

Chapter 2—Preparing for your Journey

This chapter contains vitally important information to prepare you for your journey including a travel plan template, a series of questions that help you select the best route, a simple technique for taking bearings and fixing your position, tips and advice on picking your team, harnessing momentum and raising funds from investors.

Poor Preparation Leads to Poor Performance—and can affect your Diet!

Many people flooded into Silicon Valley in recent years, especially in the dot-com gold rush years, but technology entrepreneurs are not the first people to head West in search of a better life. People have been migrating West for as long as anyone can remember—and there are things that we can learn from their experiences. Today's companies are drawn by the nurturing business environment and the skilled workforce of Silicon Valley. In the last century, good weather and farming land was enough to entice people to embark on a dangerous westward journey. Back then, the challenge was to find a good road map, select a route and travel plans that would enable you to get your family through the mountains before the winter storms arrived. Some people made it through without a scratch, others were not so lucky.



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Many years ago the California Star newspaper in San Francisco published a delicious account of the rescue of the Donner Party, a group of several families of migrants trying to cross the Sierras from Independence, Missouri to the Pacific in 1846 that ground to a halt mid-winter in the Sierra Mountains near Lake Tahoe. It told of how the lucky travelers had survived by eating the flesh of the other, less fortunate, members of the party and that when they were discovered they were actually broiling and preparing the body parts of close family members for a juicy meal.

When we look back at the story of the Donner Party today it's difficult to understand how they could have been so foolish as to find themselves trapped in such an inhospitable place mid-winter without appropriate supplies. They embarked on the journey thinking that if they could just get over the mountains they'd find a land of milk and honey in California. Of course actual cannibalism is quite rare (or well covered up) in corporate America today but many of the journeys taken by technology startups end in similarly ugly conditions and there's a great deal to be learned from the journeys of our adventurous forefathers.

Seven Point Travel Plan

Surely with a little planning, each member of the Donner Party should have been able to make it through without having to snack out on the body parts of family and friends—indeed many other parties had successfully completed the journey before. Wouldn't you like to have the opportunity of advising the leaders of the Donner Party before they set out on their fateful journey? As a modern traveler your advice could likely be summarized as follows:

- ✓ *Target your destination*—make sure you know precisely where you're going. If you don't, what chance do you have of ever getting there?
- ✓ *Pick your team*—choose team members that are headed to the same destination and are prepared to pull their weight on the journey. Oh yes—try to avoid cannibals, especially if there's a possibility that your food provisions may run low. You want a team that's prepared to back itself and is more interested in stock options than salary.
- ✓ *Plot your course*—get hold of the best map you can and select a course that doesn't go through snowy mountains in mid-winter. Identify all the steps and milestones that you're going to need to hit along the way.
- ✓ *Gather your provisions*—prepare a comprehensive list of everything that you're going to need to complete each stage of the journey. Make sure you can make it to the next staging post with food to spare!
- ✓ *Maintain your momentum*—keep the wagons rolling.
- ✓ *Take your bearings*—regularly check and cross-check where you are against the map to avoid straying off course.
- ✓ *Prepare for contingencies*—carry extra food, clothing and shelter, just in case you get trapped by a snow storm. Should the snows come in, plan to send a party out on foot in search of help the moment the wagons grind to a halt.

This advice seems to be just common sense, however, I'm confident that the Donner Party would have made it through in one piece if they'd put together a detailed travel plan based on these seven points. In fact these principles can be applied to any type of journey. Many of the most successful corporations in business today, including Compaq Computer and Southwest Airlines, started out with a simple plan drawn up on the back of a napkin.

All the essential elements of a successful business plan can be condensed onto a single page to whet the appetite of a potential investor. If it can't be summarized onto a single page, the plan is probably too complicated to realistically put into action. In fact, I'd question any plan that was so complex that it failed the 'napkin test'.

Of course, the napkin would have to be backed up with more detailed information—but bigger is certainly not better when it comes to creating plans that normal people are likely to use as working tools. Technology markets move so quickly these days that detailed plans are invalidated in the blink of an eye—after weeks or months of painstaking preparation they inevitably wind up gathering dust on some investors bookshelf.

Preparing for a journey, let's take the seven tips we prepared for the Donner Party and draw up a short, working travel plan that can be pinned on the wall and easily communicated to the rest of the team.

Back-of-a-Napkin 7 Point Travel Plan Template for Any Journey

Team *Team Members & Responsibilities*

Identify the optimal size of the team for this journey. List team members with roles and responsibilities.

Provisions *Budget & Resources Required*

List all the resources that you're going to need for each step of the journey and identify where you plan to acquire them.

Taking Bearings *How to Fix your Position*

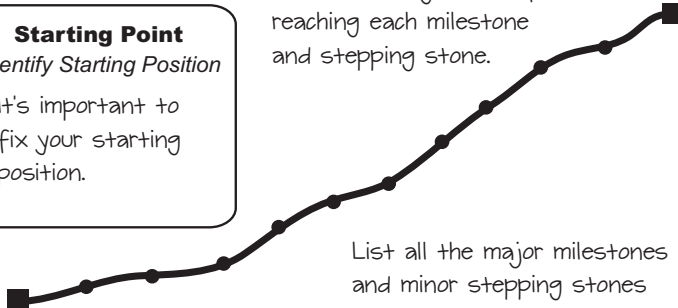
Fix your position on the course as you start the journey. Identify accurate ways of pinpointing your position as the journey progresses. Remember to take your bearings regularly.

Plotting your Route

Starting Point
Identify Starting Position

It's important to fix your starting position.

Enter the target date for reaching each milestone and stepping stone.



List all the major milestones and minor stepping stones

Target Destination
Where do you Want to Be?

Here you state clearly and concisely where you want to go. Keep it simple.

Maintaining Momentum *How to Keep the Wagons Rolling*

Identify the pace at which you want to progress along the course. Plan how you're going to encourage the team to keep the wagons rolling.

Contingencies

What Can Go Wrong?

List all the potential obstacles that you could encounter on the journey.

How Will you Fix It?

Identify all the ways that you will overcome each of the obstacles.

Targeting your Destination

In the good old days, you could set out with a simple mission to design a great product and build a profitable private business—you didn't have to think about whether this would lead to a subsequent sale of the company or *IPO*. Today, facing fierce competition, huge startup costs and fast moving markets, this is no longer possible—if you don't target your destination and drive directly toward it at full speed, you have little or no hope of getting there before the competition. Your investors are going to want to see a clear exit route where their shares convert back to cash and they get to receive a return on investment—designing a great product and building a good business no longer sufficient reward.

