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**PARENTAL  
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Version 1.2

# ENTREPRENEUR

# MYTHS

**D A M I R P E R G E**

founder of entrepreneurdex

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**ENTREPRENEUR MYTHS**

**FORGET BUSINESS SCHOOL**

GET A \$50 MILLION EDUCATION FROM A STARTUP VENTURE  
CAPITALIST

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For my parents, Mira and Ivan Perge, for having the courage to leave Yugoslavia and enable me the opportunity to become a capitalist

To my children, with love: Coby, Michael, Jon, Paige and Isaac

## Introduction



“Shit, I truly **wish** I’d had this book when I started out as an entrepreneur after **dropping** of out college my senior year.

*Entrepreneur Myths* is for anyone who **wants** to become an entrepreneur, or is already an **entrepreneur.**”

Shit, I truly wish I’d had this book when I started out as an entrepreneur after dropping of out college my senior year. *Entrepreneur Myths* is for anyone who wants to become an entrepreneur, or is already an entrepreneur. Whatever your age or experience — there’s something you can learn based on my investing \$50 million into startups.

After you read this book, I hope you’ll feel you got a \$50 million MBA — avoiding the bullshit I went through. First, let me tell you an old, but true story.

IBM chief Thomas Watson was once asked whether he planned to fire an employee who made a mistake that cost the company more than half a million dollars. Watson shook his head, “I just spent six hundred thousand dollars training him. Why would I want anyone else to hire his experience?”

I spent close to \$50 million investing into over 25 startups by applying the principles of complexity science. I founded the Tesla Capital venture fund and named it after the great Nikola Tesla. We managed the seed fund somewhat like a combination of Y Combinator and 500 Startups (before those two companies were in existence), but the process, principles and methods were different — we operated at a higher velocity with larger chunks of money. My partner in Tesla Capital committed to \$100 million in funding, then came in \$50 million short. It was a major clusterfuck. Obviously I learned not to make investment decisions based on *committed* capital but on *actual* capital in the bank.

I still believe in the power of applying complexity science to early-stage investing. And I plan to do it again under the entrepreneurdex business model — a venturcelerator. I coined the term “venturcelerator” for a different kind of combination of incubator and accelerator — a company using complexity science to fund and launch startups. Nothing teaches you like real-time, hands-on experience.

Watson was right. Why would he fire someone who just got a \$600,000 education? The same applies here. Because I was a hands-on investor, I was in a position to clearly see patterns and myths about entrepreneurs. These entrepreneur myths cost me \$50 million to learn. So you could say each of these 50 chapters is worth \$1 million.

### **Background**

I was infected by the entrepreneur virus at the age of 20. I wasn't born to be an entrepreneur — my goal was to be a professional soccer player. Since then, I've gone through the entrepreneur journey quite a few times, learning by doing.

Wearing both the venture capitalist and entrepreneur hats, I see that entrepreneurs and investors have many ideas and practices that are just plain fucking fantasies, out-of-date dogma or misperceptions. They acquire these myths from the media, word-of-mouth from other entrepreneurs or from entrepreneur-published books that focus on the psychobabble aspect of starting a business.

You should read as many books as you can on business and entrepreneurship. But remember this: most books on entrepreneurship don't focus on providing real world, real-time advice. They talk about the past rather than the current state of entrepreneurship.

Things move rapidly in the land of entrepreneurship. Look at the current velocity of high-valued tech companies in Silicon Valley and Silicon Alley. No one can predict how long it will last. But it proves the point that rapid innovation in the marketplace brings down existing beliefs about entrepreneurship.

This book was written for the new generation of entrepreneurs who are creating the next Twitter, Foursquare, Zynga, Wooga, LinkedIn, Chipotle, Taco Diner, Tesla Motors or Facebook.

I immigrated to the United States of America from Yugoslavia at the age of 11. As an immigrant, I realize America is great because it allows entrepreneurship to prosper and grow. Startups are the foundation of any entrepreneurial economy — especially in America. My mission with this book is to help entrepreneurs become better by providing thought-provoking advice, questions and discussions.

