



Podcast Episode #38 – Brain vs Capital - how to build a business from components (Part 1), with Prof. Günter Faltin, Germany

RAW TRANSCRIPT OF INTERVIEW

Balint: I'm happy to have the privilege of having a special person now on the podcast. He's a person who takes joy traveling the less common path of entrepreneurship, which he refers to as slow food version of entrepreneurship. He is an entrepreneur and a professor, Günter Faltin, from Germany, and currently also acting as a professor in Thailand. Thanks very much for accepting the invitation, Prof. Faltin.

Prof. Faltin: My pleasure.

Balint: I know about you from a German speaking very good friend of mine here in Zurich who recommended your book last year, which I read, called *Brains Versus Capital*. As far as I can tell, you're very well known in Germany and you're one of the persons who pioneered entrepreneurship education in Germany and who started a movement by starting your own company as well.

I love your book. It was hard to put it down. Just before this interview we had a short discussion, a conversation, I already told you how much I liked your book and I compared it to Tim Ferriss's "*The 4-hour Workweek*." Similarly to Tim Ferriss's book, it was difficult to put it down your book and it had a similar impact on me in terms of forming my thinking about entrepreneurship, that there's a different way of doing things.

It would be great to start this conversation, I would say, with your own company's success, so the history and the activities that you did to illustrate the concepts that you're advocating. Your company is called Tea Campaign, or in German – Teekampagne, and is the world's largest importer of Darjeeling tea. How did that happen and what were the steps that you took to realize this tea business idea?

Prof. Faltin: If you teach entrepreneurship at the university, you have to prove that you understand entrepreneurship and that you can do it in practice. So, when I got the call to Free University at Berlin, I was starting to think how could I establish my own company? What field should I choose? The story is that I was travelling a lot in developing countries and, of course, when you compare prices in these countries



with the prices in a country like Germany you feel amazed that the difference is so much. And roughly spoken it's about ten times the price that you have to pay in Germany compared to what you have to pay in a country like Tanzania, or India, or where I was travelling.

So, slowly it came to my mind that there must be something possible to bridge the gap so that it is not that expensive and slowly tea came into my focus. I was not a tea drinker at that time. I was drinking coffee and still in the morning nowadays I still prefer a cup of coffee but what made me look at tea was that it's a finished product. You don't need to do anything. At the garden gate of the tea plantation the product is finished. In coffee, you have to roast it, you have to grind it, you have to go for vacuum packaging and so on.

In tea, it's much simpler. But nevertheless, the price is about one tenth of the price that you pay in Germany. So, I was starting to do research, finding out what makes tea so expensive. Is it the profit margins of the traders or what is it? And to cut a long story short, I found out it's two things. First is that tea business is very conventional. It goes back to the British trade where you have somebody, experts that take the tea to the auction, tea auction in London, and then they will bid for it, and that's basically exporters. Later on, the auction went to Calcutta, in India, to the exporters, went to the auction and bought and sold it to importers and the importers sold it to wholesalers and they sold it to the retailers.

So why is it so? Why not import yourself? The reason is that there is a convention, there's a tradition that is that a good tea shop, an excellent tea shop has to have a lot of varieties of tea. That is a kind of a law that you cannot do a tea shop with a few tea kinds only. So, I was looking at can I circumvent this convention to have a tea shop with all these sorts of teas? And okay. You can say one variety of tea only is an extreme but who wants to buy the same tea all the time? It doesn't make sense. So, I didn't get on with that idea for some time.

The next one I found out is there is another convention that tea has to be sold in small packaging – hundred grams and the trend was to 50 grams or even 25 grams. So, packaging material in relation to the content of tea is very expensive. So, why not sell tea in big packages? All the marketing people that I met said it's impossible, the customers want small packages and they want a large variety of tea. So, it came to my mind that I have to do something very different. How could I concentrate myself, focus myself or decide that I very much decrease the variety, stick to one tea only, which would be the best and simplest way to do it.