Targeting your destination is a core component of your travel plan—if you don't know where you're going what chance do you have of ever getting there? It's not a guarantee of success though—even

the Donner Party had a destination in mind when they set out, and their journey didn't exactly end in idyllic conditions. Once you've targeted your destination you can plot your route, pick your team and start to generate some momentum.

Picking your Team

Do you remember those long arduous road trips with friends and family members that seemed to get more irritating the longer the journey went on? We've all had them. Tempers fray when previously friendly traveling companions grow tired and irritable—especially when the trip doesn't go smoothly and the party fails to reach its chosen destination on schedule. I recently read that scientists have figured out that putting several astronauts into a space ship for a mission that could take several years would create the perfect conditions for murder. Bear this in mind when you pick your founding partners, investors, executives, directors, advisors, managers, bankers, lawyers, accountants, consultants, suppliers, contractors and employees for this long and arduous road trip:

- ✓ *Pick traveling companions that all target the same destination*—if there's any disagreement about where the party is headed, you're definitely in for trouble sooner or later.
- ✓ *Avoid cannibals*—pick personality types that support the team and don't cannibalize their own team members when the going gets tough.
- ✓ *Pick good navigators*—people that can read maps, take bearings to fix your position and help plot out the best route forward can be worth their weight in gold.
- ✓ *Avoid traveling companions that want a chauffeur-driven limo service*—pick the candidates that are prepared to walk, run, climb, jump or do whatever it takes to make progress on the journey.
- ✓ *Pick team members that can help identify the provisions the team is going to need and helps gather them together*—avoid the person that would steal the last cookie, deny stealing it and wait for someone else to buy more.
- ✓ *Keep your team as small as possible*—large teams are very difficult to control and keep headed in the same direction.
- ✓ *Pick people that know the route*—the practical experience of seasoned travelers can be invaluable.

Founding Partners

When you start a new business, you have to decide whether you want to go it alone or bring in partners. It's natural to feel more exposed and vulnerable when you go it alone, but bringing in partners needs to be carefully thought through and can easily destroy the business.

It can be very tempting to invite your buddies to join your startup. Inviting them in before the company has any momentum, however, can be very costly. Don't be surprised if they ask for equal partnerships. Equal partnerships are never exactly equal. Two partners may have the same stock options and remuneration package, but it's impossible for two people to make precisely the same level of contribution—one partner is sure to take more responsibility and pull more weight than the other. How would you feel if you were working 80-hour weeks while your 'equal' partner was sipping gin and tonics on the beach? It can happen, believe me.

Sometimes collaboration sparks ideas and releases untapped talents. John Lennon's collaboration with Paul McCartney in the 1960's resulted in some of the most popular music in history. I don't think they would have achieved any success without this collaboration, however, The Beatles was essentially Lennon's baby. He needed other musicians and he offered McCartney an equal founding

position in the band. If he'd written a few songs and generated some momentum beforehand, I'm sure he would have been able to bring in McCartney on better terms, and the relationship might have actually gone on for a few more years. After the band split up, Paul Simon says he had dinner with Lennon in New York and John explained that the reason for the split was that McCartney was challenging him for leadership of the band. Perhaps this wouldn't have happened if Lennon had set things up differently at the start. I would have loved to have been a fly on the wall at that dinner. Paul Simon was clearly the driving force in Simon and Garfunkel—he wrote almost all the songs and Garfunkel seemed to get half the credit. Lennon and Simon must have been bitching about how they'd do it differently in future. They obviously learned from the experience and did do it differently next time around. Simon hired musicians instead of partnering with them. They didn't expect to be full partners or challenge for control as they realized that it was Simon's baby and clearly accepted that he'd generated the momentum before they appeared on the scene. Lennon did the same, after he reappeared from hibernation. And so did McCartney. If you were a musician invited to an audition for Paul McCartney and Wings, you had no hopes of getting an equal share of the pie or of becoming the leader of the band. Paul did bring in his wife Linda, and this partnership seemed to go as smoothly as possible. Husband-wife teams have been quite successful in high-tech as well as music.

So, the message from the stars seems to be 'go it alone'. If you really can't make it a success without bringing in a collaborator, generate some momentum on your own first, then you can bring them in without giving away the farm. If it's your baby and they know it, you'll be able to negotiate reasonable terms:

- ✓ *Go it alone as long as you possibly can before you bring in a partner*—at least write the business plan, hire the lawyers and form the company. It's a good idea to have the lawyers help you negotiate the terms with your partners.
- ✓ *Make it clear who's in charge, and agree on the business plan up-front*—you need everyone pulling together in the same direction from the very start.
- ✓ *Don't give them a share of the business up-front*—reward them with stock options that vest over 3 or 4 years. If it doesn't work out you'll be in a position to part company without losing half the business.
- ✓ *Protect the intellectual property*—with an employment contract assigning ownership to the company.

Maintaining Momentum

My friend once took me on a ride in his new sports car through the French countryside. I knew he was a former racing driver but I thought he would drive like I do, only a little faster. I was wrong. So wrong that after about 5 seconds I was foaming at the mouth and hanging onto my seat. This friend is also an avid skier and I was surprised to discover that he didn't have a 4-wheel drive sports utility vehicle but took his sports car on ski trips. He drives his 2 wheel drive sports car up icy mountain roads during blizzards. I asked how he could get through the snow and ice without 4-wheel drive. It's impossible isn't it? How can you move forward if you can't get any traction on the tires? His answer was a short, simple and important word that you're going to hear a great deal in this book—'momentum is a wonderful thing'. OK it's more than one word, but the sentiment is true—if you gather momentum and you don't come to a dead stop at the bottom of an icy hill, then you can drive quite a long way in apparently impossible conditions.

The Magic of Positive Momentum

In business it's momentum that attracts customers, investors, employees and other members of the team. People like to be associated when they hear the buzz and feel the enthusiasm—everyone

wants to be part of a success story.

Positive Momentum

In the context of your startup, positive momentum is the invisible force that thrusts the company forward toward its chosen destination. Momentum is evidenced by the company's progress—its repeated achievement of milestones and stepping stones.

Positive momentum is generated by, and somewhat synonymous with, a collective sense of approval, enthusiasm, excitement and passion in favor of the company and its products, an upbeat buzz or hype emanating from the company's insiders, customers, press and other respected independent outsiders. Enthusiasm is contagious and positive momentum creates more positive momentum.



Positive momentum comes from an upbeat team making marked progress along its chosen route. Evidence of the progress makes the team more enthusiastic and energetic, helping the company to achieve more milestones and stepping stones at an accelerated rate in a cycle of progress.

