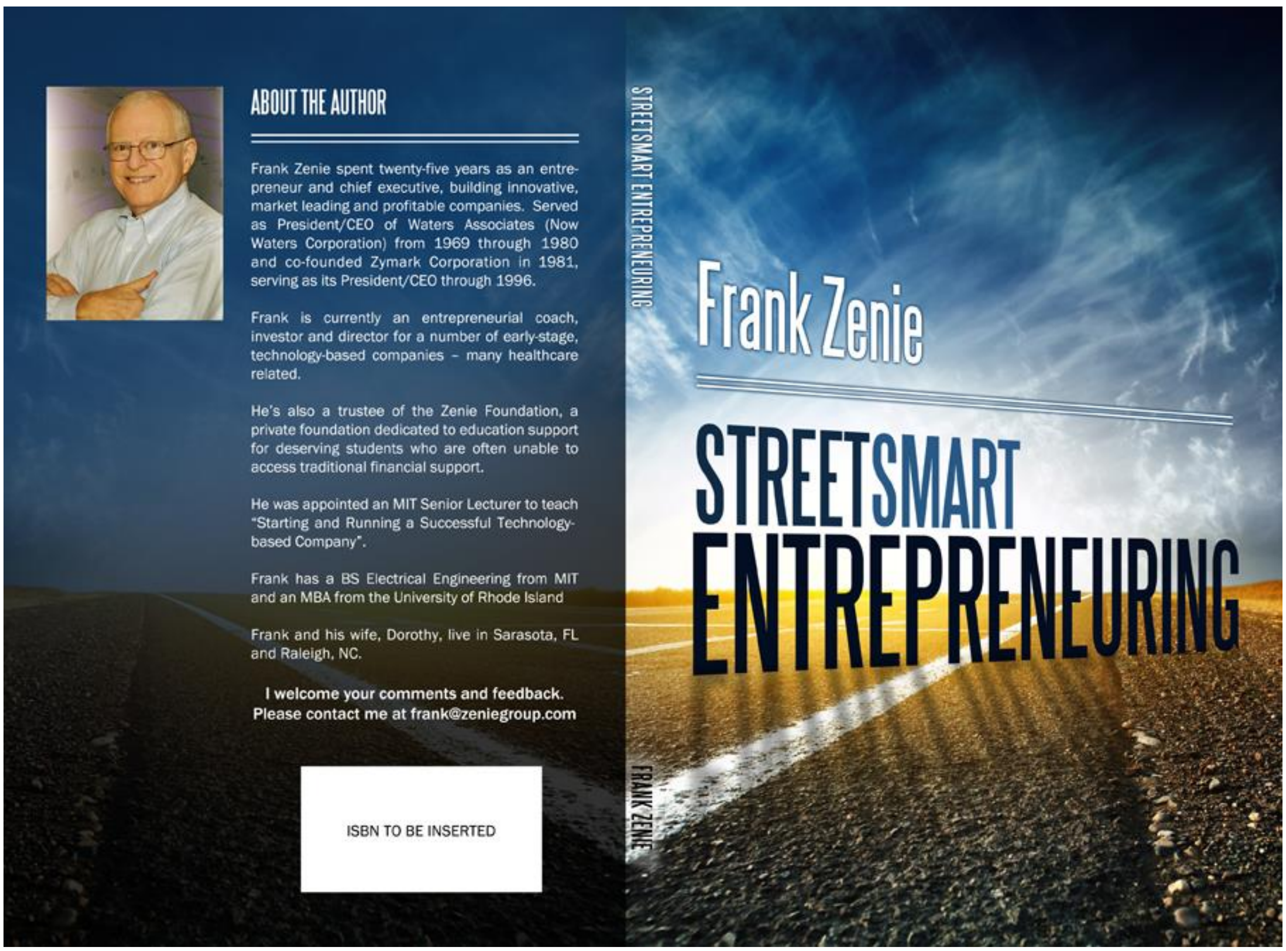
ABOUT THE AUTHOR
Frank Zenie spent twenty-five years as an entrepreneur and chief executive, building innovative, market leading and profitable companies. Served as President/CEO of Waters Associates (Now Waters Corporation) from 1969 through 1980 and co-founded Zymark Corporation in 1981, serving as its President/CEO through 1996.
Frank is currently an entrepreneurial coach, investor and director for a number of early-stage, technology-based companies – many healthcare related.
He's also a trustee of the Zenie Foundation, a private foundation dedicated to education support for deserving students who are often unable to access traditional financial support.
He was appointed an MIT Senior Lecturer to teach "Starting and Running a Successful Technology-based Company".
Frank has a BS Electrical Engineering from MIT and an MBA from the University of Rhode Island
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STREETSMART ENTREPRENEURING
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StreetSmart Entrepreneuring

"Starting a company is easy; building a successful business is hard!"

by

Frank Zenie

Third Edition (V3.1)

StreetSmart Entrepreneuring – Third Edition (Version 3.0)

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Getting Ready - Please "Read Me" First

Starting a company is easy;
building a successful business is hard.

I'm truly grateful to the mentors and colleagues who helped me during my career. Their hard work, advice, support and constructive challenges all contributed to my entrepreneurial experience. Others challenged me - forcing me to test my logic and beliefs. I dedicate this book to these friends and to the next generation of entrepreneurs. You are the enablers of our great economy. We're counting on you.

StreetSmart Entrepreneuring (SSE) is not based on deep research; it's simply a collection of insights and beliefs based on forty years practicing entrepreneurship as a CEO and as an entrepreneurial coach, advisor and director. I've used web-based search to verify facts that I use to support my beliefs.

I don't expect anyone to agree with all my beliefs. I urge you; however, to think about them and keep them in mind as you face new experiences. Discuss this material with your entrepreneurial colleagues to stimulate controversy and vigorous debate – only good will come from this.

I believe my advice fits well with emerging businesses from 1 to 1,000 FTEs (Full Time Equivalent employees). I'd like to think that larger businesses are well advised to form semi-autonomous business units and apply these ideas to those units as well.

My experience is primarily built on a business-to-business perspective commercializing "Primary Demand" products. Primary demand products are those creating entirely new markets or market segments rather than simply offering incremental, perhaps large, improvements to existing products. Generally primary demand products are relatively sophisticated products linked with significant service components that aim to obsolete current practices. Consumer markets may differ in detail, but the principles should generally apply.

This guide focuses on the entrepreneurial CEO. But, even if you're not the CEO it will help you understand your bosses' behavior. And, who knows, you may become a future entrepreneurial CEO.

Entrepreneurship is less science and art and more actual practice. An internet search for "entrepreneurship" will lead you to numerous educational sites. More than any other field, however, entrepreneurial success is results based. It's not surprising that many of our most respected entrepreneurs are college dropouts – Bill Gates, Michael Dell and Steve Jobs for example.

I'll occasionally use sports analogies because entrepreneurship and sports share many attributes; in most cases they are competitive, time constrained, focused on scores and demand team play. Entrepreneurship and sports live in the present. Athletes and entrepreneurs must constantly re-earn their jobs or be replaced by more effective people. Bill Belichick, the head coach of the New England Patriots football team recently commented; "If you live in the past, you die in the present".

SSE develops several key principles through, I hope, compelling logic and real case examples. In various forms, they will frequently reappear. These include:

- Starting a company is easy; building a successful business is hard.
- The Purpose of a successful business is to create and serve its customers. Profit and wealth is the reward for doing this well.
- Entrepreneurs **Build Businesses** by providing **Innovative Solutions** to unmet or poorly met **Customer Needs**. The focus being **Building** a real business (not just a clever idea), **Innovation** (not incremental product improvements) and a truly **Customer** centric commitment.
- Markets don't exist, only customers.
- Entrepreneurs disrupt current product/service practices by redefining old market definitions. Entrepreneurs are disruptive and create discontinuities – change from linear to non-linear thinking.
- Vision and Culture enable effective Leadership.
- Get on the "Field of Play" quickly with your innovative new product and/or service. Let your customers help you get it right.
- You must become a successful start-up to earn the right to become an emerging growth company.
- Big companies are the entrepreneur's best friend. They create entrepreneurial opportunity, by being slow to fill changing customer needs and expectations. Big companies manage markets; rarely create them. Never model your entrepreneurial business after the bureaucratic practices of large companies.
- Don't overanalyze competition – always ask the question how can we serve our customers better.

In this spirit, I've organized this guide into three major segments; Are you Ready?, Get Set and Go. Each major segment begins by highlighting its "Guiding Principles". The chapter then develops the underlying logic behind these principles. I'll try not to bore you with lots of words, sentences and paragraphs, wherever possible, I'll use bullets, tables and graphics.

As we progress through these three segments, I'll organize my points around my entrepreneurial success framework:

Entrepreneurial Success Framework

1. **Vision –** what you hope to achieve through this venture.
2. **Culture –** a set of underlying, shared values.
3. **Innovative Product/Market Strategy –** what you will sell and how you will sell it.
4. **Sound Business Model –** how you will earn a profit.
5. **Passionate Execution –** without passion an entrepreneur is just a manager.

My goal is to motivate potential entrepreneurs to pursue their dream, but also to discourage those without real entrepreneurial potential and commitment from spending valuable time distracted from a more suitable career.

Throughout this book, I'll use the politically incorrect "he" - intended to be race and gender independent. I'll also use the term "product" to include all components of the value package be they physical products, software or services.

Successful entrepreneurs create market discontinuities – dramatic changes rather than incremental improvements to current practices. They may or may not require technological inventions. Let's cite some examples:

Discontinuous Innovation	Not Incremental Improvement to:
Light Bulbs	Candles
Automobiles	Horses and Carriages
Telephones	Letters and Postal Service
Airplanes	Other forms of transportation
Television	Radio
Computers	Typewriters, Calculators and Filing Cabinets
Internet	Telephone, Mail, Catalogs and Libraries

Think about it - to a great extent, these innovations came from entrepreneurs with limited resources rather than large companies' R&D efforts.

As you read through this book, please:

Do not always take me literally, but please take me seriously.

To get and retain your attention, I need to be provocative. I want you to react to and challenge my perspectives. If you cut me some slack and follow my logic, I think you will discover I'm raising valid issues while, perhaps, over generalizing. Yes, I may create simplistic symbols to emphasize my point. Again, let's examine a few examples from later in the book:

What I Say	What I Really Mean
Big companies	Bureaucratically challenged companies. It really isn't size; it's culture, leadership style and operating practices.
Ready ➤ Fire ➤ Aim	Get ready; quickly aim at what you believe is your target, fire and then aim again using all your new information. Entrepreneurs understand that that they can't reliably predict customer response to their innovation and they need customer inputs to ensure they're offering the right solution. You have limited ability to analyze a market that you haven't yet created.
Ready ➤ Aim ➤ Fire	Big companies strive to reduce or eliminate risk. They believe that comprehensive analysis and strong consensus achieves this. This creates a - Ready ➤ Aim ➤ Aim ➤ Aim ➤ Fire - decision process – that may actually lead to poor decisions and higher risk. Don't spend inordinate time aiming before you introduce your new product to real customers. A good illustration is that our military has weapons capable of precisely hitting targets while we often lack the intelligence to accurately identify targets.

I do pick on big companies. First, let me be clear, I'm incompetent to lead and manage a large company. Big companies are not bad they're simply products of their environment and needs. Most big companies are publicly owned and must report sales, profit and other financial information every quarter. Big company managements are rewarded for meeting short-term financial goals and punished for unpredictable results. This motivates management to protect past successes, try to minimize risk and uncertainty and seek incremental improvement. Of course this may actually lead to even larger risks and more serious consequences – but maybe someone else (the next CEO) will deal with these in the future. Many large companies today try to grow and increase earnings through developing incrementally improved products, acquiring innovative companies with high growth prospects and buying back stock to improve earnings per share. Big companies need entrepreneurs – they can't internally generate enough innovation nor tolerate the risk of failure. I recently attended an investment conference where the CFO of one very successful large company explained their company-wide business model of a 20% minimum return on invested capital and that any new initiative had to quickly achieve this threshold. This doesn't seem like a fertile environment for breakthrough innovation requiring extensive market development (Primary Demand).

In the Appendix, I've introduced ESSs, Entrepreneurial Snap Shots, as my technique for describing a few key lessons from entrepreneurial companies that I've been close to. I've included seven ESS highlights in Appendix A and will refer to them throughout this book. Even though the ESSs are in the Appendix, they are important and I recommend you actually read them after “Are You Ready?” I served as CEO of two of these companies, as a co-founder and Chairman of one and as an involved director of three. The final ESS is Rico Lingerie. Rico Lingerie is the story of my father’s business in the 1920s and 1930s. In this brief introduction, you will see why this stimulated me to entrepreneurship and how it inspired me over my career.

Appendix B is an anecdotal narrative covering a few key events during Zymark’s first two years. My purpose is to help you feel the urgency and passion required to begin building your new business.

Entrepreneurs, among other characteristics, are not bureaucrats. Bureaucrats love documentation – more is better. Entrepreneurs, however, value their time and appreciate concise, easy to read and rich content communication. I respect your needs, and hope you extract a few valuable ideas from my thoughts. Keep this book nearby and consult it when you face challenging issues. I’ve left white space for you to annotate this guide as you read through it. Note your agreement and/or disagreement for future reference.

The world is changing and success for all businesses is far more demanding than in years past. Let me illustrate this with one personal example. In the 1950s and 1960s my father drove Buicks. Every three or four years, he would visit the local Buick dealer and select a new car. He never considered another brand or another dealer. He then looked the salesman in the eye and asked for his “best price” and then my father would buy the car. As consumers in those days, we were loyal to and trusting of big, established corporations. Since then, we all have transitioned to highly informed and demanding customers for virtually every purchase – and the Internet is accelerating this process. No one today would buy a car by visiting one dealer and considering only one brand. Informed customers demand quality and value from their vendors and competitive alternatives keeps raising the standards. Many of our old corporate icons have failed and no longer exist.

To just survive, businesses must demand and earn the same quality and value from their managers and employees as their customers’ demand of them.

Today we’re concerned about outsourcing American jobs. Yet the action is here – nearby our markets! Early in the 20th Century we began exporting jobs from the Northeast and Midwest to lower cost factories in the south. Following World War II, we transferred manufacturing jobs to low cost foreign countries. Now, we see knowledge work also moving off shore. Much is written about China and India educating their people in technology and instilling a strong work ethic – good for them. We’re now clearly challenged to create new jobs that need to be performed near our US-based customers – the largest global market. In this book, I will try to develop an underlying principle that the greatest strength of entrepreneurship is intimate customer relationships and understanding of unmet customer needs. If this is true, entrepreneurial companies will need highly capable people constantly interacting with their customers in order to lead their companies forward. You cannot do this by phone, e-mail or videoconference. We’re actually in sourcing entrepreneurs from around the world. This is still a land of opportunity.

StreetSmart Entrepreneuring

While offering my lecture services to university entrepreneurship programs, I've visited many university websites. The universities' business schools sponsor many, but not all, entrepreneurship programs. I was surprised how many courses still are organized around functional areas – marketing, finance etc. My experience, however, reinforces a principle that entrepreneurial leadership requires a holistic approach to integrate management techniques into a unique entity. After the September 11, 2001 tragedy we asked "How could this happen?" The common reply was that we had a lot of data but we're unable to connect the dots. StreetSmart Entrepreneuring describes the Principles, Practices and Passion of connecting entrepreneurial dots.

Business Schools	**"StreetSmart Entrepreneuring"**
Management	Principles
Finance	Passion
Marketing	Practice
Strategy	

If I've been successful, as you finish this book, you will observe that Frank only made a few points - supporting them with simple logic and examples. If you remember these underlying principles, I've done my job. Start and end here:

- ❑ **If you don't have the passion, energy and commitment to entrepreneurship, go get a job. If you're unsure, get a job working for an effective entrepreneur.**
- ❑ **The purpose of your company is to create and serve customers. Creating wealth is your reward for doing this well.**
- ❑ **You lead, not manage entrepreneurial businesses. Your vision and culture enable you to lead because your colleagues want to follow.**
- ❑ **Your only bosses are your customers. If you serve their current and future needs well and don't stupidly squander your financial resources, good things happen and everyone will support you.**
- ❑ **Don't assume that smart people, enthusiastic investors, an intellectual property portfolio and elegant products will ensure success. In business, you win or lose in the market place.**
- ❑ **Whenever in doubt, return to fundamentals.**
- ❑ **There are no time-outs or ends-of-game in business. You must re-earn your success every day, week, month and year. Keep re-inventing yourself.**

In StreetSmart Entrepreneuring I'll try to be:

Provocative	Get your attention and stimulate you to think deeply and to challenge conventional logic and practices.
Pragmatic	Suggest clear and straightforward actions with their underlying logic. Act faster and analyze real customer-driven results.
Persuasive	Energize you to get going. You have plenty of time to become a skilled, successful entrepreneur, but no time to waste.

Entrepreneurship is not an intellectual exercise; it's ultimately behavior – beliefs in action. If you're ready, go for it. I wish you the best.

Contents

Are You Ready?

What do you want to be when you grow up?

Guiding Principles

- **You may not be an entrepreneur. Entrepreneurship is not a job; it's a passion.**
- **Defining your customers and identifying their unmet needs will guide you in defining the right products and services.**
- **Beware of solutions seeking problems.**
- **Your customers' can, and will, hire and fire you.**
- **Understand your customers' industry. Solve their problems not your perception of their problems.**
- **Sustaining entrepreneurship requires continuing innovation. This is far beyond the corporate goal of continuous improvement.**
- **Virtually everyone is competent at some things and incompetent at others. The challenge is how to leverage this fundamental reality.**

What is an Entrepreneur?

Over thirty years ago, the late Peter F. Drucker, the great management visionary, clarified innovation;

> **"Above all, innovation is not invention. It is a term of economics, not technology."[1]**

Entrepreneurs and entrepreneurial teams, therefore, are innovators who build businesses. Just developing a creative product may be great engineering and science, but it's not yet entrepreneurship. Until you prove its value in the commercial marketplace, it's simply an interesting idea. Successful entrepreneurs, in my opinion create customers who buy their product and, having done so, buy more and recommend it to colleagues with similar needs. Successful commercialization is the final test.

In his later book 2, Drucker goes on to state:

> **"Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or different service. It is capable of being presented as a discipline, capable of being learned, capable of being practiced."**

Entrepreneurs build businesses. I do acknowledge, however, that entrepreneurship can exist in the public sector including government, military, education and social services. Successful implementation in those environments becomes equivalent to commercialization. In this book, I will focus on business entrepreneurship.

Entrepreneurs vary widely – there is no common profile. In general they are reasonably smart, hard working, honest (at least the successful ones), customer focused and comfortable with interdependence on their co-workers and customers. While entrepreneurs are characterized by passion for the business and a desire to build a lasting market leadership franchise, this doesn't preclude an M&A (Merger and Acquisition) exit strategy after achieving commercial success. I'll use the term cFranchise (customer franchise) to differentiate my concept of market leadership from business franchises such as Holiday Inn or McDonalds.

Successful entrepreneurs must be impatient. Urgency is a critical element of entrepreneurial culture. Entrepreneurs learn to work with limited resources, incomplete information and never enough time. The great football coach, Vince Lombardi, described it this way; "We didn't lose the game; we just ran out of time".

I choose to define entrepreneurship far more narrowly than others. By all means you may adopt a broader definition, but you need to understand my perspective as you read ahead.

Frank's Entrepreneurship Definition:

Entrepreneurs: **BUILD SUCCESSFUL BUSINESSES** through
INNOVATIVE SOLUTIONS to
UNMET CUSTOMER NEEDS

Entrepreneurs create discontinuities –
They obsolete accepted practices and change behavior.

I believe that starting a company is easy; it's building a successful business that's hard. Other entrepreneurship writers include serial entrepreneurs who start businesses and flip or sell the potential without building a successful business - they package ideas, demonstrate the principles and sell. Flipping is OK if that's what you do - it just isn't within my entrepreneurial vision. In my opinion, innovation is the key ingredient of entrepreneurship.

Not every new or small business is entrepreneurial. Founding the original McDonald's or Starbucks certainly qualifies as successful entrepreneurship. Individual franchises, however, are not typically entrepreneurial. They simply offer the same products on a local basis. In fact, franchisees cannot innovate; they are required to doing everything the McDonalds' or Starbucks' way to claim chain-wide uniformity.

The second key definition is innovation. Again, I've adopted a far more demanding definition of innovation.

Wikipedia offers the following definitions – Innovation is:

- The process of making improvements by introducing something new.
- A new idea, method or device (Merriam-Webster Online).
- The successful exploitation of new ideas (UK Department of Trade and Industry)

Frank's Innovation Definition: **Innovation is: A dramatic change in current perception and practice.** **Entrepreneurs set new standards and expectations.**

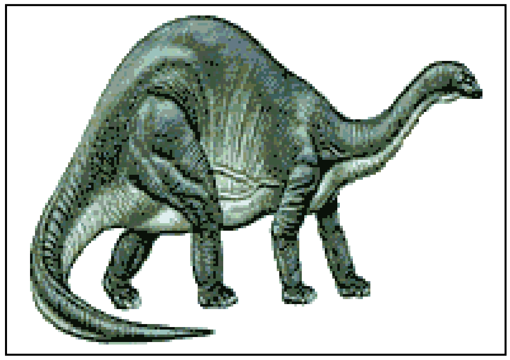
Innovations needn't be high tech or developed through extensive product development. After a century or more of changing postal rates and forcing their customers to add incremental postage to older stamps, the United States Postal Service (USPS) finally introduced the "Forever" stamp. What a great innovation - customer centric, win-win and will change our behavior forever.

Here's another new product. Is it an innovation?

Gillette's new Fusion razor is a fabulous product created after comprehensive market research and years of product development. It's a great product and I'm a customer. If I worked for Gillette/Proctor & Gamble, I would proudly refer to our innovative new product. It falls short, however, to my definition of innovation. It's is yet another incremental improvement to Gillette's prior razors.

Yes, I have challenging definitions for entrepreneurship and innovation. I further believe that successful entrepreneurs must build effective businesses around their innovative idea. Without successful commercialization, we cannot declare "Innovation" - a clever idea remains another clever idea.

