

Planning and Surviving the Early Days of a Startup

TVBN/CINA Entrepreneur Seminar - July 28, 2004



Hong-Tai Chou, Ph.D.
Chairman of TVBN

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According to the U.S. Small Business Administration, over 50% of small businesses fail in the first year and 95% fail within the first five years.

Fiction:

To be an entrepreneur you must be born that way.

Fact:

Anyone can learn to operate like an entrepreneur.



United States Small Business Administration



Four Ms of Startup Success – W. GrayLin

"Startup Success Tips From a Business Plan Winner"

By Lucy Sutherland, September 5, 2003, Entrepreneur.com

- ü Market. If you don't have competitors, you probably don't have a market.
- ü Magic Sauce. You've got to have a strong, unique advantage that separates you from your competitors.
- ü Money Model. Many startup founders forget how important a good revenue model is to investors.
- ü Management Team. You can make adjustments to the above three, but without rock-solid people, you won't get anywhere.

Will GrayLin, founder and CEO of Ways System Inc., is a seasoned startup veteran and graduate of MIT's Sloan School of Management. Previously, he was founder and CEO of EntitleNet, a software company acquired by BEA Systems in Nov., 2001.





Checklist For Starting a Business

- ü Identify Your Reasons;
- ü Self Analysis;
- ü Personal Skills and Experience;
- ü Finding a Niche;
- ü Market Analysis;
- ü Planning Your Startup; and,
- ü Finances.



United States Small Business Administration

Steps of Building a Company



- q Exploration of Ideas (*"Napkin Plans"*)
Market Research, Founding Team, ...
- q Conceptualization and Planning
Prototyping, Business Planning, Equity Planning, ...
- q Incorporation
Corporate Structure & Filings, Book Keeping, ...
- q Funding and Financing
Seed Funding, Contracts, Series A, ...
- q Product/Service Development
Specifications, QA, Packaging, Support, ...
- q Business Development
Alliance & Partnership, Customer Acquisition, ...

Plan Before You Leap

“Secrets” of a Successful Startup:
Planning, Planning, and Planning

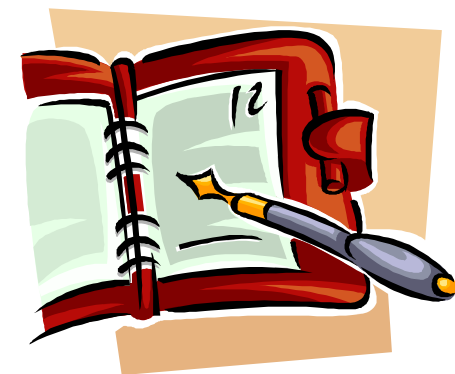
... But be Prepared to Revise the Plans

“In 93% of the cases, the strategy that a company emerges with is completely different from the strategy it sets out to implement.”

Storage Startup Success Secrets, *February 2, 2004*

By Graeme Thickins

- q Sales & Marketing Strategies
- q Financial Planning
- q Organizational (People) Planning