I wrote this book in the same words I use when discussing entrepreneurship with my friends over a cappuccino or beer — or preferably a nice glass red wine.

So don't be shocked to find a fucking curse word or two.

This book is like a software program or app. The current version is 1.2 and I've frozen the specs for anyone to read now. As I receive feedback from readers, the myths will be updated with comments — utilizing the principles of swarm intelligence.

## Entrepreneur **Myth 1** | Entrepreneurs are born

“The entrepreneur  
**DNA** —  
is it REAL?”



The entrepreneur DNA — is it real? Based on my experience of investing into more than 25 startups, I don't believe there is an entrepreneurial gene. Environment and state of mind have more to do with becoming an entrepreneur than genetics. If anyone tells you they were born to be an entrepreneur, bitch-slap them a little for me.

When I was younger, people said I was born to be a soccer player. My father was a great athlete and a great player, and I may possess some athletic genes but my success on the soccer field was a result of playing four to five hours every day, 365 days a year — in sizzling heat or snow. My teenage son has tremendous talent for soccer but doesn't love it enough to play for hours every day. He chose another sport. And he practices three to four hours per day because he realizes you can't be good at anything unless you practice every day. To me, entrepreneurship is like a sport.

Education isn't the solution either. I funded one PhD entrepreneur in the hardware sector who was a very resourceful, creative and frugal entrepreneur, regardless of his education. And I funded another PhD entrepreneur who was a domain expert when it came to his field in the software sector, but he was not much of an entrepreneur.

A few years ago, I gave a speech on entrepreneurship to a group of MBA students at Oxford. The students wanted to know the secret to why Silicon Valley is the epicenter of technology innovation and the reasons for its success. Having

lived in Silicon Valley, I realize it's not about the geographical location. It's not a specific area you can find on the map. Silicon Valley is a state of mind. When you go there, you feel the spirit of entrepreneurship.

I told the Oxford MBA students how I had funded entrepreneurs across the U.S. and that great entrepreneurs are everywhere. However there were two key things you can learn from Silicon Valley entrepreneurs: (1) They had acquired an "entrepreneur state of mind," and (2) They saw failure as part of an entrepreneur journey — not an end in itself.

As the Oxford MBA students listened intently, I looked into their eyes and could see most of them were not willing to risk the costs of failure. A lot of people fucking talk about being an entrepreneur, but most don't want to risk failing. That's the problem: fear of failure.

### **Entrepreneurs are not born — it's a state of mind**

Anyone can become an entrepreneur, so don't let anybody tell you that you can't do it. It's bullshit. The key question is whether you're willing to reframe your mind to become an entrepreneur.

Entrepreneurs come from all walks of life, personalities, cultures, education levels, psychological traits, etc. One key element that makes an entrepreneur an entrepreneur is the ability to unleash their creative mind, and anyone can do it if they are willing to try.

### **Brain Candy: questions to consider and ponder**

**(Q1)** What are some entrepreneur myths you learned or experienced?

**(Q2)** What entrepreneur advice worked in the past but doesn't apply today?

**(Q3)** Do you think entrepreneurs are born? Do you think it comes down to experience? Is it a combination of both?

**(Q4)** Are your parents entrepreneurs? What sector? How long? Did they help you become an entrepreneur?

**(Q5)** Did you grow up exposed to entrepreneurship through your family, friends, school or some other means?

**(Q6)** Did you become an entrepreneur so you can become the next Bill Gates? Or did you do it because you can't get a job or you can't keep a job? Or did you do it out of passion for your idea or venture?

**(Q7)** Are you an entrepreneur because you want to be filthy fucking rich? Or because you want to change the world? Or because you have no choice?



## Entrepreneur **Myth 2** | Education is critical to be a successful entrepreneur



“My father always told me, in his thick Serbian accent, ‘Son, without education, you’re **nothing.**’ He drove me **abso-fucking-lutely nuts.**”

My father always told me, in his thick Serbian accent, “Son, without education, you’re nothing.”

