Making Money Smells Great

MGMT 801: Entrepreneurship and Venture Initiation
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The story of Osmegen is an absolute success by any standard. Founded fourteen years ago by Robert Ashford, the company would come to dominate the niche market for odor-eliminating sprays and gels. In 2004, the sale of the company yielded millions in profit for its owner, providing him and his family the financial freedom for generations to come. How was this possible? What entrepreneurial insights can be gained by conducting a retrospective analysis of Osmegen's success? The answers can be found in understanding the entrepreneur himself whose unyielding desire to win and keen business acumen directly led to the success of the company.

The Making of An Entrepreneur and A Business

Rob Ashford ("Rob"), born in 1964, grew up in tight-knit and financially secure family. His father ("Dr. Ashford"), a successful dentist, and his mother, an attractive and energetic woman with a warm Estonian accent, raised their three children to be conscious and respectful of their good fortune, while instilling in them a strong desire to succeed on their own.

After earning a degree in economics from Penn State in 1987, Ashford invested a cash graduation gift from his parents in his first venture: Ashford Financial Services, a financial services firm that catered to the needs of medical professionals. Ultimately partnering with his father, the father and son team ultimately grew the business to serve over 500 clients. In 1992, upon sensing a potential decline in the market both partners agreed to sell the company. This first venture provided Rob Ashford with not only valuable business experience but also with a stream of residual income from insurance renewals for five years after the sale.

With a source of income, Ashford was able to focus on his next venture: a business that distributed snack foods for Snyder's of Berlin throughout the Northeast. Despite the rapid growth of this distribution company, Ashford discovered that the low margins of snack distribution were not going to make him rich. He sold the business in 1993 and was once again looking for a new business opportunity. Rob's grandfather, a successful entrepreneur in the manufacturing industry and a Wharton graduate, advised him to seek out product opportunities where healthy margins could be attained through aggressive marketing, low cost manufacturing, and little use of debt. This advice would prove extremely valuable as Rob and his father began their next business venture.

The Birth of Osmegen

As the sale of the distributorship was concluded, the Ashfords stumbled across the idea for a deodorizer product by accident. Dr. Ashford had used a nontoxic spray deodorizer to eliminate odors on patient's dentures. Rather than masking smells like basic air fresheners, the chemical compound disintegrated odor-causing molecules on surfaces and in the air. Rob and his father hypothesized that with the right marketing approach this basic, yet powerful technology would find a variety of consumer applications. With this idea in mind in 1993, Rob Ashford and his father founded Osmegen, Inc. (from the Greek word "Osme-" meaning odor or smell and "gen", a suffix that gave the company a "clean feeling to it"). Like many innovators, the Ashfords did not create a new invention. Rather, they simply took an existing chemical product and turned it into a phenomenal business through superior marketing and low cost manufacturing.

Osmegen first started offering its Natural Magic® Odor Blaster liquid spray deodorizer to retailers in 1993, but initial sales were challenging. The young company targeted small family-owned hardware stores as their primary sales channel. Osmegen's "push" marketing strategy focused on gaining retailer acceptance through profitable sales that would create greater future demand. Believing that the Odor Blaster deodorizing spray was an "impulse" purchase, Rob, the dominant marketing strategist and sales leader in the company, sought to position the deodorizer product in retail stores in a way that capitalized on this consumer purchasing behavior. Rather than placing the product physically next to other well-known air fresheners on retail shelves forcing Osmegen to directly compete, Rob sought to move its selling location to an advantageous position. Osmegen developed a standalone merchandiser display case (see **Exhibit 1**) that retailers placed next to their cash registers. The early display contained Odor Blaster spray bottles and a small pamphlet that described the odor-killing properties of the product. This core marketing idea, the use of retail merchandisers, quickly became a cornerstone of future marketing efforts.

To minimize costs to yield strong margins, Osmegen's financial philosophy strongly emphasized frugality across the company's operation. Rather than spending to lease office and manufacturing space, the company sought to minimize fixed costs wherever possible, reducing upfront investment and forcing product demand to drive company expansion. In order to minimize initial manufacturing costs, Osmegen utilized a barn on the farm of Ashford's father as a manufacturing facility from 1993 to 1995. Bottles were initially hand-filled, hand-labeled, and sealed by the two owners and other family members, but as sales grew, used manufacturing equipment was purchased to increase production. Marketing materials were created using basic word processing and graphic programs rather than enlisting the services of graphic artists. Instead of spending heavily on advertising, the company focused on cheap merchandiser packs distributed during the sales process. By developing strong public relations within the small retailing community, Osmegen produced greater returns on its marketing dollar than by using more traditional mass-merchandising campaigns.