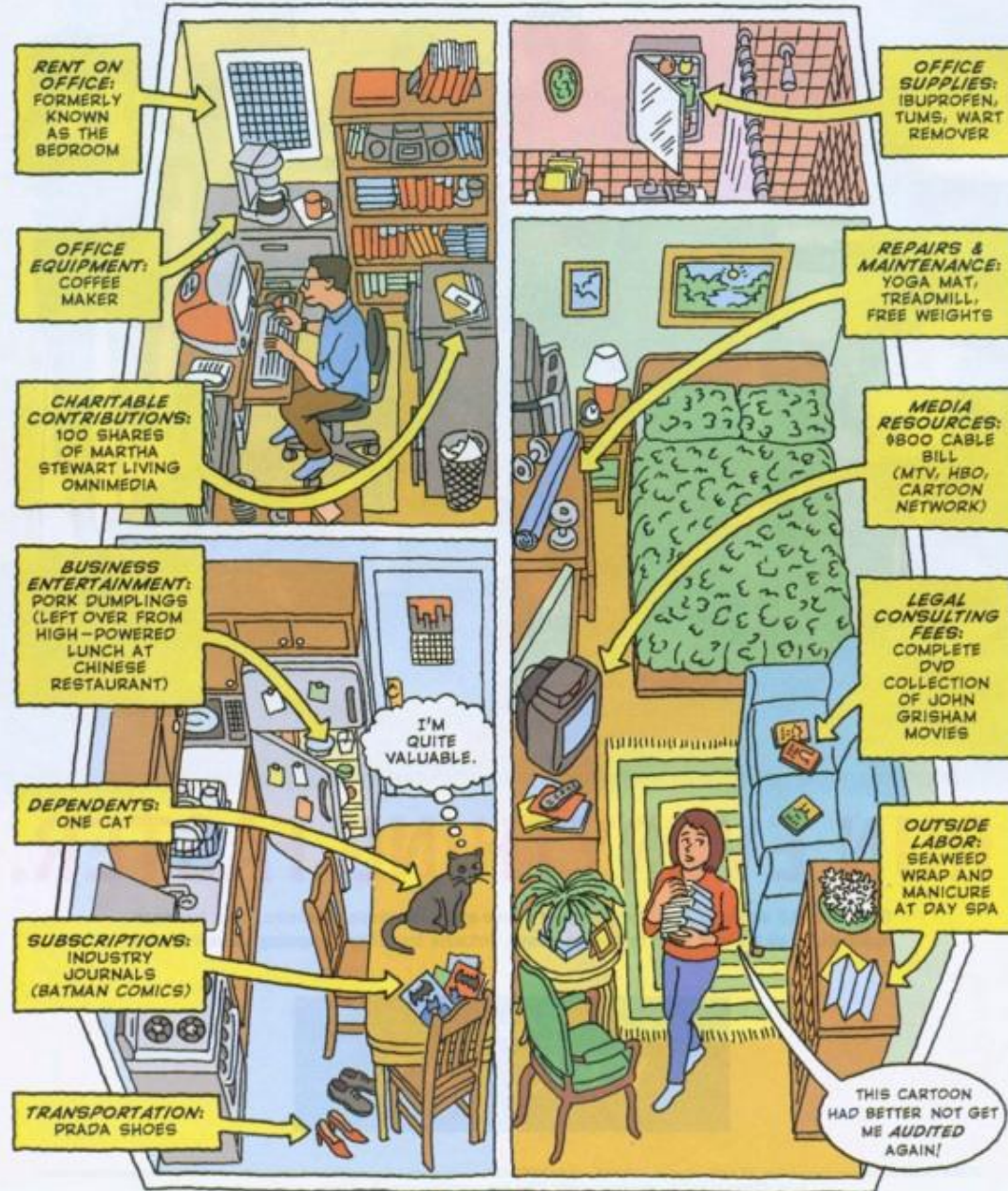
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Planning for Sales and Marketing

- q Identify a Viable Business Model
 - q Productization and Packaging
 - q Revenue Model: Licensing, Customization, Integration, Services, ...
- q Identify Alliances and Partnerships
 - q Joint Development, Co-marketing, ...
 - q Distribution Channels, ...
- q Identify Potential Customers
 - q Who are Your First Paying Customers?
 - q Customer Support, Customer Retention, ...

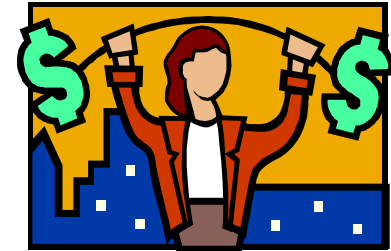


CREATIVE TAX WRITE-OFFS

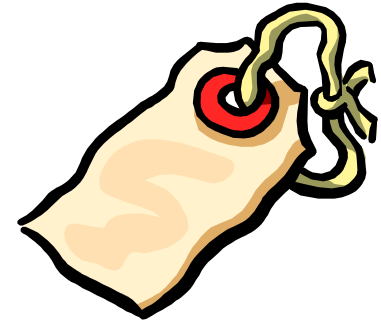


Expense Projection (Budgeting)

- q Budget by Departments
 - q R & D (Research and Development)
 - q S & M (Sales and Marketing)
 - q G & A (General and Administration)
- q Major Expenses (at early stages)
 - q Salaries + Load Factor (benefits, taxes, ...)
 - q Recruiting and Relocation
 - q Facilities (office, phones, Internet, expansion, moving, ...)
 - q Equipment (copiers, computers, printers, ...)
 - q Furniture (desks & chairs, cabinets, computer tables, ...)
 - q Travel Expenses (exhibits, customer visits, ...)
 - q Marketing (tradeshows, ads, collaterals, PR, ...)
- q Head Count Projection
 - q Growth Projection (from R&D to S&M, ...)
 - q Recruiting Plan (esp. High-pay Executives)



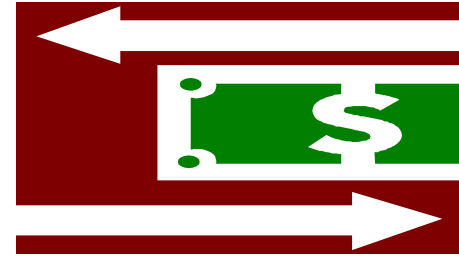
Revenue (Sales) Projection



- q Revenue Model
 - q Product / Service Packaging, Bundling
 - q Licensing Model (Seats, Sites, Usages, CPUs, ...)
 - q Volume Discount, Channel Discount, OEM, ...
 - q Revenue Recognition Policy
- q Pricing and Volume Projection
 - q Growth Projection (Volume, Upgrades, Product Mix, ...)
 - q Produce Life Cycles (Upgrades, Maintenance, Commoditization, ...)
- q Realistic Ratios (PER, PSR, Gross Margin, ...)
 - Need to be Compatible with Industry Norms
- q Red Flags
 - q Hockey Stick Revenue Curve (i.e. Back Loaded)
 - q Unsustainable Growth Rate
 - q Unsubstantiated Market Share or Sales Volume

