort of knows the history of that, probably. He started with the Roadster, which was 100000 sports sportscar, to prove that lithium batteries, you know, because that was the enabling technology, could make a high performance vehicle that was electric. Right. And he sold it for a very high premium price at a market entry. So that funded the R&D of getting those first batteries and factories done. And the second step, which I'm sure he knew was coming all along, was launching the Model S, which was a 60000 dollar luxury vehicle. Right. So now he had built up a competitive advantage in manufacturing batteries and the software, you know, he had the first software upgradeable car. And there's all this stuff happening in the background, some of which we won't know and, you know, would never be leaked to the public because they're trade secrets. And, you know, some are patents that will be in the public domain. And then ultimately, he moved to the mass market vehicle, you know, which was the model D and the model X for the SUV.

Speaker2: [00:11:07] And I'm sure he knew all of that would come over time. And technically, that's a multistep market entry strategy that expands your business, but it's also building barriers to entry and expertise in the background. Now, he has the Gigafactory of batteries, which is a sustainable, competitive advantage. He's probably getting locks on the supplies of lithium because that's a limited thing and its mind and probably 20 or 30 other things. He's making the auto driving capability better and better. Supposedly they're about to release that to be, you know, totally autonomous driving and stuff like that. So those things that are embedded in the car are short of his sustainable competitive advantage. And of course, the ultimate sustainable competitive advantage is having a culture of innovation. And to quote another great, you know, in management, Peter Drucker, there are two jobs that a company has, marketing and innovation and sort of everything else is more commodity and easier to do. But marketing innovation both require creativity and differentiation in the marketplace and potentially thousands of ideas. You know, there's this concept out there that people get rich off an idea which is not true at all. It's never been true. I mean, a company takes hundreds, if not thousands of ideas to build it, even though there may be a core light bulb idea and moment, there's sort of no one that ever got rich off of an idea.

Speaker2: [00:12:34] You know, the proof of that is even if you have a patent, which is an exclusive on a way to do an idea, you know, you're only going to get a five percent royalty on that patent and 95 percent of the revenues are going to go to the people who build the company and do the marketing, sales, finance, product development operations, customer service and put it put in the capital and stuff like that. So it's it's very easy to see that a good entrepreneur and all of the people who have become billionaires understand this concept of building sustainable, competitive advantage so that each year they're staying ahead of the competition with more and more barriers to entry that give them, you know, lower sales costs, lower market. And costs higher, higher close rates on every sale. And word of mouth marketing. You're going to, you know, not get the whole book, the purple cow. Right? No one ever you know, not no one ever talks about something that isn't different or better in some way. Right. And so if your product is good enough, your word of mouth marketing is going to be free and you're not going to have to spend money as Tesla doesn't do, spend any money on on marketing, really. You know, they they know their product is unique and it's always going to stay unique because they're constantly making it better every year. So that's a long answer, although I better let you step in here.

Speaker1: [00:13:56] No, that's great. Appreciate that. But you mentioned differentiation, and I hear that a lot. And what's the difference between differentiation and sustainable competitive advantage?

Speaker2: [00:14:06] Yeah, well, I would define it as differentiation is the snapshot of now of how you're different and better, which should allow you to select your ideal customer and target that ideal customer very well to focus your marketing, because in marketing, you want to get, you know, one person 11 times, not 11 people once. Right. So the more you can focus your marketing, which is counterintuitive for some entrepreneurs, you know, they they they want to think everyone needs their product. Right. But in reality, you want a sizable niche that you're going after. But as a startup, you don't want to try to boil the ocean and go after the mass market. That's why the Elon Musk, you know, Tesla example is great. They didn't launch a mass market, you know, model or model X car as their first car. They built to that. And as a result, GM and Ford and others were sleeping and and they were building up expertise and IP and patents and the Gigafactory battery factory and and all this other manufacturing expertise to sort of take all the best practices of startups in Silicon Valley and apply them to the auto industry, which had become kind of sleepy and complacent. You know, even though it was beaten up by Japan in the 1980s, you know.

Speaker1: [00:15:26] Yeah, absolutely. So, you know, creative, sustainable, competitive advantage is really a a a must have. How do you actually build that?