As Osmegen grew, Rob Ashford continued to find new opportunities to meet consumer's deodorizer needs. Rob decided to add an orange-citrus fragrance to the product creating a new marketing campaign for the new "Citrus Blaster" spray. Sales of the new product, albeit slightly modified from the original, doubled that of its predecessor. With increased cash flow, Osmegen was able to launch a pet deodorizer product that created a natural extension to the Odor Blaster line while opening up more retail channels for the blossoming line of Osmegen products. By 1995, popularity of the product was growing, which forced Osmegen to lease its first manufacturing and storage facility in Bethlehem, PA. The company expansion happened just in time to meet it first significant order from Ace Hardware Stores. Slowly, the Osmegen deodorizer sprays were gaining traction in the marketplace.

As the young company grew from 1993 to 1996, differences in management styles between its two founders, Rob and his father, began to create significant friction. Rob saw the future potential of the business and wanted to continue reinvesting the company's profits in its growth versus his father's desire to distribute the profits. Osmegen was facing a leadership crisis that had the potential to destroy the firm. By the end of 1996, Rob made a decision that would have a major impact on the rest of his professional and personal life; Ashford decided to buy his father out of the business. If Osmegen became a huge success, all increases in the company's equity would accrue to Rob Ashford as the company's sole shareholder and make him a wealthy man. If Osmegen failed, the financial repercussions would have been severe. By leveraging everything that he owned and constructing a buy-out agreement that included a portion of future revenues, Rob Ashford, at age 32, was able to assume sole ownership of Osmegen.

In 1997, Rob Ashford was able to successfully negotiate an opportunity to sell his products on the QVC home-shopping television network. For Osmegen, this opportunity would help provide immediate marketing feedback to the growing company while providing valuable marketing exposure. For the next 7 years, Osmegen would continue to leverage its sales relationship with QVC to introduce and sell products to the market. The "As Seen on TV" logo has been a common fixture on Osmegen labels since that time.

Osmegen's Growth Takes Off

Deodorizer sprays, while key to the early growth of Osmegen, were not the block bluster product Rob Ashford was seeking. The fundamental problem was that most airborne odors don't respond well to a spray cleaner. In 1998, a Canadian company, Air Sponge, approached Rob in an attempt to introduce its gel-based deodorizer to U.S. market via a licensing agreement with Osmegen. As the gel was exposed to air, it gradually evaporated decomposing odors via a chemical reaction. Ashford declined the licensing opportunity, but recognized the potential of gel-based deodorizers. Fortunately, Rob discovered a Philadelphia-based company in the HVAC industry that owned the intellectual property for a suitable gel. A five-year licensing agreement was reached between the parties that gave Osmegen exclusive marketing rights to sell products in retail stores while protecting the gel company's exclusivity within the HVAC business. This agreement gave Osmegen access to a proven, tested, and safe gel formula without having to endure years of investment and experimentation. This agreement also provided for Osmegen to manufacture its own product as well as the product required for its partner in the HVAC business. New gel products could be developed quickly as Osmegen became the "Total Odor Control" company, possessing products that deodorized both surface and airborne pollutants.

With the advent of new gel-based deodorizer products and an expanded sales and marketing staff that infused the growing market with the diverse Natural Magic® line of products, Osmegen received its first order from a major retailer. The order was from the Menards hardware chain in the mid-west for over $1 million of product. While this order represented a tremendous opportunity for Osmegen, it also placed the company under significant risk as Osmegen had to completely draw on its credit line to fill the order. If Menards would have canceled the order after the manufacture of the product or failed to pay, the company may have been forced into bankruptcy. Fortunately, Menards fulfilled their order, which helped Osmegen begin its entrance into the national retail chains.

By 2001 and 2002, strong sales efforts and significantly expanded manufacturing capabilities enabled Osmegen to further penetrate into the mass retailing space by selling product to Home Depot and Lowes. Its pallet-based and freestanding merchandiser packs (see **Exhibit 2** for examples) were a natural fit for the big-box retail chains. The result was a phenomenal 134.5% growth in revenue from 2001 to 2002. Continued product improvements in containers, fragrances, packaging, and branding enabled Osmegen to target multiple customer segments in multiple channels. In 2003, Osmegen was able to negotiate with Wal-Mart to sell its deodorizing products through their boating department. By selling product through a less price sensitive niche department of Wal-Mart, Osmegen was able to protect its pricing structure while sustaining its 30-35% operating margin.

The Sale of Osmegen

In 2004, Ashford started to notice some troubling macroeconomic factors within the market. Interest rates, which were at an all time low, would likely increase in the future. Record low interest rates had driven corporate valuations based on discounted cash flows to all time highs – an increase in rates would reduce the EBITDA multiples paid by the purchasers of businesses. Additionally, a possible change of administrations in the 2004 presidential election could alter the very favorable tax treatment for capital gains introduced by the Bush administration. These factors caused Rob Ashford to conclude that the near-term valuation of Osmegen was at its peak and he put the company up for sale in the latter half of the year. In November 2004, Homax Products Inc. (www.homaxproducts.com), a distributor of home improvement and do-it-yourself products, purchased the assets of Osmegen. Homax's vast distribution relationships would further improve Osmegen's market presence and allow Osmegen to continue its long history of strong earnings growth.