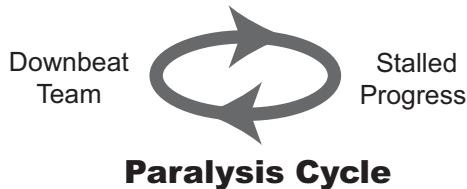
The Menace of Negative Momentum

In the same way that positive momentum is a magical force that drives the company toward its chosen destination, negative momentum is a menace that paralyzes progress and ultimately destroys the company.

Negative Momentum

Negative momentum is the force that prevents the company from generating traction or making progress towards its target destination. Evidenced by a lack of achievement, or a backwards step, negative momentum features a pessimistic opinion of the company, its products and/or its prospects in the market. Unchecked, negative momentum accelerates into a freefall as word gets out that the company is in trouble and team members bail out.

The company has no momentum when it fails to achieve its milestones and stepping stones. The team gets despondent when it fails to see any evidence of progress. If they feel that the company has no plan and no future, the employees spend their time polishing their resumes instead of building products or closing sales—paralysis sets in and the whole operation grinds to a halt.



The despondency deepens as key team members bail out. Soon, word spreads to customers, competitors, journalists and the company's troubles become public knowledge. Instead of people being attracted towards the company, they suddenly want to distance themselves as far away from it as they can. Like any stampede, people get knocked down and trampled on the way out.

Loss of momentum is the most dangerous threat to survival for many distressed companies. In conjunction with a developing cash crisis, negative momentum often develops into freefall momentum that can be very difficult to escape.

Gentle Momentum Maneuvers

The company can start out with positive momentum, however, for a variety of reasons, it can stall somewhere en-route:

- ✓ *Fundamental problem*—the product doesn't match market demands or there's some other form of deep-seated problem with the business plan.
- ✓ *Excess baggage*—the company could be saddled with debt, lots of bickering investors or pending lawsuits.
- ✓ *'We're lost'*—the team has no vision of where the company is going, or how it's going to get there.
- ✓ *Unattainable destination*—some immovable barrier is blocking the company from reaching its goal.
- ✓ *Cash crisis*—even the prospect of a distant cash crisis can paralyze the team and halt progress. Well before the cash burns out entirely, the company can go into a state of freefall.

Fortunately, there are a number of maneuvers at your disposal designed to boost lagging momentum, kick start stalled momentum and reverse negative momentum.

Inertia Warning!

Some of the momentum maneuvers will be simple and relatively painless to implement, however, the more radical maneuvers are going to cause tremendous upheaval. In a times of crisis, upheaval is often a necessary part of saving the company. Be prepared—people seem to be resistant to change, all forms of change, and some energy will be required to break the status-quo and overcome this state of inertia.

Spread the Good Vibes

Companies at all stages of growth can boost momentum by spreading the good vibes. Steve Jobs used to regularly send out propaganda e-mails to friends, colleagues and virtually every e-mail address he could lay his hands on. It has since become a management feature for virtually all successful startups. En-route to a spectacularly successful dot-com *IPO*, my friend became a master of momentum—sending out good vibe press releases on a daily basis and whipping his team into a frenzy of excitement.

Five tips for Spreading the Good Vibes:

1. *Maintain your own level of enthusiasm*—team leaders need to stay upbeat regardless of whether they're having a bad hair day.
2. *Maintain a general level of excitement in the team (at all cost)*—feel-good beer busts, gatherings and social events can help boost morale. Any employee that persistently keeps spreading bad vibes by shouting (or whispering) 'we're all doomed, we're all going to die' or 'our competitors are going to kill us', needs to be taken out as quickly as possible.
3. *Look for good news and spread it*—evidence of marked progress is ideal, but even small wins are worth getting excited about.
4. *Don't hide from bad news, but don't dwell on it*—if there's bad news, show that you acknowledge it and move on.
5. *Expose the passionate people to as many as you can*—momentum is contagious.

Question:	When is a good time to <i>Spread the Good Vibes</i> ?
Answer:	Always.

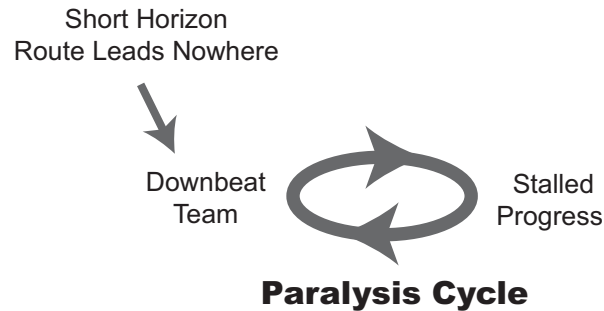
Plot the Route Ahead

People always like to know where they're going and how they're going to get there. At the very least, they need to feel that the team leaders have a map and a well-considered route. This is particularly important in times of crisis. On a long arduous journey, it's not exactly uplifting to hear your team leader say that she doesn't know where you're going and has no idea of how you're going to get there.

Question:	When is a good time to Plot out the Route Ahead?
Answer:	Always, especially when you're lost.

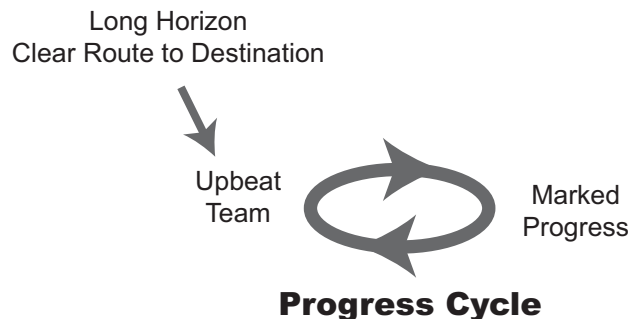
When they're lost, we teach our kids to stay where they are—if they continue to wander into the unknown they'll be more difficult to find. Without a clear destination or route, the natural instinct for most employees is to sit tight and wait for a roadmap and new instructions. If the team can only see a few steps ahead, that's as far as it will plan. This short horizon prevents product designers

from designing new products (as they don't know if these products will ever be built), prevents engineers from engineering (they don't know if the product they're building will ever ship) and prevents sales people from selling (as they don't know if the orders will ever be fulfilled). The team becomes downbeat and progress stalls. The lack of progress brings the morale of the team down even further and the company is in a cycle of paralysis.



To convert negative momentum to positive momentum, you need to break the cycle. This starts by restating your target destination, taking your bearings, fixing your position and plotting out a clear route from here to there. Identify small stepping stones as well as large milestones along the way—make sure the route is realistic and each step is achievable.

With a clear route ahead, the team will realize that the company has a real future and see that work done today is not in vain. This long horizon will lift the team, marked progress will be made and a new cycle of progress established.



