

The Critical Path to Success

1. Pick an Idea
2. Analyze the Market
3. Assess the Feasibility
4. Assess Your Own Capabilities
5. Develop a Plan
6. Recruit Your Team
7. Recruit Funders
8. Initiate the Business
9. Grow the Business

The Critical Path to Success

Step 1: Pick an Idea

Find your passion

Do something you're excited about and willing to commit your whole life to - possibly for years, with the risk that it won't pay off. It can be an improvement at work that your current company won't pursue, or something totally new--but it's something you can't stop thinking about.

How accountants would phrase it: "Identify a market."

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Step 1: Pick an Idea

Don't listen to your customers

People tend to extrapolate from what they know. Your customers are unlikely to grasp a revolutionary idea.

Two dumb ideas that would never fly:

- o The Apple II / IBM-PC
- o The Xerox machine

The real goal: Talk to the right customers.

How accountants would phrase it: "Consult with customers."

The Critical Path to Success

Step 1: Pick an Idea

Believe in evolution

Most new ventures are started to solve problems identified by the founders in their work. Packet Engines upped the ante for packet switches by boosting the speed by several orders of magnitude, but the idea of packet switches was not new.

How accountants would phrase it: "Address a market gap."

The Critical Path to Success

Step 1: Pick an Idea

Start a revolution

"Ambitious goals require great creativity. Building a large enterprise quickly, either by seizing a significant share of an existing market or by creating a large new market, usually calls for a revolutionary idea."

--Amar Bhide, Harvard Business School

o \$91 million and a fleet of planes to deliver a package across town? That was the business plan for Federal Express.

o Over \$100 million and we'll lose money for at least five years? That was the business plan for Amazon.com.

You can sell your dream - if it comes with a plan for success.

How accountants would phrase it: "Identify a need for innovation."

The Critical Path to Success

Step 1: Pick an Idea

Why does venture capital often focus on high technology?

"New markets are easier to make waves in. Taking business from competitors in a mature industry can be a massive task."

--Amar Bhide, Harvard Business School

o Venture capitalists want to see a large return on their investments

This can only be satisfied by a company with either an ability to dominate an industry or to compete effectively in a rapidly growing industry.

- o Venture capitalists invest in what they know

Most VCs come from the high-tech world.

- o Not all funds focus on high technology

A few funds invest in publishing, media, and in new retail concepts with opportunities for high growth.

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Step 2: Analyze the Market

Develop a clear, long-term vision of the market niche you're pursuing

If your product won't be on the market for two years, you need to think three years ahead.

But you can't spend three years thinking about it.

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Step 2: Analyze the Market

Choose a large, addressable market

Most venture capital firms look for companies that can give them a 10x return in five years or less.

A growth or glamour industry is the most likely sector to provide those kinds of returns.

Growth industries tend to be young, where the competition hasn't yet established itself.

- o Achieving higher market share tends to be easier and less expensive
- o Profit margins tend to be higher

But what about the internet? There's fierce competition and hardly anyone makes money. The difference is that it's a whole new marketplace, and every competitor still has an opportunity to be number 1. But act fast.

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Step 2: Analyze the Market

Create barriers to entry

According to Michael Porter of Harvard, startups face competition not only from rivals offering the same goods but also potentially from substitutes, suppliers, buyers, and other new entrants.

The only way to maintain an edge over your competition is to change the rules of the game to make it difficult for them to compete directly.

Barriers to entry include:

- o A patent or trade secret. Amazon.com is trying to patent the "one-click" ordering system. Coca-Cola keeps its secret recipe in a vault in Atlanta.

- o A brand name that deters imitators. Joe Boxer had the market for funky underwear to itself. Until Ugliers came out.

- o A superior execution with a me-too concept in rapidly growing industry. Packet Engines turned out to be one of a dozen gigabit packet switching companies, but it came out with the right product in the right way.

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Step 2: Analyze the Market

Assess the environmental issues

Once you've chosen a target market, find out all you can about it. You can't compete if you don't know what the competition is doing. You can't grow if you choose a shrinking market.

Understand the industry:

- o Trends
- o Enabling technologies
- o Competing technologies and products
- o Market growth/contraction
- o New entrants

How will you compete favorably over the long term and short term?