Homax purchased a company whose financial performance was simply outstanding. Osmegen experienced phenomenal revenue growth over its relatively short lifespan. From 1993 to 2005 Osmegen's annual revenues (see **Exhibit 3**) grew over 500 times or at an average annual rate exceeding 40% per year. In the three years prior to its sale, Osmegen experienced a compounded annual revenue growth rate of 64%. During this same time period, gross profit margins consistently exceeded 65% with operating margins over 30% (see **Exhibit 4**).

Entrepreneurial Strategic Summary

Osmegen was a successful entrepreneurial venture, built from the start for ultimate sale. In order to grow the company with the objective of selling, Rob Ashford developed and maintained a simple ownership structure with limited liabilities and cash-based employee incentives. Key strategies were employed by the owner of the company to provide impressive returns while maximizing the value of its deodorizing products. These strategies provide tremendous insight into how to successfully build and grow a consumer products company.

Overall Strategy: Grow Organically; Position the Company for Sale

From the beginning, Ashford had as a singular goal to grow the company for sale within a reasonable time period. The company was started as a partnership with his father. At an early stage, a philosophical disagreement between the partners emerged; the father was interested in extracting value from the company through liquid distributions to the owners; the son wished to use most profits to grow the company. This disagreement in strategic vision led to Rob buying out his father's interest at personal and emotional cost. This purchase of ownership interest consolidated all shares under Rob, but required him to acquire long-term debt secured by his house. This debt was repaid with company profits in as short a time as possible and no further long-term debt was acquired. Rob felt that the presence of long-term liabilities would be a barrier in the development of favorable terms when he sold the company. Through these events, Rob assumed complete ownership of the company at an early date.

From this point on, Rob maintained sole ownership of the company – no equity was used to raise capital, nor was stock or stock options used as compensation for employees. The corporate relationship with employees was kept simple. Employee benefits included health insurance but not 401(k) retirement plans and life insurance. Bonuses were used to reward and provide incentives to employees. Rob reasoned that the existence of benefit programs would add needless complexity to any sale agreement and that the prospect of obtaining benefits from a new owner would reduce resistance among Osmegen employees to its pending sale.

Control Costs

A key element of Osmegen's success was commitment to frugality in all aspects of the company. On a daily basis, Rob Ashford would review the company books two to three times continually finding ways to reduce costs. At all times, he possessed a detailed understanding of the costs of his business. As the business grew, he would predict when he would need to invest in automated equipment to replace growing labor costs months in advance. He would purchase used and repossessed manufacturing equipment to lower costs and required that any equipment investment needed to have a nine-month payback. Through constant attention to cost reduction, Rob was also able to design new jars and tops, which were not only less expensive to manufacture but which also provided another element of competitive differentiation in the marketplace. Some of these designs were protected through patenting.

Rob delayed the hiring of people as long as possible, was typically understaffed in management, and worked the people he hired very hard. This also took a toll on Rob, who admitted to working 20-hour days for several years. He would begin each day by studying the books, handling invoices, communications, ordering, etc., then would head out on the road to do sales, and would finish up the day working on the manufacturing line. Burning out employees was one of the mistakes that he admitted making during the growth of the business. When adding a key employee, Rob did not seek out high-priced candidates, but instead opted for those "that he could afford." As finances improved, he believed he could further augment his team with more highly skilled executive team members that could create a greater impact on Osmegen's future.

Rob also controlled costs by using smart marketing strategies. Osmegen did not have a large advertising budget, but instead relied on public relations to drive market awareness. All graphic design was done in-house, and press releases were generated at frequent intervals. The use of QVC as a retail channel also provided the benefit of national TV exposure without requiring an expensive advertising buy; of course, this advertising did not come free as QVC required a healthy retailer's margin of 50% on the products sold through its channel.

Offer niche products and maintain high margins to provide cash flow to fuel growth

From the outset, Osmegen focused on competitive pricing that was supported by healthy margins. For example Osmegen's original spray deodorizer, Odor Blaster, was available for $7.99 for a 16 oz. trigger-sprayer bottle. The primary competitor in this product category, Smells-B-Gone, manufactured by Pinotti Chemicals, retailed at $8.99 for a 12 oz. pump-sprayer bottle. The superior sprayer mechanism, larger volume and lower price combined to create greater value for the customer. As both companies were offering niche products (odor removers) and Pinotti Chemicals had established a pricing level to support a profit margin consistent with its higher production costs, Osmegen was able to grab market share, avoid aggressive competition, and quickly generate positive cash flow. Osmegen applied this same strategy again with its gel products: pricing below the competition while maintaining a good profit margin, differentiating the product with superior containers and fragrances, producing a niche product that did not directly compete with large consumer goods companies, and providing better merchandisers for retailer displays. The consistent application of this strategy allowed Osmegen to grow organically, using cash flow from prior sales to limit debt to short-term financing to purchase supplies fueling the company's growing product line.