He drove me abso-fucking-lutely nuts. The number of times he preached about education as the key to having a prosperous life, he should have written a book about it. Do you need an education to be a successful entrepreneur? According to my father, you need a college degree if you’re going to make a great entrepreneur. Bullshit.

Peter Thiel, cofounder of PayPal and investor in Facebook, believes a college education isn’t necessary. In fact, he started an initiative that pays kids to drop out of school. He funds high school entrepreneurs to start a business, as an alternative to college, because he believes there is currently an education bubble.<sup>1</sup>

Don’t get me wrong. Education is important, but it’s not going to determine whether you make it in your entrepreneurial venture. The level of education, to a certain extent, depends on the sector of your venture. If you’re in biotech, you’d better have a fucking degree. In fact, you better have more than one. In high tech, being a dropout has its advantages.

Bill Gates: dropout. Steve Jobs: dropout. Larry Ellison: drop out. Jerry Yang: dropout. These people created multi-billion dollar, high-tech companies without having a college degree. You still need or want one?

The journey of starting a venture can be difficult without a degree. I assure

you, from a venture capital standpoint, that if your venture has marketplace traction, the venture capitalist (VC) won't give a fuck whether you have a degree or not.

Mark Zuckerberg started Facebook out of his college dorm room. He dropped out when Facebook took off like a rocket. He managed to raise a substantial amount of money, without a college degree, from top-tier venture capital firms. You think those VCs asked to see his college diploma?

I funded a PhD; I funded an MBA; I funded a college dropout; and I funded a high school dropout. Fuck, the only person I have not funded is a middle school entrepreneur — not yet, anyway. The high school dropout was as good as, or a better entrepreneur than, the PhD entrepreneur. They were focused on different sectors, but their entrepreneurial capabilities were equal. Both entrepreneurs were highly educated when it came to their sector and market applications. However, the high school dropout was more resourceful and actually more creative in solving, not only entrepreneurial problems, but innovating as well.

Newbie entrepreneurs get confused when it comes to education. I turned down entrepreneurs with degrees from MIT and Harvard who pitched me for money. Just because you went to Stanford doesn't mean shit. A college degree is great, but it doesn't guarantee you'll get funded or become a rock-star entrepreneur.

Entrepreneurship is about creativity. All great entrepreneurs are creative, regardless of the sector or education level. Formal education doesn't place enough emphasis on creativity. Learning to read, write and compute is critical in life — schools are good at teaching these three elements but they forget the creative element and rarely teach entrepreneurship.

Entrepreneurship classes should be mandatory in junior high and high school just like biology or chemistry. Last time I checked, I haven't used much chemistry in my life — but entrepreneurship, you can use for your entire life.

Although I'm a college dropout, I am self-taught. The hundreds of books I've read over the past 20 years is equivalent to at least one MBA. I apply what I learn to practice and reality. Learning for learning's sake is not enough.

I listed more than 20 of my favorite books in the appendix. You should read them too. *Six Thinking Hats* by Edward de Bono is mandatory reading for entrepreneurs of all ages.

### **Brain Candy: questions to consider and ponder**

**(Q1)** How important is education to an entrepreneur's success?

**(Q2)** Is a college degree necessary to be a successful entrepreneur?

**(Q3)** Is a college degree from Stanford, MIT or Harvard needed to get an edge in funding?

**(Q4)** Do you need a business degree to be a great entrepreneur?

**(Q5)** Did you drop out of college to become an entrepreneur? How did it work out for you?

**(Q6)** Do you regret dropping out? If you do, will you ever go back and get your degree?

**(Q7)** If you're an entrepreneur working 24-7-365, when do you find the fucking time to educate yourself?

**(Q8)** What are some of your favorite books on entrepreneurship? If you had to choose just three, what would they be?

## Entrepreneur Myth 3 | You must risk it all to make it



“Risking it all in a startup is **absolute bullshit.**”

“The media loves to make heroes of entrepreneurs who gambled everything to make it big.”

