

The Startup Management Team

ENET BOSTON ENTREPRENEURS' NETWORK

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Topics

- 1. How does the management role at NewCo compare to BigCo?**
- 2. What are the attributes of successful leaders of “NewCo” vs. “BigCo”?**
- 3. What do VCs want?**

Sources

David Stone	...Cowen, Flagship Ventures, LT Advisors
David Verrill	...Hub Angels
Harry Wilcox	...3X Growth Co COO's, Flagship Ventures
Jeff Hurst	...Commonwealth Capital
Olaf Krogh	...Norwegian VC, Advent Int'l, Growth Co CEO
Jason Henrichs	...COO Growth Co, Rock Maple Ventures
Cheryle Cushion	...Mktg Mgr, 2 BigCo's, 5 NewCo's
Jay Teich	...Two BigCo's, one Buyout, one Startup



Question #1

**How does the role of
CXX / VP of NewCo
compare to BigCo?**

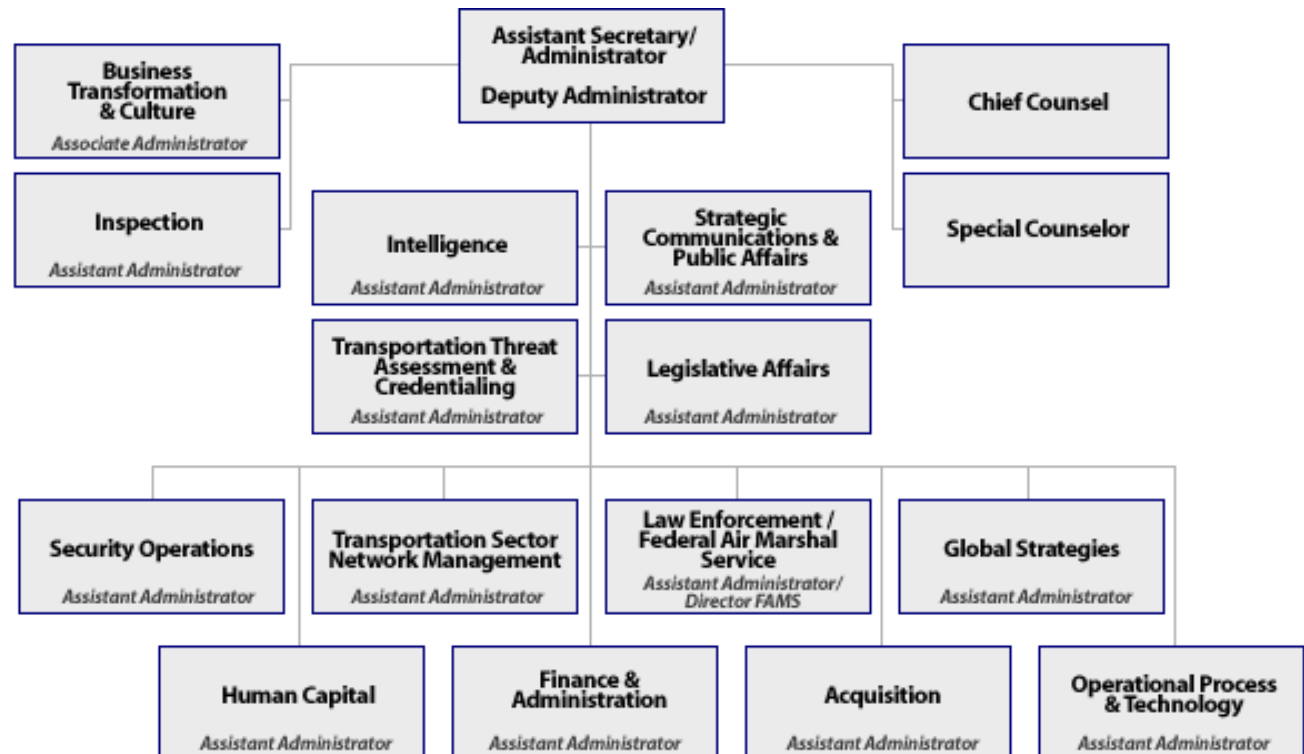
Question #2

**What are the attributes of
a successful leader of
NewCo vs. BigCo?**



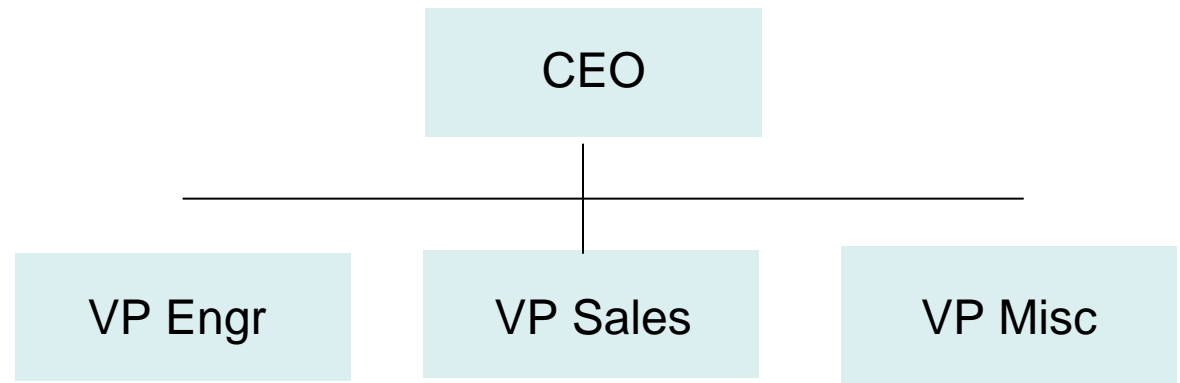
“You have to know how to sweep the floor.”

Some people believe that a manager of a large organization will be unable to “do the actual work” required in a startup without the staff to whom they would normally delegate the work.

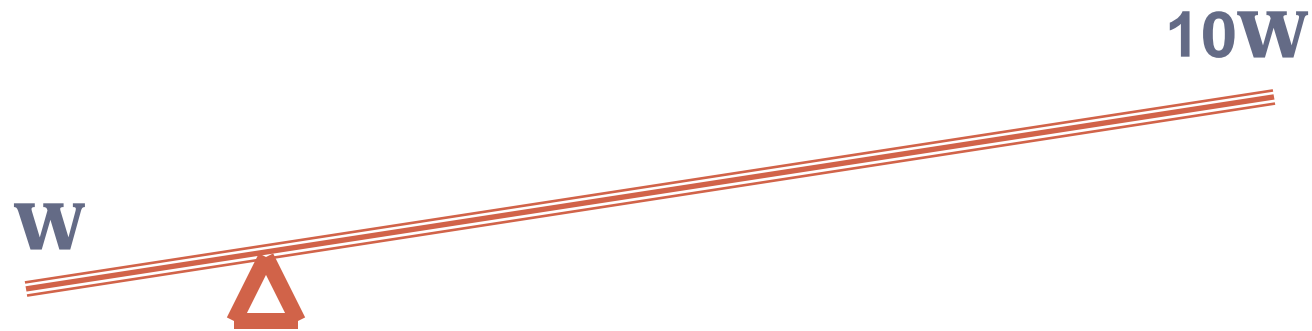


“You have to know how to sweep the floor.”

I have not found this to be the case. Managers of large organizations generally have networks of former employees, consultants and service providers to draw on, and know “how it should turn out”.



Leverage



$$W = (\# \text{ of tasks}) \times (\text{quality}) \times (\text{timeliness})$$

The bigger problem is the loss of leverage that allows a BigCo manager to accomplish many tasks through delegation. This requires careful choices of tasks to forego in a startup in order to avoid compromising quality and timeliness

Momentum



BigCo

- ✓ Product Line
- ✓ Sales Channel
- ✓ Reputation
- ✓ Installed Base
- ✓ Reference Sites
- ✓ Market Intelligence

NewCo

- ✓ Potential IP
- ✓ Technology

Few BigCo managers will risk an established market, product line, installed base and reputation to transform the company business from a product to a service model or back. Management and investors in startups may consider these things at every Board meeting.

Knowing when to knock on more doors versus change the game can be critical to the success of a startup.

Credibility

Are you more comfortable...

Buying an Apple or a Metron?

Metron sold US\$150 million worth of computers and equipment in 2002, 85% of which were personal computers.



Selling to GM or Ssangyong?