Identify the right sales channel for the niche product and exploit it

Starting with his first product, Rob was convinced that Osmegen's route to success was to place the product within easy reach of the end customer for impulse sales. To achieve this, Osmegen created merchandisers that hardware and pet stores could place on their checkout counters. For his first product, Rob built a six-bottle plastic rack with a side slot that held a pack of brochures; the brochures provided reading material for the waiting customer that imparted a professional feel and worked to increase customer confidence in the product. The countertop merchandiser competed for space with screwdrivers, pocketknives, and pet collars and leashes. To convince retailers to place his product on the counter, Rob sold them on the concept of having an impulse item that provided a high profit margin and was a consumable, driving repeat sales. This product-placement strategy was a big success and an important generator of early sales growth.

The impulse-sales strategy was also applied from the early years by using direct sales through TV via QVC. This approach is consistent with the countertop merchandiser strategy – place the product in front of the consumer and entice an immediate purchase decision. QVC has been an important retailer for Osmegen – Rob and his mother, both genetically endowed with telegenic charisma, have appeared on QVC well over 100 times. The memory of his first appearance on QVC in the earliest days of the company when the only product was the trigger spray is clearly a special memory; Rob sold 2000 units in seven minutes! A secondary benefit of the QVC channel was the impact on retail store acceptance. Hardware and pet storeowners liked the fact that the product was receiving exposure on TV. Having "As seen on TV!!" on its packaging helped to grow sales while legitimizing the product.

The concept of the merchandiser became a uniform concept applied to all Osmegen products as its product line grew. All Osmegen products, whether pallets, mini-pallets, clip-on aisle hangers or countertop displays, were self-contained units which required minimal effort by the retailer to emplace. Pallets and mini-pallets now used in Home Depot, Lowes and Wal-Mart are shipped as containers that unfold and transform into large merchandisers with brightly colored marketing material all designed to be noticed and to drive impulse sales.

Manufacture in-house to minimize costs and maximize flexibility

Prior to starting Osmegen, Rob had started and sold two other businesses. The second business was a distributorship for a snack food company that soured Rob on high-asset, low-margin businesses. With Osmegen, Rob was determined to avoid becoming a distributor or a marketing company reliant on contract packagers. This strategic decision led Rob to build Osmegen as a manufacturing company (see **Exhibit 5** for pictures of Rob Ashford and Osmegen's operations). Two important advantages arose from doing manufacturing in house. The most important was that Osmegen was able to avoid double marginalization by fabricating product from raw materials and selling directly to retailers. Maintaining a high profit margin was a non-negotiable core principle. A second advantage was that Rob had a detailed understanding of the amounts and origins of his costs at all times. This provided the ability to tailor the manufacturing process (e.g. degree of automation) to minimize costs at each stage in the growth of Osmegen. In-house manufacturing imparted a maximum amount of flexibility. With little disruption, production could be shifted to the "hot" scent that was selling well; with low inventories and a same-day changeover capability, Osmegen could be a nimble manufacturer with an optimized product mix. As sales grew, Rob could adjust production throughput by running his manufacturing lines over additional shifts. He maintained a good working relationship with four separate temporary employment agencies. His manufacturing workforce could be adjusted on a next-day basis; requests for workers for the next day could be placed before the close of business. This in-house manufacturing flexibility provided a distinct competitive advantage. At times when retailers had supply problems with competitors, Rob was able to step in and quickly manufacture and deliver an unexpected order for a large amount of product. When Osmegen broke through into the large box stores, this manufacturing reliability was a key ingredient in its success.

Entrepreneurial Lessons Learned

Rob's success in starting, running and selling Osmegen provides many great lessons and strategies for emerging entrepreneurs. We have outlined the ones that resonate most deeply with us.

Extract market information cheaply

Rob formed Osmegen to satisfy an unmet need in the marketplace. He saw the opportunity to conveniently package and sell a product that could eliminate odors versus simply masking them. Although Rob did a thorough analysis of competitor products being offered, he did not have the luxury of performing sophisticated marketing studies or obtaining detailed marketing research. He believed the opportunity existed if a good product could be combined with a strong marketing strategy. He recognized that his product was often an impulse purchase and could be purchased multiple times per year by customers. These product characteristics made the product attractive for both Osmegen and the retailers. Even though he lacked detailed market analysis of what price customers were willing to pay or other market information, he intuitively knew the product made sense for customers and retailers at a price that would allow him to create value for Osmegen.

In the absence of rich marketing data to drive company action, Rob provided insights from his experience as to how Osmegen obtained market information with little cost. Routinely, Osmegen leveraged its supplier's knowledge to select the fragrances for their new products. Within the marketplace, there were virtually an infinite number of fragrances possible for Osmegen's products, but Rob cleverly asked his suppliers what fragrances were hot at any given time or which one's they were selling the most. This allowed him to pick up valuable market information without spending any money.