And thinking this over and over again, I found that if you buy an expensive tea, if you buy a very good tea, why should people want to buy other sorts of tea? Why not stick to a very good tea? So, again, I was not a tea drinking guy, I was not an expert at



teat at all. I had no knowledge. I went to the library and was reading books about tea and I found out there is one tea area in the world that is on the highest altitude and the steepest slopes and the toughest sunrays. And this area is called Darjeeling. I heard this name before but I didn't know about it. Darjeeling is an area with an excellent tea and it's regarded as the world best tea because of this altitude and so on. And I thought if I take this variety of tea only, one sort of tea, Darjeeling only, I could hopefully generate a large amount of tea orders so that I can circumvent the wholesalers, the importers, even the exporters and become the direct importer myself with one variety.

And, again, you have to do some research and you find out if you want to do it in a way that it is economical, you cannot buy 20 kg or 100 kg you have to buy a full container, that is eight tons of tea, that's a lot. And, again, if you do research, you get another information that this tea can be traded for up to three years. So, you are not in a hurry. With coffee, it's about six months that it loses its flavor. But with tea it's not. So, you have three years to sell. And that encouraged me to say, "OK, I'll go for it." I will stick myself to one variety of tea only, Darjeeling.

And the other thing, if the tea can be stored for up to three years, there's no need for small packaging, it's nonsense. You can package it in one kg, for example. So my idea was one variety of tea only in one kg package. Whenever I told this to somebody, that person said, "It's completely nonsense. Only a German professor who is really very abstract thinking and very not down to earth but in ivory tower can think of such an idea." But to me, to my mind it was convincing. I like to drink good wine, red wine. So if you have a Rothschild Lafite is regarded as number one. If I can buy Rothschild, Lafite at a reasonable price, why should I drink any other red wines? I stick to the Rothschild Lafite. And if it's becoming boring always the same wine, I try the other wines, the simple wines, the cheap wines Oktobersonne, Keller-Geister, this kind of cheap wines and I will quickly come back to Rothschild Lafite.

So, that was my own understanding and conviction that it will work. Nobody else believed in it and, again to cut a long story short, when we finally started, when I started with my students and we could cut down to half a container, not eight tons. So, when we started, immediately word spread that you get an excellent tea very cheaply and the people queued to buy it. And after about four weeks we were sold out. So, that was the start of the story, and finally a few years later, with that concept, with that strange looking concept, one variety of tea only and in big packaging, it succeeded. That's the story.

Balint: It's amazing story. There are a lot of elements of it that one can learn from. And it a little bit reminds me of Elon Musk way of thinking. He talks about it all the time, the first principles. So, you go down to the bottom of how things work and then you build up the process how it could be from bottom up as opposed to just looking at



conventions and following what has been formed by others, even if it doesn't make so much sense.

Prof. Faltin: Actually, the message behind this business model is look for the function, look for the real function and be not impressed by the convention, by the conventional views. You have to leave the conventional views. Most people stick to what they see but the conventions are as an entrepreneur you have to get to rid of that, you have to look what really is the function and the function is to get the tea from the gate of the tea garden to the customer, and not about auction and import-export and all these kind of things. The basics is get the tea from the garden to the consumer. That's it.

Balint: Yeah. This is one of the elements that you mention in your book as one of the seven techniques for the entrepreneurial design that you mention, entrepreneurial design being that the person how to bring a new idea basically onto the market, right, that becomes marketable, so salable.

Prof. Faltin: Yes.

Balint: Yes. So this is a very good. I'm glad that we could discuss at least one of these elements because there are six other elements or techniques that you describe in the book. But yeah, I think it's difficult to maybe discuss right now in this podcast, perhaps we can come back to it later. But the next thing I wanted to ask which goes in the direction of how your concept works, so that you talk about in the book, this component principle. So, can you describe what you mean with this and what the advantages are for operating a business like that?