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Step 2: Analyze the Market

Find your critical success factors

There's more than one way to create a dynamic company. Ask Bo Cook at Screaming Mouse

how he does it, and he'll tell you something different from Bernard Daines at Packet Engines. Ask Bernard Daines at Worldwide Packets, and he'll tell you something different from Bernard Daines at Packet Engines, too.

How will you be the winner? These are some factors to consider:

- o proprietary technology
- o access to content
- o distribution channel access
- o superior management team
- o standards
- o market strength (room for several winners)

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Step 2: Analyze the Market

Use fuzzy logic

"To conserve time and money, successful entrepreneurs minimize the resources they devote to researching their ideas."

Amar Bhide, Harvard Business School

If you analyzed walking the way you can analyze your business idea, you might never get anywhere. Rough ground ahead. Where do I put my next step? Should I change my shoes? In an imperfect world, the most successful entrepreneurs act on imperfect information. At some point, you get diminishing returns from additional analysis. Complete analysis would just delay success.

Use fuzzy logic to act even before all the details are clear.

- o handle analytical tasks in stages
- research enough to take the next action
- o plug holes quickly
- look for solutions as soon as problems crop up
- o do evangelical investigation
- research can be a form of selling; don't just seek opinions and info, look for commitment from other people.

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Step 3: Assess the Feasibility

Find your distinctive competencies

Finding your distinctive competencies will lead you to your strategic focus.

Conduct an internal analysis:

- o What are your strengths?
- o What are your weaknesses?

Compare it with your environmental analysis:

- o How do your environmental opportunities match up with your internal strengths and weaknesses?
- o How do your key strengths address the needs identified in your competitive analysis?

Focus on what you can do best.

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Step 3: Assess the Feasibility

Identify your competitive advantage

From Hummer-Winblad Venture Partners:

- o Your internal analysis gives you a firm understanding of your company's unique capabilities.
- o Your environmental analysis identifies the barriers to entry that will prevent others from encroaching on the market.
- o Your business model should reflect a thorough understanding of the changing economics of the technology industry and present an innovative way of leveraging its uniqueness.

"Of course, all of these perspectives are meaningless without a clear understanding of the competitive marketplace, and the strengths and weaknesses of each potential competitor."
--Ann Winblad

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Step 3: Assess the Feasibility

Implement a prototype

Depending on your type of business, while assessing feasibility it may be desirable to create a prototype of your product or service. It needs to be minimally functional, enough to:

- o demonstrate in market research
- o impress investors
- o demonstrate feasibility of product

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Step 3: Assess the Feasibility

Answer the key strategic questions

From Steve Bennet, CEO of Rent.com:

- o How will you differentiate yourself from the competition?
(How will you become the standard or develop a niche?)
- o What methods of distribution will you use?
(This is central to business model.)
- o What milestones need to be met in order to achieve the strategy?
- o What resources are necessary? Define the general nature of your organization (what to do in-house vs. outsource).

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Step 3: Assess the Feasibility

Add up the results

Will your strengths create a competitive advantage?
Will your weaknesses defeat your plan?
Can you outsource or hire expertise to eliminate your weaknesses?

Will the market accept your evolution?

"[V]entures that seek to capture a market niche, not transform or create an industry, don't need extraordinary ideas." Clever marketing may be the main key to success.
--Amar Bhide, Harvard Business School

Is the world ready for your revolution?

"Ambitious goals require great creativity. Building a large enterprise quickly, either by seizing a significant share of an existing market or by creating a large new market, usually calls for a revolutionary idea."
--Amar Bhide, Harvard Business School

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Step 4: Assess Your Own Capabilities

Know Thyself

There's no ideal entrepreneurial profile - gregarious or shy, analytical or intuitive, detail-oriented or scattered, risk averse or thrill seeking. But all entrepreneurs need to address the same needs:

"Successful entrepreneurs, therefore, require an evangelical ability to attract, retain, and balance the interests of investors, customers, employees, and suppliers for a seemingly

outlandish vision, as well as the organizational and leadership skills to build a large, complex company quickly."

Ventures must also fit what the individual entrepreneur values and wants to do.

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Step 4: Assess Your Own Capabilities

Know Thy Tolerances I

If you're risk averse, you'll favor ventures

- o that are not capital intensive and
- o that have the profit margins to sustain rapid growth with internally generated funds.

Look for a high margin for error, ventures with simple operations and low fixed costs that are less likely to face a cash crunch because of factors such as technical delays, cost overruns, and slow buildup of sales.