Start slowly and manage risk

Rob also started Osmegen slowly, allowing the growth of sales to drive the growth in the Company's infrastructure. He pragmatically started manufacturing out of his father's barn and scaled the manufacturing facility as necessary to meet the increased volume of sales. He avoided the "build it and they will come" philosophy of many entrepreneurs. Unlike Heather Evans, who started with expensive office space and personnel, Rob started with the bare minimum and let the company's success fuel his expansion. Nor did Rob become enamored with his success and overestimate the growth of his products such as Bowman and Seuss at Spinnaker. Rob much preferred to figure out how to accommodate potential surges in volumes by working overtime or quickly grabbing machinery, rather than bear the costs of idle capacity or personnel. As a result, Rob minimized the risk associated with the growth of Osmegen. By controlling costs and minimizing financial and operating leverage, Rob ensured that Osmegen would be in a much better position to handle an unexpected slowdown or decrease in sales.

In starting slowly, Rob made a conscientious decision in attacking this market. He could have tried to raise outside capital and taken more aggressive steps to build manufacturing capacity or launch a larger marketing campaign. His patient approach allowed Rob to fund the company's growth with the profit it created. By relying on internal funding, Rob controlled the company's decisions and was not forced to keep driving revenue growth at the expense of profits, which would have potentially occurred if he had taken outside capital. Osmegen may not have achieved its profitability and powerful market position if Rob had felt pressure to have products, such as the gel, earlier or tried to enter the large national chain before it had developed the sales base in the smaller chains.

Don't initially compete with "Big Boy" rivals

Osmegen's products competed with many similar products of the large consumer products goods companies ("CPG's"), such as S.C. Johnson and P&G. Rob sought to compete with these "big boys" by differentiating his product and targeting a different channel initially. As described, Osmegen's product not only covered odors, but also eliminated them. Rob focused on Osmegen's image as the "total odor control company" and all of his marketing and publicity highlighted this difference.

Osmegen also in the beginning, targeted the small "mom and pop" retailers versus larger national chains. This strategy proved quite effective and produced multiple benefits. First, it permitted Osmegen to build sales "quietly" without directly competing with the CPG's in their main area of focus. Second, by building sales in smaller chains, Rob was able to create momentum for his product as he moved into other larger retailers. He created a stable sales base for his product, which allowed him some leverage as Osmegen moved into larger retailers. Even today, Rob views the small chain retailers as Osmegen's strongest foundation of sales that provides the company a consistent base of business to cover costs. This channel provided a nice cushion in the event one of his big box retailers was to start taking aggressive actions, such as demanding large price concessions.

Rob and Osmegen showed that you could compete with the large established players in a market, even in the ultra competitive consumer products goods industry. His methodology provides a great template for others to consider when faced with a similar situation.

Create value for those who sell your product

In targeting the "mom and pop" chains, Rob quickly developed a winning strategy for getting his product in front of consumers. Osmegen was able to develop its product offering and pricing position making them advantageous for both Osmegen *and* the retailers**.** Osmegen offered its product at prices such that retailers could achieve 40-45% gross margins, where as the CPG's effectively forced retailers to settle for only 25% margins. This provided an incentive to retailers to carry and sell more of Osmegen's product. Osmegen maintained its own margins through its in-house manufacturing strategy. Osmegen avoided the double margins of using contract packagers. Rob stuck with this manufacturing strategy even though it might have caused him to delay expansion into new products, such as the gel.

Osmegen created value for retailers by utilizing previously neglected selling space in their stores. When Rob started, most retailers, particularly smaller ones, were not focused on the selling space around the checkout counter, a prime location for a consumable impulse product with repeat purchases. Osmegen's innovative point of purchase displays drove sales for his customers in an area that was previously virtually dormant. This placement combined with its attractive margins, made Osmegen's products an attractive item for the retailers.

Even with the high margins and innovative placement, given the startup nature of the business, Rob had to implement a "guarantee sale" approach to address retailers' initial concerns. Under the guarantee sale program, if retailers were unable to sell any product in 60 days, they could return it to Osmegen and receive full credit. This helped address retailers' fears of ordering their first product and being stuck with unsold inventory. The use of the guarantee sale allowed Rob to escape from the normal industry practice of reducing price on a retailer's first order. This was essential as Rob knew from his research, no matter what the retailers said, once a lower price got in their system, it was hard to get out. As this example shows, Rob was always considering the needs of retailers and the value he was providing them. He was constantly searching for new products or innovative packaging solutions to address their needs and drive through sales.

In many respects, Rob's approach to retailers mirrored the approach of Bob Reiss in launching the TV Guide Game. Rob and Bob each understood the product had to make sense financially for all parties, particularly the retailer to be successful. In Reiss's case, it was the use of the TV Guide brand and the associated marketing reach that TV Guide could provide for retailers. In Rob's case, it was the attractive margin structure and innovative merchandising solutions. In both cases, their similar approach in satisfying retailers' needs was critical to their ultimate success.