I opened an entrepreneurship course that I taught in 2000 during the peak of the .com bubble, with a dinosaur slide. I confessed to the students that I was a dinosaur and believed that successful entrepreneurship requires identifying unmet customer needs, developing product/service solutions, producing and delivering that product or service, successfully selling them and then building a long-term cFranchise.



Corporate intrapreneurship is rarely true entrepreneurship. Intrapreneurship is OK for big businesses that need to stimulate innovation and gain some relief from bureaucracy. Broader corporate strategies and agendas often constrain true internal entrepreneurship. Intrapreneurs typically work under corporate umbrellas and their innovations become products to be folded into the parent's business – and, therefore, this does not meet my criteria for true entrepreneurship.

Retired entrepreneurs or universities often form entrepreneurial incubators to share infrastructure between multiple small companies and to offer advice to the entrepreneurs. Incubators are a compelling concept, but frequently don't seem to work well. I can only assume that the incubator host competes with the entrepreneurial CEO thereby compromising his accountability.

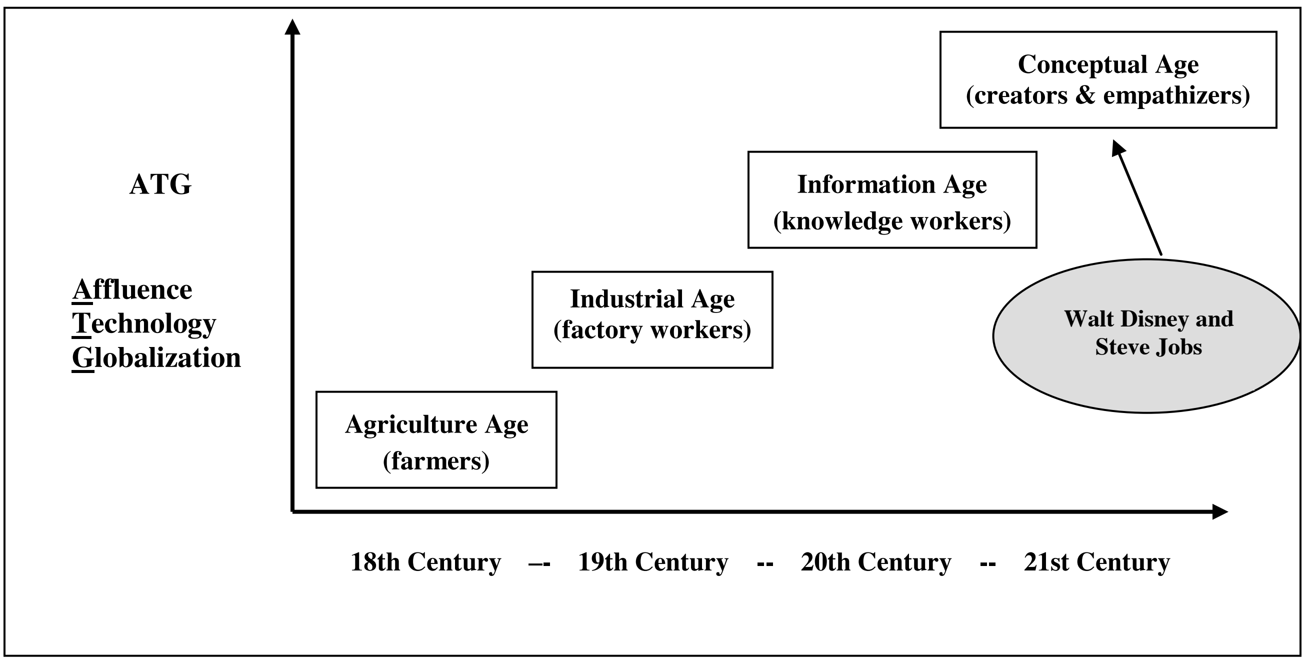
The Entrepreneur's Job is to:

- Identify potential customers.
- Understand their unmet or poorly met needs, business economics, constraints and priorities.
- Create innovative, high value-added solutions to these needs.
- Then, define new MARKET segments, which enable you to communicate your value and benefits effectively!
- Creative segmentation leads to differentiation & strategic advantage.
- This is not an analytical or statistical exercise; rather it's a face-to-face, creative and interactive customer experience.

**Successful entrepreneurs aren't those lucky enough to predict the future - they will be wrong next time.
Successful entrepreneurs influence the future and rapidly adjust to the unexpected.**

The Changing World of Innovation

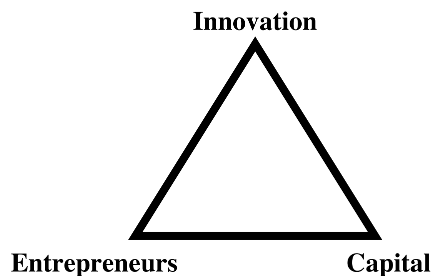
In his recent book, "A Whole New Mind – Why Right Brainers Will Rule the Future" [7], Daniel H. Pink describes the changing world of innovation. The industrialized economies have passed through the Agriculture and Industrial Ages and are driven by affluence, technology and globalization into the Information Age and on into the Conceptual Age. The Conceptual Age demands technologically advanced, high quality products as "table stakes" and the user experience becomes the primary differentiator or key to success.



In many ways, Walt Disney pioneered the conceptual age. Both his movies and theme parks created innovative customer experiences. Even more, they created multiple unique experiences for both children and for adults. It's ironic that Steve Jobs is now the largest shareholder in Disney following its acquisition of Jobs' Pixar Animation Studios in May 2006. Steve Jobs and Apple, Inc. may be today's best example of a Conceptual Age innovation. iPods and iPhones offer unique experiences and ergonomics rather than superior technology.

Entrepreneurial Foundation

Launching a new enterprise requires three critical elements – Innovation, Entrepreneurs and Capital. You are simply a potential new enterprise until you gather a minimum critical mass of each.



- **<u>Entrepreneur(s)</u> – One or more energetic, honest and competent people who can articulate the "Innovation" and then build and lead an organization capable of implementing the vision.**
- **<u>Innovation Idea</u> – A unique business (Not Product) concept upon which you can build and sustain a successful commercial enterprise.**
- **<u>Capital</u> – Access to sufficient funding to launch and sustain the enterprise.**

The interesting lesson from this model is that once you acquire any two of the three critical elements, it's relatively easy to acquire the third. The most common model is an entrepreneur with an innovative idea seeking capital. Experienced entrepreneurs often have access to capital and seek an innovative idea to start their new enterprise. And it's becoming more common for VCs (Venture Capitalists) with access to good ideas, to recruit entrepreneurial leadership. During later financings, VCs often demand new leadership in founder managed start-ups prior to committing new capital.

Each of these examples assumes credible ideas and entrepreneurs. Unfortunately individuals claiming to be entrepreneurs or their innovative ideas may not be credible. VCs use an investigational process called "Due Diligence" to ascertain the credibility of entrepreneurs and their innovative potential.

Once you develop as a skilled entrepreneur, you still need all the good luck you can find. Of course, we all know that hard work tends to make you luckier.

After you achieve entrepreneurial success, don't forget your obligation to those who follow - you will become the best developer of future entrepreneurs.

Are You an Entrepreneur?

So, are entrepreneurs born or made?

Yes. Successful entrepreneurs are born with certain instincts and talents, but these must be further developed through experience – successes and failures. Formal training helps – to a point. If you're born with potential, then you can develop skills. Contrary to popular belief, entrepreneurs do not love risk. They think other entrepreneurs take risks, but they are highly self-confident and believe they will succeed. Without this self-confidence, few would ever start.

When to Start? No hurry. Learn from others. If you believe in education, get educated in entrepreneurship. Learn on someone else's nickel. Go work for an entrepreneur before you decide whether you have potential.

Don't fall in love with your first "good" idea. If you think you will have only one good idea, you're not an entrepreneur - so get a job.

Big companies expose you to bad habits. Remember how you feel when being managed before you treat others as corporate managers treated you. Successful entrepreneurs manage their business, but lead their people.

How do you know whether you're an entrepreneur? If you're reading this book, you may have entrepreneurial potential and want to know whether you should become one. Jeff Foxworthy, the successful standup comedian, developed a routine; "You may be a redneck, if….." It may be more helpful if we explore characteristics that indicate that you might not be an entrepreneur.

You may <u>NOT</u> be an entrepreneur, if you:

- ❑ Want a well-organized business and personal life with little travel, few surprises and virtually no business emergencies requiring immediate action.
- ❑ Want the buck to stop somewhere else.
- ❑ (Or your spouse) Want a balanced life without the hard work required to balance the full needs of your business and your family.
- ❑ Love big titles, always wanted to be CEO or President.
- ❑ Describe your importance by how many people work for you.
- ❑ Want total control without accountability to a boss.
- ❑ Demand that your people carry out your orders.
- ❑ Think entrepreneurship is the fast, easy road to riches.
- ❑ Think sales people are low life forms.
- ❑ Develop a product you want and believe others will flock to buy it.
- ❑ Want to avoid uncertainty and stress.
- ❑ Are too important to buy the coffee, make the coffee, wash the coffee cups, paint the walls, clean the bathroom and shovel the snow.
- ❑ Are unwilling to work around the clock to meet a critical deadline.
- ❑ Are a successful academic and want academia to be your legacy. "Tenured Entrepreneur" is truly an oxymoron.
- ❑ Look forward to retirement.

First Things First - Vision

Vision – A vivid mental image of what you want to achieve during the coming three to five years. Beyond this time frame, it becomes a dream. Ideally your vision is customer focused, such as: "enable our customers to achieve 25% productivity improvement with market leading customer service". Your vision is not a strategic plan because you don't know enough to have a formal strategy. Combined with culture, vision defines what you want your enterprise to become going forward.

Vision should be customer, not product, focused. It is defined in qualitative, not quantitative, end results such as, customers, work environment and legacy. Artists paint visions; photographers capture today's reality.

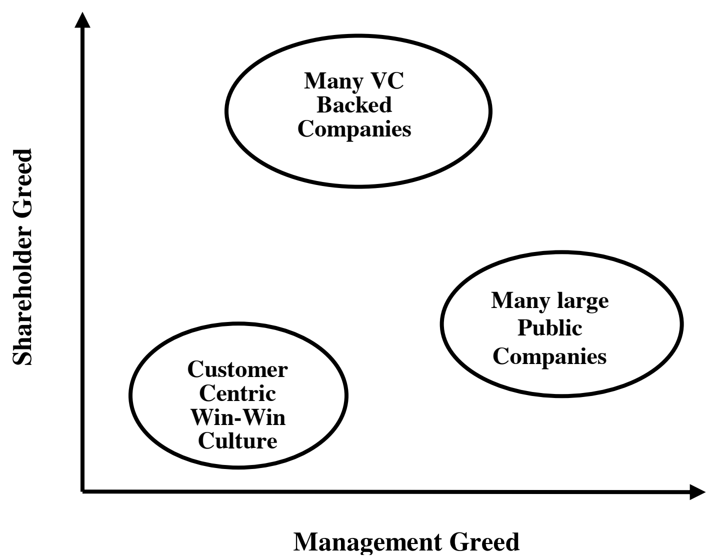
Why have a vision? Customers, employees and vendors are motivated to achieve something valuable and worthwhile in the future. Your vision creates a source of entrepreneurial energy. Create your vision statement early and see if it works for you and others.

Later we will add culture as the underlying value system we practice while pursuing our vision. Strategy and tactics are how we will do it.

Entrepreneurial Rewards - Is profit the goaln or reward?

**Never forget; customers are y our key to success.
If you create customers and delight them with your products and services,
good things happen and everyone wins.**

A little greed is normal, excessive greed leads to win-lose relationships. Successful entrepreneurs manage greed to serve their shareholders and themselves while building their cFranchise. VC investors often permit their shareholder greed to compromise long-term enterprise value creation and we see examples in the business press about greedy executive compensation in large public corporations.

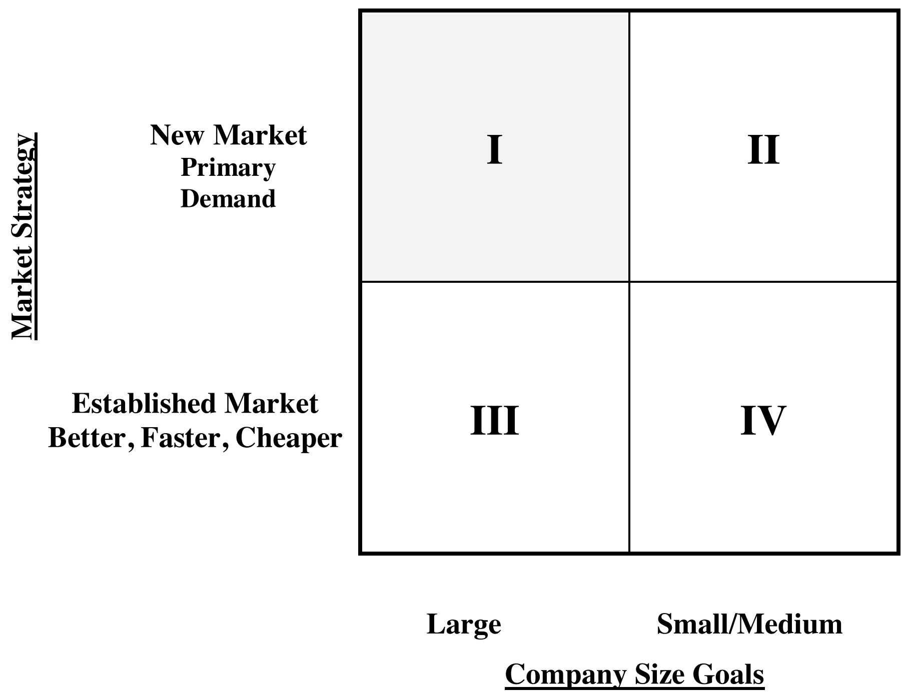


Entrepreneurial Strategies

Strategy is a powerful word, yet it means different things to different people. You can always attack people by accusing them of not having a strategy. Big company executives want strategy to mean long-term market, technology and business goals and plans to achieve them. They want compelling analytical support to create the perception of certainty. Entrepreneurs use strategy to define an integrated set of 6 to 24 month tactics with plans and resources to achieve them. Even these are subject to immediate change with new information. Everything beyond this is vision.

Primary Demand vs. Established Markets

Founders should think through their business vision early in the formative process. Market strategies and company size goals strongly influence early organizational, product development and operational decisions. The Market Strategy – illustrated by the strategy vs. size matrix defines four business approaches that, in turn, dramatically dictate operating strategy.



Strategy ◀▶ Size Matrix

- **New Market - Primary Demand Strategy**

  Develop new products or services and create demand for them. To do this, you must create dissatisfaction with the accepted approaches and build awareness of your better way.

  For example, Federal Express created dissatisfaction with the multi-day letter and package delivery provided by USPS and created a new market – overnight delivery.

- **Established Market – Better - Faster - Cheaper (BFC)**

  Develop a significantly improved solution to a well-perceived need and demonstrate superior value compared to established, competitive products – **take market share.**

  Dell Computer illustrates a market share strategy providing well-established products in a highly efficient direct-to-consumer model. They've stumbled recently, however, by not meeting customer needs for service and support.

Savvy investors recognize the risk ◀▶ reward aspects of new versus established market strategies. While established market strategies appear less risky, prior market leaders react quickly to competitive threats and quickly introduce product improvements to meet the innovative threat.

Two Types of Investments

- Better, Faster, Cheaper
  "Represents 80% of our investments"
- Brave New World (Primary Demand)
  "With Brave New World, the risk is in the field: it is not technology risk, it's market risk. These companies tend to fail late, and take more money because they fail late."

Ruthann Quindlan, Institutional Venture Partners
New York Times, Sunday April 13, 1997, Business

Where Do You Want to Be in the Strategy ◀▶ Size Matrix?

As you consider where you want to be in the Strategy ◀▶ Size Matrix, consider the leadership and management consequences. Adopt the appropriate culture and style required by your strategy. A primary demand strategy, for example, requires the patience and investment to change customer behavior while a BFC strategy requires consistent product superiority compared to current and future competitors.

Market Factors	New Market Strategy Primary Demand	Established Market Strategy Better, Faster, Cheaper
Key Success Factor	Create Primary Demand	Take Market Share
Market Focus	Application	Product – Features and Capabilities or dramatically lower price for equivalent capability.
Marketing and Sales Emphasis	Education and Vision Customer Benefits – Value of the New Solution	Competition Increase Product Awareness Create Preference through Product/Feature Differentiation
Sales Cycle	Long	Short to Medium
Post Order Focus	Application Support and Training New Application Development	Product Service Reference Accounts Low cost leader enabling aggressive pricing.

Before you automatically conclude that bigger is better, understand that this demands an entirely different leadership style than staying small with modest growth. Leaders seeking rapid growth must staff for today recognizing that many of their colleagues, even when successful, will lack the needed skills as the business grows.

Leadership Style	Become Large	Stay Small to Medium
Growth Objectives	Rapid	Controlled
Decision Making	Decentralized	Centralized
Staffing	Best Possible People Staff for the future.	Experts – Match people to near term needs.
Initial Ownership	Private – Broad ownership to key employees and outside investors.	Private, closely held.
Later Ownership & Liquidity	Public or significant merger.	Private, closely held. Family. Exit through sale to employees or acquisition
Compensation and Incentives	Equity for key contributors. Salaries, profit sharing and cash bonuses.	Salaries, cash bonuses and perquisites (Perks).

Markets Don't Exist – Only Customers

Define your customers before you define and develop your product. If you start with a product, you become a solution in search of a problem.

Don't believe all the marketing propaganda. Markets are not real; they are simply customer aggregations created by marketing people. This isn't bad unless you accept someone else's definition as reality. Successful entrepreneurs, actually, redefine customer groups into new market definitions and then develop innovative solutions for their needs and build a unique cFranchise and dominate this new market segment.

Innovations based on clever or bright ideas probably outnumber all other innovation categories put together. Seven out of eight patents fall into this category. Bright ideas, however, are the riskiest and least successful source of innovative ideas. The casualty rate is enormous.3

Many serial inventors keep inventing bright ideas and wonder why none become commercial successes. Ideas, in fact are plentiful, entrepreneurial execution, however, is scarce. We will never know how many good ideas could have become great businesses with the right entrepreneur.

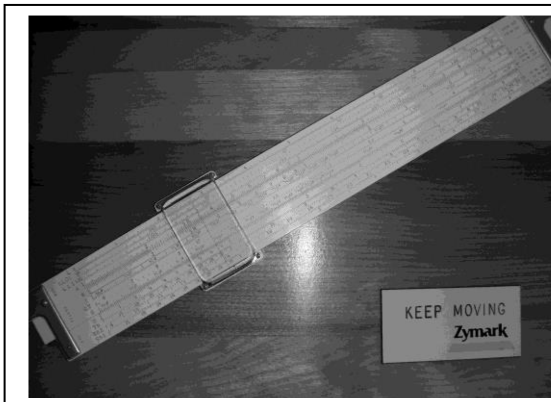
Customer Research: Define Your Customers –
Develop an Innovative Solution to Meet Real Customer Needs

Forget the accepted market definitions. You are an entrepreneur seeking new market insights and disruptive product/market strategies.

Many of you have never used or even seen a slide rule, yet slide rules were the primary engineering computational tool until replaced by computers.

Keuffel and Esser (K&E) Co. of New York was the gold standard slide rule manufacturer. K&E's engineering and manufacturing remain impressive, but their lack of market understanding led to total business failure. They kept defining their customer as users of slide rules rather than engineers making computations.

K&E was founded in 1867 on Fulton Street in NYC. They rose to become the dominant leader in slide rules, architectural and mapping equipment. The firm moved its headquarters and research laboratory in 1968 to Morristown, NJ and its manufacturing plant to Rockaway, NJ. Despite K&E's successful advances, the technology market shifted radically in the 1970s with the introduction of electronic pocket calculators, computer-assisted drafting (CAD) systems, and laser surveying. K&E filed for chapter 11 bankruptcy in 1982 and they ceased manufacturing slide rules and sold its assets to other firms. You can still purchase K&E slide rules as historic antiques.



I used the K&E story at Zymark to illustrate that quality goes beyond engineering/technical excellence to meeting real customer needs. While early stage, innovative products may contain bugs and limitations, they are likely far more valuable than earlier alternatives.

Market research and customer research are very different. Market research assumes traditional market definitions and surveys large numbers of people to determine preferences and trends. Market research reports tend to rely on overwhelming analysis claiming statistical significance. This process typically identifies needed improvements to existing and familiar products rather than identify innovative solutions. This may assist managers of mature businesses, but is virtually useless to entrepreneurs.

This doesn't guarantee that your product will hit the bull's eye. But think about it, people can't project exactly how to use totally new tools. We must develop a first version and ask the early adopters to use it in their everyday world. This is far more comprehensive than the traditional beta test - think of it as a limited and controlled market introduction. With early adopter feedback, you will become ready to develop the real product offering. I call this getting on the field of play.

Good listening is the key to effective customer research. In entrepreneurship, listening is far more valuable than talking - even though good verbal and writing skills are also very valuable. You will never regret developing your listening skills. We have a word to describe someone who speaks well – articulate - yet we don't have a word for someone who listens well. Why not?

Once you've defined your target customers, you need to uncover their unmet needs through customer research. Customer research requires an exchange of beliefs and insights. Don't delegate, do it yourself. Find thoughtful people (future customers) who, you believe, understand the needs of your target customers. Interview as many of these people as necessary until you find strong concurrence. Meet face-to-face at your subject's office. Whenever possible bring a colleague – you each will hear different points. Begin with open-ended questions followed by clarifying or closed-ended questions. Listen carefully to answers to ensure you truly understand the points. Never, ever ask what do you want? People will tell you what they don't like about current products and expect you to fix them. Summarize observations promptly while recollections are still fresh. Follow-up and thank your subject. Promise to share your conclusions when you formulate them.

Customer research is not statistical process; you're finished only when you find consistent patterns. In my (BTB- business-to-business) businesses with primary demand strategies this never took more than fifty interviews. If we had conducted a traditional market survey, when we started Zymark Corporation, questioning lab scientists about their need for laboratory robotics, I believe we would have found zero market opportunity. Lab robotics, however, became and is now a significant market.

When successive interviews present a consistent picture of unmet customer needs, summarize the conclusions and then start conceiving an innovative solution. Again, look to the future. As hockey great, Wayne Gretzky said, "Skate to where the puck is going to be."