**Working for ExxonMobil or
AAAA Energy Enterprises?**

**For over fifty years, SsangYong has been a
powerhouse in Korean manufacturing**

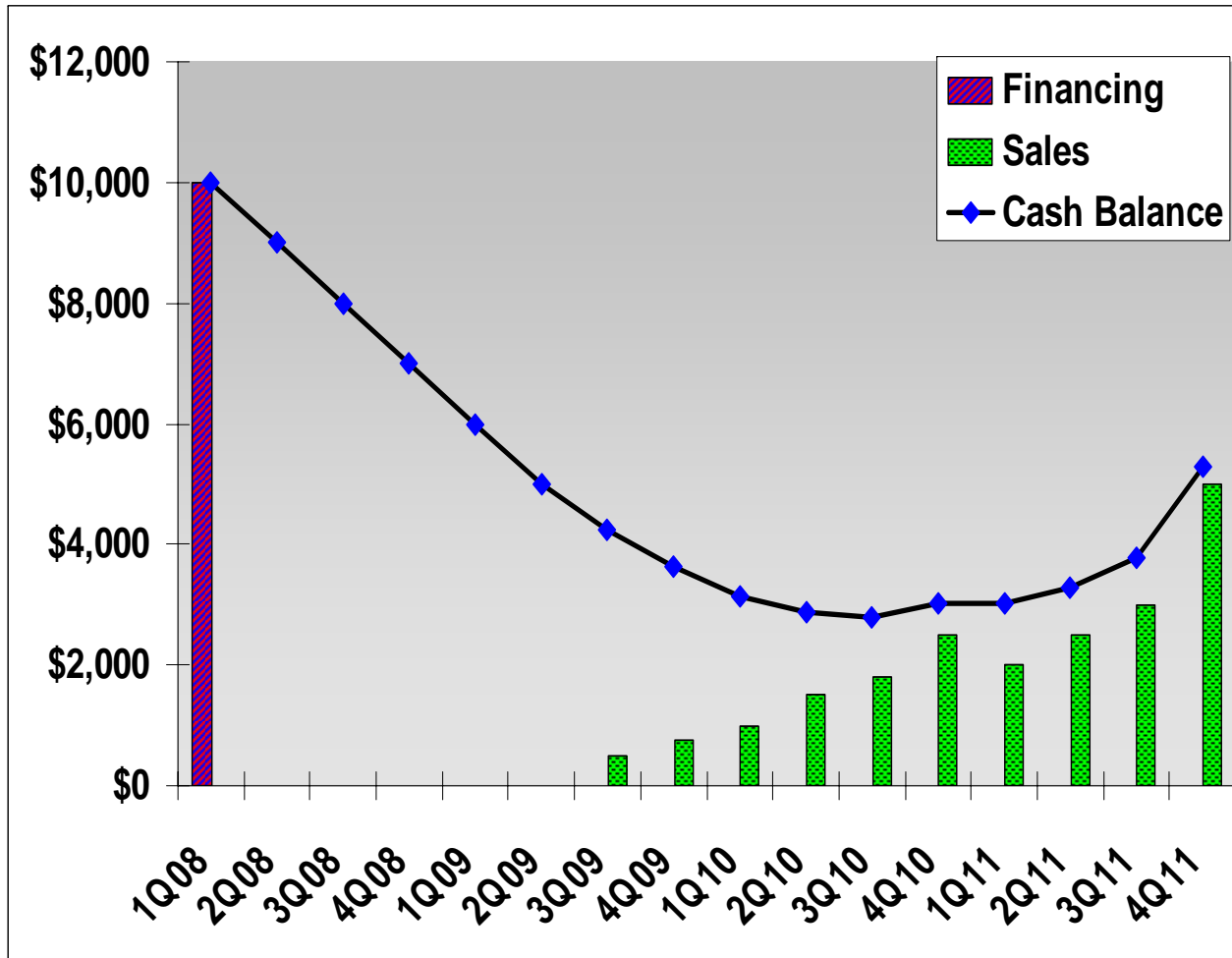
A recognized name makes a lot of things easier. BigCo managers are likely to know how to respond to a complex international tender, write a bulletproof supply agreement, or set up a tax sheltered supplemental retirement plan. SmallCo managers must learn to overcome skepticism in order to sell, buy and hire.

Do you want to invest in managers who...