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Step 4: Assess Your Own Capabilities

Know Thy Tolerances II

If you're a thrill seeker, you must be

- o ready to win or lose on a grand scale, and
- o able to convince others to jump off the cliff with you.

Ambitious undertakings like Federal Express fit people like this. (It took \$91 million, a fleet of airplanes and trucks, and hundreds of employees before Federal Express could even open its doors. Fed Ex then burned through \$40 million in losses in three years. But it paid off.)

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Step 4: Assess Your Own Capabilities

Be dedicated

"An attractive venture should provide a substantial enough reward to compensate the entrepreneur's exclusive commitment to it."

--Amar Bhide, Harvard Business School

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Step 4: Assess Your Own Capabilities

Be informed

Are you familiar enough with the technology so you can be up and running quickly?

You don't have to write all the code or know all the inner workings of your product, but you have to know enough about it to hire the people who do, and to sell the concept to your investors, customers, and the press.

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Step 4: Assess Your Own Capabilities

Be flexible and fast

Even traditional manufacturing companies are starting to measure themselves in Internet years. Innovations are happening so rapidly, you don't have the luxury of in-depth analysis.

Entrepreneurs need

- o a short-term willingness to revise their vision on a moment's notice
- o the agility to adapt the business plan to changing conditions

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Step 4: Assess Your Own Capabilities

Be rich in self-confidence

Acting on sketchy plans and inconclusive data may require an "almost arrogant self-confidence," according to Bo Cooke of Screaming Mouse.

Last month, Screaming Mouse inserted CD-ROMs into Snowboarder Magazine promoting their site. Was the software solid enough? Maybe it doesn't matter, since the promotion brought a million visitors to their site in one month.

It takes this kind of self-confidence to persevere in the face of constant adversity.

The Critical Path to Success

Step 4: Assess Your Own Capabilities

Be low in ego

Do you want to be president for life? "If the answer is unequivocally yes, we're probably not going to do the deal"

--Mitch Mumma, Intersouth Partners, Research Triangle Park, NC

If you're going to succeed, you'll need to surround yourself with high-powered talent and let them do their jobs.

o You must be a "people magnet" who can attract critically needed talent in a tight market

o You must be willing to forge strategic partnerships for tactical advantages.

"Being a company's proud founder is also foolish. As they build their companies, many people walk around saying to their employees, 'I am the founder and you're not.' You want every employee of your company to be a founder. To have and therefore feel ownership."

--Bob Metcalfe, 3COM founder

The Critical Path to Success

Step 4: Assess Your Own Capabilities

Be an Entrepreneur,
Not a Visionary

"Here's the difference between a visionary and an entrepreneur. Both have visions, which are a dime a dozen. But an entrepreneur has, in addition to visions, plans. In addition to plans, actions. You might have heard that 80 percent of winning is just showing up. Well, showing up is an action, like taking that wake-up call in the dark in the Ramada Inn in Schenectady. I wouldn't touch a visionary with a 10-foot pole. "

--Bob Metcalfe, 3COM founder & former visionary

The Critical Path to Success

Step 4: Assess Your Own Capabilities

Know Your Own
Operating Range

3COM founder Bob Metcalfe:

" Putting together the board of 3Com was one of my proudest accomplishments. I built that board with the best people I could find. When they decided someone else was better qualified to be 3Com's CEO, who was I to argue? Both times, in retrospect, they were right.

By 1990, 3Com had outgrown me. Fortunately I had a board smart enough to know that I had succeeded in moving 3Com out of my own operating range. You should be so lucky. "

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Step 5: Develop a Plan

Is a business plan required?

No! Of Inc. 500 businesses, 41% had no plan at all.

You can also start your business without a formal plan, and develop the plan as you go. This may help in a rapidly moving industry like the Internet.

The Critical Path to Success

Step 5: Develop a Plan

Is a business plan required to get venture capital?

Yes. The legendary tales of business plans sketched on the back of a napkin are few and far between.

"Ambitious endeavors like Federal Express, for example, require significant capital and must be better researched and documented than ventures that can be self-financed. Professional investors usually ask for a written business plan because it provides clues about the entrepreneur's seriousness of purpose, concern for investors, and competence. So entrepreneurs must write a detailed plan even if they are skeptical about its relationship to the subsequent outcomes."