Confirm Your Findings and Conclusions

Package your customer need conclusions and proposed innovative solution and go back and present it to those who you interviewed. Again, don't sell your prospective product, discuss your conclusions and underlying logic and seek confirmation, challenges and new insights. This iterative process is the most important process in the entire program.

I recently visited a former executive with a company that that I served as an outside director. He shared the following story of how he used customer research to expand his business into Japan.

> In the 1980s, Data Instruments, Inc. (DI) was emerging as a leading independent manufacturer of value-added electronic sensors, transducers and components. It is now Honeywell Data Instruments, Inc. business unit of Honeywell Corporation. I was a DI director for several years during the early 1980s. I only recently learned about this creative use of "Customer Research" by an established business.
>
> The Challenge: Data Instruments was gaining momentum in US and Europe but needed a presence in Japan to establish a strategic global presence. Leading Japanese customers for

DI's products are well known to the industry and the challenge, as a newer vendor in that market, was to create distribution channels that best meet those customers' needs.

Traditional Approach: Obtain a list of established Japanese distributors and invite them to visit you and present their qualification – then simply select the one you think will do the best job.

DI's Approach: Identify and visit, in Japan, the most important potential Japanese customers and ask them to help you design the most suitable distribution process. Recognizing the key strategic importance of this initiative and the value of his personal commitment to Japanese customers, the CEO led the program.

He now reflects: "What we learned by speaking with customers in Japan was that, unless we sold through an "approved distributor", we had no chance to gain access to these companies. Most Japanese customers had already decided to limit themselves to a certain number of people they would buy from and expect these distributors to make sure that all of OUR specifications, delivery procedures, qualifications and inspection procedures met their needs. They were most willing to tell us who were the qualified distributors.

We further learned during this process that entirely different partnerships with our distribution channels were needed to succeed in Japan. In most international markets, exclusive distributors are normally appointed for geographical territories; we learned that "exclusivity" was not defined in the same way in Japan. One distributor might represent a manufacturer in one account while another would represent that same manufacturer across the street at another, and both would be considered "exclusive". That inspired us to create a distribution structure where we recruited distributors who sold to our most important potential customers, and offered "exclusivity" by design project. By providing us with visibility and information about a new design project at a customer, a distributor could earn the exclusive right to represent us there. This worked out to be an extremely effective partnership, in that the information that we received was timelier and complete than we typically received anywhere else in the world. Essentially, we reinvented the selling process to meet the market's needs, and the market designed the process for us."

This story is courtesy of Peter R Russo, CEO and President of Data Instruments, Inc. from 1980 to 1999. Currently Peter is Director of Entrepreneurship Programs and Entrepreneur in Residence at Boston University's School of Management.

Big Companies – Entrepreneurs Best Friends

It's a wonderful world; - "Big Companies" are entrepreneurs' best friends. Why? Entrepreneurs need big companies to create unmet needs and big companies need independent entrepreneurs to innovate. Big companies create customer expectations for something better, but can't meet them in a timely way. Successful entrepreneurs meet these expectations quickly.

Big companies are not bad; they simply reflect the expectations of their shareholders and today's customers. They are expected to provide consistent, high quality products and predictable earnings with earnings growth.

Big companies are not defined by size, but most are relatively large. In my world; culture, vision and processes define big companies. By definition, big companies must protect their market franchises and economic engine. Disruptive innovation, therefore, is far riskier for big companies than entrepreneurial companies. Big companies manage markets rather than create them.

As big companies build infrastructure to manage routine work efficiently, they create the hierarchy, bureaucracy and politics that, rather than protecting them, make them even more vulnerable to externally generated change. Big companies have limited management talent and assign the best people to the biggest current business segments. How can the lesser talent assigned to new business initiatives, even with big company resources, compete with the best people attracted to entrepreneurial companies?

Big companies can and do innovate. Sony's Walkman, Apple's iPod and hybrid cars, for example, certainly qualify as innovations. But, innovation is difficult for virtually all large companies and impossible for many. Innovation is not big companies' core competence because protecting their base business is their top priority. Even when big companies do innovate, they immediately want to rationalize the old and the new rather than protect the new from the old. Politics in big companies draws a lot of energy into bickering over resources.

The drug industry offers the best example of big drug (pharma) companies and entrepreneurial biotech companies doing what each does well to mutual advantage. The big pharmaceutical companies have huge internal research programs that perform rigorous scientific discovery. History shows that these efforts are good at incremental developments, but poor discoverers of breakthrough drugs. The biotech industry emerged, as scientists from big pharma and academia believed they could accelerate the process and think out-of-the box. Originally, biotech applied only to large molecule drugs, but today biotech generally applies to any entrepreneurial drug discovery company. Most biotech companies don't have the skills and resources to bring promising candidates through the expensive clinical development process so they negotiate licensing agreements with big pharma to collaborate in the clinical process and leverage big pharma's huge sales and marketing organizations.

Over time, successful biotechs added scientific and financial resources to bring promising drug candidates further into clinical development thereby enabling them to negotiate co-marketing agreements with big pharma - permitting them to begin building their own commercialization infrastructure while still leveraging the clout of their big pharma partner. A few, including Amgen and Genentech (Roche), are now fully integrated pharma companies.

We now see an emerging trend of big pharma buying biotech firms with promising drugs. This makes no sense to me; I would buy the rights to the new drug and encourage the biotech team to continue innovating so you can buy their next breakthrough.

Another great example of big vs. entrepreneurial companies is venture capital (VC). Many of the big investment and commercial banks saw opportunities in venture capital and started VC teams to pursue them. The cultures, however, conflict. Big financial institutions are, by nature and mission, conservative with highly sophisticated infrastructures to meet their fiduciary obligations. VCs, however, invest in early-stage business with only conceptual business plans, products yet to be developed, few or no customers and, often, unproven managements. Today, the most successful VC firms are independent of financial institutions and staffed with VC professionals. When an entrepreneurial business achieves sufficient success for an IPO (Initial Public Offering) or M&A (Merger and Acquisition), the VCs and financial institutions come together and each contributes their skills to the process.

Big companies have smart people, money, resources, commercial infrastructure and customers. How do so many entrepreneurs build successful businesses in markets dominated by big companies?

Big companies face huge challenges during times of dramatic market changes. Such companies as GM, Sears, AT&T, TransWorld Airlines and others have crashed from icon to irrelevance and, in many cases, oblivion.

Think about the stupid behavior of big, public companies giving financial guidance to security analysts. How can we assume predictable economic and market environments in order to forecast the unknown future? Read the financial news, when analyst earnings guidance proves to be wrong, it's either management's fault or due to unpredicted events – never bad analysis.

Can you imagine anything worse than a small company trying to behave like a big company?

I once went to an open house to celebrate the launching of a venture-backed drug discovery start-up. Their offices were in a prestigious office park, the senior people had large offices with new furniture, they brought their administrative support from their prior big company employer and they served elegant food and drink at the open house. Not surprisingly, they no longer exist.

Big companies fear failure more than they value success. They adopt portfolio strategies and hope some succeed. Entrepreneurs, on the other hand, focus on one, or very few, initiatives. They then execute them with demonic passion.

Big companies tend to become more and more bureaucratic. They try to analyze beyond where analysis works in order to justify decisions. Big company culture relentlessly evolves toward consensus management, politics, conservativeness, bureaucracy and incremental programs to protect near term financial results. They adopt consensus management in order to gain support from all the people with veto power and to ensure their decisions, good or bad, will be seen as rational. Financial markets amplify these issues for large, publicly owned companies.

Please remember when reading the following table comparing entrepreneurs to "big company" managers that I'm making provocative statements that, as generalizations, aren't totally or always accurate. I'm trying to highlight the contrasts.

Big Companies	Entrepreneurs
Ready ➤ Aim ➤ Fire	Ready ➤ Fire ➤ Aim
Protect the past.	Live in the present as a foundation for the future – see Vision.
Fit people into their predefined organization.	Organize around experts with needed skills and then leverage their strengths.
Follow the rules.	Live the culture and vision. Try to do what's right in the current situation.
Managers have administrative assistants to perform routine support and screen employee and customer access.	Entrepreneurs learn that supervising administrative assistants is hard work; it's often easier to do routine tasks than delegate them and they don't want to place roadblocks between them and their customers and employees.
Make incremental improvements.	Leapfrog and obsolete the past and why not, they have no legacy to protect.
Build bureaucracy and infrastructure to routinize as much work as possible and to perform that work consistently and efficiently.	Think "out of the box" to reduce the resources required to accomplish better results. Build adaptable processes to handle the routine.
Fear failure more than they value success. They portfolio products and markets to average out the financial performance.	Committed to their better way. Don't hedge. Bet on success and their ability to recover from setbacks.
Achieve goals as often as possible.	Aim high and plan to overachieve more modest expectations. Learn from the past to improve your chances of achieving future goals.
Assign their best people to manage "big", current businesses.	Highly focused, best people assigned to their core initiative
Market Focused - Commission market studies	Customer Focused - Listen to your customers and build strong, trusting relationships.
Manage Resources	Focus on key opportunities and finds ways to accomplish big things with insufficient resources.
If it ain't broke, don't fix it.	If it ain't broke, break it.

Entrepreneurs vs. Big Companies

A Unique and Unfolding Case History – Apple (AAPL) vs. Microsoft (MSFT)

There are many books written and yet to be written about the Apple turnaround and the steady decline of Microsoft. While I'm not a Microsoft fan, I've been a dedicated user of their products. My comments that follow are limited to my impressions of these companies and their lessons on entrepreneurship. I leave it to other more serious authors to conduct the research and build in-depth analysis.

	Approximate Market Capitalization - $ Billions	
	Early 2000	**May 2011**
Microsoft (MSFT)	$500	$215
Apple (AAPL)	$15	$320

How could this be? Microsoft dominated the PC software industry (The core being the Windows operating system and their Office desktop application suite.) in 2000 and still does today. MSFT brilliantly chose to offer their software to all PC manufacturers and dedicated themselves to becoming the industry standard. AAPL, on the other hand, retained a proprietary operating system and appealed to unique niches of PC users.

Another aspect of MSFT's strategy was the relentless pursuit of competitors – Netscape, Yahoo, Google and others. They succeeded in their core applications and in Internet Browsing and virtually eliminated competitive influence for these applications. The US and European governments took legal action against MSFT and their anti-competitive practices. AAPL struggled through most of the 1980s and 1990s. Steve Jobs, a founder, was forced out of the company and other CEO's tried to lead it into a new direction. Jobs returned to AAPL in 1997 bringing new ideas and a passion for customers and their experience with Apple's products.

Into the new millennium, MSFT continued its strategy. They followed other's entrepreneurial initiatives into internet applications, mobile computing, games and toys yet never became the dominant supplier. AAPL, however, continued developing innovations for their "Mac" computers and also made them more compatible with Windows computing. In 2001, AAPL introduced the iPod, a digital music player, and the iTunes store to purchase and download music. While iPod was not technically unique, its cool customer experience quickly made it the music player of choice.

In 2007, AAPL introduced the iPhone which quickly set a new standard for smartphones. Imagine, a computer company leapfrogging the maturing mobile phone industry. Perhaps the most significant innovation is iPad, AAPL's tablet computer introduced in 2010. I didn't grasp the iPad vision – to me a tablet computer was a small notebook computer with a touch screen. At least that's what MSFT's tablets were. AAPL's deep understanding of and vision for their customer's needs and preferences led them to create a whole new computing category – the Tablet. In my opinion, the iPad tablet is not a computer it's the Personal Digital Assistant (PDA) that we've been seeking for years. As I write this, I just received my new iPad.

So why tell this story in an entrepreneurship book. I just completed describing how difficult it is for large companies to truly innovate making them the entrepreneur's best friend. AAPL is the exception and has built the world's most valuable technology company in the process. AAPL demonstrates the power of leadership, culture, deep customer focus and innovative products and services and sets a whole new standard for entrepreneurship in large companies. MSFT still focuses on financial results, me too products and crushing competition - their results speak for themselves.

Understanding Risks vs. Rewards

As a society, we're troubled when coping with; risk ◀▶ reward relationships. Regulators, bureaucrats and lawyers try to minimize their constituents' risks while protecting themselves in case bad things happen. We all intellectually understand that we must and tradeoff between risks and rewards. But, in practice, we are often unwilling or incapable of openly coping with real world dilemmas.

Some examples:

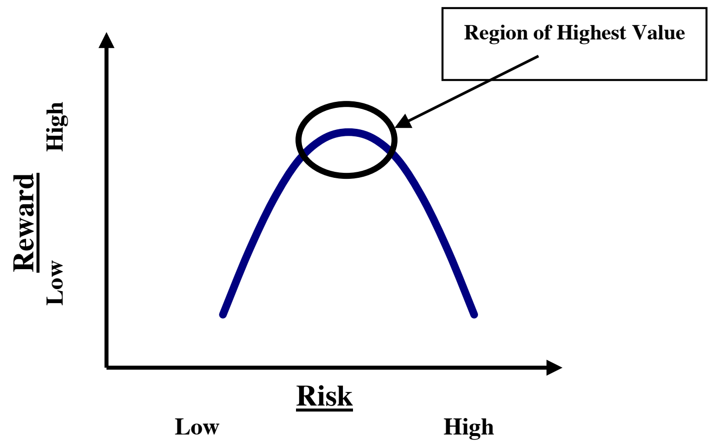
1 We constantly debate the costs and risks of investing in homeland security to gain greater national safety. Unfortunately we're focused on prior terrorist acts rather than projecting likely future risks. Why? There's no acceptable excuse for making the same mistake twice but we will excuse falling victim to an identified risk. We know future terrorist attacks are inevitable and yet are unwilling to face the challenges of discovering terrorist behavior before they actually initiate the act. There simply isn't enough money to stop every potential terrorist act at the time and place it's launched.

2 The US Food and Drug Administration (FDA) protects the public in their use of pharmaceuticals and medical devices. The FDA requires full label disclosure of the drug's composition, clinical trial results, use and risks. The label includes daunting inserts inside the package. Although this may not be typical, I observed the insert of a recent prescription. It contains over 8,000 words plus a few mysterious chemical structure symbols. Have you ever tried to read one of these? Do you think your doctor reads them? How do these labels lower your risk? Where are you on this risk – reward profile?

   Recently, I read the letters to the editor in my morning paper. One letter began "Some dangerous drugs get by the FDA." No kidding. All drugs are dangerous – that's why the FDA requires a physician's prescription. Physicians and their patients must make a risk ◀▶ reward assessment. Ignoring this reality means blindly accepting unknown risks.

3 When a company issues public stock, they must file an S-1 or similar Registration Statement with the Securities and Exchange Commission (SEC). A form of this document becomes the Prospectus that investors use to make their investment decision. A required "Risk Factors" section warns prospective investors of all potential risks. On April 29, 2004, Google filed an S-1 for their proposed public offering. The Risk Factors section filled 20 pages out of the 100-page document, excluding financial statements. These 20 pages included 55 headlined risk topics, each followed by a full description of that risk. I'm sure all the subsequent Google investors carefully studied Google's risk profile.

The risk ◀▶ reward profile illustrates that high rewards require some level of risk. Attempting to eliminate all risk or blindly accepting unknown or excessive risks both lead to poor rewards. Everyone, particularly entrepreneurs, must assess and make clear risk ◀▶ reward decisions.



Risk ◀▶ Reward Profile

Why is risk ◀▶ reward important to entrepreneurs?

Entrepreneurs are motivated toward a vision of changing the world – or some portion thereof. To do this, you must begin with a realistic understanding of the current world – not a naïve perception of reality. Entrepreneurs deal with risk ◀▶ reward every day. Be it product strategies, customer commitments, hiring, employee relationships, compensation, investor and legal representations, budget commitments and many more.

To the best of their ability, entrepreneurs understand their true risk ◀▶ reward profiles and make sound business decisions. We'll discuss specific examples later in this guide.

Planning Your Start-up Business

Armed with your vision, it's now time to build a stronger picture of your target customers and their unmet needs. You're nowhere near ready to develop the investor focused "Business Plan". Raising money will become important, but that should follow a clear understanding of your market opportunity and a crisp and doable approach to achieving it. Begin your customer research to identify and define:

1. Target customers, their unmet needs and your innovative solution.
2. Market opportunity size.
3. Strengths and weaknesses of your customers' alternatives – this is your real competition.
4. Your customer value proposition and pricing assumptions.
5. Your economic model and how you will make money.
6. Your go-to-market strategy.
7. Capital and resource needs.

Be sure to document your assumptions about customer needs and buying processes, economic factors and competitive alternatives. It's very difficult to challenge your own brilliant conclusions but, as you gain new information and experience, you can continuously test your assumptions and adjust your plan when needed.

If you need some pre-seed money to do your customer research, use your personal savings. Begin earning the equity that you expect to retain in your business going forward. If you don't have sufficient personal funds, borrow from family and friends. Expect to pay this back – you don't yet have a credible business for them to invest in.

Plan to pursue this until you achieve concurrence around a consistent need, don't be surprised if it takes three to six months. If you're already in love with some product idea, you will ask questions which confirm and justify your idea – and never uncover real unmet needs. You will know that you're done when new customer research becomes redundant and unequivocally confirms what you've learned to date.

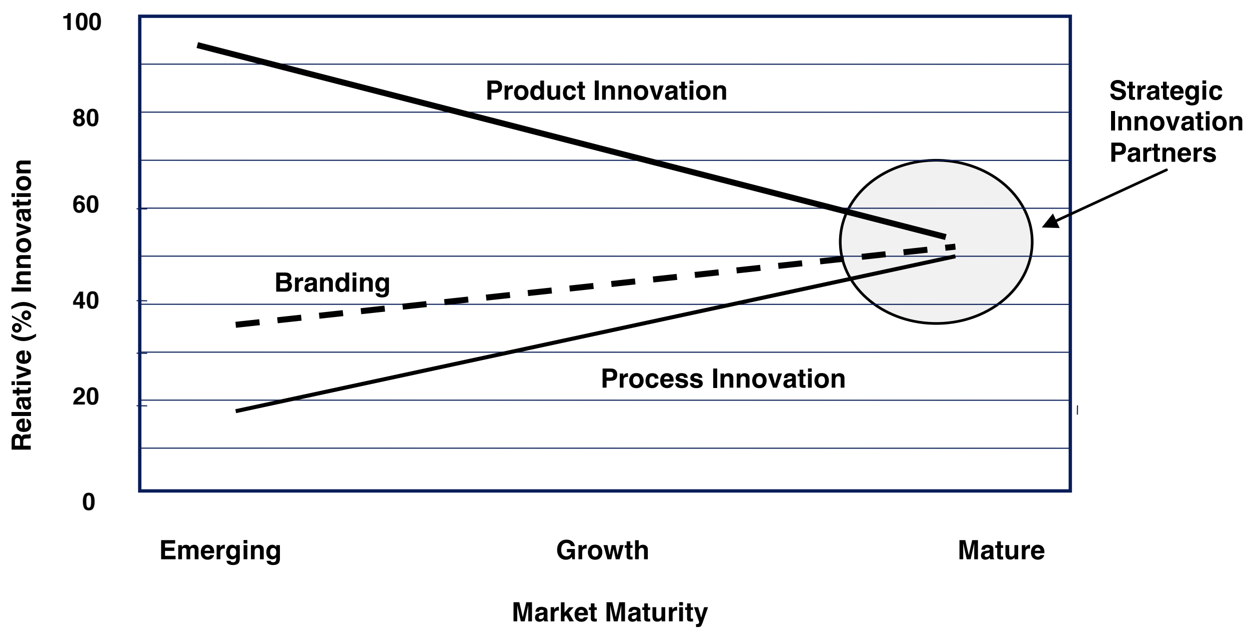
Product, Process and Branding Innovation – Pick One or More

Innovation remains the key to entrepreneurship. Actually, it's the key to all businesses. Without innovation, you cannot have a unique or differentiated product or service. Lower prices through discounting don't qualify as innovation while lower prices enabled by lower costs reflect process innovation.

As we become better informed buyers, both consumer and business, we seek better value and higher service levels for our purchases. This opens the door for process innovation to complement, the familiar, product innovation. In fact, some of our most successful new businesses are process innovators. To put all of this in perspective lets define three types of innovation:

- **Product Innovation** - Introducing unique new products that provide new or compellingly better capabilities than prior alternatives. Permits premium pricing until competitive alternatives close the gap.
- **Process Innovation** – Introducing new and more efficient ways of doing business leading to dramatically lower costs and higher service levels. With existing product strategies, entrepreneurs must introduce process innovation. Lower costs permit profit for re-investing and pricing flexibility. As we examine process innovation, dramatic changes may actually enable entirely new product classes.
- **Branding Innovation** – Technique of using small product differences to create customer perception that the differences are important and valuable. While far less tangible than product and process innovation, branding can create much higher perceived value for the entrepreneur's new product or service. We learn the power of branding the customer experience by observing Starbucks, Apple and Whole Foods.

Many, but not all, early stage entrepreneurial companies begin with product innovation. Some, however, cited in the following examples truly began as process innovators. More importantly, businesses must employ all innovation forms as their markets mature. Build your innovation portfolio to ensure a long-term customer franchise.



Innovation Dimensions vs. Market Maturity

Recent (January 2007) ads, illustrated below, by Chrysler Group appearing in many magazines and newspapers illustrate branding techniques to emphasize small product differences. Hard to believe this works.

Model	Chrysler Sebring Touring	Toyota Camry LE	Honda Accord LX	2007 Nissan Altima 2.5 S
MSRP	$20,195	$21,595	$21,520	$20,915
STANDARD HORSEPOWER	173	158	166	175
17-INCH ALUMINUM WHEELS	STANDARD	N/A	N/A	N/A
FOLD-FLAT FRONT PASSENGER SEATBACK	STANDARD	N/A	N/A	N/A
YES ESSENTIALS STAIN RESISTANT FABRIC	STANDARD	N/A	N/A	N/A
POWER HEATED EXTERIOR WINDOWS	STANDARD	N/A	N/A	N/A
HEATED/COOLED CUP HOLDER	OPTIONAL	N/A	N/A	N/A
FACTORY-INSTALLED REMOTE START	OPTIONAL	OPTIONAL	N/A	N/A
HEATED CLOTH SEATS	OPTIONAL	N/A	N/A	N/A

Dell Computer and Federal Express are great examples of process innovators. Dell clearly supplies industry standard PCs, but is a price leader and permits each customer to purchase the exact capability (custom configuration) they want and still receive prompt delivery. More recently, Dell has been forced to compete with fixed configuration PCs through traditional retail outlets.