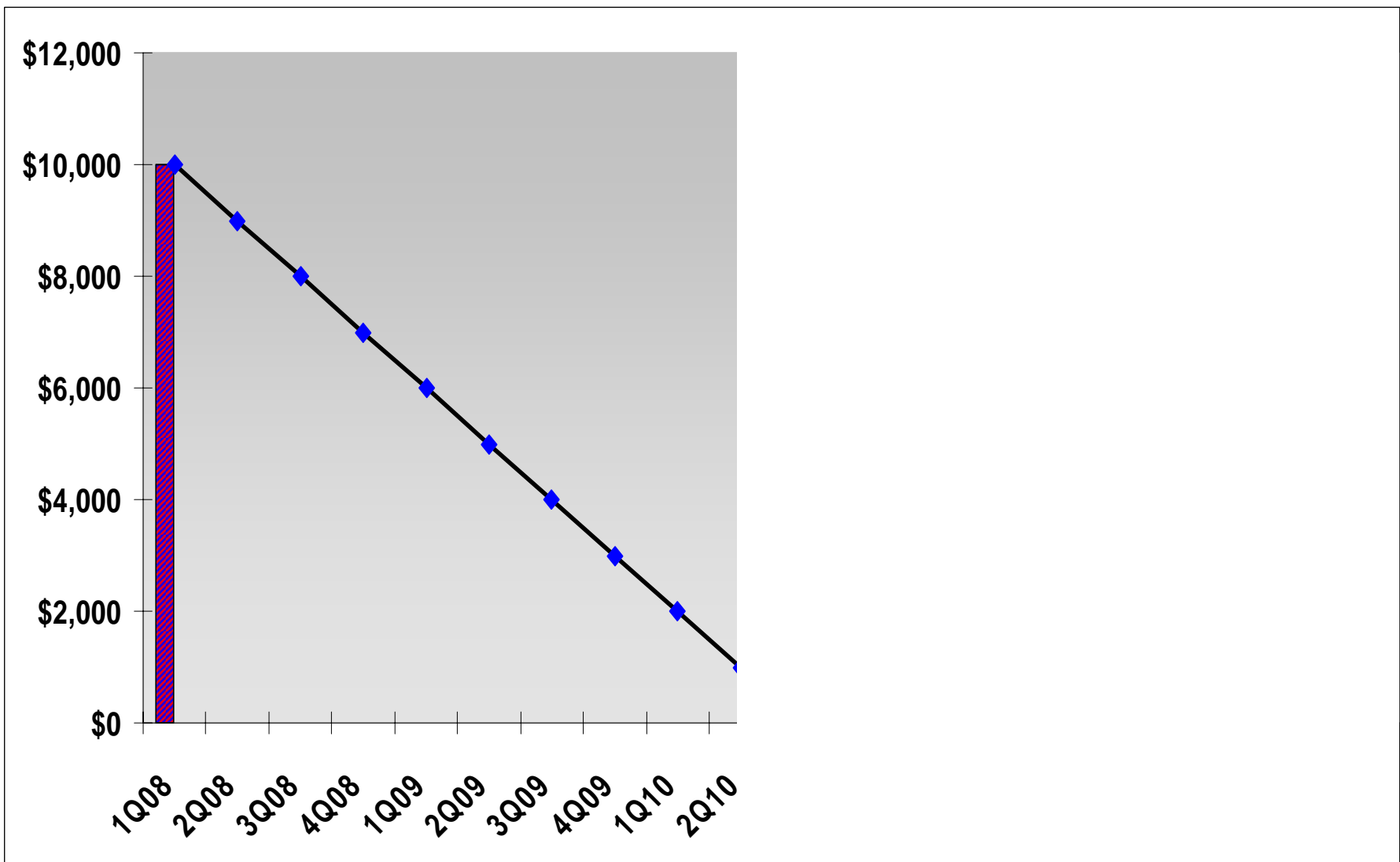
are determined to succeed?
or
refuse to fail?

Consider this question while reviewing a typical business plan...