--Amar Bhidé, Harvard Business School

The Critical Path to Success

Step 5: Develop a Plan

Benefits of the plan

The business plan helps you focus on what you need to do when. It's more than a piece of paper.

- o It assesses the feasibility of the business
- o It serves as a management tool: your guidebook for running your own business
- o It's a sales tool and a fundraising tool, telling you
- o how much you need
- o when

- o from whom
- o It's a sales tool for forging strategic partnerships and business relationships

The Critical Path to Success

Step 5: Develop a Plan

Elements of a business plan

Because the business plan serves many purposes, it has many parts. Sometimes you'll use all the parts together, sometimes just one or two, depending on whom you're showing it to. The bulk of the technical information and financials would go in the appendices, which are shown only to those with a critical need to know. Sections include:

- o executive summary
- o company overview
- o market analysis
- o products and services
- o marketing and sales plan
- o management and organization
- o operations
- o long-term development and exit plan
- o structure and capitalization
- o financials and assumptions
- o appendices

The Critical Path to Success

Step 5: Develop a Plan

The pitch

The pitch comes in three types, to address three audiences, and you have to be ready to deliver all three on a moment's notice:

- o 30 Second (elevator) pitch
- o 15 minute presentation
- o 1 hour presentation

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Step 6: Recruit Your Team

Build a superior team

From Hummer Winblad Venture Partners:

"A successful company is built by a strong and cohesive team with the leadership skills to inspire greatness, the vision to define the operating strategy, and the ability to recognize not only the business's strengths, but its weaknesses as well.

"We are particularly fond of managers that seek to acquire best practices from market leaders-learning from other people's mistakes rather than their own. We recognize that strong teams aren't built overnight, and are always excited to work with individuals intent on surrounding themselves with excellence.

"Many Hummer Winblad companies began with two people and a strong vision."

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Step 6: Recruit Your Team

Selling Matters

Even if you're looking for people to work with you, you have to sell them on the idea. It may seem self-evident to you, but you have to convince others to believe.

Some people are so good at selling they get others to work for nothing in the hope of getting a big payoff when the company goes public. But you have to deliver, to retain your credibility.

The Critical Path to Success

Step 6: Recruit Your Team

At a Startup, Jobs Grow Faster Than People

Bob Metcalfe, founder of 3Com, talks about the first sales manager for the entire eastern US who was gradually given more and more lucrative sales territories--which were shrinking rapidly in size. His final promotion was to sales manager for just metro Washington, DC.

At an established company, this would be looked at as nothing less than a series of demotions, but at a rapidly growing company, the sales manager was becoming increasingly more challenged and given increasingly higher compensation

The Critical Path to Success

Step 6: Recruit Your Team

Don't Hire-Recruit

Bob Metcalfe, 3COM founder:

"First, don't "hire" anyone. B people hire C people-they collect resumes and choose the person they want to honor with a job. A people recruit A people.

"The people you need for a growing startup already hold jobs much bigger than the ones you need to fill. You have to recruit them, beg them almost, to take the small jobs you're offering. Those with imagination will see that the company has the potential to grow so quickly that the small job will soon be much bigger than the stable position they hold at a big company.

"Forget about big company notions of performance. A people can perform easily 10 times better than B people, sometimes 100 times, or 1,000. The worst thing you can do is rush to fill a job with a B or C person. That could be very costly, perhaps even fatal, to your company. Wait until you can recruit the A person who can see the future and grow with it."

The Critical Path to Success

Step 6: Recruit Your Team

People Have Operating Ranges

In a fast-growing company, people can exceed their competencies quicker than you or they expect. Each of us has an operating range.

A founder who can easily handle sales growth from \$0 to \$1 million a month may be overwhelmed at \$5 million a month. The new sales manager who takes sales from \$5 million to \$10 million a month may be hopeless at \$25 million.

After each plateau, a ruthless change may have to be made to bring the company to its next plateau.

The Critical Path to Success

Step 6: Recruit Your Team

How do you know when it's time for a change?

From Bob Metcalfe, 3COM founder:

"How can you tell when the person who did such a great job six months ago has hit the upper limit of his or her operating range?"

- o The first sign is a decline in performance-salespeople missing quotas, engineers slipping schedules.