Taking your Bearings

Why it's Important to Regularly Pinpoint your Position

I recently took my young son on a weekend camping trip to Yosemite. We traveled with my friend in his car. Apart from encountering several bears, the weekend went well until the journey home. I took the wheel for the first couple of hours while my friend read the map and gave directions. When he took over the driving seat, he told me that he knew the route so I decided to catch up on some of the sleep I'd missed the previous evening—for some reason, I don't tend to sleep well when dead, 400lb carnivorous animals are scavenging for food outside my flimsy tent. Anyway, instead of waking up to see the car pulling into my drive, I awoke two hours later on some unfamiliar highway with my friend frantically shaking my arm telling me to take out the map. Looking at the map we discovered, to our horror, that instead of being in San Francisco, we were on the outskirts of Los Angeles! By taking the wrong exit, we'd been heading South instead of North

for two hours! Of course, my wife thought it was hilarious when I called to tell her why we hadn't yet arrived home—now she had perfect proof of her theory that men never look at maps or ask directions. A journey that should have taken four hours ended up taking eight!

So what did we learn from our extended weekend? Other than learning that my friend can't be trusted alone at the wheel of a car, the main lesson is this—the sooner you discover you're off track, the easier it is to correct. If we'd regularly taken our bearings and checked them against the map we'd probably have discovered and corrected our error within a few minutes and saved ourselves four hours of driving. We all make mistakes but good navigators don't deviate too far from the track because they regularly ask themselves 'where are we now and is this where we planned to be at this point in the journey?' Unfortunately, we're often so wrapped up driving or building a business that we forget to check where we are and by the time we discover that we've deviated from the track it's too late.

As my wife frequently reminds me, car drivers don't have much of an excuse for veering off track—there are plenty of road signs and maps, even GPS navigation systems, to tell you exactly where you are and provide precise directions. Without the luxury of business roadmaps or GPS systems, many technology startups have blindly headed off in the wrong direction for years. The roadmaps in this book should help you target your destination and plot out a route to get there, however, they're of little use if you can't fix your position and figure out, with any accuracy, where you are.

So regularly taking your bearings enables you to identify when you're off course and take remedial action before it's too late, but it also helps track the company's progress—and this can boost team morale and accelerate the momentum.

Company Navigator

Thousands of years ago, successful explorers figured out that they had a much better chance of reaching their destination with a specialist navigator to read the maps, take bearings and plot out the route ahead. Often ships that set out without maps or navigators were lost at sea—so the position of navigator was created to prevent ships from sailing off the edge of the world. Fortunately, the accuracy of maps has improved over the years, and navigators are used to safely guide ships, airplanes, even spacecraft to and from exotic distant destinations.

The Art & Science of Marine Navigation

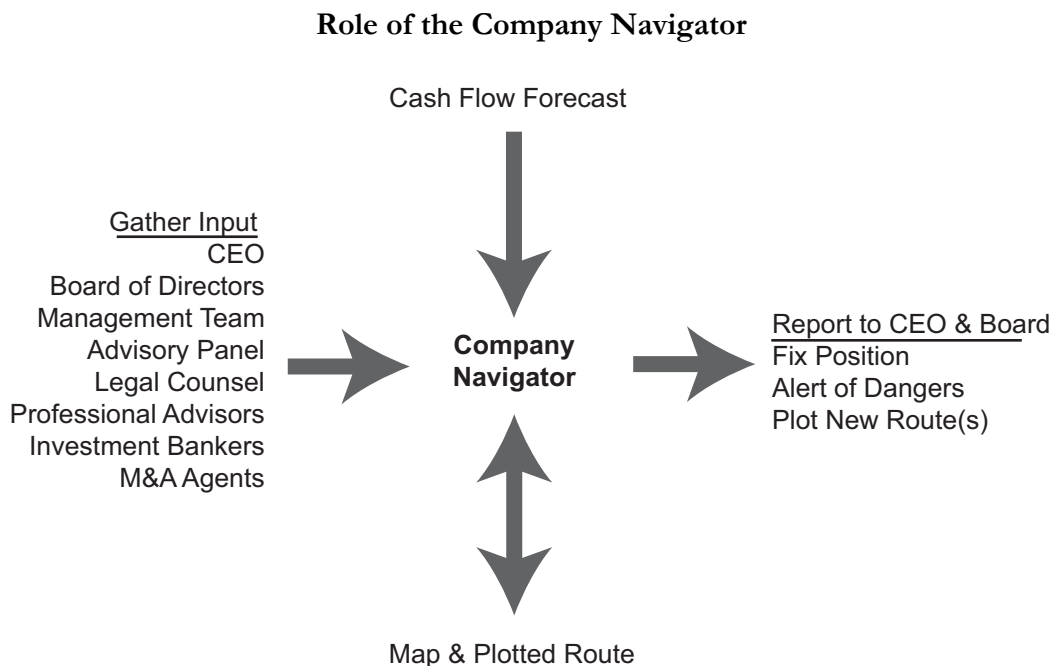
(Source: Bowditch's Navigator)

Marine navigation blends both science and art. A good navigator gathers information from every available source, evaluates this information, determines a fix, and compares that fix with his pre-determined 'dead reckoning' position. A navigator constantly evaluates a ship's position, anticipates dangerous situations well before they arise, and always keeps 'ahead of the vessel'.

You have to pass a navigation test to sail even the smallest boat. There are no such restrictions to prevent you from setting out on a costly and potentially treacherous journey with your technology startup. The position of 'Company Navigator' doesn't really exist for technology startups today. Perhaps this explains why so many companies end up sailing off the edge of the world. Successful large corporations, however, often keep teams of navigators in their strategic planning departments.

The captain of a ship has many pressures and responsibilities, especially in times of crisis. Ancient mariners quickly discovered that they were more likely to safely reach their destination if they freed the captain of the day-to-day duties of navigation and allocated this function to a specialist navigator able to dedicate more time and attention. Of course, the navigator reported to the captain. Would you feel comfortable getting on a flight in the knowledge that the captain had to single-handedly take care of navigation, monitor all those dials and controls, communicate with air traffic control and resolve any potential mid-flight crisis? For important modern-day journeys and missions, on sea, air and even in space, the captain is rarely the navigator and the navigator is rarely the captain of the craft—for exactly the same reasons, in your tech startup it may be unwise for the CEO to attempt to take sole responsibility for navigation. The company navigator should report to the CEO and the board of directors—the individuals with legal responsibility for company navigation. For a startup, Company Navigator is probably not a full time position but a function to assign to one of the board members, the management team or a specialist outside consultant.

To supplement the input from company insiders, the Company Navigator might want to seek the perspective of independent outside observers like investment bankers and merger & acquisition agents. In addition to providing a much-needed reality check, this could help identify potential obstacles and provide valuable information on the state of the route ahead.