Speaker2: [00:15:36] Well, there I mean, we have a whole hour lecture on that, and there are about 20 different techniques that we won't have the time to get into here. You know, from from the CEO bootcamp, but you know, the one that everyone knows is IP. Right. Right. You can have copyrighted software or materials. You can have patents. You can have trade secrets. You can have trademarks. And so those are the four main categories of IP. And of course, trademarks help with your branding in the marketing. Copyrights have a 99 year life, whereas patents only have a 17 year life. So some balance. And using both of those is one strong layer of sustainable competitive advantage is not sustainable forever, but it's sustainable for a very long time. In a world where product life cycles and market cycles are getting shorter, you know, every decade. Right. Other things that are, you know, sustainable, competitive. And I'll try to list a bunch of them that I think that people will recognize. Well, let's let's talk about, for instance, you know, some people call these barriers to entry. Right. But, you know, I've got a list of 11 ways to create sustainable advantage in front of me. And a culture of innovation is one. In other words, a dedicated set of people whose job it is to always be innovating and making the product better and having a budget for that, as opposed to being a sitting duck, a target.

Speaker2: [00:17:07] You're always moving and staying ahead of the competition for IP types that I mentioned, superior execution. You know, if you have better execution through better processes or I.T. systems that facilitate those processes and help to add speed and lower costs, those can be hidden internal, sustainable, competitive advantages. You know, if you look at a company like each in our block. Right. You know, they got to come out of the woodwork and work like mad for six months a year. And they're kind of dormant. A lot of the rest of the year. Right. But they have all the systems to train the tax people, tax preparers and enter everything into the system. And so they're sustainable. Competitive advantage is a mass of I.T. and customers. Network effects are a sustainable, competitive advantage to protect Facebook and Instagram and, you know, and LinkedIn and all of these online companies trying to get some lock on distribution or raw materials. You know, I dole pineapple, you know, a commodity business. Right. But they own all the pineapple fields. I mean, they've been buying them up for decades, if not a century. Right. And so they have a lock on the distribution, even though that's a commodity. So in any business, no matter what industry you're in, there are ways to generate sustainable, competitive advantage in every area in the business and sales and marketing in in finance and product development and pricing and in the innovation culture.

Speaker2: [00:18:38] I mean, you shouldn't be happy with having one of those. You should be looking for four or five ways to have those that is going to stretch the competition. And, you know, and one of the things you see that is, you know, provable by metrics is the price to earnings ratios can be 10 times higher with a company that has good, sustainable competitive advantage because that guarantees recurring revenue. And so the value in the valuation of your company, even at startup, if you're projecting what your sustainable competitive advantage is going to be, that's going to raise your valuation because you're showing them, hey, this isn't about just the market entry for the next year or two or three. But, you know, in year four, we're going to have the next rocket that goes to Mars. And in year five, you know, we're going to have version five of the software that's going to do this. And we already know what that is. Of course, that's Hatch has hatch trade secret and stealth mode. And you're not going to share that except with people that are under nine nine competes. But it's a plan to continue innovating critical mass of information. You know, another competitive advantage that Tesla has is they've been collecting billions of pictures from all their cars, driving around to create the A.I.

Speaker2: [00:19:58] database that's used for the automatic driving. So they've got this huge database that no one else has that has allowed them to for fact or improve rapidly with, you know, image recognition and A.I., their self-driving stuff. And all of that is top secret and embedded in their software. And it's not anything anyone will see. So that's a great, sustainable, competitive advantage. And every Tesla that hits the road is basically collecting more pictures for them to make their auto driving better. And I'm sure they're you know, they're obviously mapping the pictures into the GPS in the location, the direction, the cars. Oing. And so it's going to get better and better over time. Some other things that are competitive advantage while switching costs is, you know, common technique they teach in school. Right. If you can get your customer to think with your models and your processes and software is a good example of this. We did this with, you know, SAS products long before the name SAS existed back at Thompson Financial Services. You know, we created the model of how our customers thought about things. And so when a customer went to a competitor, came and pitched them and showed them their software and it didn't conform to that model, it felt weird.

Speaker2: [00:21:16] It felt different. So the switching costs and the retraining of the employees was going to be an expensive thing if they were going to drop our product and move on to someone else's. So there are hundreds, if not thousands, of different ways to create sustainable, competitive advantage. You might have heard of mind storming. And, you know, it's one technique that I think all companies should use. You know, brainstorming is is collaborative idea storming. Right. But mind storming is coming up with 20 answers to the same question. So you don't stop when you think about the first and you keep digging deeper and deeper. The theory being while your competitors stopped when they got the first three, and if you went to 20, not only did you get 20 ways to compare and contrast, but the permutations of putting those 20 things together to create all kinds of different competitive advantage in different market segments, you know, could create huge lead times where your years and years, five years or even a decade ahead of your competition, because you've thought through all the possibilities and you've designed version one to get to a planned version three. So you're not going to have to go and rewrite everything and change it and change customer models and change your processes because you had a vision of where you were going.