Risking it all in a startup is absolute bullshit. The media loves to make heroes of entrepreneurs who gambled everything to make it *big*. The story is always the same: the entrepreneur is backed against the wall with no money, large debt and some fucked-up situation, and then wrestles their venture from the jaws of defeat to become an overnight sensation.

Risking it all is not the secret to entrepreneur success. Whether a newbie entrepreneur or veteran, the reduction of risk is critical in any venture — which means you need enough money allocated to sustain your venture during its ups and downs. And don't give me some bullshit — you will have ups and downs whether you fucking like it or not. Be prepared to lasso that tornado. Mortgaging your home, leveraging your credit cards, or using up all your savings for your new venture is a recipe for a disaster. Been there, done that, experienced it when I was much younger — it was painful. When you hear of entrepreneurs who risked it all and made it, usually they had no choice.

Let me get you out of your entrepreneur fantasy world. The odds of your venture becoming successful are much lower than you and your enthusiasm warrant. Depending on the sector, the chances are stacked against you. In America, four out of five businesses fail within five years of conception — which means that you've got a 20% chance of making it. Shit, it's almost as bad as gambling in Las Vegas.

Before you start your venture, study your sector, and figure out the failure rate in that particular industry. Don't put your fucking blinders on, thinking you'll be the exception.

For instance, be very cautious starting a restaurant in today's economy. Restaurants are a high-failure business so you'd better have enough cash to sustain losses — unless you're Chef Ramsey. Even some of his restaurants struggled. The competitive intensity in the restaurant industry is enormous. Starting a restaurant to compete against Taco Bell is not easy but Chipotle, Taco Diner and Fuzzy Taco succeeded so far because of their respectively unique product and service differentiation.

The odds of success vary for internet or technology startups, especially in social media. However, their fixed costs are substantially lower than brick and mortar businesses — if they know what they're doing.

Unless you're well funded or you have a sugar daddy, focus on starting a venture with low fixed costs. This allows you to test your idea in the marketplace without losing your shorts. If it fails, you are in a position with more options. And for a college student there is no better way to lower costs than by starting a venture out of a dorm room.

Ted Turner is a billionaire because he had no choice. When his father died, he assumed the billboard advertising business, loaded with debt. He had to succeed. He might have walked away and become an employee somewhere, but he chose the path of entrepreneurship, saved the family business, and made billions. Today, he's the largest landowner in America.

I've seen entrepreneurs quit their day jobs and start their venture without first proving their idea had validity or market acceptance. They came to me for money, desperate. Don't be a brave, stupid-ass entrepreneur like I used to be. Be a smart, low-risk entrepreneur. Backing yourself against the wall is not going to make you work any harder in your venture. It will only make it worse.

I funded an entrepreneur couple in the computer hardware sector. They were so broke when they came to pitch me that they had to leave their car running for two hours during their investor presentation. They couldn't afford to fix the car and were afraid that if they turned it off, it wouldn't start again. Lucky for them, I funded their ass. They later told me the story, and we laughed our asses off. Looking back, I wondered why they were so nervous during the meeting.

It's hard to pitch investors when you're flat broke. Try not to put yourself into this position. The media glamorizes entrepreneurs who risked it all and won. Please realize these entrepreneurs hit the "entrepreneur lotto." Yes, those stories are real. However, the media seldom talks about all of the entrepreneurs who risked it all, lost everything and now work at McDonald's.

Do me a fucking favor. Try *not* to risk it all. I did it a few times and *sometimes* it worked out, but other times I faced failure of major consequences.

My advice: risk it all while you're young. If you fail, you have time to recover. But no matter what any entrepreneur says, failure is a fucked up road.

### **Brain Candy: questions to consider and ponder**

**(Q1)** Have you risked everything to fund your venture? What was the result? Would you do it again?

**(Q2)** Is it better to risk it all when you're young and inexperienced or when you're older and experienced?

**(Q3)** If you risked it all and failed, how did you recover? Did you come out of failure quickly?

**(Q4)** Do you think the media glamorizes entrepreneur success?

**(Q5)** If starting and self-funding a venture, how much money is in reserve, based on your personal burn rate? How many months can you survive?