Entrepreneurs must be able to sell

Rob spent a significant portion of his time selling his product, initially to small hardware stores, then later to large big box retailers. Rob's ability to sell was essential for Osmegen's early success. He did not have to rely on others to gauge customers' reactions and his early experience in selling led to benefits later. First, Rob knew product could be moved simply by lowering price, but with persistence and effort, his product could generally be sold without lowering price. Rob, based upon his own selling experiences, understood that there was other ways to get customers interested and pushed Osmegen's sales force to find the unmet needs of each retailer. Sales personnel were not simply allowed to reduce prices to generate revenues. Second, Rob's experience in sales made him acutely aware of the challenges in moving into big box retail. His challenge was often to find ways that his product could be classified in a different area of the store, thus not be under the same price restrictions of the other products in his category, as they were typically defined. By selling Osmegen products through the boating section of Wal-Mart, the company was able to maintain their pricing in the market and capture their normal margins. This was a big accomplishment for a little supplier and was primarily driven by Rob's familiarity with the sales process. Rob's experience in Osmegen reinforces the importance of the ability of the entrepreneur to sell his products, particularly in smaller startups such as Osmegen.

A comparison of Rob's efforts in sales with Vinod Khosla's involvement in sales yields some interesting similarities and differences. As both Vinod and Rob showed, the involvement and capabilities of the entrepreneur to persuade essential customers can frequently determine whether the company will be successful. These two entrepreneurs had the knowledge, intelligence and charisma to win over customers. However, after spending time with Rob, we cannot envision him ever facing the situation of Vinod and Computervision. Rob's constant focus and detailed nature would not have allowed the situation to progress that far into the sales process without him knowing better what was going on.

Entrepreneurs should embrace the strategy of Hustle

In getting Osmegen started, Rob worked tirelessly in all areas of the business. He typically would spend the majority of his day on the road selling, then return to the facility to do whatever was needed, from operating a packaging line, preparing products for shipping, cleaning the warehouse, etc. Rob's sales activities included promoting his product on QVC. Finally, Rob played an active role in the generation of the company's financials and closely monitored its financial performance. Rob's willingness to do anything required to grow his business is likely present in most successful startups. When starting a business, particularly a startup, an entrepreneur must be wholly committed to fill a plethora of roles to make it flourish.

Learn to adapt to market conditions quickly without overreacting

Osmegen's initial product was a spray. Over time, Rob saw the growth of gel products by end users within the air freshener market. In developing his strategy to address these trends, Rob determined that the Osmegen spray products would not adequately meet the needs of this growing customer segment. Rob did not undertake a large or expensive marketing campaign to try to convince customers sprays were better than gel based products, as so often happens to entrepreneurs or companies when they become mired in their own products. Rob's handling of this situation contrasts sharply with 3M's experience with the Privacy/Anti-Glare product within their Optical Systems divisions. 3M saw applications for their product but seemingly took many months to get their product out in the market. In a similar situation, we imagine Rob quickly finding a product that meets the needs of consumers, producing product with low upfront capital cost to test the market and getting this product into the market in a matter of months versus years.

To address the growth of gel products, Rob immediately went out and found out which companies were making the gel based product in the market. When he was not able to reach a satisfactory arrangement with this supplier, he began a search for someone who had the technology but would be more reasonable on price and allow him to manufacture. His diligent search quickly led to another supplier with whom he was able to reach an arrangement that worked for both companies. Had Rob and Osmegen accepted the initial proposal, their costs would have been much higher and they would have been much less profitable. Rob's commitment to his low cost and manufacturing strategy played a crucial role in Osmegen's success.

Know your shortcomings but possess confidence

As we described, Rob lacked experience in consumer products marketing or manufacturing. Unlike Bob Reiss, who had years of industry experience, Rob was learning on the fly. However, Rob recognized his lack of experience and made efforts to continually learn and gain from the experience of others. A great example of this learning was his dedication to having lunch with an experienced businessperson once a month. Whenever he would meet someone interesting at a tradeshow or meeting, he would make a point of trying to meet him or her for lunch or dinner. He explained that much of his strategy and decisions were based on information that he had gleaned from these meetings. He said it was remarkable how much he could learn by simply asking people about their experiences and then patiently listening. Along these lines, Rob maintained confidence in his abilities to handle and navigate through a variety of situations and decisions. Judging from his experiences, it seems essential for an entrepreneur to have this confidence in order to succeed. Rob's experience included many setbacks and rejections – his confidence was paramount in overcoming these issues to succeed.