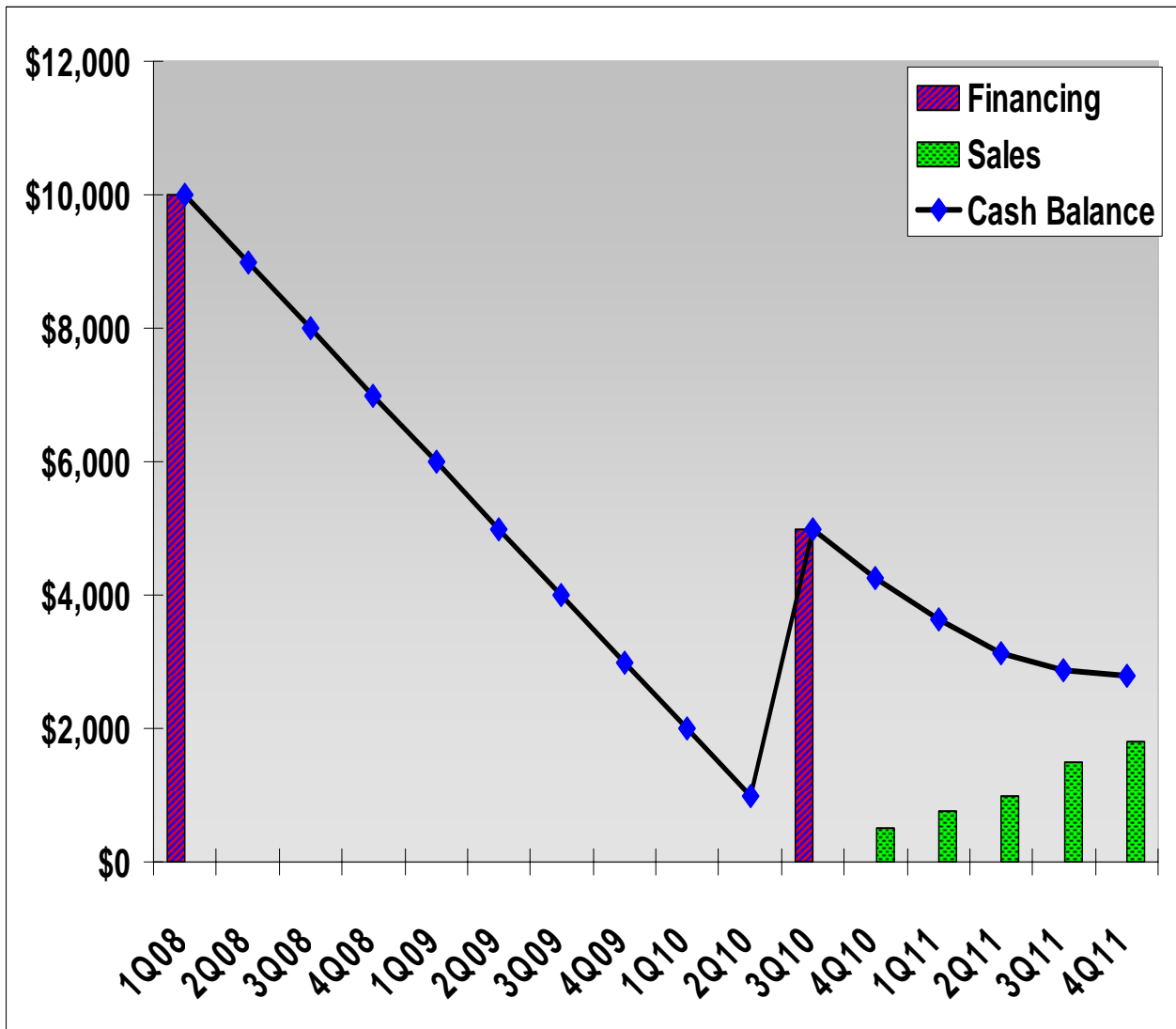
Business Plan



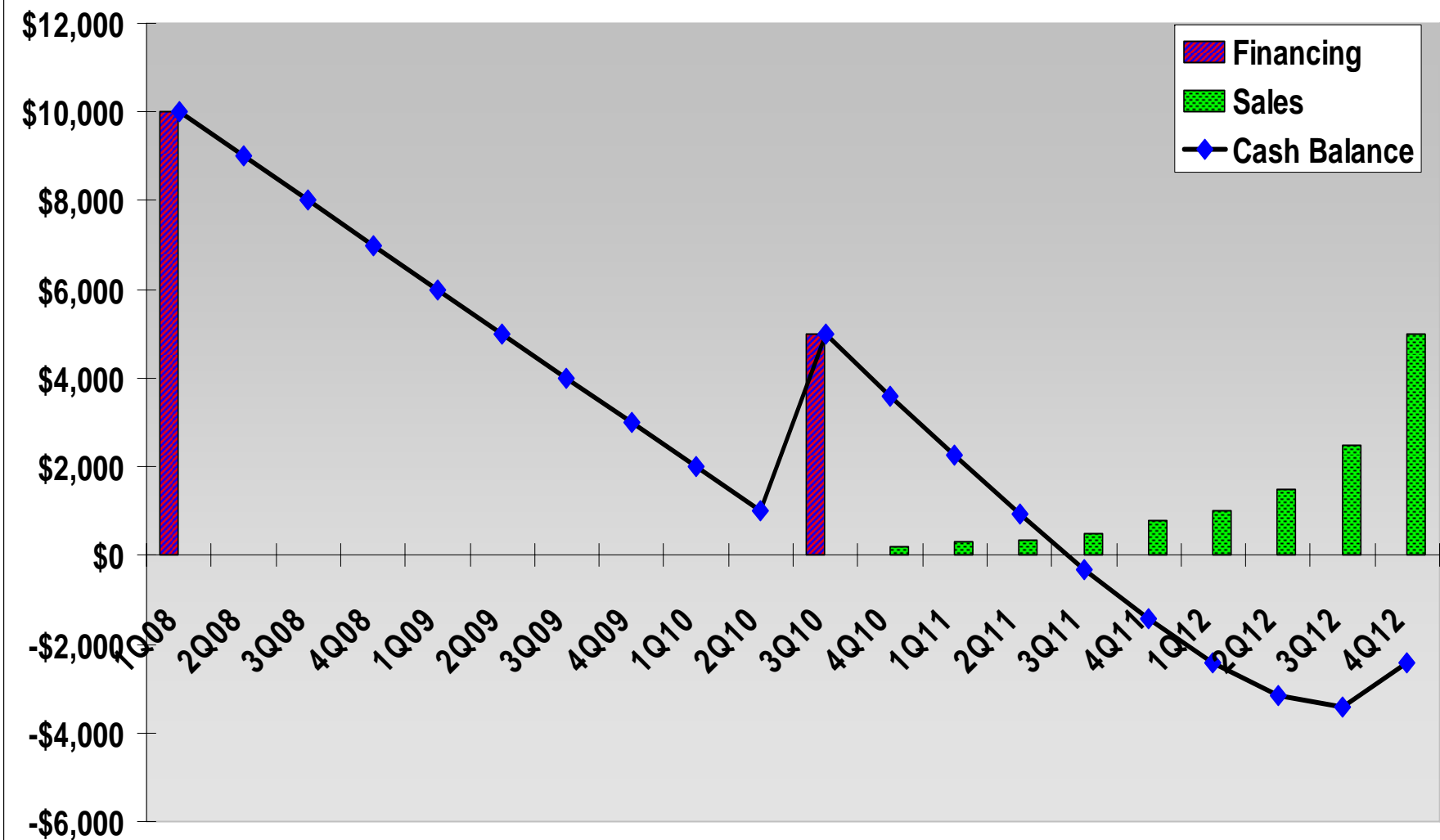
Here is a not-uncommon financial plan for a new company. A single financing provides enough cash to develop and commercialize a product that provides positive cashflow with a margin of error. It's an attractive scenario for a candidate management team member.