Speaker1: [00:22:36] So how do you apply this to service businesses, it seems like there's some differences there that it might change the approach.

Speaker2: [00:22:43] Yeah, for sure, I mean, service businesses are notoriously harder to have sustainable competitive advantage because, you know, you look at someone like Century 21 right there in the business of training their competitors every day. Right. The broker gets a license, spends a couple of few years working for someone, gets a smaller percentage, and they move on to Remax. They become a big super broker. Then they want to open their own brokerage office. Right. Because people you know, if people are your only asset, they're walking out the door every day, as they say. Right. And going down the elevator. And you you have no hold over them. So in a service business, you've got to have processes that are proprietary. You want to try to have product in I.T. systems that facilitate those processes. It's possible you could have an app on processes, but a lot of these might be kept as trade secrets. And, you know, you're sort of creating silos of people that do one thing in the business as opposed to training everyone to do anything. Because as a business gets more complex, complexity becomes a huge barrier to entry. Right, because a a new a newcomer in the market can't start off with all of that stuff figured out.

Speaker2: [00:23:56] And so it's a it's a slightly harder problem, but it's definitely achievable to create many barriers to entry around service businesses, too. Like I said, you know, our block and turbo tax companies that, you know, that have a mix of of physical product like software to facilitate a service like tax preparing, they're they're going to have a sustainable competitive advantage, because every year they're going to make that software better. They're going to have partnerships. They're going to have resellers and distribution. You know, they're going to do all kinds of things to leverage the proprietary aspects of the business, which is straight service. Business can never have you know, the plumbing business will probably always be totally fragmented. Right. Because any plumber can, you know, work out of their home and start a plumbing business. Right. And there's there's no trade secrets. There's nothing proprietary there. So you've got to inject proprietary stuff, be it product or process or other things, to to build barriers to entry and sustainable competitive advantage around a service business.

Speaker1: [00:25:04] So it sounds like you're doing this throughout the life of the company from the early days of the startup to the mature phase of the company. How is it different between the early stage when there's just three people and limited resources versus the mature phase? What would you how would you guide somebody to provide or work on sustainable, competitive advantage for that very early stage? What would they or should they focus on?

Speaker2: [00:25:28] Well, it's really up to the founder, because strategy is, you know, always giggle when I see, you know, ads on Upwork that, you know, they want to hire someone to do a business plan for them and they're going to spend a thousand dollars on it. And it's kind of a badge of you are going to fail. So the founder isn't taking the responsibility of what CEOs must do, which is strategy and people hiring and figuring out the vision. And then if you look at the super billionaires out there, all of them, you know, Gates, Branson, Bezos, Musk, every one of them had a long term vision. They didn't focus on the next quarter as sometimes our stock market and public companies make us do. They focused on achieving a long term vision because they knew the world was moving in that direction and they were working a little ahead of it. They weren't they weren't giving the the market the product they needed today. They were they were building the product 18 months or 24 months or 36 months in advance, knowing that innovation requires iteration. And, you know, they'd have to change it and improve it and get customer feedback and go through multiple revisions, you know.

Speaker1: [00:26:39] Well, absolutely. Yeah, I work with a lot of startups, and I find that they have a minimum have vision. Unfortunately, they have what I call the vision problem. In other words, they want the grand vision, but they wanted a version, one of the product. And of course, that, you know, the truly grand visions like Amazon and others, you know, it was 20, 30 years before they got there. And that's what we have to explain to startups trying

Speaker2: [00:27:03] To do too much or kill you, too. You know, the MVP, I'm a big believer in the MVP philosophy, and I've done it long before that book ever came out that, you know, you got to get into the market and have customer feedback with a version one, knowing that you're going to iterate and improve over years.

Speaker1: [00:27:21] Absolutely. And consequently, they're asked me for five million dollars at a pre seed level to go build the first prototype, because it's going to be grand and glorious. And I'm I'm talking them into well, let's build the MVP for, say, five hundred K and let's go out and win the business engagement and all that, and we'll work our way up to the five million dollar solution.