Federal Express used process innovation to create a unique product and then used branding to make overnight delivery a symbol of the recipient's importance even when overnight delivery isn't required. FedEx redefined traditional markets served by the US Postal Service (USPS), United Parcels (UPS), airlines who offered rapid point to point delivery requiring customer drop-off and pick up, and couriers who provide local point to point service. FedEx became so successful, in fact, that it created entirely new branding.

Some familiar innovators:

Product Innovators

- Apple
- FedEx (Process and Product Innovator)
- Sony

Branders

- Procter & Gamble/Gillette
- Coca-Cola
- McDonalds
- Starbucks
- Intel
- Whole Foods

Process Innovators

- Dell Computer
- Southwest Airlines
- Wal-Mart
- Fidelity Investments
- NetFlix

Southwest Airlines' process innovations highlight the comprehensiveness and tenacious execution required by process innovators. Clearly Southwest Airlines offers the same product as our legacy airline industry. They fly airplane seats from point A to point B. They fly industry standard airplanes with conventional seats between existing airports. They just use a simpler operating model and ask their employees to try to make the passenger's trip as pleasant as possible. Let's look at some detail.

How does Southwest Airlines differentiate their operating processes?

- One plane type
- One seating class
- No assigned seats
- Short point to point routes – only one connection
- Snacks only
- Short gate time – high plane utilization
- Arriving cabin crew immediately services the cabin before leaving
- Rational pricing
- Relatively Simple Frequent Flyer Program
- Happy employees
- Unique advertising and marketing programs
- Manage costs; such as locking in fuel prices

While each of these is a modest change, they aggregate into an industry changing innovation.

Airline	Market Cap mid- 2005 $ billions	2004 Revenue $ billions	2004 Passengers Millions
American	$1.7	$18.6	72.6
Continental	$0.7	$9.7	31.5
Delta	$0.6	$15.0	79.4
Northwest	$0.6	$11.3	46.0
United	$0.1	$16.4	60.1
US Airway*	$0.0	$7.1	37.8
Total Legacy Airlines	$3.7	$78.1	327.4
Southwest Airlines	**$11.0**	**$6.5**	**81.1**

* Prior to merger of America West and US Airways

Sources: Company Reports and Dep't of Transportation, Bureau of Transportation Statistics

In 2004, Southwest earned a profit of $313 million while the legacy airlines shown above lost over $9.5 billion. In the process, Southwest created huge shareholder/market value.

Entrepreneurs must remember that as they succeed, they will attract more and more similar product competition and they will need to add more process innovation to maintain desired profitability and retain pricing flexibility. With further maturity, they will have to develop innovative branding to differentiate themselves from competitors.

**Please stop here and read the Appendix A - Entrepreneurial SnapShots.
You've been introduced to my concepts and definitions
so now you can share highlights that formed my entrepreneurial experience.**

While you're at it, please also read Appendix B.

Get Set!

Create the foundation for success.

Guiding Principles

- **Innovation, Innovation, Innovation**
- **Culture, Culture, Culture – Who are you? What do you stand for?**
- **When doing your customer research, remember:**
  Do it on your customers' turf.
  Ask good questions and clarify the answers.
  Listen carefully to the answers and document your findings
  Go back and confirm your understanding
- **You must become a successful start-up to earn the right to become an emerging growth company.**
- **Understand your targeted customers' needs and develop an innovative solution to meet these needs.**
- **Once you have your initial product/market strategy, focus on tenacious, tactical execution.**
- **Capital is expensive spend it wisely.**

Start with Culture – The Entrepreneurial Foundation

The Entrepreneurial CEO:
Without tour Vision, Culture and Leadership, you're nothing but a mob of experts.

Culture is a shared value system that defines the underlying principles guiding your behavior. Your culture defines who you are and what you stand for.

Organizations may have one or more cultures. Without a strong overriding culture, individual departments and department managers will impose their own – you experience this all the time as retail consumers and you don't like it. When working for an established business, you must conform to its culture or work very hard to change it. Your choice, as an entrepreneur is to create your desired culture, teach it and reinforce it through your actions, or abdicate culture to your most assertive employees who will instill their culture and change it at will.

OK, but who cares. You do. A well-conceived and rigorously lived culture is the most effective leadership tool you have. It will align your entire team and guide them to actions and decisions that most people will understand and support. Without strong culture, delegation becomes highly risky.

Articulate, and then live your culture - it applies to everyone starting with the CEO - no dual standards. If your actions are inconsistent with your stated culture, actions trump words and you lose credibility. Write down your desired culture and read it. Does it make sense? Is it understandable? Share your culture statement with your employees and customers, and perhaps even more importantly, with employment candidates. Discuss culture openly with candidates and ask what key points they agree and disagree with. Make them take a position.

Almost everyone wants to "Do the Right Thing" and your culture defines your "Right Thing" framework. Demonstrate your cultural commitment as an integral element of your leadership style. Rather than require supervisory approval for many decisions, for example, encourage individuals to make decisions and to seek advice only when the right thing isn't clear to them. Become a coach, not a boss. Don't punish mistakes but use them as a teaching opportunity.

Reinforce your culture by publicly recognizing significant individual successes and how they exemplify your culture in action. Devote a segment of your company meetings to recognize and reward those who truly live the culture. Use "Spot Awards" to reinforce your commitment to these values.

Living Your Culture – Sam Walton & Wal-Mart[4]

Sam Walton started innovating long before founding the Wal-Mart chain. He began as a franchisee of variety stores. In 1950, he opened his first independent stores, Walton's Five and Dime, only the third self-service store in the entire country.

The first Wal-Mart opened in 1962 and carried signs: No matter what we pay for it

"We Sell for Less", and

"Satisfaction Guaranteed"

Those same signs appear on all Wal-Marts today.

Sam wanted that when customers think of Wal-Mart'… they should think of low prices and satisfaction guaranteed. They could be pretty sure that they wouldn't find it cheaper anywhere else, and if they didn't like it, they could bring it back."

He describes an incident early in their history when they were able to purchase large quantities of an item listing for $1.98 at just $0.50. The local store manager wanted to sell it for $1.25. Sam intervened: "No. We paid 50 cents for it. Mark it up 30 percent, and that's it. No matter what you pay for it, if we get a good deal, pass it on to the customer."

And Sam's commitment to low costs to ensure low prices started with their buying trips as described by one of his early managers. "From the very beginning, Sam was always trying to instill in us that you didn't go to New York and roll with the flow. We always walked everywhere. We never took cabs. And Sam had an equation for the trips: our expenses should never exceed 1 percent of our purchases, so we would all crowd in these little hotel rooms somewhere down around Madison Square Garden.

"He was always trying to get somebody to work with us early in the morning or late at night. …. But Sam would always find somebody to visit with us at night. For one thing, he wanted the trips to be as short as possible. For another, he wanted to make sure we were working all the time.

"We never finished up until about twelve-thirty at night, and we'd all go out for a beer except Mr. Walton. He'd say, "I'll meet you for breakfast at six o'clock". And we'd say, Mr. Walton, there's no reason to meet that early. And he'd just say, "We'll find something to do".

"Like I said, I think he was trying to make a point: just because we're in New York doesn't mean we have to start doing things their way."

Even these brief observations; clearly define Wal-Mart's culture of customer service and satisfaction, product quality and high value through low prices enabled by low costs. And clearly, everyone lived this culture. While Wal-Mart is accused of low pay rates, they must pay retail market compensation because, if they didn't, they couldn't hire 1,700,000 employees.

(2011 – Over 2,000,000 employees) In our free market economy, the free market determines salaries and wages. Highly unionized industries and companies, of course, pay above market rates – to fewer and fewer employees as they shrink. Most criticism of Wal-Mart is that they've been too faithful to their culture. Other retail stores with lesser values simply can't compete. Don't be hypocritical and condemn them for the occasional bad behavior of a few people. Punish those who do bad things and punish the company for systemic bad behavior. With over 2,000,000 employees, however, you can't avoid some bad behavior. After all the US Congress, elected as our best and brightest, are only 535 people. How many of these are censored, disciplined, indicted or convicted for "bad" behavior?

In the end, it's the little things that count.

Even with your elegant culture statement and your inspiring speeches, your actions will speak louder than words. Lead by example and infuse your work life with cultural reinforcements. Here are some simple examples that worked for me:

- Answer your own phone.
- Customers preempt almost everything else.
- Keep all offices simple and small. Rarely, close your door.
- When you want to meet with a subordinate, go to his/her office or workstation.
- Walk around a lot and try to get to know as many people as possible.
- Invest valuable company financial resources into the best possible tools for your people to do their work.
- Titles are very important and can reinforce or destroy your culture. Create titles for external impact. Don't take them too seriously internally.
- Explain, but don't justify your decisions. When you make a wrong decision openly accept responsibility and correct it.
- "Spot Awards" – At our quarterly company meetings we would publicly recognize several individuals who made some special contribution to the company. During the meeting, the nominators describe what the recipients and receive a present a sealed envelope containing anywhere from $100 to $1,000 – the amount being confidential. Co-workers or management could nominate recipients. I don't recall management ever rejecting one.
- "Lunch with Frank" - Every other week, I would host a light lunch with eight employees selected at random from across the company. Individuals could decline the invitation without me being informed. At the lunch, I would openly discuss any topic raised by anyone.
- "Raffle of the Graft": - By policy, no one would accept gifts of any significant monetary value. We did not define significant. When approaching year-end and Christmas, we would accept modest gifts from vendors thanking us for our business. We informed them, however, of our Raffle of the Graft program whereby their gift would be pooled and we would hold a company-wide raffle where all employee names, other than executives, would be put in a hat and drawn at random to receive their gift. The gift could never be seen as a bribe, but we graciously accepted it.

Ok. I get it.

The following four pages are the Vision and Culture statement we prepared at Zymark Corporation. We crafted this document several years after our founding, but it simply documented our long-held beliefs. Our management team invested hours discussing each key topic and how we articulated it to ensure it was clear and accurately reflected our intent. You may use this for ideas or as a template for your Vision and Culture statement.

After printing our Vision and Culture statement, we began a series of supervisory training meetings. As I recall, we had about 150 employees at that time and had supervisors below senior management many of who were new to the company. After supervisory training, we conducted several company-wide meetings to discuss our message in detail. On an ongoing basis, we referred to our culture when recognizing special contributions. Finally, we shared this with customers, vendors and prospective new employees.

Zymark will be a standard of excellence;
known for quick response to the marketplace
innovative and high quality products,
superior service, strong financial performance
and being a better place to work.

Zymark Vision

Zymark will be:

Entrepreneurial; innovative, enthusiastic for change, willing to take risks and eager to solve new problems.

Respected by our customers as a value-added partner; recognized for commitment, integrity, quality products superior services and excellent people.

A dynamic, energetic place to work; with challenging jobs, a wide range of career opportunities and recognition for contributions to this vision. An environment which stimulates pride and motivation and which attracts people to join us.

Known for shared values setting high standards for leadership, teamwork, individual initiative, open communications and unquestioned ethics.

Commitment to strong financial performance to attract new capital and to fund the resources necessary to maintain this vision. And, will sustain financial performance which permits the company to remain independent and attract public ownership.

By this, Zymark's growth will be limited only by our ability to manage it.

Page 1

We're committed to strong, shared values,
demanding integrity, encouraging teamwork,
and stimulating initiative in all we do. We have an opportunity
to excel and build a superior company and we will not settle for less.

Being a Zymarkian

As Zymarkians we believe in:

Understanding and supporting the vision, goals and strategy of the company.

Aligning personal goals and skills with company needs and developing new skills to prepare for future career opportunities.

Performing well, being accountable for our own actions, learning from our mistakes and continuously improving in all we do.

Exercising individual leadership and mature judgment.

Investing Zymark's valuable resources as though they were our own while achieving our goals and strategy.

Valuing diversity and respecting the dignity of all people.

Building relationships on trust, respect and communication.

Confronting disagreement, understanding conflicting viewpoints and then, supporting the adopted direction.

Resolving relationship problems undermining these principles.

Supporting all Zymarkians, being non-judgmental, recognizing our interdependence, being realistic in our expectations and recognizing each other's achievements.

As Zymarkians we support these values. In turn, we expect to be recognized and rewarded for contributing to the company's success.

Page 2

Our business is to create customers and fulfill their needs in a superior way. At Zymark, high quality means setting realistic customer expectations, and then, meeting or exceeding them. Our vision challenges us to be a "standard of excellence" in all we do. Quality, therefore, goes far beyond product performance to encompass our total business relationship with our customers; including products services and personal interactions.

Zymark Quality

To achieve Zymark Quality, we believe:

The goal of Zymark Quality is to earn future business by keeping our customers so satisfied we become their preferred vendor.

Zymark Quality is achieved through continuous improvements, not perfection.

As Zymarkians, we are responsible for the quality of our work and we are entitled to the training, tools encouragement, and environment to do our jobs well.

Ensuring Zymark Quality requires asking other Zymarkians to check our work before it moves on to an internal or external customer.

Teamwork stimulates the continuous improvements necessary to deliver high quality and services at a fair price. Vendors and customers may participate with Zymark teams.

Providing superior customer education, service and support and thereby enabling customers to be proficient, motivated and confident when using our products.

Open, face-to-face communications with our customers is the best source of quality feedback. In addition, product and service performance should be measured using simple, yet valid indicators of performance.

Page 3

Zymark's vision of excellence requires unique supervisory relationships -- better than achieved by most companies. Supervising at Zymark is a partnership, and is measured by each Zymarkian's success.

Supervising at Zymark

Supervisors will:

Build an environment which:

- Energizes, builds pride, ownership and motivation.
- Stimulates enthusiasm productivity and support of this vision, goals and strategy of the company.
- Encourages changes and improvements to meet our business needs.
- Treats all Zymarkians fairly in job benefits and opportunity.

Develop - Zymarkians by:

- Committing to the personal and career growth of the Zymarkians we supervise.
- Continually improving performance through training and on-the-job coaching.
- Encouraging individuals to keep us informed and seek advice.
- Providing training and equipment enabling us to do our jobs well.

Provide professional leadership which:

- Attracts, selects and retains quality people.
- Recognizes our dependence on others by being honest, listening well and communicating openly.
- Is competent and sufficiently involved to provide frequent counseling and coaching.
- Ensures recognition and fair rewards for contribution.
- Continues to include our supervisory skills.

Build relationships which:

- Enhance collaboration on setting goals and measurements.
- Enable Zymarkians to develop confidence in supervisory partnerships.
- Encourage Zymarkians to confront problems with you. Endorse Zymarkians going to the next level of supervision for needed help.

Page 4

Goals – Entrepreneurs as Over Achievers

Overachievers Aim High – Why settle for just good or even better?

Goal setting is part of culture, but so critical that we need to examine it in some detail. Let's begin with another sports analogy. With rare exception, individual athletes and sport teams intend to win every game even while knowing they can't achieve that goal. This is irrespective of sport, level (amateur to pro to major league) or athlete gender. Other than US football with its short season, winning percentages of 2/3 to 3/4 are typically sufficient to win a championship. In many playoff formats, the winner must only win a best of seven series or as low as 57% of seven games. Can you imagine any coach advising his or her team that they only need to win 60% or 70% of their games?

> **"If you don't believe you can win an event, then don't show up."**
> **Tiger Woods – 2/24/2008**

Coaches prepare "winning" game plans and practices prior to each game and modify the game plans in real time as each game unfolds. Most great coaches, win or lose, use each game to challenge the athletes to play better.

Many remember Vince Lombardi as one of the truly great professional football coaches. Lombardi joined the Green Bay Packers in 1959 following a 1 – 10 - 11 season. He began his first players' meeting with the following message:

> **"Gentlemen, we are going to relentlessly chase perfection, knowing full well we will not catch it, because nothing is perfect. But we are going to relentlessly chase it, because in the process we will catch excellence. …. I am not remotely interested in just being good."**

The late Ted Williams of the Boston Red Sox was truly one of baseball's greatest hitters. I have no doubt that he approached every at bat determined to get and expecting a hit. Ted's best full season was 1941 when he got a hit 40% of the time. He failed, therefore, 60% of the time. No other major league player has achieved the 40% success rate since 1941. Ted aimed high, often failed and yet was acknowledged to be one of the very best ever. I doubt whether he could have done this if he approached each at bat expecting to get a hit only 40% of the time.

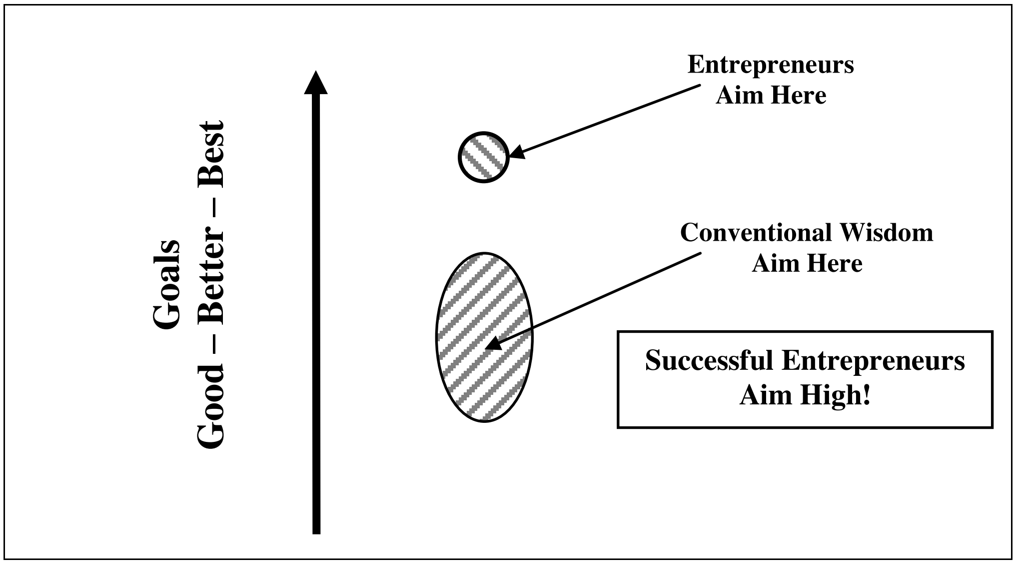
Why then do business leaders believe that they need to set modest goals with high achievement confidence? Why do we think our people are so fragile that we should expect so little from them to ensure they feel good about themselves by winning 90% or more of the time?

What do we learn from the sports analogy? Overachievers:

- Set very high goals knowing they're unlikely to achieve them.
- Plan a winning strategy for each game (milestone).
- Correct any flaws in real-time and only give up when a win/win is no longer a possible outcome.

- ❑ Judge success vs. failure with the knowledge of hindsight.
- ❑ Enjoy recognition, but work to achieve their personal goals.

Aren't entrepreneurs the overachievers in business?



Never Forget – Goals Lead to Decisions
Decisions Lead to Actions
Actions Lead to Consequences; Sometimes Intended, Often Unintended.

Action	Unintended Consequence
Pay for performance through cash bonuses and equity.	Managers make short-term decisions and even cheat.
Hire family members	Nepotism vs. merit
Hire friends	Cronyism vs. merit - (See additional discussion on this subject in the text.)
Management perks	Hierarchy vs. value
Promote for any reason other than results. Note: OK to give promising people a second chance after a mistake.	Cronyism.
Taking entire staff to upscale parties and vacations.	Paternalism and entitlement expectation.
Protect non-performers	Paternalism
Treat everyone the same rather than treating everyone, to the best of your ability, consistent with your culture.	You're starting a union by encouraging employees to organize and negotiate as a group. Them against you.
Lying	Lying must be OK for everyone.
Free offer	Hidden (to the Recipient) cost
Pay yourself too much	Makes everyone unhappy until you also pay them too much – then of course your shareholders get angry.
"I don't care how you do it, just hit your numbers."	Enron

Leadership - Building Your Team

Take your culture and vision seriously, not yourself - it's not about you. Don't keep secrets from your team; they need good information to make good decisions, they need to understand your strategies and economics as well as vision and culture. Teach your team that there are no entitlements in entrepreneurship; you must constantly re-earn your success.

Always reinforce your culture of creating value. Your capital is expensive in terms of ownership and control dilution. Ensure you thoughtfully invest your valuable money and time on key elements of your strategy.

People have strong tendencies to work on things they enjoy. Engineers enjoy challenging problems and sales people enjoy calling on people they like – always with the hope of getting business. Lead by example, volunteer for work outside your comfort zone and expect others to do so as well. Concentrate on building value – not on the things that are fun.

Very soon, you will get pressure to hire family and friends of your senior leaders. Referrals from other colleagues are OK as long as they are evaluated like all other candidates. Former colleagues, however, with known skills are also good recruits. Just test your relationship that it's 80% to 90% business colleague and no more than 10% to 20% friend. You will be told how great their family and friends are; how hard they work, that they need a job and how loyal they will be. If you only have one policy in your policy manual, title it: "We don't hire family and friends". This applies to the CEO and the entire senior leadership team. Once you violate this, you plant cronyism and nepotism seeds. Remember, actions speak louder than words and everyone's employment and role must reflect their true value added. It's hard to fire your friends and harder yet and harder yet to fire your colleagues' friends.

Can a technical founder become an entrepreneurial CEO? Sure, but it's difficult and unlikely. Why? These are two very different roles. To become a successful entrepreneurial CEO, the technical founder must morph into a new career. Team up with people with complementary skills.

"I'd rather be a successful co-founder than a failed founder."