Always consider exit strategy

From the beginning, Rob planned to sell his company and thus made a number of strategic decisions to increase the ease and likelihood of sale. First, after buying out his father's equity position, Rob controlled Osmegen – it was solely up to him whether the Company was sold and the valuation he was willing to accept. Rob did not need the consent of any partner or investor. Secondly, as previously described, Rob structured his employee compensation programs in a way that he believed would not undermine the sale of the company. Finally, Rob made a considerable investment to ensure the quality of Osmegen's financial statements. Rob wanted Osmegen's books to reflect a healthy bottom line and thus he avoided saddling its income statement with the extra expenses that small business owners typically use to create additional compensation for themselves (e.g. inflated SG&A expenses). As a result, Rob paid significantly higher income taxes than he might have otherwise. Furthermore although not legally required, Rob also had Osmegen's financial statement's audited annually. These early decisions made Osmegen easier to sell, as he knew this was going to be his exit.

Company culture matters

Although Osmegen did not put its values into a formal written statement, Rob worked on creating a respectful but hardworking culture at Osmegen. This culture was created first and foremost by Rob's actions. Rob worked tirelessly to make Osmegen successful. There was not a job he would not do or an analysis he would not perform if required. Rob showed employees the level of effort required and the attitude he expected them to have. As Rob described, "if an employee said something was not my job, he would not last here very long."

Rob offset this driving and demanding culture by his belief in "family first". He understood the importance of family and allowed employees to make time for family commitments. These commitments did not come at the expense of Osmegen's performance. If employees were leaving early, for example, they would be expected to make-up their work later that day or the following day, depending on circumstances. Rob made an effort to allow employees flexibility but maintain the necessary performance requirements.

Osmegen's culture was a mercenary culture with some touches of communal, with these communal aspects decreasing as the Company increased in size. Initially, Rob described the beer and pizza parties in the warehouse every Friday night, but over time, these parties stopped occurring. Employees were held to high performance standards and were given much responsibility, causing many to leave – as Rob described, "I wore some people out." It is telling that them most of the employees left rather than having to be fired. Employees likely were not willing to fail to meet Rob's high expectations and would rather leave then fail. This was predominantly caused by the hard work and time Rob himself committed to Osmegen.

Rob's approach with Osmegen was much different than Kamran's with Momenta. Unlike Momenta, which used consensus building to create written values, Rob generated his expectations for culture himself and made them evolve by his actions. Much of this variation in strategy resulted from the difference in how the companies were created. Osmegen was started essentially only by Rob and his father and did not need to hire any superstars from large, well-known companies to execute their plan. Momenta hired superstars from large technology companies, who possessed the skills required to launch a product as ambitious as Momenta's. Assembling a team of superstars from different cultures presents the need to develop common understating of norms so that everyone works effectively together. Clearly, Kamran may have gone a little overboard and a strategy based on actions, such as the one Rob utilized, can be more effective. Rob made employees understand that if you were not a team player and focused myopically on your job function, you did not belong at Osmegen and would not be there for long.

Tenacity is a must

This might be the single greatest reason for Rob's success with Osmegen and it underlies several of the points already illustrated. Most of Rob's selling and strategic successes were driven by his desire to succeed and his unwillingness to accept anything less. As a young entrepreneur, Rob faced many difficult situations and decisions, but he always viewed them as challenges to be surmounted. He was prepared for issues to arise and moved quickly and often creatively to find solutions. From sexual harassment lawsuits, plant accidents, competitor lawsuits, Rob knew these types of issues were involved with starting a business and seemingly never considered that he would not be able to solve them. However, Rob's confidence did not manifest into arrogance and he still modestly maintains that much of his success is due to luck. Certainly every new venture may benefit from some fortunate circumstances, but Rob's ability to consistently execute both strategically and operationally was not luck. When asked for a key reason why his company was successful, Rob simply explained, "I hate to lose."

Tenacity does have its costs. There were many sleepless nights for Rob Ashford as he fretted about the growth of his business. He frequently traveled, or if not traveling, would put in long hours at the facility, particularly as he was involved in every aspect of the business. This level of commitment was likely a perquisite to the tenacity that Rob maintained. If entrepreneurs wish to be successful, they will likely have to commit themselves entirely to the venture while being prepared to accept the resulting costs to their family and personal time.

Don't hesitate to build a strong team to grow the business

Although the growth of Osmegen and Rob's success are impressive, he was slow to add staff and subsequently relied on himself too much and worked his existing team too hard. Rob's obsession and focus on costs prohibited him from adding the staff he needed early enough. In addition to costs, Rob likely had issues, similar to many entrepreneurs, of relinquishing control, even as the business grew and exceeded his ability to participant as deeply in all the areas he had during its startup. In Osmegen's case, there was not much damage from the delayed hiring of staff, although Rob admits having brought in someone with experience in selling to the large retailers would have saved him from making some mistakes. The hiring of a person with this experience may have allowed Osmegen to penetrate this channel more quickly. The lack of staff also took its toll on Rob and his staff, several of which left the company. Although Osmegen was sold at an attractive multiple, we question whether Rob might have wanted to run it a little longer if he was able to build a staff a little quicker to drive company growth.