- o At some point, unless things start improving, sometimes even before the proof is conclusive, changes must be made. You have to be able to say, "If you can't do it, we'll just have to find someone who can."

- o If you wait too long for the person to learn what they need to know or for conclusive proof of whose fault it is, you may bring the whole enterprise down. Better to risk the lawsuit for wrongful discharge and save the venture."

The Critical Path to Success

Step 7: Recruit Funders

Selling Matters

"Most engineers don't understand that selling matters. They think that on the food chain of life, salespeople are below green slime. They don't understand that nothing happens until something gets sold.

"[Sales] represents one of the key differences between invention, which comes up with a brilliant new idea, and innovation, which gets that inspiration out into the world."

--Bob Metcalfe, 3COM founder

The Critical Path to Success

Step 7: Recruit Funders

You have to sell to investors

Before you make your pitch, ask yourself the following questions:

- o Is projected market and company growth right for VC investors
- o Is proprietary technology desired by corporate investors
- o Can development costs be funded internally?
- o When is the best time to seek funding

Develop a funding plan - How much? When? From whom? Play to their investing motivation.

Rehearse your presentation again and again.

The Critical Path to Success

Step 7: Recruit Funders

Alternatives to venture capital

Not all businesses need venture capital, and not all need to start with venture capital. You can find sponsors to provide you with a nest egg to build from, or take out loans. If you're a startup, you may have to find alternatives to bank loans, which generally require collateral.

Find sponsors

- o seed capital
- o a customer
- o friends and family

Find loans

- o bank loans
- o credit cards
- o factoring (financing accounts receivable)

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The Critical Path to Success

Step 8: Initiate the business

Shouldn't this be Step 1?

The critical path is not a garden path. Its more like a barely visible trail through thick woods. You may slip off it at any point and struggle to come back to it. You may begin at the end and not even know it.

If you've taken the earlier steps in order, you have a plan you can use, people who can help, and money to spend as you initiate your business.

But you can initiate the business first and then complete the other steps. Yahoo began in a dorm room. Excite began in a garage creating an entirely different product than the one that made the founders millionaires. Hewlett-Packard was two guys with talent who wanted to make something, but they didn't know what it was yet.

The Critical Path to Success

Step 8: Initiate the business

Oh, and...

Produce the product. A great design is nothing if it can't be built.

Support the product. After-sales support can be critical to building loyal customers.

The Critical Path to Success

Step 9: Grow the business

Work very hard

Stick to what must go right and anticipate the pitfalls that could destroy the company, rather than spending time on things that would be nice to know.

The Critical Path to Success

Step 9: Grow the business

Plan for Success

"In the third quarter [of 1983], we grew 85 percent in three months, which almost killed the company. We sold much more than we could deliver, leaving a backlog of unsatisfied

customers for our competitors to unhook. We didn't have enough people to answer all our customer support calls. Our production programs slipped behind schedule.

" I remember our CEO, Bill, saying we would never grow that fast again. But I pointed out to Bill that Compaq had the year before gone from zero to 10 times our size in one year.

"Our problem was not that we had grown 85 percent in three months. It was that we had planned to grow only 15 percent. Which is to say that you can plan too conservatively. (I hasten to add that if you have to err on one side or the other, it is better to plan conservatively. Just don't overdo it.)"

--Bob Metcalfe, 3COM founder

The Critical Path to Success

Step 9: Grow the business

Know Your Own Operating Range

"Putting together the board of 3Com was one of my proudest accomplishments. I built that board with the best people I could find. When they decided someone else was better qualified to be 3Com's CEO, who was I to argue? Both times, in retrospect, they were right. By 1990, 3Com had outgrown me. Fortunately I had a board smart enough to know that I had succeeded in moving 3Com out of my own operating range. You should be so lucky."

--Bob Metcalfe, 3COM founder

The Critical Path to Success

Step 9: Grow the business

Big Hairy Audacious Goals

In *Built to Last: Successful Habits of Visionary Companies*, Jim Collins and Jerry Porras found that the longest lasting successful companies are constantly reinventing their businesses.

As Daniel Burnham once said:

"Make no small plans, for they have no power to move men's minds."

The Critical Path to Success

Step 10: Have Fun

Presented by Lyle Anderson, SIRTI

Written by Christopher M. Kelly
Entrepreneurs Forum of the Great Northwest

phone: (509) 484-0940
e-mail: efgnw@aol.com