Prof. Faltin: Yeah, the conventional view is if you start a business, you have to do everything yourself. You need a building, you need rooms, you need maybe machinery or offices, you need manpower, all these things. And what came to my mind is that it looks old fashioned. We are living in a society that has very specialized division of labor. Since Adam Smith we know the division of labor is the basics of progress, of more efficiency. Division of labor. So, why not think of building a company with the principle of division of labor? And I call it component principle, use components.

Balint: A short message here. Soon we're going to continue. There's going to be an Entrepreneurship Summit in Berlin on the 21st - 22nd of October organized by Professor Faltin and his coworkers. I encourage you to participate, to go to Berlin because it's a pretty big event with about a thousand, thousand and two hundred people, participants, to my knowledge, and it's organized annually.

To give you more incentive to participate to go to this event, the first person to sign up to the email list after listening to this episode, to the email list of the Hardware Entrepreneur podcast at thehardwareentrepreneur.com will get a free ticket. Whereas



the others who are not lucky to be the first can still get lucky by simply signing up and they will get tickets at a discount price. So, now we will continue with the component principle.

Prof. Faltin: If you take an example for a new company, you probably want to have your office. You want to have your own office. So, if you do that yourself, if you create your own office, you'll probably make a number of mistakes as a beginner. You probably are not very good in choosing the right person. You are probably not very good in making a contract for the office. You may be overcharged with the rent, you may buy the equipment too expensively. You may not fill the office with the work that is necessary to finance the cost of the office. The alternative is that you go for professional secretarial service and you avoid to choose the wrong person. You avoid to be overcharged with the rent of the office, you avoid to buy the equipment at a price that would not be necessary.

And, first of all, you don't need the capital for all these expenses. So, with a secretarial service, you only pay if you use it. And as a beginner when your company starts you probably don't have the amount of work to really need a full one office. So, the professional secretarial service is of an advantage. It may be expensive, yes, it may be expensive but at the same time you are professional and you can focus on the important points of your business. Import the business model, find customers but don't be involved with building up your own office.

Balint: Staying with your example, the Teekampagne, how did that happen there? Because you said that you became the direct importer of a Darjeeling tea and what components did you have to work with?

Prof. Faltin: Yeah. I ran the company with my students, which are really amateurish. They were highly motivated. But in terms of capacity, in terms of knowledge, in terms of business experience they were amateurs. So, the first thing was we had somebody in Hamburg Harbor to deal with how to get a container and unload it, and we had somebody packaging the tea. We didn't do that ourselves. And we had some help with accounting and things like that and help with the setting up a mail order business by computer, which was something of a challenge at that time.

So, we started with components but I would wish I would have taken that principle working with components, working with professional components much more seriously because we did a lot of mistakes, which could have been avoided. But the business model of the Tea Campaign was so good, was so excellent that it could swallow mistakes that we did.

Balint: And right now you use then also these with the component principal for the current state of the Teekampagne?



Prof. Faltin: Yes, yes, much more than before. And actually you can run a company only buy components. And we have one example, it's called, RatioDrink, it's about fruit juice. Usually, the seller of fruit juice uses concentrate and mixes it with water. And the business model of this company RatioDrink is that you become the one that mixes concentrate with water. So, you buy the concentrate directly, use tap water. And so how do you organize that company totally 100 percent by components?

You can do that by ordering the fruit concentrate, find somebody who fills the fruit concentrate in this bag-in-box which is usually used for that purpose, finds a place that is without bacteria and so on, and follows the high standard of hygiene in Germany. And accounting you can outsource, the logistics you can outsource. So, as a founder, you can focus on the really important things, improve the business model, make more than just apple juice or orange juice, find customers, go out and convince people that it is a very modern concept to buy juice concentrate instead of the juice itself. Because you save on carrying big loads of water, you save on waste that you create if you buy it in PET bottles and so on.