We should mention that if an entrepreneur has to err on the side of too much or too little hiring, it seems better to be too low, particularly when starting out. Spinnaker Software showed the negative consequences of hiring too much staff. Not only can the financial costs be large in the short-term, it becomes difficult to reduce headcount later. The firing of staff will cause remaining employees to question the financial strength of the company and how long they will have a job. The firings will likely cause customers, suppliers or any other partners to also question the company's financial position. This can lead to tightening credit terms or lower sales, further exacerbating the company's position.

Conclusion

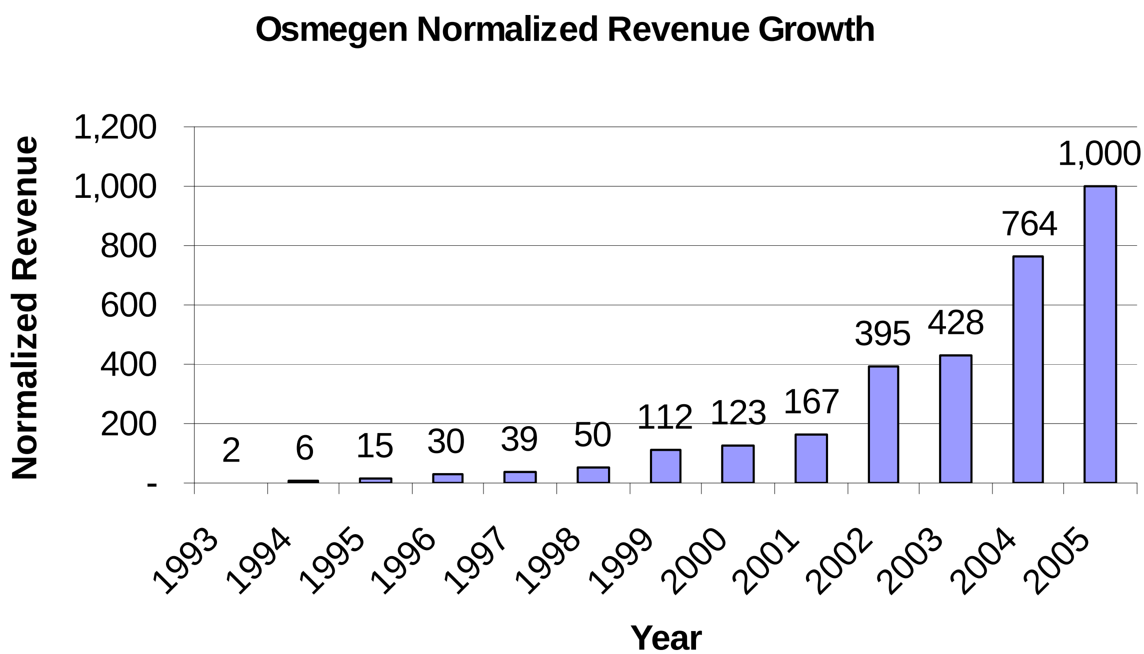
The story of Osmegen represents an enticing tale of a young entrepreneur who created a fortune literally out of thin (yet clean-smelling) air. Rob Ashford saw an opportunity in a basic product and simply willed the company to succeed. His ingenious marketing schemes, shrewd financial controls, efficient manufacturing operations, and relentless commitment to his company and its products provided the key leadership and passion that made Osmegen a success.

With the sale of Osmegen clearly behind him, the man driven "never to lose" is already eyeing his next adventure in the market. Given the number of intelligent decisions he made and invaluable experiences he learned, Rob is well positioned for yet another success.

Exhibit 1 First Check-out Counter Merchandiser and products (1994)

Exhibit 2 Examples of Various Osmegen Merchandisers (1997-2004)

Exhibit 3 Revenue Growth of Osmegen (1993-2005)



Note: Revenue growth expressed in normalized values to protect confidentiality of Osmegen's growth in operations.

Exhibit 4 Normalized Financial Performance Prior to Osmegen's Sale, 2001- 2004

	FY Ended 12/31			LTM 11/30
	2001	**2002**	**2003**	**2004**
Revenue	225	527	560	1,000
Less Cost of Revenue	99	218	246	439
Gross Profit	**126**	**309**	**314**	**561**
Gross Margins	*56%*	*59%*	*56%*	*56%*
Less Operating Expenses	81	110	147	220
EBIT	**45**	**199**	**168**	**341**
EBIT % of Revenue	*20%*	*38%*	*30%*	*34%*

Note: Financials normalized based upon 11/30/2004 LTM revenues to protect confidentiality of Osmegen's sale.

Exhibit 5 Osmegen's Owner, Robert Ashford, and its manufacturing center

Robert Ashford
Osmegen Entrepreneur

Batching Mezzanine / Batching Tanks

Current Osmegen HQ, Allentown, PA

Manufacturing Operations

6 High-Speed Production Lines (up to 70-80 units/min.)