Cash Flow Projection

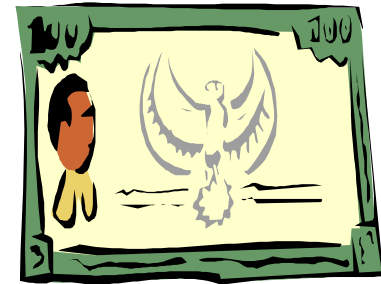
- *Vital to Survival* -



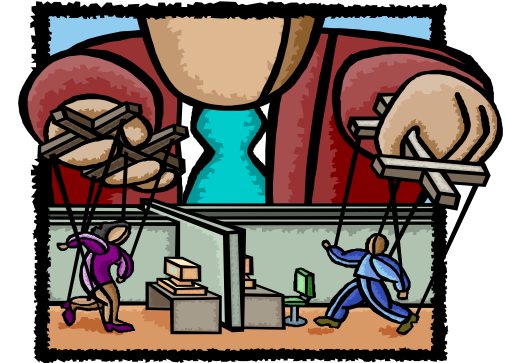
- q Identify Cash Infusion Requirements (from Incomes and Expenses Projections)
- q Determine Timing of Fund Raising
 - q Too early or too much – give up too much equity at a low price
 - q Too late or too little – lead to failure when cash runs out
- q Raise Money When You *Don't* Need It
 - q More negotiation leverage
 - q Fund raising takes time
 - q Delay in committed funds
- q Consider a Line of Credit as an Alternative or A Backup Funding Source (e.g. from SVB, General Bank, ...)

Legal Structure of a Corporation

- q “Defined” by Individual States,
“Customized” in Articles of Incorporation & Bylaws
- q Shareholders
 - q Owners of the Company (Determined by Number of Shares)
 - q Rights Determined by Different Classes of Stocks
- q Board of Directors
 - q Elected to Represent Shareholders’ Interests
 - q Inside vs. Outside (Independent) Directors
- q Corporate Officers
 - q Elected by BOD to Conduct Business Operations
 - q CEO, Secretary, CFO required and to be reported



What's in a Title?



- q The Chiefs (function):
CEO, COO, CTO, CIO, CFO, CMO, ...
 - q The Top Guns:
President, General Manager, Managing Director, Chairman,
Executive Chairman, ...
 - q The Veeps (ranking):
EVP (Executive VP), SVP (Senior VP), VP, Assistant VP, ...
 - q The Co's
Co-CEOs, Co-Presidents, ...
 - q The Exotic:
Chief Yahoos (J. Yang & D. Filo of Yahoo)
- CEO è COO è President è EVP è SVP è VP è ...*

Key Players in a Startup



- q Founders
 - q core team with good working relationship (i.e. supportive)
 - q commando with complementary skills (i.e. coverage)
 - q co-founders vs. early employees
- q Management
 - q professional vs. founders (vs. investors)
 - q permanent vs. temporary (acting) vs. transitional (interim)
- q Board of Directors
 - q inside directors (officers, investors)
 - q outside independent directors
- q Board of Advisors

Ñ *Well-defined Roles and Responsibilities*

Advisors



- q Function of Advisors
 - q Technical Guidance and Reviews
 - q Strategic and Management Advisory
 - q Brainstorming and Referral of Sales and Marketing
 - q Creditability and Reputation
- q Formal Arrangements (i.e. contractual agreements)
 - q To Protect Confidential Materials and Trade Secrets
 - q To Clarify Responsibilities and Obligations
 - q To Spell Out Compensation and Benefits
- q Finer Distinctions
 - q Contractors (outside service providers)
 - q Consultants (independent or in-house “workers”)
 - q Advisors (planning and review, as oppose to execution)
 - q Mentors (advisor and beyond ...)

Business Mentors



- q A mentor is someone who serves as an example, an advisor, a sounding board and ultimately a friend.
- q ... the key is that they have considerably more experience and connections than you have and have been where you are going, business-wise.
- q You want someone who has started businesses in your industry and who has made many of the mistakes you hope to avoid.

"Finding a Business Mentor"

Meeting someone who can show you the ropes may be the best thing you ever do for your business.

October 01, 2001, By Keith Lowe, Entrepreneur.com



Helpful Free Resources for Startups

- q SBA (*Small Business Administration*) - www.sba.gov
A government agency to aid, counsel, assist and protect the interests of small businesses ...
- q SCORE (*Service Corps of Retired Executives*) - www.score.org
A nonprofit association that provides entrepreneurs with free, confidential face-to-face and email business counseling.
- q California Business Portal (*by Secretary of State*) - www.ss.ca.gov/business/business.htm