1. Prepare a map with milestones and stepping stones.
2. Take bearings and accurately fix position on the map.
3. Plot out a viable route, or a number of alternatives for the CEO & Board of Directors.
4. Alert the CEO and Board of upcoming dangers.
5. Go back to 2. above. Repeat regularly until the journey is complete.

What you're Looking For

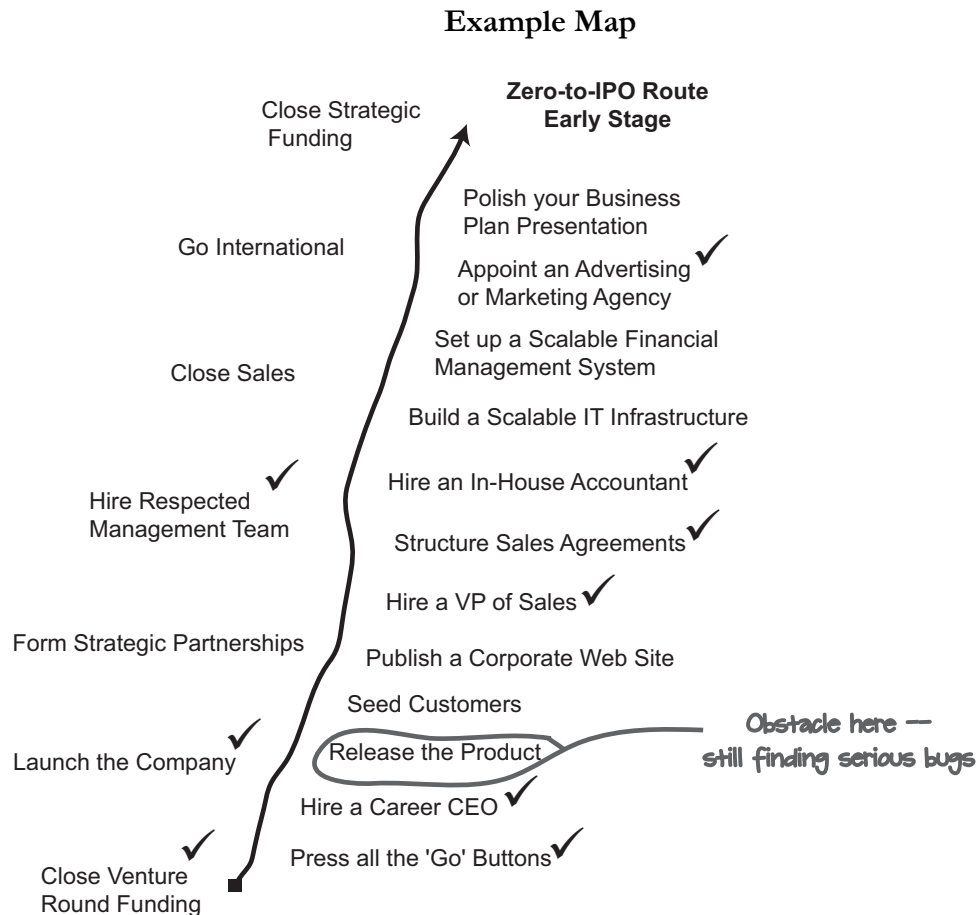
In taking your bearings, you're really checking to see if there's sufficient reason to change your current course:

- ✓ *Are any obstacles blocking your route?*—is anything blocking the company from hitting one of its upcoming stepping stones or milestones? Is the obstacle insurmountable or can it be overcome?
- ✓ *Is the route still open?*—poor weather conditions on Wall Street often lead to the closure of the route to IPO.
- ✓ *Have any of your contingencies been triggered?*—in preparing your travel plan you identified certain events and situations that would require changes to your route.
- ✓ *Do you have sufficient momentum?*—are you hitting the milestones and making marked progress along your chosen course?
- ✓ *Are you heading for a cash flow crisis?*—averting a cash crisis is a priority activity!

Taking your Bearings in 2 Simple Steps

With an accurate map, a cash flow forecast and details of the company's progress and achievements, the process of pinpointing your position takes just two simple steps:

1. **Mark your progress**—check off the milestones and stepping stones achieved. Identify obstacles that could block your progress.
2. **Identify whether you're on track or on the slippery slope heading for a cash crisis**—compare your cash flow forecast with the status of your fundraising efforts. Be realistic here—it can be dangerous to rely only on a best case scenario.

Step 1) Mark your Progress**Momentum Gauge**

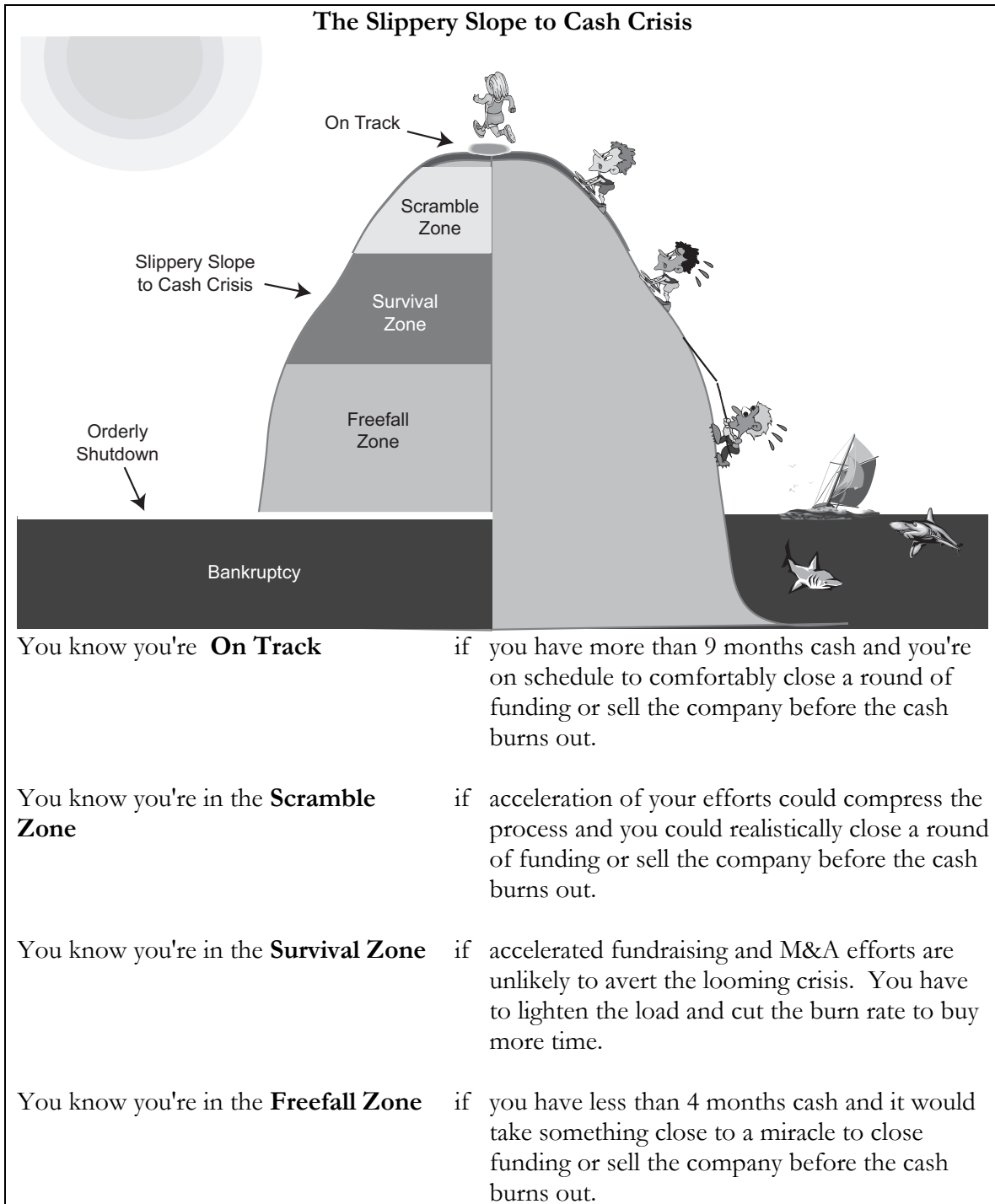
Comparing the company's current position with previous snapshots, you're in a position to show progress. Here are three indicators of positive momentum:

- a) **Marked progress**—are you consistently checking off new milestones and stepping stones?
- b) **Upbeat team**—are the staff enthusiastic & excited? Momentum is damaged if any of the key individuals quit and head for the hills.
- c) **Market buzz**—is the company generating positive press coverage, expert product endorsements, etc?

Step 2) Are you On Track or the Slippery Slope to Cash Crisis?

If you fail to detect, or ignore, a distant or looming cash crisis you're putting the whole company in danger. Don't be lulled into a false sense of security if you have good momentum and you're hitting your milestones—a cash crisis can kill the company at any stage along the route. Actively raising funds or cutting costs can certainly slow your momentum but it has to be given priority attention—good progress and momentum are meaningless when the company runs out of cash and is forced to shut down.

As the company descends down the slippery slope toward a cash crisis, it becomes progressively more difficult to raise funds—as time ticks by and cash burns away, the slope becomes ever-more steep and increasingly difficult to ascend. So detecting a distant or looming cash crisis is a vital component of taking your bearings.



<u>Fundraising Process</u>	<u>Takes in the Region of</u>
Appoint Fundraising Team	2 weeks.
Formulate the Pitch	4 weeks
Identify Target Investors	2 weeks
Create Investor Info. Packs	4 weeks
Prepare to Approach Investors	2 weeks
Approach & Present to Investors	12 weeks
Negotiate & Agree Terms	3 weeks
Sign Term Sheet	1 week
Complete Due Diligence	4 weeks
Close Round of Funding	1 week
The Whole Fundraising Process	35 weeks

<u>Fundraising Process</u>	<u>Should be Completed At Least</u>
Appoint Fundraising Team	33 weeks before cash burns out.
Formulate the Pitch	29 weeks before cash burns out.
Identify Target Investors	27 weeks before cash burns out.
Create Investor Info. Packs	23 weeks before cash burns out.
Prepare to Approach Investors	21 weeks before cash burns out.
Approach & Present to Investors	9 weeks before cash burns out.
Negotiate & Agree Terms	6 weeks before cash burns out.
Sign Term Sheet	5 weeks before cash burns out.
Complete Due Diligence	1 week before cash burns out.

<u>The Process of Selling the Company</u>	<u>Takes in the Region of</u>
Take Decision to Sell	1 week
Pick M&A Team	5 weeks
Prepare your Paperwork	5 weeks
Dress the Company up for Sale	1 weeks
Identify, Approach & Present to Buyers	16 weeks
Negotiate Terms	4 weeks
Agree Terms	4 weeks
Board & Other Approvals	1 week
Prepare Agreements	2 weeks
Complete Due Diligence	4 weeks
Close Sale	1 week
The process of selling the company	44 weeks

<u>Selling the Company</u>	<u>Should be Completed At Least</u>
Take Decision to Sell	43 weeks before cash burns out.
Pick M&A Team	38 weeks before cash burns out.
Prepare your Paperwork	33 weeks before cash burns out.
Dress the Company up for Sale	32 weeks before cash burns out.
Identify, Approach & Present to Buyers	16 weeks before cash burns out.
Negotiate Terms	12 weeks before cash burns out.
Agree Terms	8 weeks before cash burns out.
Board & Other Approvals	7 weeks before cash burns out.
Prepare Agreements	5 weeks before cash burns out.
Complete Due Diligence	1 week before cash burns out.

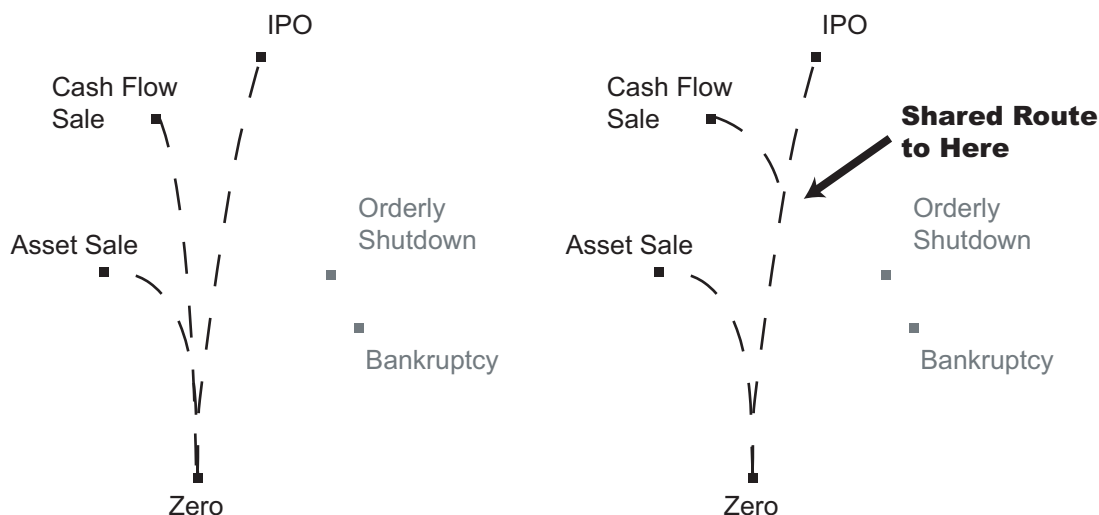
When to Take your Bearings

At a minimum, you need to take your bearings and provide a status report for inclusion in the board package that's mailed out to the directors a few days ahead of each board meeting. A quarterly navigation check may be sufficient if you're on track—hitting your milestones with plenty of cash in the bank. However, as a cash crisis develops it becomes increasingly important to pinpoint your position on a regular basis—monthly or even weekly if you reach the survival and freefall zones.