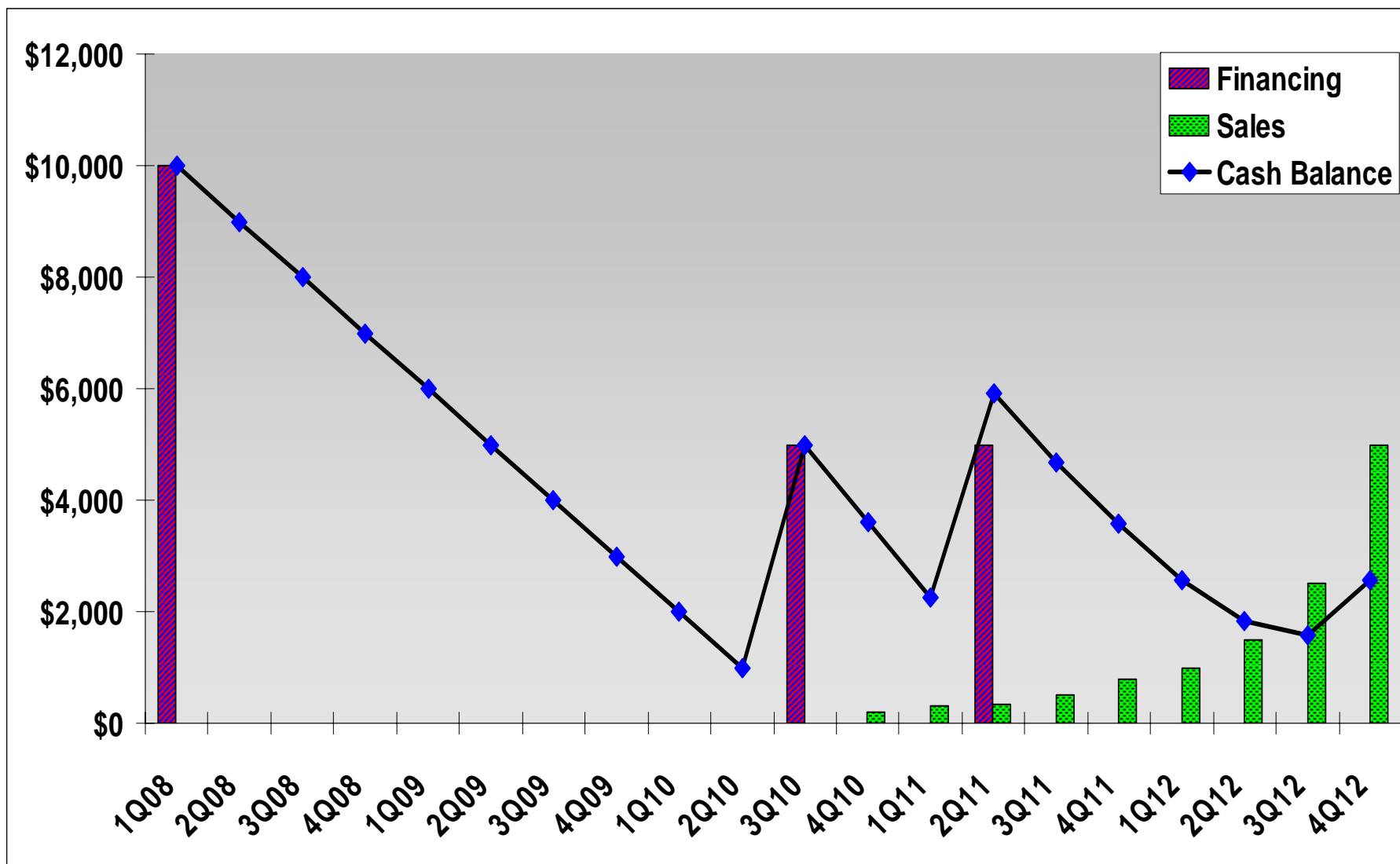
It is also not uncommon to experience product development delays that put the company at risk of running out of money. The impending bankruptcy puts a high level of stress on the management team, as it should, since this is a point when many new companies fail.