Technical Founders Like To	Entrepreneurial CEOs Must
❑ Hang with techies. ❑ Work strange hours. ❑ Find great technical talent and teach them your technology perspective. ❑ Solve technical problems and keep improving products. ❑ Change the product to overcome sales objections. "I can do that." ❑ Write technical articles (some). ❑ Attend technical meetings to mingle with their peers. ❑ Hire sales and marketing people and then criticize them when sales don't meet their expectations.	❑ Oversee all facets of the business. ❑ Communicate, communicate, communicate- ❑ Teach, live and manage the culture and vision. ❑ Visit customers in the customer environment by driving long distances, eating economically and staying in good value motels (free breakfast and internet add value). ❑ Interact with customers and enthusiastically join the sales team. ❑ Keep reminding themselves that customers aren't stupid. ❑ Retain great talent and build a strong organization. ❑ Build an appropriate level of infrastructure - adaptable and flexible. ❑ Establish reasonable policies and procedures that can adapt to changing needs. Start small - it's easier to add policies than remove them. ❑ Network in the financial community ❑ Raise capital and interact with investors, accountants, lawyers, etc. ❑ Manage cash and maintain a strong balance sheet

Leadership Team

I prefer leadership team to management team. You're not managing people; you're leading committed people toward shared goals. Please follow me.

Actually, in this early stage of your new business, you need experts to implement your product/market strategy. Not only can't you afford managers, they will also slow you down and de-motivate your team with non-focused effort. Don't worry about management breadth and balance – that will come later if you make it and when you need it.

Your early team must leverage key specialists who bring the critical skills you need to launch the business. These people aren't likely to be effective managers or have the skills to lead larger teams. They do, however, need to define tactical goals, quarterback small working teams and bring projects to successful conclusions.

You, the CEO, are the only "generalist" you can afford. Keep management layers to the absolute minimum and stay close to the people and details.

Start with hiring and firing. Clearly communicate culture and values to all potential hires.

1. CEO should interview all new hires up to, at least, 100 people.
2. CEO should approve all terminations. These tend to be irreversible decisions.

Even though entrepreneurs live in the present, they shouldn't develop bad habits that will be hard to fix later.

In today's complex world, you must develop and maintain a simple but effective infrastructure. You need a timely and accurate accounting and cash management system, but limit your charts of account only to the detail you really need. Outsource payroll administration, but manage personnel records, reports and related expenses. Carefully manage benefits so you're competitive – you will not attract or retain the people you need by offering more benefits. Use any available funds to reward entrepreneurial contribution. Yes, you will have to rent space and install Internet, local area networks and telecommunications. In essence, someone must establish and maintain your infrastructure.

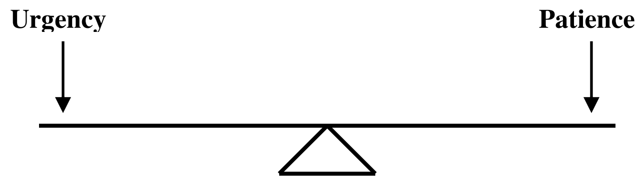
Here's an idea that I've stumbled into and found that it works. One member of the leadership team should become your financial, administrative and CEEO (Chief Everything Else Officer). You do not need a classic "deal" oriented CFO. Your CEEO needs to design simple, dynamic and adaptable information systems that give you and your senior team the information needed to manage your day-to-day business. Again, start small and promptly upgrade systems as the organization's needs change. The CEEO highlights operational or financial issues for timely intervention. As you enter commercialization, you need near term cash forecasting tracking fixed and variable spending, and the best possible information for backlog, projected revenue and sales pipeline.

Balancing Urgency and Patience

I recently received a fortune cookie when finishing my meal at a Chinese restaurant. It advised:

"It takes a lot of time to achieve instant success."

It's like leading an orchestra; the entrepreneurial CEO must lead by always encouraging urgency while instilling the necessary patience to allow the market to grasp the value proposition.



Balancing Urgency and Patience

Entrepreneurial leaders must learn how to balance urgency and patience - patience with customer adoption while urging your organization to keep building your cFranchise. You can only develop these skills through experience and learning from your mistakes. If, for example, you sell too hard, your customers will resent your aggressiveness, if you're too timid, however, customer inertia wins. If, alternatively, you're attacking an existing market with a BFC (Better, Faster and Cheaper) offering, you can't afford too much patience, you must grab territory fast before your competitors can counter attack.

Never forget that you must become a successful start-up to earn the right to become an emerging growth company. Your product/market strategy should have a single initiative – with multiple tasks leading to market introduction, gaining market traction and ultimately building the foundation for your "cFranchise" goal. As the entrepreneurial leader, instill passion, focus and tenacity to the execution of your go-to-market plans.

Begin Thinking Like Your Customers

IBM recently (December 2007) ran an ad in business periodicals. The entire text was:

STOP
THINKING LIKE A BANK
START
THINKING LIKE A CUSTOMER

IBM is helping banks reduce the time it takes to open an account to minutes rather than hours or even days. Institutions can now have a full view of their customers across business units, making the overall customer experience faster, easier and much more convenient. Start exceeding expectations at ibm.com/do/banking. **STOP TALKING START DOING**

What an irony. In the 1960s and 1970s, my company was an IBM customer and felt hostage to their arrogance. In the 1980s and 1990s my next company became a customer of an IBM competitor because we we're "too small" for IBM to bother with us. I hope the new IBM practices what it preaches.

By now, you've identified your proposed customer base and you've talked with a number of them on their turf. Now it's time to take the next step. Learn as much as you can about their industry and economic environment. Their businesses aren't fixed and will change over time. These changes will, likely, require you to change your commercialization strategies or, possibly, seek a whole new customer base.

At this time, you should supplement your personal contacts with individual customers by tracking your customer's industry news and trends. News periodicals including the Wall Street Journal, Business Week, Fortune and Forbes are great resources. Also set up your personal Internet (portal) home page to display recent news about your industry or industries of interest.

The table on the following page illustrates the dynamic impact of changing environment and priorities with my experience with the Pharmaceutical Industry. For illustration, I'll highlight key factors for the Pharmaceutical Industry - R&D Technology market segment into three rough time frames; Pre- 1995, 1995 to 2005 and projected beyond 2005. The table is not intended to be a comprehensive market analysis; it only illustrates how changing market dynamics forces changes to commercialization strategies and fundamental value propositions. Take a look.

Let me also personalize this point with an anecdotal story from my Zymark experience. At Zymark in the mid 1980s, we began selling and implementing robotic automation for analytical chemistry laboratories, primarily pharmaceutical development and quality labs. This was totally new technology to our customers and to us. We believed then, and I continue to believe, that we needed to reduce perceived customer risk by selling our solutions at a fixed price rather than variable time and materials. Before quoting or solution, we asked the end-user customer to describe his lab procedure in detail. Based on this description, we would configure a solution to perform the procedure. In virtually every case, minor details were left out which required additional capability. A simple fact such as using different size test tubes required additional accessories. Customers weren't hiding this; they simply didn't understand that these details are very important. Our systems engineers asked their leaders how to deal with this. We quickly concluded that getting successful, happy customers was far more important than negotiating for more money. Our engineers were instructed to provide what the application required and we would sort out the economics later.

Our solution was to invoice in two parts. Part one exactly matched the customer's original purchase order. The second part began with language along these lines; In order to provide the capability needed to successfully perform your application, we provided the following items (listed with prices). Your success is important to us and you may pay for these additional items if you see fit. These additions were typically $10,000 to $20,000 in 1980s dollars above a typical order of about $100,000. Believe it or not, virtually everyone paid the full amount. We finally abandoned this a few years later when our estimates were better and customers who wanted to pay us simply didn't know how to approve the additional funds. In today's strict contractual procurement processes, I can't image trying this invoicing approach. Let the seller beware.

Now with deep customer and industry knowledge you're ready to develop your product/market strategy.

Business & Economic Factors	Pre-1995	1995 through 2005	Projected Post 2005
Industry Growth Rate	Double Digit	Single Digit	Flat to Single Digit for Some Time
Industry Description	Research-based Pharma	Branded Pharma	Branded Pharma.
Key Products	Relatively unique, patent protected drugs. Growing portfolio of blockbusters.	Patent protected drugs with multiple alternatives within drug class. Heavily reliant on blockbusters.	Personalized medicine. Drugs and dosages tailored to individual needs.
Competition	Relatively limited. Modest generic, OTC and branded competition.	Increasing. Heavy branded and generic competition. Beginning to see OTC alternatives.	Intense. Heavy branded, generic and OTC competition.
US Pricing (Many - Non-US - governments already negotiate national prices.)	Annual increases to achieve growth and profit goals and to offset cost increases.	Constrained by competition and price pressures by managed care.	Healthcare system will be at cost limits. Limited available pricing flexibility, will force large companies to increase productivity.
Marketing Focus	Physicians	Physicians, third party buyers and direct to consumer (DTC).	Physicians, third party buyers and direct to consumer (DTC) – probably more.
Organization	Decentralized – localized decisions.	Regional centralization.	Global organization.
Buying model for technology products	Decentralized – local purchasing.	Regionally centralized purchasing.	Global sourcing – leverage full buying power.
End User Influence	Scientists often buy their preferred brand of scientific equipment. Discretionary time available to become expert user.	Consolidating vendors. End users must justify investment and any deviation from preferred vendors.	Critical ROI or new product impact justification required. Must be productive quickly or end user subject to strong criticism.
IT Influence	Minimal	Increasing	Veto power – virtually all technology products must fit into information architecture for retrieval, compliance and network compatibility.
Buying Influence	End User	Committee – consensus management.	Multi-function Global Committee. Pick the “best” and adopt it across enterprise.
Vendor Sales Cycle	Few Months	9 to 24 Months	Years
Vendor Sales Strategy	Direct sales to end users and helping then sell their management.	Multi-function selling to all buying influencers	Parallel selling to global end-users, support organizations and senior management.

Evolving Market Characteristics

Product/Market Strategy

Building on your understanding of your target customers' unmet needs and your earlier brainstorming about innovative solutions, it's now time to formulate your initial product/marketing strategy. Begin by identifying the problem(s) you want to solve and developing your innovative solution ideas. Reject those that are simply incremental improvements to existing solutions. Don't fall into the trap of focusing on competition and your guess about their new products; your job is to obsolete them not be "just a little better". Keep focusing on your customer's unmet needs, challenges and their changing business environment.

There are lots of worthwhile books on creativity techniques. Your key job is to share the customer needs discovery experience with a small team of trusted co-entrepreneurs and stretch your minds to identify creative alternatives. Ideally, one co-entrepreneur may have a technical background and one a sales and marketing background. The goal is to define what you're going to sell and how you're going to sell it. Then turn the phones off, lock yourselves in a room and go to work.

Don't fall in love with your first good idea. Force yourselves to identify at least three great ideas. This will likely take days or weeks, not hours, and it's time well spent. After all, you will likely spend man-years developing and launching your solution.

There's a great tendency to add features (bells and whistles) to your product idea. After all, you're clever guys and customers will love the product richness. Customers expect rich product functionality in mature products, but they want fast access and easy to use solutions when addressing unmet needs. As your product development becomes more complex, bad things happen:

- It takes more resources to develop the product than originally planned and it's a harder job to manage these resources.
- It takes longer to get to market.
- While fully featured, the product is likely to be less robust in its early form.
- The product will be harder to use causing some early customers to become unenthusiastic.
- It will be more difficult to change the product in response to early customer feedback.
- And many more.

Once you have several creative alternatives, you can begin evaluating them and their business potential. The primary criteria are clearly how effectively each addresses unmet customer needs. Beyond this, consider:

- How receptive will the target customer be to this solution? Have ideas like this failed in the past.
- Who will make purchase decisions and how will they be funded?
- Do you have or have access to the skills required to implement this product/market strategy?
- Do you have access to the required capital?

Up until now, I've focused on face-to-face customer research. With your emerging vision of your target customers, their unmet needs and innovative solution alternatives, it's time to initiate some traditional market research. You need to size your potential market to confirm that it's large enough to pursue and return the necessary ROI and support company growth to critical mass.

We've already agreed, however, that we would creatively define new market segments so how do you do credible market research? Whatever you do, do not cite an existing market and claim that if you achieve a few percent of that market you will become a large company. I doubt, for example, Federal Express's founders claimed it could achieve 5% to 10% of the size of the US Postal Service (USPS) plus United Parcels (UPS). More likely, they analyzed how often people would pay a significant premium for highly reliable overnight delivery and then build a market size model. This analysis would likely predicted that lawyers, investment bankers business financial departments as customer segments needing a premium delivery service. Based on this, FedEx defined its new segment, sized it and developed their product/market strategy to dominate this new segment.

Remember to carefully document your assumptions and, as you gain new information, update your assumptions. At a later date when you develop financial projections, explain and defend your assumptions not your projections.

Entrepreneurs as Salesmen

> **Selling is:**
> **"Motivating people to do what you want them to do because it's in <u>their</u> best interest to do so.**
> **Leadership is selling!**
> **Frank Zenie**

Entrepreneurs must sell people to join and stay with them, investors to invest in them, customers to buy from them and vendors to sell them the needed products and services on good commercial terms. Stop thinking of selling as a necessary evil! Selling is a noble profession and effective selling is art plus science. Take every opportunity to develop your sales skills.

If you adopt "value-added" selling, you earn credits from your customers. By "value-added" I mean bringing valuable information to your customers. Teach customers about industry trends, how others are benefiting from your products and realistic approaches and costs to buy and utilize your products. If you have to hide or understate your costs and complexity, your product isn't good enough. With enough value, you earn the right, to ask your customer to do something for you – this is called a favor. Favors may include becoming a reference for other companies, pushing a purchase through before a critical date or asking finance to promptly pay your invoice. Buying favors with gifts or entertainment is still a bribe. Note, that there are appropriate situations where you should entertain your customers, but this should leverage the long-term business relationship, be modest in cost and shouldn't aim at near-term business transactions. Sometimes customers buy me lunch and even, dinner which, I believe, indicates their trust in our relationship.

Manipulation is badly directed sales skills. "Motivating someone to do what you want them to do because it's in your best interest" is manipulation. A con artist is not a good salesman; he's simply a good con artist.

Get a Coach

Even Tiger Woods (before the crash), in the individual sport of golf, had coaches and also consulted with his caddy during tournament rounds. Team sports have staffs of coaches. Using coaches is not a sign of weakness or incompetence. Effective coaches apply their knowledge and skills and do not compete with their athletes. Coaches probably played and love the game, although they may not have been superstars. They know their playing days are over and are committed to helping you win.

In business, boards of directors are often not coaches – they often have agendas, many lack operational business experience and they usually only know what you teach them about your specific business. In public companies, boards are charged to protect the shareholders and evaluate management. In private companies, boards tend to be dominated by venture capital investors protecting their investment.

Imagine having access to an individual, who understands entrepreneurial challenges, has invested enough time to understand your business, interacts with your customers and leadership team and is committed to your success. A trusted coach enables you to test ideas and brainstorm alternative problem solutions. Your coach will be there when your self-confidence falters and introduce reality when you become arrogant.

Good coaches don't advertise and often underestimate their own skills and value. Seek references from your investors, bankers, lawyers and other entrepreneurs and you will find someone who will prove invaluable to you. Appointing your coach to the board will prove valuable but is not essential. Find ways to compensate your coach – free advice often seems to be valueless. Some effective coach attributes:

- ❑ Competent Leader and Advisor.
- ❑ Dedicated to your success.
- ❑ Willing to invest the time to understand your unique business and its customers, your leadership team and values and your challenges.
- ❑ Doesn't want your job

Lawyers – Keep Looking Until You Find a Legal Partner

Yes, you will need a lawyer. Why? Everyone else has a lawyer – investors, bankers, landlords, customers, vendors and employees (if they don't like you or your culture). The challenge is to find the right lawyer – a true legal partner - then use your lawyer as little as possible. Your new lawyer, therefore, needs some entrepreneurial spirit and ability to help you deal with risk◀▶reward tradeoffs.

The good news is that there are plenty of lawyers out there and the bad news is that most of them can't help you – the entrepreneur. Probably the first three assignments will likely be to:

- ❑ Help you select the appropriate corporate form and domicile for your legal entity.
- ❑ Help you negotiate the deal structure for early investors.
- ❑ Negotiate lease terms on your first facilities – once you move out of your basement.

These tasks would suggest a corporate lawyer experienced with early stage entrepreneurial businesses. You can, of course, find attorneys like this in large law firms. Large law firms; however, tend to be expensive and narrowly specialized. Some large firms are willing to discount fees to early stage firms for a few years, but eventually must cover their high overhead. Look first to find qualified attorneys in smaller firms and as individual practitioners.

It's easy to get attorney referrals from your friends, colleagues, investors and bankers. Interview as many as you need to until you find one with the right skills, who appears honest and trustworthy and has some entrepreneurial spirit. I've been extremely fortunate to find an attorney who worked for a large firm and then decided to become an individual practitioner. He works out of his home with minimum overhead. He adjusts his working hours to match his client's needs and he tells you when you need more specialized help. It's worth spending extra time trying to find these rare attorneys.

Non-compete vs. Non-disclosure Agreements

Your lawyer and your investors will want you to require non-compete AND non-disclosure agreements from all your employees. Certainly non-disclosure is an ethical obligation with or without a formal agreement – and formalizing it makes sense. I'm personally troubled by non-compete agreements. Once someone is bound by non-disclosure, is it ethical to constrain his career pursuit? Holding your employees hostage through non-compete agreements may trigger destructive unintended consequences. Remember it's your job to create a work environment and compensation system to retain your valuable colleagues.

I have no problem requiring non-compete agreements with founders and senior leaders. This may all be academic in that investors often require non-compete agreements as a precondition to investment. If so, you may have little choice.

The following sample may help you, and your attorney if needed, to develop an effective non-disclosure agreement:

Entrepreneurial Enterprise Company (EECo)

Invention and Non-Disclosure Agreement

In consideration of my employment or continued employment by EECo (the "Company"), I hereby agree as follows:

1) Proprietary Information.

a) I recognize that my relationship with the Company is one of high trust and confidence by reason of my access to trade secrets and confidential and proprietary information of the Company and its customers, suppliers and other parties with whom the Company does business. I will not at any time, either during or after my employment with the Company, disclose to others, or use for my own benefit or for the benefit of others, any confidential, proprietary or secret information owned, possessed or used by the Company or its customers, suppliers or other parties with whom the Company does business (collectively, "Proprietary Information"). By way of illustration, but not limitation, Proprietary Information includes trade secrets, inventions, products, projects, developments, marketing plans, forecasts, financial data, personnel data, customer and supplier lists, and contacts at or knowledge of customers or prospective customers of the Company.

b) My obligations under this Section 1 will not apply to any Proprietary Information which: (i) is or becomes generally known to the public through no action on my part, or (ii) is required to be disclosed by me within the scope of my duties to the Company.

c) Upon termination of my employment with the Company or at any other time upon request, I will promptly deliver to the Company all notes, memoranda, records, reports, files and other documents (and all copies of such materials) in my possession or under my control, whether prepared by me or others, which contain Proprietary Information. I acknowledge that this material is the sole property of the Company.

2) Developments.

a) I will promptly and fully disclose to the Company all inventions, discoveries, improvements and works of authorship, whether patentable or not, which I develop, make or reduce to practice during my employment with the Company, either solely or jointly with others, which relate to the present or planned business of the Company and which are made either (i) during normal business hours, or (ii) on the Company's premises, or (iii) using the Company's property or Proprietary Information (collectively, "Developments"). All Developments are the sole property of the Company. I hereby assign, without further compensation, all my right, title and interest in and to all Developments and all related patents, patent applications, copyrights, copyright applications, trademarks and trade names worldwide.

b) I will assist the Company in obtaining and enforcing patent, copyright and other forms of legal protection for the Developments. Upon request, I will sign all applications, assignments, instruments and papers and perform all acts necessary or desired by the Company to enable the Company to secure and enjoy the full exclusive benefits and advantages thereof. My obligations under this Section 2 will continue after the termination of my employment with the Company. During my employment, I will perform these obligations without further compensation, except for reimbursement of expenses incurred at the request of the Company. If I am not employed by the Company at the time I am requested to perform any of these obligations, I will receive a reasonable per diem fee, as well as reimbursement of any expenses incurred at the request of the Company.

3) Other Agreements.

a) I represent that, except as I have disclosed in writing to the Company, I am not bound by any agreement with any other party to refrain from using or disclosing any trade secrets or confidential or proprietary information in the course of my employment with the Company or to refrain from competing, directly or indirectly, with the business of such other party.

b) I further represent that my performance of the terms of this Agreement and as an employee of the Company does not and will not breach any agreement to keep in confidence proprietary information or knowledge acquired by me in confidence or in trust prior to my employment with the Company, and I will not disclose to the Company or induce the Company to use any confidential and proprietary information or material belonging to any other party.

4) No Employment Contract.

I understand that this Agreement does not constitute a contract of employment and does not imply that my employment will continue for any period of time.

5) Miscellaneous.

a) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

b) This Agreement supersedes all prior agreements, written or oral, between the Company and me relating to the subject matter of this Agreement. This Agreement may not be modified or amended except by an agreement in writing signed by the Company and me.

c) This Agreement will be binding upon my heirs, executors and administrators and will inure to the benefit of the Company and its successors and assigns.

d) No delay or omission by the Company in exercising any right under this Agreement will operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion is effective only in that instance and will not be construed as a bar to or waiver of any right on any other occasion.

e) This Agreement is governed by and will be construed as a sealed instrument under and in accordance with the laws of the (State of Domicile).

I HAVE CAREFULLY READ THIS AGREEMENT AND I UNDERSTAND AND AGREE TO EACH OF THE PROVISIONS OF THIS AGREEMENT.

Date: ________________ ______________________________________
Signature of Employee

____
Printed Name of Employee

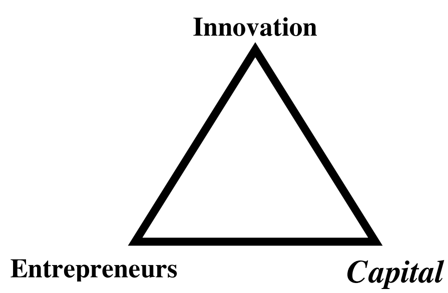
Agreed to and accepted by
EECo
on ________________

By: __________________________________, Title: ____________________________

OK, maybe we need some money - financing your business

Before launching your new business, recognize the cultural ground rules. It's OK to spend your spare time, while employed, planning your new venture. You have, however, ethical obligations as a paid professional to serve your current employer to the best of your ability. It's not OK to steal time or resources from this employer. It's also not OK to plan to compete with or damage your current employer. And besides, if the best idea you can come up with is incrementally improving your current employer's products; you're probably not an entrepreneur. So when do you quit your current job? When working on your new venture compromises your obligations to your current employer.