What's the Best Route for You and your Product?

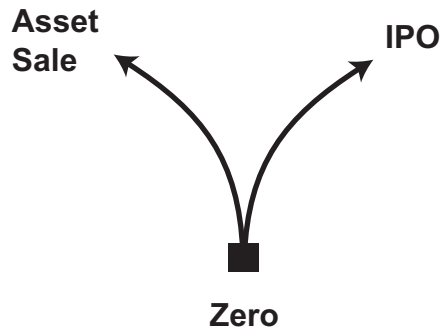
The starting point of the seven point travel plan is to target your destination—if you don't know where you're going you have little chance of actually getting there. Of course it is possible to embark on a journey without targeting a specific destination—people do it all the time. They're the people that never really get anywhere—you see them every day aimlessly wandering around with no sense of purpose or direction. Mercifully, the laws of natural selection and survival of the fittest come into force. A company without a target destination or clear sense of direction will soon lose momentum, find itself in a cash flow crisis that quickly advances from *survivable* to *terminal*.

Once you've decided to target a destination, which one do you choose? There are only five to choose from so your options are somewhat limited. You're not likely to target *Bankruptcy* or *Shutdown* as destinations for your startup so we can cross them off the list. The only other destinations to target are *IPO*, *Cash Flow Sale* and *Asset Sale*. *Independent survival* is of no interest to the investors, so there are only three possible routes you could realistically select for your company—*Zero-to-Asset Sale*, *Zero-to-Cash Flow Sale* and *Zero-to-IPO*.



A candidate for *Cash Flow Sale* is also a candidate for *IPO* and vice versa. Companies heading for each of these destinations follow very similar routes, so we can merge these two routes into one, at least for the first part of the journey.

So, by a process of elimination, we're left with only two alternative travel plans for you to select for your startup—the long haul from *Zero-to-IPO* and the short sprint from *Zero-to-Asset Sale*.



So do you choose to take the long haul to *IPO* or the short sprint to *Asset Sale*? To find out which is the best option for you I suggest you start by asking yourself some searching questions.

Make a note of your answer to each of the following questions:

1. *Are you prepared to endure the hardships of a long and harrowing journey?* After reading this book from cover to cover you should come away with a good understanding of the challenges you're going to face in a technology startup. It's not all plain sailing—as a general rule everything that can go wrong will go wrong. Virtually everyone that's been on this journey from the beginning will attest that they've been through a grueling time. Cash flow crises can be particularly painful—trying to run a business and a home on fumes can take years off your life. Don't be afraid to admit that it's not for you.
2. *Do you have a personal support network?* Do you have a shoulder to cry on? Someone to buck you up when you need a boost? However, confident you are, you're going to need a personal support network to help you make it through the ups and downs of this journey. If your partner is not behind the idea, then you could run into problems. One of the most stable and recession-proof occupations in Silicon Valley is that of divorce lawyer. When entrepreneurs strike it rich, families and relationships go through turmoil and it's boom time for divorce lawyers. When entrepreneurs strike out, it puts tremendous stress on relationships and the divorce lawyers win again. A list of good divorce lawyers may come in handy whether you succeed or not. If your spouse is behind the idea at the start, I suggest you make sure he/she reads this book after you and has a full understanding of the challenges and milestones that lie ahead. Your friends and former colleagues could come in useful as well. You're going to need personal introductions to investors, board members, management hires and your personal network will become invaluable. Lead investors are likely to carry out detailed background checks and ask for a list of professional references before they hand over their cash. So the strength of your personal and professional network could be a key factor determining your chances of success.

3. *Is the market immature enough?* Don't enter the market if it's too late. Mature markets with entrenched competitors are very difficult to penetrate. Is this market young enough for a new entrant to carve out a market-leadership position? Investors like to see independent market metrics and forecasts, but if they're readily available, it means the major analysts are tracking the market and other companies are paying for the information, presumably to support their plans to develop products that are competitive to your own. So, if you can get good market metrics focused on your specific market niche, then it may be already too late. Is the window of opportunity still big enough for you to squeeze through? Remember, if it's going to take 18 months to release your product, the competitive landscape will have moved on. You need to predict what your competitors are going to look like in 18 months time rather than what they look like today.
4. *Is the market mature enough?* There are real dangers in being too early into a market. If you're a lone visionary predicting the emergence of a new market, then you could find yourself on the 'bleeding edge' for some considerable time. Bleeding edge companies often bleed to death before the market takes off. If you can't realistically see any customers prepared to stump up cash to buy the product within 18 months or 2 years, then you're going to need very patient and long-term investors.
5. *Is your invention sufficiently unique?* It's normally very difficult to enter an established market with a 'me-too' product and win any significant market share. In some cases it can happen, when the established players are in death spirals or they're following an inferior business model, but it's not the sort of scenario that most investors are looking for.
6. *Do you have a long enough lead?* What's stopping competitors from stealing your idea? Most venture capitalists refuse to sign non-disclosure agreements (NDA's) and your idea will soon become public knowledge when you start looking for funding. If it's a good idea and it's easy to reproduce, it will be copied and there's not a lot you can do about it. Patents can help but they will never provide full protection. However, as a patent application often takes years to process and is accompanied by legal fees that would buy a nice car, very few startups have the luxury of patent protection. Nevertheless, people are often deterred by the prospect of hard work—if you can show that you're ahead and that it's going to take time, money and hard work to catch up, then your competition may be deterred. The ideal scenario is that you've done your research at college or in your day job and, working in your garage in your spare time, you're already 6 months into your product development. In this case you have some protection as you already have a significant jump on the market and it's going to take a lot of time and energy for a competitor to catch up. If you're paranoid that someone reading the executive summary of your business plan might be able to steal the idea and beat you to market then you're probably justified in keeping things under wraps for a while. You really need to be in the position that you feel you could give the business plan and product specifications to all your competitors and sleep soundly in the confidence that they'll take at least 6 months to catch you up.
7. *Do you have the financial wherewithal to survive a startup situation?* Can you keep the wolves from the door if you're forced to skip a few pay checks? If you went without salary, could you survive 3 months, 6 months, a year? Believe it or not, with a wife, baby and 2 mortgages to cover, I went 3 years without salary in one startup situation. Of course, by the end, I owed money to every member of my family, all my friends, distant relatives and numerous strangers I'd met in the street. This type of situation doesn't exactly ease the stress of

running a startup. So, before you leave your day job, I suggest you have a plan for how you're going to survive if your pay checks dry up for a while.