A skilled management team, fundamentally good company and supportive investors may save the day, with an expectation that a little more money will carry the company to profitability

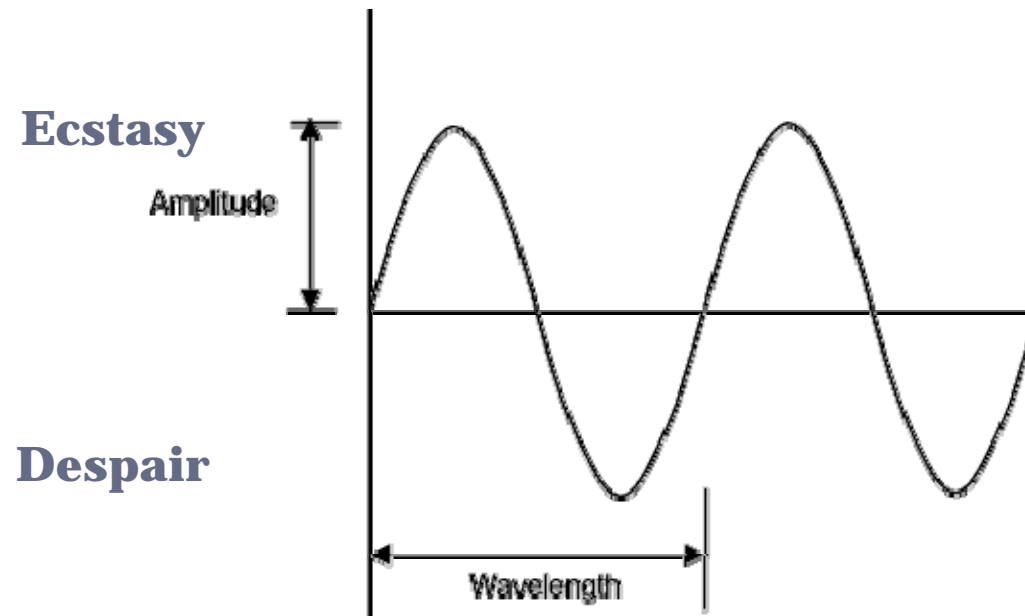


But, often, the adoption rate is slower than expected and the sales ramp is not fast enough to support profitability before the Series B funds are exhausted...



Once again, a loyal and compelling team, great investors and positive customer feedback may save the company. But the emotional impact on senior management can be significant...

Self-induced Bipolar Syndrome



In fact, life at a startup tends to oscillate between the extremes of human emotions.

Large companies go through crisis and re-organizations, but they are on a glacial time scale when compared to small companies where, in a very short time, the founding technology might not work and the team must scramble to find a new reason for the VC's to let the company live.

[Note: Never make important decisions above 67% of either peak.]

The compensation is “Competitive”, but you get...

So, why do people tolerate this?
It's not for the salary and bonus, which at best
may equal market rates. It's generally for:

STOCK OPTIONS!

When reality lags behind the plan, the big question
becomes:

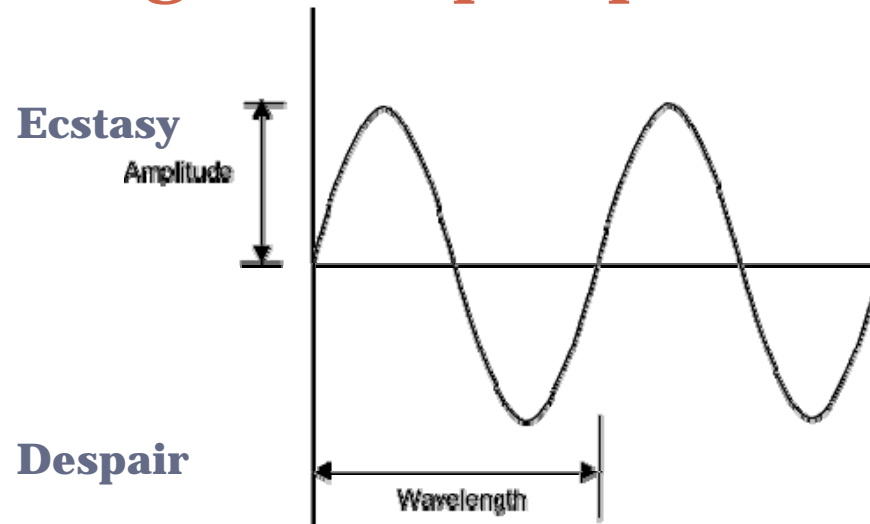
WHEN?

Not everyone can survive for years with
reduced comp, even if they want to.