As a first time entrepreneur, don't begin raising capital you've met two out of the three entrepreneurial cornerstones; credible Entrepreneur(s) with an Innovative business concept.



As credible entrepreneurs and innovators, it's now time to address the third cornerstone, Capital. Conventional advice often has you addressing capital earlier in the process. But think; why would anyone want to invest in you until you can articulate a credible unmet customer need, an innovative solution to address it and a business model to profit from it?

We default to thinking Venture Capital as the primary source of entrepreneurial capital. First let's recognize that Venture Capital is one category of Private Equity. There are several sources of non-institutional private equity; entrepreneurs' savings, friends and family, and angel investors (high net worth individuals). If possible, as a first time entrepreneur, use these sources before approaching institutional private equity investors.

Venture Capital	Early stage private business financing.
Growth Equity	Additional and restructuring capital to support growth of emerging businesses.
Private Equity	Private capital for midsize to large non-public businesses.

Three Layers of Institutional Private Equity

So how do you get to ready for institutional private equity?

Before this point, you should have been developing good financial habits – both personal and professional. Saving money! Try to save enough money to enable you to work full time on your venture without a paycheck for six months to a year. Your co-founders, if any, should plan to join you for at least six months. You won't need an office, but you will need phones, Internet connection, computers and sufficient travel funds to visit prospective customers. Change your personal spending habits and start saving now. Make sure your spouse, if you have one, supports the program and its implications.

Why not sell equity or borrow money from friends and family (F&F)? When you raise money from strangers, you're obligated to be honest and hard working. Their job is to determine your competence as part of their due diligence. When you raise money from F&F, you're saying "Trust Me". You're making an inferred warranty that they won't lose their money and they may make multiples on their investment when you succeed. Are you sure you want the burden of these obligations? In addition to their business risk, your F&F will likely face significant dilution through future professional VC financings. These might be classified as unintended consequences.

Your coach and lawyer should be able to advise you on potential capital sources. Certainly consider government sources such as state programs to assist new businesses. Make sure you understand the difference between debt, which you must repay with interest, and equity (stock) in which you share ownership with the expectation of liquidity to investors – no one wants to hold your private stock indefinitely.

If your business model projects limited capital needs and breakeven or profitable operations within two years, you may consider financial bootstrapping augmented with some debt. Bootstrapping means that you internally finance your expenses and capital - using personal funds and operating margins. If your plan requires significant capital and projects a longer path to profitability, you probably must utilize equity financing with all its obligations and consequences. In the beginning, the primary sources of private equity are angels and venture capital firms. Angels are typically high net worth individuals or groups that invest in promising new ventures. While angels often have successful business experience, they're often relatively hands-off investors. In general, VCs prefer funding emerging companies or start-ups led by proven entrepreneurs. Angel investors, on the other hand, often provide "seed" funding for true startups.

Modern Venture Capital (VC), enabling entrepreneurship, began in the 1950s. Clearly VC has stimulated and financed much of our economic vitality over the past 50 years. The VC industry is currently investing in excess of $20 billion annually in new and emerging businesses.

Early VCs were financial entrepreneurs. They understood entrepreneurial challenges and joined with business entrepreneurs to provide advice and financial support. These early VCs understood the 5 to 10 year cycle often required to build truly valuable businesses and achieve liquidity. The larger, long-established VC firms remain close to these original values. Senior partners and resident entrepreneurs in these firms mentor their colleagues as they learn the VC business.

VC firms are typically organized as partnerships with the managers as General Partners and the investors as Limited Partners. The limited partners provide virtually all the capital and the general partners are compensated through management fees and a carried interest – a share in the increased value of each investment, typically 20% to 25%. Let me illustrate with a realistic example:

> Assume a medium large partnership of $100 million to invest (Note: Some large funds are greater than $1 billion.) Such a fund might have three or four general partners with an administrative and support staff of three or four more. This fund would likely make seven to

ten investments annually totaling $25 to $30 million. As the fund becomes fully invested, they would begin raising their next fund.

Let's assume an annualized return of about 15% leading to a $250 million value in six years or a $150 million gain on the original investment. While gains are recognized whenever each investment achieves liquidity, we'll assume all gains are realized in the sixth year. The 20% carried interest generates $30 million (20% of the $150 million gain) funding bonuses for the support staff with the remainder distributed to the three or four general partners. The VC firm typically receives an annual management fee of 1% or more of their deployed investments to cover salaries and operating expenses.

During the 1990s, leading up to the ".com" debacle, VC compensation ballooned to the level that the industry attracted new people and new firms motivated to create the maximum wealth in the shortest time period. New MBAs with little or no business experience became VCs.

Toward the end of the 1990s VCs deployed their significant capital as fast as possible. In the competitive chase for deals, there was little time for thoughtful due diligence. We all know the results. VCs vowed that this won't happen again and they began changing deal structure to further protect their interests for moderately successful investments. If a company tanks, no structure protects them and if the company does very well there's enough value to go around. The moderately successful business found that the VC investors would receive a guaranteed two to three times their investment before management, founders and F&Fs received any equity return. After several financings, entrepreneurs often become simply employees of the financial investors. My point is not to avoid VC, but to be selective of the firm(s) you work with and the details of the deal structure.

Of course there are financial advisors who want to help you, for a fee, raise VC. This logic escapes me. How can a hired hand articulate your business opportunity better than you? Until you can present a compelling investment opportunity, you're not likely to successfully raise money.

Outlined below are a few principles for your financing initiatives:

- ❑ Make as much progress as possible before raising money. While difficult, bootstrapping pays off. Many investors are risk averse and tangible progress reduces their perceived risk.
- ❑ The only way to earn a higher valuation and better deal terms is to create competition to invest in your business. If possible, never settle for one potential investor and never disclose the competing investors.
  Debating valuations simply demonstrates weakness. The more you challenge an investor's proposed valuation, the weaker you appear. If you have real competitive alternatives, thank them for their interest and offer and inform them that you're leaning toward your alternative(s) who are offering higher valuations.
- ❑ Don't get greedy – work for a win-win deal.
- ❑ Use any connections you have to get personal introductions, at the highest level possible, to potential investors. As rapidly as possible gain access to partners. Junior associates scan many deals with the mission to reject the non-credible ones and select the few best opportunities for consideration by the partners.
- ❑ Get advice from coach and lawyer (about terms).

Note from a 2011 perspective: As mentioned earlier, VC behavior during the early 21st Century has created several new dimensions to the early stage private equity relationships. Two particularly important changes to entrepreneurs are:

- Following several rounds of VC investments with aggressive preferences (VC investors get multiples of their original investment before any is available to the founders and leaders) entrepreneurs become disenfranchised as shareholders in that they share minimally or not-at-all from any increased shareholder value. This saps the very leadership energy required for entrepreneurial success. A frequently used solution is to create a "Carve Out" or a protected financial pool for leadership and key contributors - triggered by sale or IPO. These carve outs simulate a meaningful equity participation at the time of liquidity.
- In the past, pre-2000, emerging companies could create an Initial Public Offering (IPO) to reward their early investors, create available wealth for the leaders and the ability to continue building their company. Many changes in our financial institutions are limiting the IPO path to large private companies or the most successful emerging companies. It's very difficult to create a successful IPO for a business with less than $100 million of annual revenue.

  The better VC firms saw this as a new business opportunity for them and created later stage funds, often called "Growth Equity" where they will recapitalize a successful VC backed business and provide liquidity to early investors. Similar to an IPO, the new capital funds the next level of growth and permits management to create even greater shareholder value.

Your Business Plan

Don't fall in love with your Business Plan. It's based on your current vision of the future – which you plan to disrupt.

"Life is what happens while you're busy making other plans."
John Lennon

Before you start speaking with potential investors, understand that their first request will be: "Send me your business plan". This is a reasonable and logical request. Why should they invest face-to-face time until they've had a chance to see your investment value proposition, learned about your entrepreneurial qualifications and your ability to articulate your opportunity and plans?

I've never seen anyone invest in a Business Plan -
Investors invest in CREDIBLE People with CREDIBLE Visions!

Your Business Plan actually can become an extremely valuable, multi-purpose marketing document. Think of it as a management tool for which raising money is only one of many uses. In its role as funding tool, the business plan will become a foundation in your Investment Campaign. I'll describe later how all sales processes involve Prospecting, Closing and

Leveraging. Your business plan, specifically the Executive Summary, becomes your primary prospecting tool.

You can find many excellent business plan references and samples online. I would emphasize creating it in modules that can be packaged in different combinations for each use.

Module	Target Length	Uses
Brief Introductory Business Summary	1 or 2 paragraphs	Introductory letters Brief Conversations (Often called your Elevator Speech) Website – Home Page
Executive Summary – Mission, and Product/Market Strategy	2 to 4 pages	Website Introduction to potential customers and employees. Append to customer proposals and quotations. When provided to potential investors append an investment summary as well. Source for Customer PowerPoint presentation
Investment Overview - Crisp statement of your investment value proposition and business model.	1 to 2 pages	Combined with Executive Summary, introduces company to potential investors.
Business Plan	7 to 10 pages	Portions on Website Later stage investor review Management benchmark going forward Source for Investor PowerPoint presentation
Financial Plan	6 to 8 pages	Combined with Business Plan for later stage investor review Management benchmark going forward Source for Investor PowerPoint presentation

I've found it effective to begin with the Executive Summary and then abstract it for the Introductory Business Summary and then expand it for the full Business Plan.

As many have advised, the planning process is more valuable than the final plan – which will always prove to be wrong, requiring constant adjustments as you discover new information. The key is to outline and document your assumptions, particularly when developing the Financial Plan. Critical assumptions include:

- Market size, growth and competitive assumptions. Unless your product/market strategy is to develop and market a dramatically superior alternative to an existing product, don't define your market as a large established market and build your plan on assuming a small market share - no one will believe it. Without a killer product, define a market niche that you can dominate and use as a cFranchise base and growth platform.
- Market penetration and rate of adoption. Again don't kid yourself that people will change established habits quickly regardless of your persuasive arguments. Think years.
- Competitive response and market share. Competition will likely react more slowly than you think – bureaucracy at work. Competitor sales and marketing people will respond first by claiming their products are equal or better than yours. Challenge them to "prove it". As you

succeed, however, competitors will covet your success and attack – be ready, but not intimidated.

- Pricing. It's easier to reduce than increase prices. You have a unique product; so begin with premium, but not greedy, pricing. This isn't likely to deter early adopters who quickly perceive your value. Over time, you will likely face pricing pressures as you move to more pragmatic users who must financially justify their purchase requests. Don't react defensively; remember that market penetration is paramount. Get on the field of play and build customer relationships.
  With a unique product or service, keep pricing simple – bundle options into a single package. As these products mature, competition will force you toward unbundling with a low cost entry offering and "selling up" to add more options and features.
- Cash Management. Cash is king. Project cash needs and plan to spend even more slowly. Make sure you make lots of progress before needing to raise more money.

Your financial projections, therefore, are built on layers of assumptions – all of which can't possibly be right. I urge you to clearly document these assumptions for your own use and to share with investors. The more logical your business assumptions; your projections will become more believable. More importantly, you must rapidly adjust quickly to changes in your assumptions – denial is the entrepreneurial curse.

Again, your formal business plan is a marketing document and most of your potential investors are financially trained. Keep it short and concise and easy to read with graphs, illustrations and solid logic. Don't demonstrate naivety by creating monthly financial projections spreadsheets. You may be pushed for quarterly, but these can only be reasonable distributions of your annual forecasts.

Junior VCs may want long analytical plans because they are screeners not the decision makers. You must gain access to senior partners who have the sophistication and experience to evaluate your business logic. Ensure your Executive Summary uses simple financial models and highlights your underlying assumptions. Don't try to prove how skilled you are building complex Excel spreadsheets; everyone now has spreadsheet skills.

I'd be suspicious of linear projections. Successful entrepreneurs cause discontinuities where the future is not an extrapolation of the past. Adoption of new ideas and tools is non-linear accelerated by your growing success with early adopters. Make your spreadsheets non-linear and explain the non-linear events and their triggers.

The two most important parts of your Business Plan are the Executive Summary, which gets you an opportunity to present your business, and your PowerPoint presentation, which forcefully presents your investment value proposition. All the detail in your full plan serves to help establish valuation. Use APEX techniques to clearly make your points and claims then support them with your best examples. Don't make claims you can't support, thereby, losing credibility. Watch and listen carefully every opportunity you have to present your story. Correct any weaknesses and update it to reflect new information. You're competing with many alternative investments and you must differentiate yourself through content and professional packaging.

Your Investment Selling Campaign

Raising money is a complex sales process particularly for the first time entrepreneur. Credible CONTENT is table stakes. You must offer a compelling investment opportunity to get and keep investor interest. Investors turn down far more opportunities than they invest in.

Professional and dynamic ergonomics (packaging) earns you the right to present your story. Keep your message simple; demonstrating your sophistication with spreadsheets and presentation graphics becomes a distraction.

You will need to bring each successful investor relationship through five phases to finally close the deal and receive a check.

Prospecting - Identify Key Decision Makers	Introduction (email, letter or phone)	Executive Summary	Personal Presentation (PowerPoint)	Due Diligence (Full Business Plan)
Networking - Use every relationship to gain access to key influencers or decision makers. If possible, don't waste time educating screeners.	**A brief (tailored to each potential investor) yet powerful summary of your investment opportunity.** **"Elevator Pitch"**	**More detailed summary of investment opportunity – Build Credibility - Include: Compelling Market Opportunity – Build this on your Customer Value Proposition. Leadership Team Unique and Innovative Solution. Brief Financial Outlook.**	**About 25 slides. Prepare for 60 to 90 minutes. Make strong claims and defend them with crisp logic. Listen carefully. Encourage interactive discussion. Respond directly to questions and challenges. Build further credibility. Modify your presentation and approach based on each presentation.**	**The investor's analysts will review the details looking for gaps and problems. Prepare the requested materials and offer full disclosure. Anticipate investor needs and preempt possible objections.**
Desired Outcome: A five to ten person list of potential investors.	**Desired Outcome: Request for Executive Summary**	**Desired Outcome: Presentation Appointment**	**Desired Outcome: Close the Sale. "Term Sheet"**	**Desired Outcome: Don't lose the order.**

Remember, just like selling your products or services, you want your investors to want to reinvest in the future and help you attract additional investors. You must be honest with them during this pre-investment phase and as they monitor your progress and setbacks going forward. You will have setbacks – face them quickly, share them with your investors and then describe your plan to overcome them.

Entrepreneurial Budgets

Your investors will want formal budgets and you will benefit from the budgeting process. The truth, however, is you don't know what the future holds and you should treat all budgets as dynamic, current best forecasts. Dynamically manage your cash and economics resources.

After the .com fiasco, venture capital is expensive both in low valuations and deal structure. Deals are structured more-and-more to protect financial investors in case of slower progress or failure.

I discussed goal setting earlier and delayed introducing my thoughts about budgets. How could I challenge the most fundamental management tool without losing all credibility with you? And then, the answer appeared. Let me begin with a story:

A short time ago, my three year-old grandson and his parents came to visit. I discovered that he's added a new phrase to his vocabulary. "Are you crazy?" I don't know where he picked it up, but it was meant to be funny not insulting. We all enjoyed stimulating him to respond; Are you crazy?

After the family departed, I began reading the magazines that I had neglected. The most recent Business Week (June 26, 2006) included a column by Jack and Suzy Welch titled: "Stop The B. S. Budgets". Many consider Jack Welch, former General Electric CEO, as the outstanding CEO of the 20th Century. How could he call budgets B.S.?

Here are some of his comments:

"The budgeting process as it currently stands in most companies does exactly what you'd never want. It hides growth opportunities. It promotes bad behavior – especially when market conditions change midstream and people still try to "make the number". And it has an uncanny way of sucking the energy and fun out of an organization."

Why? Because most budgeting is disconnected from reality. It (budgeting) begins in the early fall when people in the field start the long slog of constructing the next year's highly detailed financial plans to make their case to the company brass. The goal of the people in the field, of course, is unstated and laser-like: Come up with targets that they absolutely, positively think they can hit. After all, that's how they are rewarded. So they construct plans with layer upon layer of conservative thinking.

Meanwhile, back in headquarters, executives are also preparing for the budget review, but exactly the opposite agenda. They're rewarded for big increases in sales and earnings, so they want targets that push the limits.

(After heated negotiations, both sides compromise in the middle) …. What's wrong with this picture? First, what you see: an orchestrated compromise. More important what you don't (see): a rich, expansive conversation about growth opportunities, especially high risk ones. … So why in the world would they ever dream big?

They won't unless a new reward system is put in place. One in which bonuses are not based on a negotiated number but on real-world measures: how the business performed compared with the previous year and how it did compared with the competition.

…. Suddenly, budgeting can change from a mind-numbing ritual to a wide-ranging, anything goes dialogue between the field and headquarters about gutsy "what-if" market opportunities. And from these will spring growth scenarios that cannot really be called budgets at all. They are operating plans, filled with mutually agreed upon strategies and tactics to expand sales and earnings, not all of them sure bets. ……

In fact, the only rigid thing about this form of budgeting is the core value it requires of an organization; trust. Executives have to believe that people in the field are giving their all to achieve these big goals. People in the field must have total confidence that they won't be punished for not reaching "stretch targets" and also be willing to make a flat-out, good-faith effort to deliver. With that "contract," the budget dynamic takes on a whole new life."

Just maybe, I'm not crazy after all.

Traditional logic states that good managers meet their budget because good managers understand their business and market dynamics. That's true until the unexpected happens. Successful entrepreneurs create discontinuities so your job is to make unexpected things happen to your competitors while responding quickly to events unexpected by you.

So how do we manage the practice of ambitious goals and conservative cash management in an uncertain world? It's easy - maintain two budgets. First, prepare a conventional financial budget emphasizing cash management. Use conservative revenue and margin assumptions and then budget expenses to these assumptions. Your second budget is a plan to accelerate projects and their related expenses as you overachieve your base budget. Your team then understands that some exciting projects are subject to financial performance and affordability. If your board doesn't understand this, don't show them your scale-up budget until you're ready to formally revise the budget.

This is truly important. Conventional management often believes that people need to meet or exceed their goals to feel successful. I think this truly underestimates entrepreneurs and their teams. Over achievers set very high goals in order to achieve the best they can. Can you imagine a professional sports team, regardless of their record, approaching any game without a plan and commitment to win? So aim high and spend low. Teach people that missing stretch goals is not failure.

Ideally incentive compensation should be based on results measured with hindsight knowledge. Managing through and capitalizing on the unexpected is the measure of great management. This is difficult and probably only partially achievable.

Fortunately you're not a public company where common practice is to provide revenue and earnings guidance to investment analysts. You are then judged by meeting your guidance. It's interesting to note, that when public companies miss their guidance, management blames it on unexpected events. What a surprise.

Building Your Board

In the very early stages, perhaps before you form a legal entity, you can better use an ad hoc board of advisors. This might include any cofounders, a coach if you have one, and other professionals that you trust and respect. Certainly when you raise institutional capital, your investors will likely insist that you form a corporation, if you're not already one, and create formal board consisting of your large investors, them, and a few highly respected independent directors. You might choose to retain your early advisors separate from your formal board.

Corporations operate as legal entities; much like people they can own bank accounts, enter into contracts, employ people, and much more. However, the laws governing corporations require that a corporation ultimately is accountable to its owners (stockholders). This accountability requires that each corporation have a Board of Directors representing the stockholders.

Boards, therefore, become fiduciary for their shareholders. They protect shareholder assets, commit to an appropriate return on their investment and ensure appropriate corporate governance.
Note: Fiduciary from the Latin fides, meaning faith. Fiduciaries are obligated to be loyal to whom they serve and do not put personal interests before duty.

Board dilemmas and potential conflict develop when you have shareholders with different preferences and rights and, therefore, agendas. This is actually common when you need multiple rounds of venture capital. Over time, an entrepreneurial business could well have founders, additional leaders/management, friends and family, angels and several venture capital investors. If you have multiple rounds of VC investments with differing investor groups, they will tend to put the interests of their group ahead of the best interests of the business. This is similar to public companies with strong family ownership; such as Ford Motor and, prior to its sale, Dow Jones (Wall Street Journal). It's never easy.

Investor Type	**Issues**
Founder/CEO	In the early days; Management & Board are Aligned Managers become Fiduciaries
Mgt. & Key Employees	
Friends & Family	
Angels (High Net Worth Individuals)	
Institutional Private Equity – (VCs)	Conflict Between Investor Class – Share Classes > Agendas > Exit
Publicly Traded Investors	Well Defined - Highly Regulated Questionable Execution
Publicly Traded/Family Controlled	Conflict – Family vs. Everyone Else i.e. Ford & WSJ

Begin thinking about your board before or at least in conjunction with raising money - earlier is better. An independent, competent board enhances your stature during investor due diligence. Board structure will become part of your investor negotiations. Why not build the best board you can before other agendas come into play.

In general, you should expect the following from your board:

The Classic Board's Role:

1. Become informed and understand the company's markets, technology and strategy.
2. Select & elect the CEO and confirm his/her senior management team.
3. Review and approve long-range plans and operating budgets.
4. Monitor management performance and governance and intervene when appropriate.
5. Determine appropriate compensation for CEO and senior management and policy for others.
6. Other actions as necessary – such as: borrowing money, stock option plans, paying dividends, recommending stock splits and buy backs, overseeing share repurchase programs, approving financial controls and statements, and evaluating and authorizing or rejecting acquisitions and mergers.

An effective entrepreneurial director becomes informed and engaged, by:

- ❑ Going beyond financials and PowerPoints.
- ❑ Walking around, meeting people and observing:
  - ◆ Cultural Symbols – status symbols, doors on offices, smiles ….
  - ◆ Alignment to culture and vision.
- ❑ Asking probing questions of management:
  - ◆ Who is your customer?
  - ◆ How will he use our products?
  - ◆ What value to we bring?
- ❑ Meeting and interacting with real customers.

What does the entrepreneurial CEO need from his board?

- ❑ Informed and objective feedback.
- ❑ Commitment to a win-win culture – customers, leadership, shareholders and employees.
- ❑ Preparation vs. hip shooting.
- ❑ Effective listening.
- ❑ Personal coaching.
- ❑ Patience when bad things happen.
- ❑ Support your culture and vision.
- ❑ Yes, and oversight.