Speaker2: [00:27:41] Yeah, bootstrapping is an important discipline because too money, too much money is a problem. You know, and we saw a lot of that in the Internet bubble. And, you know, venture capitalists dumped twenty million dollars on, you know, some vpe of Sun Microsystems who went and build this whole huge infrastructure. And, you know, so they tried to create a baby with nine women in one month. And there was no, you know, no discipline around talking to the customer and feedback and and listening to the marketplace and getting your product market fit. Right. They just built in what they thought the first product vision was. And that's always it's almost never perfect, right? That's never right. You're always going to have some pivots, whether they're small or large. As you get reaction from the the customer base in the different markets that you might try. You've got to be agile and have multiple market entry strategies. Ideally, make sure you're building the product to work in multiple marketplaces, even though you're optimizing it on day one as the first market entry strategy for a particular ideal customer and niche or vertical market.

Speaker1: [00:28:51] Great. Well, what are your thoughts on sustainable competitive advantage and how a company can ensure it has enough of that to attract capital and top people?

Speaker2: [00:29:00] Well, I'm really big on having a financial plan that maps into milestones, which shows the vision and you know, you kind of can't do that without defining how are we going to evolve and get better and build sustainable competitive advantage. Right. Because you ought to be saying, OK, you know, the first million dollars is going to do this and this is the milestones. And here's the things we're going to prove. You know, maybe it's the economics of capturing customers here, you know, your customer acquisition cost, maybe it's, you know, other things. Right. But you've got to have that step by step process that you can sell to investors that is going to lower the risks, because obviously, you know, each step down in risk is a step up in valuation. Right. And you don't want to raise a lot of money until you've got that valuation up. So I'm a believer. Everyone should bootstrap and put in some of their own money and friends and family money as as venture capitalists like to see generally, because, you know, then you can get traction without having clouded up, you know, your capital table and your focus not on raising capital and keeping investors happy, but on the customer in the early days, because that's where the challenges is, making sure you've got a great product that fits in a market and hopefully an idea of a series of other markets that will open up when you're ready to address them with the same product. So you've built a product for many markets, but you've narrowed it and you've added bells and whistles, probably for a particular marketplace, for your very narrow market entry strategy. So you're not fighting 800 pound gorillas in a huge market.

Speaker1: [00:30:47] That's great. So in the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:30:52] Well, I would like to point out that the economics of this you can actually prove by looking at the price to earnings ratios of companies. You know, the the ones with strong IP. You know, I've got some in front of me and you see price to earnings multiples of ninety nine, one hundred and twenty and, you know, even three hundred sometimes when it's clear that that company has proprietary product and sustainable competitive advantage. Right. So all of this maps in and nothing but good comes out of it, because not only are your sales and marketing costs lower, but you get more recurring revenue, you get more word of mouth. And so a focus on sustainable competitive advantage and how you present that any all that over time to me is the biggest and best question that that a sophisticated investor can ask. It's not what's your product going to be on day one is what's it going to be a year, one year two, year three? And how are we going to expand the market and remain ahead of the competition? Because if you've got that plan and you've got that baked into all your plans and your designs and your processes, you know, you could be years ahead of the competition and maintain that lead.

Speaker1: [00:32:19] Great. So for those who want to learn more, how best for listeners to get back in touch with you?

Speaker2: [00:32:24] Well, we have many websites, but SEO Bootcamp taught us is is a good one. That's where we have our our training program for CEOs. And that's actually going to be expanded in the fall to Entrepreneurship University, which is breaking all of the 40 different courses we have down individually. So show managers and VPs can can take portions of the CEO boot camp that are appropriate for their discipline so that that that the the Duero Entrepreneurship UCON is also working and will become a new site fairly shortly as we sort of unbundle the CEO bootcamp into many different courses. We also have a phone number is six one nine scale of six, and that's based on the six systems in airtight management that you drop in at certain stages of development to be prepared to scale.

Speaker1: [00:33:25] Right, well, we'll include those in the show notes. To thank you for joining us today and OK, have you back for a follow up soon.

Speaker2: [00:33:30] Great. Thank you all. Pleasure.

Speaker1: [00:33:37] Professor Canek helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Canaccord. Alti Martin is the director of Investor Kinect, which is a 501 C three nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.