**(Q6)** When was the last time you saw a story in the news that started like this: "This is CNN. Coming up after the break, we have a wonderful tidbit of failure to share with you."

## Entrepreneur Myth 4 | You must have domain expertise to start a venture



Domain expertise, or being an expert in a particular area, is important but it can also be a hindrance. Sometimes knowing too much can make you dumb — it blinds your imagination or outside-of-the-circle thinking. Most people are domain experts in some area, but not every domain expert makes a great entrepreneur — at least not from a leader or founder perspective.

In college, I started an advertising agency as part of my entrepreneurship class. I went to great lengths to learn the art of advertising. David Ogilvy’s book, *Ogilvy on Advertising*, is a must read for any entrepreneur. When asked what he brings most to a client, David simply stated, “Objectivity.” I didn’t truly absorb what he meant until later. Domain expertise is critical for a startup, but objectivity is equally as important.

When Jobs and Wozniak started Apple, they weren’t domain experts for the emerging computer industry. Bill Gates started Microsoft, but he didn’t come from IBM. When Pierre Omidyar and Jeff Skoll started eBay they weren’t experts in online auctions. Jeff Bezos, founder of Amazon, didn’t come from the book publishing sector. And Mark Zuckerberg wasn’t a social media guru when he founded Facebook.

These founders were not domain experts because the markets were emerging but that didn’t stop them from starting ventures that created marketplace disruption and revolution in their respective industries. For example, the computer industry parallels the auto industry of the 1900s. Henry Ford didn’t start out as an automobile genius or manufacturing expert, but he is responsible for developing the mass production system, which had a significant effect in most industries. When Steve Jobs came back to fix Apple in 2002, he was not a music mogul or telecommunication expert. However, he changed the dynamics of the music and mobile sectors by introducing iPod, iTunes, iPad and iPhone. I wonder what is iNext.

Don't worry if you're not a domain expert. You may be in a better position to recognize an opportunity. You can always hire domain experts. The hardest part in entrepreneurship is having a clear vision you can transform into reality.

Domain expertise can be applied to a non-related sector. For example, my friend Steve Cinelli founded Primarq, the first exchange for investing in owner-occupied real estate. Previously, he was founder of Offroad Capital, a financial marketplace. He applied his domain expertise in finance, banking and market exchanges to another industry. You might do something similar.

When I started my first venture fund, I didn't have a finance degree. But I had studied complexity science for 10 years as a hobby so I applied those principles to the highly volatile stage of startup investing.

**Look at it this way, in order to think outside the box, you have to think outside the circle**

This is one time when being dumb has its advantages. Not being a domain expert causes you to ask simple, dumbass, obvious and silly questions. Besides, there is no such thing as a stupid question, only ignorant people who don't want to bother answering them.

As another hobby, I spent time learning the Toyota Production System (TPS). I was applying it before most lean business experts in the U.S.

Taiichi Ohno and Shigeo Shingo developed TPS for Toyota. They were geniuses — true all-time business greats. They don't get enough credit for developing a business and manufacturing process that is transforming every industry. The Toyota Production System or, what is commonly called in America, just-in-time or lean manufacturing transformed Toyota into one of the largest automobile manufacturers.

Ford said, "You can buy any Ford you want as long it's black." Ohno and Shingo's philosophy was that products should be made *when* the consumer wants them, *how* they want them and *when* they want them. TPS's continuing goal is to reduce or eliminate waste in every stage of the process while offering customers what they want, when they want it. The founding principle of the TPS system is to ask simply "Why?" Ohno was famous for asking why multiple times. Sometimes, he drove people around him fucking nuts. When you ask why, you force yourself and other people to think. On the average, people have a tendency not to completely think through a question. Shit, thinking is hard work.

### **Ask why**

Why do particular processes contain unnecessary inventory at various stages? Why can't we build a car according to a consumer wants and deliver it within five days? Why can't we make products one at time and just in time in most