While individual directors can be quite helpful, boards collectively are not well suited to help entrepreneurs – boards are committees. Bad boards, however, can be disruptive. It's in no one's best interest to de-focus the entrepreneurial CEO by having to managing the board. In theory, boards represent the interests of all shareholders but in practice, however, private company directors often represent the interests of their specific investor group.

Today's investor agreements are quite effective in requiring investor approval for all significant decisions and commitments. After multiple investment rounds, the later and more senior investors demand control over management and earlier investors. Given this control, there's no reason to pack the board with financial investors. Investors do require management to send periodic reports; typically monthly. Rather than focus on financials, these reports should require a narrative discussing progress on key programs and alert investors about surprises – those unexpected events that challenge the business and question underlying assumptions. Whenever you, as entrepreneurial CEO, identify a problem, share your assessment and your action – not proposed action, but action underway. Don't hide material information and issues with irrelevant data.

Develop key business metrics, for your board and your leadership team (management), such as headcount, new order bookings and backlog, account penetration, new account acquisition, development project progress, customer satisfaction etc. Track these in numerical or graphical form and comment on trends.

Stop fighting over board control. Structure the board to ensure success. Control and success is not the same. The most effective directors, in my opinion, are successful entrepreneurs and people with strong knowledge of your customer environment. Directors should not be back-up CEO candidates or the entrepreneurial CEO will deny them information and access to the team. The best directors are willing to commit time beyond formal board meetings to learn and understand detailed business and leadership issues.

As an entrepreneurial CEO, you're also obligated to help your board be as effective as possible. It's your job to educate the board about all aspects of your business. Where else can they become truly informed? Working with the board isn't a test in which you provide raw data and the board plays 20 questions to discover what's really happening. Don't spin the information to create your desired perceptions. Until proven wrong, the board should trust the CEO and the CEO should trust his board.

Unfortunately, you may not succeed in building an effective board. As an alternative advisory source, consider a Strategic Advisory Board (SAB). You can form this around industry and business leaders who want to help. Important customer employees might often be permitted to participate in an SAB where they would never be allowed, due to legal exposure, to join a statutory board. As a CEO, you will be more effective with independent, informed and challenging viewpoints.

One board job is to assess management, guide them when needed and replace them if necessary. Take this obligation seriously, but don't treat your CEO as perpetually on probation. Support him fully until you decide to make a change. If you do this well, you may be able to coach a former CEO into a new and supportive role while introducing new business leadership.

If investors dominate your board, don't compensate them for board participation – they are paid to do this. If you have non-investor directors who actively participate, pay them some package of consulting fees and equity participation. Also, don't try to load your board with members of your leadership team. Invite your senior managers to participate in and contribute to board briefings, but excuse them when you go into formal board deliberations.

Finally, in the entrepreneurial spirit, don't permit your board to make your entrepreneurial company a miniature version of any large company – that will destroy it. Educate your board to YOUR vision and culture.

Go!

Until you're a successful startup, you can't become an emerging growth company.
If at first you don't succeed, try and try again!

Guiding Principles

- **There are no entitlements in business – you must re-earn your customers business every day.**
- **Ready –Fire-Aim then Fire and Aim Again … and Again**
- **Never forget, the first commercial version of an innovative product is a prototype.**
- **Customer driven does not mean sales driven.**
- **Develop win-win Leadership Contracts between supervisors and colleagues.**
- **Lead Your People – Manage Your Business – Cash is King!**
- **Seek and Embrace REALITY – denial is the entrepreneurial curse.**
- **Don't try to fix people, deploy them to their strengths.**
- **Know When to Hold 'Em, Know When to Fold 'Em**
- **MP Trumps IP – Market Power Trumps Intellectual Property**
- **No one wants to buy a product that does everything, they want to buy a product that does their job well, reliably and is easy to use.**
- **Just when you're gaining traction, reinvent yourself.**

Get on the Field of Play – Fast!

In all sporting events; "Go" begins the competition. Let the games begin. Your preparation is behind you and success will be achieved through execution. The business challenge is commercializing your new product or service in an ever changing environment. Remember, this is still the beginning of the long, hard job of entrepreneurship. Never forget that your initial product design is merely a prototype upon which to build future versions. Since your innovative solution is new and unique, you need customer feedback in order to improve it and ultimately create the products, services and infrastructure necessary to succeed and build your cFranchise.

So, get on the field of play - quickly. Don't waste time and resources optimizing your product to your perceived customer needs. At this stage, your product doesn't have to be right it only has to be good enough for early adopters to buy it and for them to help you make it right. Closing these early sales only starts the commercialization process. Cherish these early customers, communicate often with them, respond quickly to their problems and thank them for helping you. This process will ensure that your products and services become the standard of excellence and continue to meet ever-changing customer needs.

The goal is not a few fast transactions; rather it's beginning to build a cFranchise with you as long-term market leader.

Technical vs. Market Risk

Engineering trained entrepreneurs often believe that it's easy to determine the right product requirements and that their job is simply to develop a quality product meeting those requirements (specifications). This naïve belief almost guarantees an off target product with a blind commitment to its original design causing resistance to fixing it. You will hear these developers say; "It's not my product's fault; it's the stupid customers who are too dumb to recognize the elegance of my creativity". Unless you're pushing scientific envelopes, your market risk far exceeds your technology risk. No matter how much you love your product and how hard you've worked on it and tested it; you are NOT the customer. Commercializing innovative products requires a Ready-Fire-Aim then Fire and Aim again and again. Once you accept this, you can get very good at it.

Another engineering belief is that engineers think all products are too expensive and if they engineer out more of the cost, customers will race to grab their bargain. Not too long ago, many products included complex electro-mechanical devices and engineers would want to tool up for efficient mass production prior to initial product introduction. High upfront tooling costs virtually guarantee huge resistance to changing the product to meet better-understood customer needs. Doing this, you will likely be known as clever innovators who almost got it right.

The underlying principle is that more often than not, market risks far exceed technology risks and that getting to market quickly and flexibly is the path to successful commercialization. Listening to customer feedback enables you to correct product limitations and enhance your product to truly fulfill customer needs. Then invest the time and money to optimize design, reduce cost and build commercial infrastructure. This principle does not apply to incremental improvements to established products because these have very low market risk and pre-established customer price and quality expectations.

Build and Leverage your cFranchise

For Primary Demand strategies, your foundation requires creating new customers and converting them to advocates. New companies must define new niches and then dominate them. Your first goal, therefore, is market penetration. Even though your product may have high value, don't let aggressively high pricing delay its adoption.

For Better Faster, Cheaper (BFC) strategies, market risk is low, so strike quickly. Go global. Use multiple distributions channels. Get a foothold and build market share quickly. Price aggressively compared to competition.

Mature companies often establish minimum profit margin thresholds that must be met by all products. Always think in terms of product portfolios and their aggregate margin and market power. Loss leaders or low margin products may complement and leverage higher margin products. Financial people, for example, love software because there's virtually no incremental cost for additional unit sales – low variable cost = high gross margins. During the 1960s and 1970s, investors loved computer companies with their high margin hardware products. As computer hardware matured, computer companies had to complement hardware with software and lower margin services to add higher value and, thereby, differentiate themselves in the market.

Build competitive advantage by leveraging your initial product with complementary products and services. Attain market penetration first and focus on total contribution from your product/service portfolio. Complementary products may have low individual margins but may enhance customer value perception leading to buying multiple products and increasing total contribution – think total contribution per customer.

Product bundling is the ultimate complementary product strategy it increases total value perception and accelerates new product market penetration. As your products mature in the market and attracts competition, however, bundling may erode margins compared to selling unbundled options and accessories. I just purchased a new printer at a terrific price – adding the printer cable and full toner cartridge cost almost as much as the printer itself.

Stay Focused

In 1982, my company, Zymark Corporation (See Zymark ESS), began selling laboratory robotics. Our primary customers were large pharmaceutical and chemical corporations with substantial development and quality laboratories. We understood that we would ultimately need a global presence to dominate our new niche, but we had limited resources. In order to get to market quickly, we defined our initial commercial world as a geographic triangle starting in Boston (our headquarters) west to Midland, Michigan (home of Dow Chemical) and south to Research Triangle, North Carolina (a center for pharmaceutical research and manufacturing). We understood our early customers would need high levels of support and rapid response. Our entire commercial world, therefore, was within 12 hours driving time from home base. A better known example; Southwest Airlines started in 1971 with service between Dallas, Houston and San Antonio – and look where they are today.

Entrepreneurial Leadership 101 – Some Basics

Why is leadership critical to building our business? Let's examine leadership's role in our Entrepreneurial Success Framework.

Entrepreneurial Success Framework	Leadership Role
Vision	**If not your vision, whose vision?**
Culture	**Enables leadership around shared values - avoids micro-managing.**
Innovative Product/Market Strategy	**Balance near term transactions and challenges against building your long-term customer franchise. Ensure all decisions are customer focused.**
Sound Business Model	**Deploy resources and set priorities to ensure financial independence and flexibility.**
Passionate Execution	**Get things done quickly, consistent with your vision and culture and adjust quickly to market shifts or unanticipated problems.**

Until now, we've only set the stage for leadership. Our organization is most likely small, located in a single facility and highly focused on one or a few critical projects. Once commercialization begins, we must start building commercial infrastructure including sales and marketing, product service and support, supply chain (in-house or outsourced) and financial and administrative support for our emerging business operations. With growing market success, we add people to fill new roles and our leadership complexity grows exponentially.

The entrepreneurial CEO quickly gets distracted by the demands of commercialization, infrastructure development and organization building and resents leadership intrusions on his time. He often thinks; if people will only do what they're supposed to do everything will be OK. Don't get frustrated or angry and please don't hire an intermediate boss whose job is to get your people to do what you want them to do - apply your sales skills to put your vision and culture to work. Remember that selling is getting people to do what you want because it's in THEIR best interest to do so. If you've articulated, taught and sold your vision and culture, your people will tend to do what you want and will ask for help when they face roadblocks or the direction is unclear.

You, as the entrepreneurial CEO, must become the leader for the entire team. Building a multi-layered management hierarchy will destroy your team's critical passion, energy and focus. No one can always do what he likes to do; you must be the leader and be effective at it. If you fail, your investors should and will replace you and recruit a new leader. You will resent any loss of control and likely become disruptive and may eventually be pushed out of "your" company. After you succeed as a start-up and if you still don't enjoy your leadership obligations, you should consider recruiting a new leader and form a new leadership team. Be intellectually honest, however, when you share leadership you must also share power and control. You are not indispensable! Until you are replaced, however, you are your company's leader – for better or worse.

Most important, you will lead by your decisions and actions. Your words, if they're consistent with your actions, will help people understand why you're acting the way you do. If your words are inconsistent with your actions, you will be exposed as a hypocrite, leading to dire consequences. Live your vision and culture and the team will follow.

Your biggest leadership challenge will likely come from new employees rather than your founding team, which is highly committed to your shared vision and culture. New people, however, come with the culture or counter-culture from their prior jobs. If they distrusted their prior management, they'll tend to distrust you. Distrust drives people to want more policies and rules to dictate management behavior as opposed to thoughtful application of culture. Left unchecked, this will destroy your entrepreneurial dream.

A good start is for you to reflect on your prior jobs and bosses. Think about the bosses you liked and those you didn't. When in doubt, behave like those you liked and avoid the traits of those you didn't.

Being boss is not a license to be an indifferent leader, incompetent or a prick.
If you wouldn't work for you, why would anyone else?

Let me now introduce a few leadership concepts that serve me well. Note that I'll often use the term colleague instead of subordinate or employee. I'll use employee to mean everyone employed by the organization – including the CEO. Colleague refers to their interpersonal working relationships within the organization. By my definition, everyone is employed by the shareholders, being a supervisor doesn't make anyone your personal employee; only a colleague working under your guidance and supervision.

Situational Leadership

Michael Jordan was arguably the world's greatest basketball player and an extraordinary athlete. When Jordan tired of basketball, he decided to pursue a career in professional baseball. Yet Jordan could not rise above mid minor-league status in baseball. When he returned to basketball, even after the gap in his basketball career and being a few years older, Jordan regained his basketball dominance. Does that diminish his basketball credentials or make him a lesser athlete? Absolutely not!

We all have strengths and weaknesses. My experience is that those with unique strengths tend to have greater weaknesses in other capabilities. Many managers believe that you should train and coach people to correct their weaknesses. I don't, I'd rather deploy people to their strengths and avoid their weaknesses. These people aren't broken stop trying to fix them. Deployed wisely, they will be more productive and more valuable (code for higher compensation). Your job, as leader, is to help people understand themselves and feel good about who they are rather than feel bad about who they are not. It's win-win.

The one exception to this is you as CEO. You can and should surround yourself with people with complementary skills to cover some of your weak areas. When the chips are down, however, you must find a way to lead through all challenges.

The Leadership Contract

You will be asking a lot from your people and you don't want them to be distracted. What's their biggest concern, particularly young professionals? Their career - and you don't want them spending valuable time and energy worrying about their future. You need them to focus on the current mission while gaining valuable skills and experience.

You achieve this by recognizing your mutual (supervisor & colleague) interdependence and your ability to support each other's goals. In return for your colleague's commitment to doing the very best job possible, you commit to develop your colleague's skills and advocate their career development. This doesn't mean giving big raises beyond a person's value; it means to truly make them more valuable – even if that's in another department or another company. Discover each colleague's career goals, help them understand themselves and coach them to further develop their unique skills and enjoy the work that best leverages their skills.

Any boss wants his people to devote their entire energy to their job and not be distracted by positioning and advocating their personal career. To get this commitment, the boss must develop the subordinate and advocate his career advancement. This becomes a Leadership Contract – it's a handshake contract built on trust not a written and signed document. The leadership contract develops and gains value as part of your ongoing relationship. If you're the boss, don't forget, however, to live up to your end of the deal.

Employee Empowerment – An Oxymoron

Pundits advocate employee empowerment as a powerful management tool to improve performance and morale. How can management empower their colleagues (employees)? Think about it - how can you empower someone else? People who ask permission are simply not empowered. Effective people are self empowered; not empowered by someone else. Your children understand this – when they really want to do something, they do it and ask for forgiveness later.

Empowerment is not anarchy or abdication of leadership. Yes, your people are free agents, but not free spirits – as it applies to your business. As today's leader, you can encourage and develop empowerment, but you can't empower. Your vision and culture enables "self" empowerment; because people understand and share direction and values. Self-empowered employees are truly accountable for their actions whereas management empowered people can pass accountability back to those who empowered them.

Self-empowered employees are uniquely valuable and they will become your future leaders. Your role is simply not to punish initiative and responsible risk taking. Leaders help people to learn from their mistakes - then, root them on.

People empower themselves by being proactive and accepting risk. Management supports self-empowered colleagues by recognizing their initiative and giving credit for results.

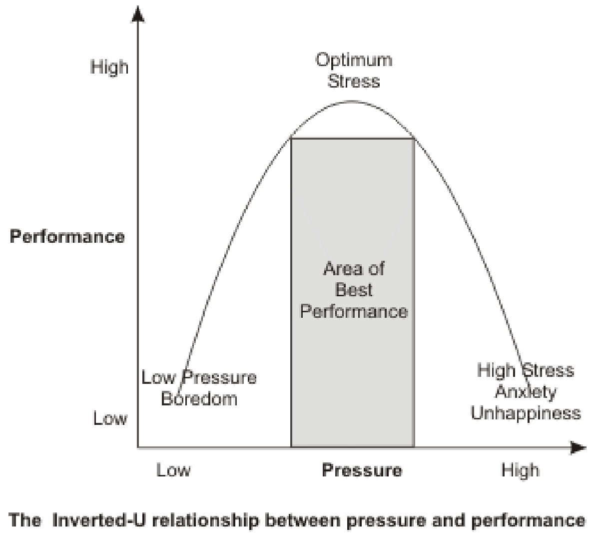
Does empowerment mean that you, the leader, can never intervene? Certainly not. Leaders must remain informed, particularly on high impact initiatives. Leaders should not micromanage people's work and decisions in order to make them identical to the leader's approach, but leaders must anticipate actions that would seriously harm the business. So, leaders should and must occasionally intervene in a firm and understanding way and make it a coaching opportunity. If leaders intervene frequently, then either the leader or the colleague is ineffective.

Pressure vs. Performance

Pressure is bad, right? How often do you hear people complaining about the pressure in their work and personal life? It's well documented, however, that eliminating pressure and stress doesn't create high performance. Our universities understand this and manage pressure as a technique to optimize the total learning experience. The most highly respected universities are known for their pressure on students.

The following Pressure vs. Performance graphic illustrates the well-researched relationship between pressure and performance. We need to teach that pressure, in itself, is not bad and that it is excessive pressure that reduces performance. Athletes understand that they must condition their bodies to physical stress. They push themselves during training so that they have the stamina when needed in critical situations. Leaders must build their tolerance to pressure so they have the stamina and conviction to lead when faced with business challenges.

One of the most frightening situations is when a leader becomes paralyzed by adversity. It's the "Deer in the Headlights" phenomenon. When this happens, not only does the organization fail to deal with the problems, the leader's weaknesses are exposed to all. Our goal as leaders and colleagues is to build our tolerance to pressure, manage stress and focus energy on critical success activities.



Pressure vs. Performance - Courtesy of MindTools.com

Mutual Self Interest – Meritocracy and Free Agency

It's normal and OK for people and companies to act in their best self-interest. Carried to extreme, however, self-interest becomes selfish-interest. When management and individuals act in their selfish-interest, however, they will unleash significant unintended and adverse consequences. Selfish-interest overwhelms culture and every-man-for-himself trumps shared values.

In today's competitive environment, companies must create a meritocracy meaning that they have the most effective people working on their most important priorities. If individuals become less effective or the business requires different skills, leadership must adjust. There are no entitlements in effective businesses. How you carry this out, however, demonstrates your values and objectivity when assessing effectiveness. Applying your Leadership Contract will help colleagues develop their skills to ensure their future value.

Employees (and in this context, we are all employees) are always "Free Agents". Loyalty doesn't obligate employees to remain in a poor job or career. In our open society, individuals can freely seek new jobs and change employers anytime they want. The burden falls on leadership to create challenging work, supportive work environments, fair and competitive compensation and commitment to career development in order to attract and retain the best people. If leadership appoints weak supervisors, they must accept the consequences of ineffective performance and employee turnover.

Very simply, employees choose to stay and stay motivated because they've decided that your company is their best place to work and that you are a good boss. Effectiveness requires boss and subordinate alignment. If you can't reach this, the subordinate should seek a new environment where he can demonstrate his increasing value. In big companies this may just be a new department, but in early stage entrepreneurial companies it will likely be a new company. It's in no one's best interest for a subordinate to believe he's undervalued by his boss. He may actually be right and be wasting his talents.

Don't confuse loyalty with lifetime employment. Loyalty means that leaders and colleagues expect rational and well-intentioned behavior from each other. Rather than angrily overreacting, ending in an employee quitting or management firing, loyalty creates a basis for both parties to examine the misalignment and seek the best solution - even if that means leaving the company.

Untraining Your Young Professionals

Our primary and secondary schools and our universities are, or should be, pretty good at teaching academic content. The academic training, however, comes at a cost. While advocating diversity, we actually instill judgmentalism. Rather than recognizing ability and achievement, we judge smart kids vs. dumb kids, rich kids vs. poor kids, good looking vs. homely kids and other superficial differences. At our universities, we encourage clubs advocating black and Hispanics vs. whites. Gay students sponsor programs to stress why they're different than straight students. Don't be fooled; each of these groups builds unity around the belief that they're better than the alternative. Students exit our educational system focused on the superficial differences between people rather than their unifying and value based similarities.

Our universities emphasize hierarchy - full professors, associate professors, assistant professors, senior lecturers, teaching assistants, administrative staff and more. Academics know that tenure track professors are the elite and understand that tenure makes them virtually untouchable – bullet proof. Students quickly learn to hold their professors in high esteem and respect and to please their professors for better grades. Other than tests with exact answers, professors subjectively grade your thinking process and, perhaps, your conclusions.

It's not surprising, therefore, that young professionals enter their business careers, believing in hierarchical structures and that power and respect come with higher positions in the hierarchy. In this model, leaders must forgive their subordinate's mistakes while subordinates expect leadership perfection. When the young professional discovers their leader's limitations, they become disillusioned and resentful.

Unless they've been in a well coached, team sport, young professionals have no clue about interdependence and teamwork. They've been trained to be inwardly focused, to seek differences that make them superior and to compete with other young professionals – their colleagues become their competitors.

A further ramification of academic culture and the inferred "wisdom" of the hierarchy is that leaders must fix problems for the subordinates. It's manifested as upwards delegation – if you're so smart, you fix it. When leaders encourage this reverence, they create the vicious trap of paternalism – see Entrepreneurial Leadership – Traps.

These academic-based traits and beliefs, if uncorrected, become dysfunctional to entrepreneurial ventures. Entrepreneurs must attract bright, energetic young professionals but they must un-train past cultures and instill their entrepreneurial vision and culture.

Recognition - Stature, Status & Power

Our traditional hierarchy model equates stature, status and power with organizational level, not value to the enterprise. This model focuses on management by emphasizing level on the organizational chart. The more people "under" you the more important you appear. Supervising people, however, is only one of many valuable skills. Supervisory skills, in fact, are generically transferable – they are not industry or technology specific. We compound all this by then basing compensation on hierarchical level.

We all desire earned recognition - stature, status and power are important and natural. Few of us are sufficiently strong to feel good about ourselves regardless of how we're perceived by our family, friends and colleagues. We want and need tangible recognition of our value. As we increase our value, we want our status to increase as well. How do we do this?

Value relates to business impact and, by definition, its customer focused. Value isn't linear. It's highly leveraged. There's lots of work to do for an emerging business to succeed. You will hire people with the needed skills, pay competitively, create a great work environment and provide opportunity for them to grow. The high impact people, however, go far beyond this and may appear anywhere in the organization. Let's define some examples:

Function	Professional Results	High Impact Results
Product Development	Provide technical skills contributing to new product projects.	Lead innovative development projects to create unique and differentiated customer value. Ensure success by following products into customer use and modifying them to maximize customer value.
Manufacturing	Produce quality products at the desired costs and delivery cycles.	Develop and implement innovative processes enabling your company to exceed customer expectations or dramatically lower product costs.
Sales and Marketing	Effectively develop prospects and close sales.	New customer rainmakers. Build sustained customer relationships leveraging account lifetime value. Identify new market opportunities, consistent with the vision, supported by compelling business rationale.
Customer Service and Support	Provide accurate, timely and friendly customer support.	Convert troubled customers to referrals and advocates.
Finance & Administration	Maintain accurate financial and administrative records.	Develop operating metrics to help the company serve its customers more effectively and efficiently.