How about a luxury company car, gas and insurance, 401 k contributions, better health coverage, knock your socks off commissions, consistently big bonuses, award trips, Rolex watches, TV's, computers, less work, status, power, great hotels, restaurants, and trips to company HQ in a warm climate? And did I say a lot less work?

How do you find leaders who will maintain their loyalty and dedication through good times and bad, particularly when they may have abandoned great executive comp and perks to join you?.

The formula for Surviving Startup Bipolar Syndrome



$$\begin{aligned} &\text{Self -confidence} \\ &+ \text{Experience} \\ &+ \text{Financial resilience} \\ &+ \text{Good behavior under stress} \\ &= \text{Survival} \end{aligned}$$

My advice is to find people with these attributes, and to plan for the worst case.
Then surprise everyone by selling your company for \$100MM after your “A” round.

Do you want to invest in managers who...

are determined to succeed?
or
refuse to fail?

Career VC's have learned that great companies often rise from the ashes, thanks to a CEO and management team who refuse to fail. They look for teams with extreme dedication.

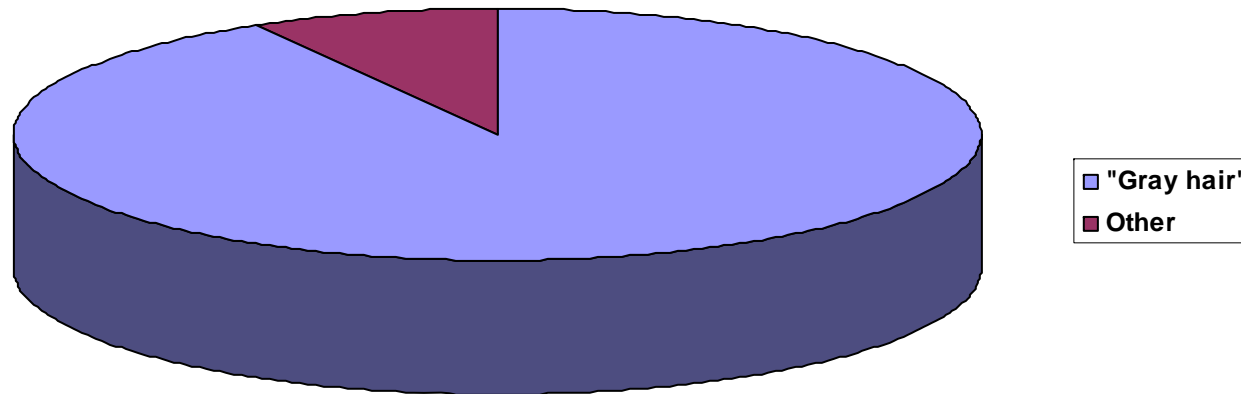
Questions #3

What do VCs want?

“There’s nothing simpler
that to back a formerly
successful guy, but
when you know how
much luck and
happenstance is
involved...”

“What if it ended up on the
front page of the WSJ?”

“Fanatical dedication”
(not necessarily to your vision,
but to their invested dollars).



VC's are risk averse. Their income and career are uniquely linked to the success of their portfolio companies. Mistakes hurt. Most believe that because starting a new company is so hard, experience is a prerequisite for success.

Some consider how a very public failure of your company will affect their reputation (the Wall Street Journal Test). Investing in experienced teams reduces the probability of public embarrassment.

Experience, Humility, Gravitas

Here is one VC's observation of a highly fundable combination of attributes.
But inexperienced entrepreneurs do get funded at times, and many are very successful.

Self-Quiz

<u>Buzzword</u>	<u>Translation</u>	<u>Points</u>
“Track Record”	CEO made investors >4X in the last deal	10
“Domain Knowledge”	Team doing what they know best	7
“Chemistry”	VC willing to be stuck in elevator with team	4
“Context Investors”	Nobel Laureate involved	3-6
“Huge Market”	VC believes in proposed market / problem	5
“Technology Play”	Team has developed a novel idea / product	2

Institutional Investor Threshold ~ 10 points

VC's look at hundreds of business plans each year. Every one includes an exciting new product, service or idea. That is rarely enough to warrant an investment. The team matters.

“VC’s confuse being lucky with being good.”

-a successful VC

**I would choose someone who is lucky
over someone who is good,
but it’s hard to screen for that...**

- another successful VC

Luck is a wonderful attribute for an entrepreneur. Humility is a wonderful trait in an investor.

Conclusions

- 1. A great team will help get you funded and ensure your survival- find one**
- 2. Experience is not required if you are very lucky**
- 3. Assume that it will take a very long time to succeed and then surprise everyone**

My personal opinion- look for people with relevant experience in your market, both large and small company careers, and a willingness to join your startup with their eyes open and stay to the end.

If this is your first management role, be willing to bring in an experienced leader when the time is right.

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