So, it's a convincing concept and it uses components from the beginning. I use it as an example to explain about the advantages of the components, the principle. You need much less capital, you save on running around and try to get the financing, you are much faster because you need no time to establish your company, and you work professionally from the beginning, which is a huge advantage, and you can focus on the really important things that is as a founder you have to create a business model that really works in the market place.

Balint: And one more thing that I think is important to mention is the scalability of the business.

Prof. Faltin: Scalability is much better because you don't need to invest. You sometimes you have a very good start and then you invest and suddenly demand goes somewhere else or imitators come in. This is much better managed by components because you can tell the components, "Sorry, no more demand" or "Please, double the output" and so on. So, you are much faster and you are more flexible with scaling.

Balint: Yeah, I very much like this idea. One of my previous podcast guests Milton Chang mentioned that he likes and he puts a lot of focus on being capital efficient for a startup because that's the main goal of a startup to de-risk the business along the way and not put on too much capital intensive burden, so to say, by bringing in experts for all these but instead outsourcing, and even later when you need to bring in people, to have a kind of like a vertical integration, you can still do that. But at the beginning, it's better to do it like this, outsourcing activities. And this is also in line with, I would say the current trend of using outsourced talent.



Prof. Faltin: Lean startup, of course, lean startup.

Balint: Yeah, and lean startup. That's why there's Upwork, there is a Fiverr, they are just two of the common platforms for getting a freelancing talent. Yeah, I want to come back to this topic later.

Prof. Faltin: I'm glad that you emphasized this point. It's de-risking and it's of course challenging the convention that capitalists, the bottleneck, capital is not the bottleneck. The bottleneck is quality of business model. That's the bottleneck, not capital. If you have a really good business model, people queue to finance your company, your startup. But I always recommend not to be too open minded, too open to financing. Try to need as little financing as possible and concentrate on the quality of the business model instead.

Balint: You mentioned one example this fruit juice company. What other examples would you highlight from your book but even afterwards that emerged, which have been proven to work to be successful?

Prof. Faltin: We have another company that I'm a business angel in that is Waschkampagne, company sells washing powder and their competitors are a German company, Henkel, a huge company are Unilever or even Procter and Gamble. So, we are the David against the Goliath. And what we do is we have a good business model. We say one washing powder for all types of water, you have hard water, you have soft kind of water is all, you have to adjust the washing powder to the quality and the specifics of the water. And you save a lot on substance in the washing powder that you don't need when you adjust the washing powder to the quality and specifics of the water.

So, this company works with components as well. Of course, we don't produce washing powder. We have to find somebody who provides the washing powder for us using our formula and everything else is outsourced. So you can do that. You can be a solo entrepreneur by trying to create a business model that can be run by components only. Then you have a one-man, one-woman company and very flexible.

And, actually, relating to the qualities that you need to have as an entrepreneur - business model, business model, business model. If you are in real estate, it's about location, location, location. And if you are in entrepreneurship, I say it's about the quality of the business model.

Balint: This is where the principle that you describe in the book connects a little bit with *The 4-hour Workweek* principle that it also advocates using outsourced talent to bring together a business. Just your book is more applicable for the whole world but a lot of examples come from Europe. And I see that when somebody reads *The 4-*



hour Workweek book many things are applicable for the U.S., mostly in the U.S. with the components described there.

Prof. Faltin: I met Tim Ferriss two times and we had an interview, it's on YouTube and we fully agree that it's about deliberating, using components, finding ways to make work easier. And of course that is very much applicable to entrepreneurship. Actually, there is word of Leonardo da Vinci, the great artist or one of the greatest artists in history and he says, "Simplicity is the ultimate sophistication."

You have to go for simplicity because everybody talks about diversification. Yes, diversification makes some sense but you can also go the other way. You can, say, put all your eggs in one basket but guard it well, put all your focus on that basket and all your intelligence and all your deliberations. And my experience is that a lot of companies fail and up to 80 percent of all startups fail within the first five years. You could avoid it to some extent if you go for more simplicity if you go for clear-cut business models using components.