8. *Are you prepared to commit 3-5 years, or more, to this journey?* You're gambling with a big chunk of your working life and your chances aren't exactly great—after all the adversity, hard work and stress you could easily come out of this journey empty handed. If you do, don't be surprised if your friends that take relatively easy corporate jobs and spend their weekends with their families, while you're slaving away at work, end up striking it rich on their stock options. Of course, building a cool product and completing the short sprint to Asset Sale can take as little as 1-2 years—much quicker than building a world-beating profitable company and taking the long haul to IPO.
9. *Are you hell-bent on world domination?* One characteristic of virtually all the people I've seen lead their companies to IPO is that they're determined to WIN at all costs and they have enough ego to carry it off. Although you probably wouldn't want one as your neighbor, egomaniacs seem to be very good at targeting a destination, leading a team and maintaining momentum—so they're well suited to this journey. As a result, savvy investors appreciate this and don't shy away from backing them. If they were born in the second half of the 20th century, Hitler, Mussolini and Stalin would probably be heading up technology startups today. No, come to think of it they'd be heading up huge technology leaders like Oracle, HP and Microsoft.
10. *Are you prepared to share the pie with everyone, and his brother?* By the time you reach IPO, you're sure to have seen your shareholding diluted by all the stock issued to seed investors, venture investors, strategic investors, mezzanine investors, investment bankers, lawyers, accountants and umpteen employee stock option pools—not to mention huge chunks issued to the career CEO and other 'Johnny come lately' executives. Virtually everyone that gets involved with a hot IPO candidate company will want to get a piece of the action. It's like you make a pizza and head out with your buddies to find a safe place for a picnic but you find that you have to give a slice of the pizza to everyone you meet on the journey. On a long journey, your slice could be reduced to a paper-thin sliver. As Zero-to-Asset Sale is a shorter 'sprint', you'll end up with a larger share than you would after a long haul to IPO.
11. *Is your idea big enough?* Just how big is the problem that your invention solves? With hand on heart, can you realistically see a multi-billion dollar market developing for this product?
12. *Is the revenue model realistic?* Since the dot-com crash, investors are no longer prepared to invest in imaginative revenue models. There was a time when dot-coms would develop products, pay AOL millions of dollars for the privilege of giving them away for free and convince venture capitalists that stupid Wall Street investors would line up to buy stock in the excited belief that irritating, dull web page banner ads would generate zillions of dollars downstream. It worked well for a while. The stocks soared after IPO, investors cashed out and funded new dot-com startups that bought traffic from older dot-coms in a brilliant pyramid scheme, possibly engineered in the secret VC labyrinth beneath Sand Hill Road. Alas, those days are over. Wall Street investors finally figured it out and the whole pyramid scheme collapsed. Today you're going to need to show that your targeted buyers have budgets and a track record of spending cash. You're also going to have to identify and quickly establish distribution channels or other routes to market.

13. *Do you enjoy working in large teams?* Keeping a large team moving forward on a long haul can be like herding cats. In fact, it would be easier to herd cats as there'd probably be less whining, complaining and cannibalization. Small teams can be much easier and more fun to motivate and lead toward the Promised Land. On the other hand, some people relish the challenge of managing large teams—the sense of power can certainly fuel the ego of individuals hell-bent on world domination.
14. *Can you give up control without freaking out?* You may be the product inventor, company founder and see the company as your own baby, but at some point on the long haul to IPO you're likely to have to give up control to investors and career executives that are sure to make decisions that you don't agree with. It's a frustrating feeling when you know the company is heading in the wrong direction but you can't convince anyone to turn around. Some personalities patiently stick around to gently guide the team back onto the track, others scream, stamp their feet and quit.
15. *Are you prepared to sell out for a modest price?* Imagine that a competitor turned up at your office and put a valuation on your product that you thought was lower than you deserved. Would you feel insulted and throw them out of the office or take them out to dinner? This happened to a friend of mine—his competitor turned up and offered him \$70m for his company. Although he personally owned over 95% of the shares and the company was only 18 months old, he actually threw the bedazzled visitors out of the building! Nothing less than IPO was enough for this guy—he readily admitted that he was hell-bent on world domination. Of course many people would be happy to pocket the \$70m and live happily ever after.
16. *Are you prepared to travel on a budget?* It's very difficult to put a value on a company that's being acquired for its products, technology or some other asset and the sale price can be relatively low. After outside investors have taken their share, there can be very little left over for the founders and employees from an Asset Sale. So you want to maintain as large a share of the pie as possible and keep your outside funding to a minimum if you're going for the short sprint to Asset Sale. This means flying in the back of the plane, making your own coffee and keeping your costs to an absolute minimum.

I can't tell you what's the best course for you—it's a very personal decision influenced by many different factors. However:

- *If you answered 'No' to any of questions 1-7* You're probably best advised to stay where you are—forming a high tech startup could be damaging to your bank balance, your health or both.
- *If you answered 'No' to any of the questions 8-14* The long haul from *Zero-to-IPO* is probably not for you.
- *If you answered 'No' to any of questions 15-16* The short sprint from *Zero-to-Asset Sale* is probably not for you.

Completing the long haul to *IPO* will likely provide you with the highest possible valuation for your company and it's the only route for you if you're hell-bent on world domination. There's a feeling of safety in numbers—working as part of a relatively large team you may not feel so personally exposed as you would in a small, cash-constrained startup. The down-side of this route is that your

shareholding will become increasingly diluted with each of the successive rounds of funding and you'll probably be locked out from selling your shares for some time after the *IPO* itself. If you don't make it all the way to *IPO*, you may have the opportunity to switch to *Cash Flow Sale* or *Asset Sale* as alternative destinations. The Zero-to-IPO journey can take a long time and constantly looking for new funding can be very tiresome.

On the short sprint to *Asset Sale* you're not building a viable stand-alone company and you can focus a small team on building a killer product without a lot of business distractions. There's little need to bring in a career CEO and you should be able to maintain more control. The proceeds of the sale could be tiny in comparison to a *Cash Flow Sale* or *IPO* and you're going to want to maintain a large share of the company by keeping outside investment to a minimum. This means keeping a tight control on costs, living without luxuries and, when times are tough, you may be forced to supplement your income with service work.