Yes, the above examples may be simplistic and the "Professional Results" examples look like many modern job descriptions. Is it possible that traditional job descriptions focus on tasks rather than results and value?

Your high impact people make you special. You need them motivated and not distracted. Beyond creating a stimulating work environment, you have two tools – recognition and compensation. We'll discuss compensation later.

To reinforce your culture, recognition needs to be value based. When your high impact colleagues deliver significant results, publicly recognize their contribution and its impact. Don't forget the role and needs of spouses and parents who want to share your colleague's status. Don't fake it, however, if you recognize style over substance, you declare its show time to your entire organization.

Rethink your use of titles. De-emphasize or eliminate your organizational chart. The US Army understands this. Enlisted people, for example, have parallel rank and pay scales for combat leaders and technical specialists. For commissioned officers, rank and promotions are based on some blend of skill and seniority, but are virtually unlinked to the work classification. A major in an infantry battalion appears like, is treated like and paid like a medical doctor major. Effective entrepreneurial leaders apply titles such as manager, director and vice president regardless of supervisory role. Apply this non-hierarchical logic to physical offices assignments as well. Give your high impact people private offices to reinforce and recognize their value.

Entrepreneuring – A Team Sport

In his record setting best seller, "The Seven Habits of Highly Effective People", Steven Covey develops an underlying framework starting with Dependence then developing Independence and finally achieving Interdependence[5]. Covey comments:

> "Real self-respect comes from domination over self, from true independence. … Interdependence is a choice only independent people can make. As we become independent – proactive, centered in correct principles, value driven and able to organize and execute around the priorities in our life with integrity – we can then choose to become interdependent – capable of building rich, enduring, highly productive relationships with other people."

Big companies try to build big teams to implement big projects. I have no idea how to organize and manage these large teams. Over the years, business managers experimented with formal techniques, such as matrix management, with limited success. I suspect, more often than not, these large teams are cumbersome and ineffective – and whatever success they achieve is due to charismatic and energetic personal leadership or pure time and persistence.

Fortunately, entrepreneurial companies rarely have the resources to undertake big projects. In fact, successful innovators find ways to accomplish big results with minimum resources. Rather than organizing and managing teamwork, entrepreneurs use the powerful appeal of shared goals and winning to create teamwork. Again sports illustrate the point in that great coaches build effective teams by recognizing the interdependence of skilled athletes and their driving commitment to winning. Successful team players recognize their personal limitations and respect the complementary skills of their teammates. Those who don't are often traded or released because they diminish the effectiveness of the entire team.

I imagine that a well-trained football team with twelve players would beat an equally talented and trained team of eleven. A team of twenty-two people, however, with the same total training effort (half the training per person compared to a team of eleven), might well lose to the better-trained and more selective team of eleven. The larger team would suffer from more complex plays, being less able to improvise and experience far more confusion trying to coordinate all the individual activity.

Entrepreneurial leaders are player coaches. When critical results; such as raising capital, closing major customer contracts, hiring valuable new colleagues or bringing new products to market, all key players mobilize to blend their skills for success – when there's a lot at stake, call on the "A" team.

Stop trying to manage teamwork. Lead by example and expect it from everyone else – after all it's your clearly stated culture. Save your organizational or hierarchical power for those rare occasions when you can't sell the desired direction or you haven't time to gain support. Real power comes from unquestioned integrity, knowledge and commitment to shared values.

Lead Your People – Manage Your Business

We've already dismissed budgets as an often-misused management tool. Like all tools, however, budgets do some things well while being unsuited for others. OK, but what should we do? There are three basic elements you can actually manage: People, Projects and Performance - P^3.

"If you lead capable people working effectively on the right projects, you will likely achieve good results!"

Frank Zenie

Manage & Control	What & How?	Why?
People Resources - Headcount & Skills	Create a Table of Organization (TO). (Not a hierarchical Org. Chart) Identify specific headcount slots approved for each approved activity.	Most costs are either external purchases or headcount driven. All organizations suffer from headcount creep. Until some significant size, there's no reason why the CEO can't approve all TO changes. When your strategy changes, update the TO. Transfer approved openings from one department to another as projects change. Make sure that skills match the needs.
Projects	Think of everything as a project; manufacturing, customer support, IT development etc.	This is the process by which people are deployed to perform work. Controlling active projects ensures people are working on the right jobs. Don't spread resources over too many projects or you will jeopardize the critical ones. Note: You may choose to close your eyes to an occasional bootleg project if the champion is highly committed, the bootleg project leads to a worthy goal and approved projects don't suffer too much.
Performance (Projects)	How well are we doing on our projects? Most project goals are based on projected assumptions of difficulty and value. New information often modifies these assumptions.	Monitor project progress. Are the assumptions still valid, progressing on track, adjusting to new information etc.? This is not traditional performance appraisal; it's project appraisal. Project appraisal is positive because people want to feel their work is important.

Continuously inventory your staff in real time. Do the skills match your current needs; are individuals effectively deployed and aligned with your culture and vision? Once you decide to do something, commit adequate resources to ensure success; confront any resource gaps - you can't afford compromises here.

Entrepreneurial HR – Beware of the HR Professional

I hope your vision doesn't include being recognized as a leader in HR programs. How many of today's leading companies, are hemorrhaging due to overzealous HR initiatives? Competitive benefits are necessary to build and maintain a competent workforce, but benefits play no role in creating the energized workplace critical to success - that's your leadership job as entrepreneurial CEO. Don't delegate your job to "HR Professionals". Too many HR professionals spend their time with other HR professionals trying to civilize entrepreneurs and make their company more "employee friendly" – better benefits, clearer policies and objective compensation systems.

Vision, culture and leadership are your job. Systems and support can and should be delegated. For as long as possible, however, delegate HR responsibilities as a secondary assignment to another leader – most likely your CEEO, Chief Everything Else Officer. Consider outside professional services to advise you on compliance, benefits and payroll administration – these services are readily available and cost effective for small businesses.

Don't let your HR advisors become employee advocates. Your culture defines your employee commitment and you only need to practice it. If individual employees don't like the culture, help them transition to another company they like better.

Recruiting

Since your mission is to succeed and grow, recruiting will become a significant challenge and vital to success. Just as people advise you to raise money when you don't need it, you should recruit when you don't need people. Maintain a list of potential colleagues just as you would maintain cash in the bank for future needs. To do this, you should always be recruiting. Without hiring a public relations consultant, try to interest local newspapers, radio and TV in your exciting new company – become a local hero. Any favorable publicity will attract inquiries and resumes. Carefully read them and arrange brief "meet and greet" interviews with anyone who might fit a future need. Be honest that you have no immediate openings, but you're building a reference file of candidates to join you. As you build this file, drop the likely candidates an occasional e-mail describing your progress and continuing interest. While you're at it, mobilize your current colleagues to refer new candidates. I've always paid a modest thank-you fee for these referrals.

Develop your interviewing skills. Don't spend the interview explaining how great your new company is. Ask good questions and listen carefully to the answers. In addition to work skills, explore personal values and business cultural outlook. Be a truly equal opportunity employer seeking excellent people. Don't ask stupid questions that are, or may be perceived as, discriminatory. Beware of candidates with extended service with big companies (more than 1,000 employees); they may bring a lot of cultural baggage.

Recruiting and hiring is a line management job not an HR function. HR, to the extent you have HR support, can provide administrative support in terms of running ads or searching the Internet, screening resumes and scheduling interviews. HR should prepare a concise benefits summary for employees and candidates.

In competitive job markets, selling and negotiating skills are keys to getting candidate acceptances. It's a free job market and good people have quality alternatives. Picking the right candidate is only half the job, getting his "yes" remains. So how do you make an offer and gain acceptance? A job offer is really an invitation to join a company and to work for a specific supervisor. Don't let HR and your lawyers convince you that a job offer must be a formal contract letter. The supervisor, therefore, should pick up the phone and invite the candidate to join the organization. Explain why he thinks this will be good for the candidate and the company and stress why he, the supervisor, wants to work with him. Make an offer and ask for a reaction.

Listen carefully for objections and concerns. If the candidate doesn't describe his concerns, ask about them and try to address them in real time. If you can't resolve them, try to stress one of your attractive aspects to offset the concerns or objections. The supervisor should come prepared with some latitude to negotiate compensation – salary and/or equity. A "take-it-or-leave-it" offer is hard to close. Ideally, the supervisor will be able to send a formal letter to confirm the offer and the candidate's acceptance. HR can and should provide some "boiler plate" language and guidelines for the letter, but it must be seen as a personal invitation and offer from the direct supervisor.

Note: Caveat emptor - is the commercial belief that the buyer alone is responsible for assessing the quality of a product before buying. It's generally bad advice unless you want unhappy customers. In no way should recruiting accept caveat emptor - candidates are responsible to honestly describe their experience and skills. Sure they will put them in the best possible light, but should not overstate them. When applicants over sell their capabilities, they must accept the consequences – fully intended and almost always bad.

Benefits

You must face the benefits dilemma from day one. By all means provide safety net benefits but don't try to match larger companies – particularly as they're trying to cut back. At this stage, you want to attract people with strong self-confidence and the passion to help build enterprise value. You need candidates energized by career growth opportunities, exciting and challenging work, affiliation with truly competent leaders and colleagues and some equity participation. If benefits become a critical issue, candidates should seek a larger company and hope their benefits won't be reduced during future cost reductions.

Healthcare is by far the most costly benefit. You must provide healthcare insurance, but the primary goal should be catastrophic protection not reimbursement for minor costs. Our healthcare system already suffers from a history of virtually free care insurance, which not surprisingly, makes us disinterested consumers. When all of us have a direct financial stake in our healthcare, we will become informed consumers and demand better value from our providers. Employees should share the premiums and in the incremental cost of each healthcare event. Once your company grows to several hundred employees, you may qualify as an insurance group and your premiums will be experienced-based on your group. Efficient healthcare expense history could dramatically lower long-term insurance costs.

The best benefit that I've ever offered is educational assistance. If an employee is willing to devote personal time, absorb travel costs and share in tuition, encourage him by sharing tuition expense. Don't over police the courses being job related. Deal with this under your leadership contract discussions.

Job Descriptions and Annual Performance Reviews

Everyone knows that successful companies embrace formal job descriptions and annual performance reviews. Let's take a test. The annual US divorce rate is approximately 50% per year as defined the number of annual divorces divided by the number of annual marriages. How could we increase our divorce rate to 100%? Impose job descriptions and annual appraisals, of course. Try this:

Insist all married couples:

- ❑ Prepare and agree on formal Job Descriptions AND
- ❑ Conduct Annual Performance Appraisals on each other.

To ensure quality:

- ❑ The government appoints an independent HR expert to monitor the process and ensure compliance with their regulations

Well, maybe not everyone thinks job descriptions and performance appraisals are a good idea– let's take a look. Formal job descriptions actually compartmentalize people's thinking. By outlining someone's job, you quickly focus attention on what isn't his or her job. Rather than complete tasks, people are encouraged to fragment them, do their segment and then pass it along to someone else at the boundaries of their jobs. How can this reinforce accountability for completing work?

Sure simple job descriptions are useful in benchmarking salary data. But, don't pretend these reflect what you want your colleagues to do in your dynamic company-building process. For years, I opposed job descriptions, but I'd now like to propose an alternative – a universal job description applying to everyone from the CEO to all other colleagues.

Frank's Universal Job Description

Part One:

1. Do the right thing.
2. If you're unsure, ask for help.

Part two – If You Make a Mistake:

1. Accept responsibility and say you're sorry
2. Ask how can I fix it?
3. Ask for suggestions to avoid similar mistakes in the future.

Obviously routine processes should be designed such that the right thing and the workflow are clear and effective. Entrepreneurs must also perform routine tasks effectively, but entrepreneurs exist to create discontinuities. They kick the system to create new opportunities and then must respond promptly to the changing environment.

I acknowledge again that my experience is in companies up to about 1,000 employees. I can't attest to this approach working in much larger companies. Take a company with 10,000 employees with about 1,500 of these with some supervisory role. If 90% of these supervisors are good to great and only 10% are weak to poor, that's about 150 supervisors creating some kinds of problems. The damage done by 150 poor supervisors may, in fact, be greater than the damage caused by formal job descriptions and annual performance appraisals. I'm not competent to determine this.

Big companies do, however, try to fit people into their pre-defined jobs. They then try to fix people and overcome their shortcomings. Hence the dreaded job descriptions and annual performance appraisals. Entrepreneurs recognize that needed skills are situational and effective leaders adapt jobs to leverage people's strengths. Yes; coach people to do better and reassign them, if possible, to more suitable roles, but don't over invest your time in this without significant progress. You as entrepreneurs recruit and retain the best people to meet current needs.

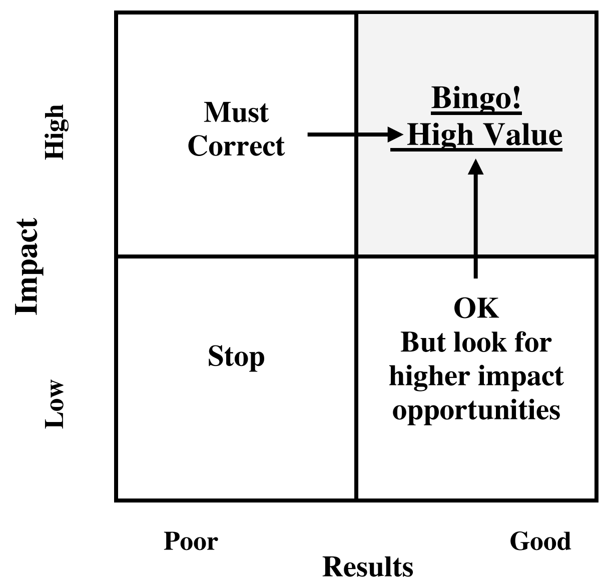
Ok, maybe job descriptions are limited, but certainly Annual Performance Appraisals help people perform better. Imagine a sports coach documenting each player's game-to-game mistakes and shortcomings in his spiral notebook and then reviewing these at the end of the season. That's not coaching; that's judging and no one likes to be judged and rarely like the judges. The Leadership Contract establishes the interdependence between supervisor and colleague and their obligation to help each other – now not later. There should be no new news during an annual appraisal. Then why waste time?

The best appraisal is self-appraisal. When people want to improve and appreciate help, they will thrive under the Leadership Contract. You can coach self-appraisal without judging. Most people actually know, but deny, their limitations. If you ask probing questions, listen to the answers and mirror back the conclusions - individuals discover and accept their limitations. They're far more likely to improve than if you tell them their limitations.

The truth is that Annual Appraisals are primarily used to justify compensation decisions. We spend large amounts of money and time trying to rationalize compensation decisions. Why can't we accept that it's an inexact process with no right or wrong answer? Almost all compensation conflict ranges within plus or minus 10% of the actual compensation – well within the margin of error. Major compensation conflict usually indicates a mismatch in perceived value and probably can only be solved by job changes.

While we will discuss compensation in some detail, compensation communication belongs with leadership. Compensation depends on two factors; the competitive salary environment and the individual's value to your organization. We normally discuss job performance, but performing the wrong job well is of little value. Under your Leadership Contract, supervisors are obligated to help people add high value by giving them important assignments and coaching them to do well. Ultimately, the colleague must deliver on these opportunities.

The following Value Matrix highlights the goal of bringing as many people as possible into high impact, good results roles. Coach your colleagues that higher compensation rewards adding value to your business. Build communications around this shared goal to create win-win relationships.



The Value Matrix

Another HR driven process is documenting the employee warning ▸ probation ▸ termination process. From a legal perspective, this is a prudent process, but from a management perspective it's probably a waste of valuable time and counter-productive. If you're actively coaching, your colleague is aware of and, hopefully, working on areas of improvement. If the colleague remains in a state of denial, a formal warning will only make him more defensive. I believe that probation communicates that I've given up on you, but I'll give you one last chance in order to justify my decision to fire you. This is more likely to anger the person than motivate him and his anger will quickly spread to his co-workers thereby creating a wider spread problem. So now you're paying one employee to disrupt other employees. Wouldn't it be better during the coaching process to advise him that this job and company might not be a good fit and that you (and the company) would like to help him find a more appropriate job? Explain that if he agrees to resign you can offer extra severance pay and assistance finding a new job – it will be money well spent. If he asks for another chance, indicate that this will reduce the severance available to help him if the outcome ends in termination. Of course, you need to document these discussions. During the coaching process, remain committed to your colleague's success; once you give up, you've switched from coach, to executioner so wrap up the relationship as quickly as possible.

A final thought about HR. You do need to provide your employees a safety valve – a coaching resource for people who can't communicate effectively with their direct boss. You do need this to ensure valuable people don't quit because of pure frustration. When you're larger and have confidence in the maturity of a specific HR person, that person can serve as safety valve. Until then, you, as the entrepreneurial leader, should be available to everyone. If any of your colleagues don't trust or can't communicate with you, maybe they'll tell you on their way out the door.

Entrepreneurial Leadership - Traps

If doing the right thing is best, not doing the wrong thing isn't far behind. We've already mentioned nepotism and excessive greed. Unfortunately there are other leadership traps.

Paternalism

You've just formed your new venture and you've recruited a few best and brightest to help. Your new colleagues are excited by your vision and culture. They're counting on you to make success happen. They want you to be, and expect you to be, brilliant and invincible. Your colleagues hang on every word as you describe your vision in more detail and they believe success is inevitable under your leadership. You've never felt better.

This euphoria will continue for some time. All plans are good until they're tested in the real world. Early product development and market research will rapidly progress as you work around minor setbacks. You will probably do some PR (public relations) to create buzz and, if you're credible, investors and potential investors share your enthusiasm. At this time you have immense power. Sounds great, how can this be a trap?

Your colleagues are now focused on you and gaining your favor. It's become your job to ensure success and overcome problems when, not if, they occur. Competing for your attention encourages politics rather than results. Politics then lead to bureaucracy and paternalism accelerates this process where loyalty trumps results – don't forget our war against bureaucracy. Paternalism is like parenting; in the beginning kids think their parents are brilliant, in their teens your kids can't believe how stupid you've become and, many years later they finally understand and respect your strengths and weaknesses. You do not want to put your business and yourself through this trauma.

As leaders, we're coached to be patient with our colleagues and not to expect perfection. I agree, nobody's perfect and we actually learn from our mistakes. When we embrace paternalism, we encourage people to expect perfection from their leaders. As reality arrives, you might hear; "If our leader was only competent, our company wouldn't have problems - good leaders anticipate the future and are always one step ahead of the competition."

Academicians turned CEOs often adopt paternalism because its normal in our primary, secondary and university level schools. Young employees easily accept this because it's what they know from their educational experience.

How do you avoid paternalism? It's easy once you're committed to avoiding it. First, don't name the company after yourself and don't hire family and personal friends. It's fine to hire former business colleagues with a strong record of performance and similar values. Founders become symbols of their new companies, and many new technology companies formed during the 1950s and 1960s were named after their founders but that was when corporate America embraced paternalistic leadership and ultimately paid the price. Many large companies of the 1950s and 1960s embodied paternalism with inferred commitments to lifetime employment and significant, well-funded retirements. Our federal, state and local governments still do this. Their paternalism, unfortunately, led to politics, bureaucracy and ineffective operations leaving them unable to fulfill expectations. General Motors declined for decades leading to bankruptcy and federal bailout. While GM remains a leading global automaker, its long term outlook remains fragile. GM hardly proved to be safe haven for its employees.

On a more global scale, communism is political paternalism and the Middle East combines religious and political paternalism. Worse yet, we enable Middle Eastern paternalism through our insatiable demand for their oil. In both these cases paternalism creates politics, bureaucracy and rampant corruption.

Fight paternalism in your company, don't believe your own BS and don't let others blindly accept it. Teach your colleagues that you're all embarking on a tough voyage and it will take everyone's intellect and hard work to succeed. Don't treat your colleagues like children and don't let them bring problems to you without proposing competent solutions. Use the term "we" more often than "I" and openly admit you don't have ready answers to many challenges. If you don't climb the pedestal, you have far less distance to fall.

In truth, some people, perhaps many want the implied security of paternalism. The entrepreneurial problem, however, is that your fiercely independent, high-impact colleagues prefer opportunity and will create their own security and prefer a true meritocracy.

Look out for:

- ❑ Excessive expense control – If you must pre-approve every expense; you steal accountability from your colleagues. A good example is travel authorization. You want control through accountability not micromanaging. Obviously you need some limits where you require additional approvals. Have your finance person set up a monthly report summarizing expenses incurred by your team and follow-up on those that may not exhibit good business judgment.
- ❑ Stupid Directives –I served in the army in 1957. This was post WWII and Korea, but prior to the Vietnam period and most Americans believed that the Soviet Union and Communism was the enemy. We also believed that any war would be fought with missiles and aircraft and the conventional army had limited role in the future. Because of funding limitations, my two-year service obligation was reduced to six months – three months at school followed by three months assigned to a unit with nothing to do.
  One day, while assigned to my unit, we received an order from the camp commander stating that the entire camp's cost per mile for vehicle operation exceeded army guidelines. This wasn't surprising in that we hardly used our vehicles because we had little official duties requiring them. The directed solution, however, truly surprised us. We were directed to check out the vehicles and just drive around thereby reducing our cost per mile. We all recognized that our commander chose a stupid expedient rather than address the underlying issue. He immediately lost respect throughout the entire base.
- ❑ Fatigue - Don't count on people working 60^+ hours per week every week – 50 hours per week, however, isn't bad for ambitious entrepreneurs. Store up energy for when you need a few 80 to 100 hour weeks – they will come. Work with people who appear to be working too hard and discover the cause that might be distractions, work beyond their capabilities or too much work.
- ❑ Employee agreements – Non-disclosure agreements and intellectual property assignments make good sense – after all they it's your property because you paid for the information and innovation. Your investors may well require that all employees execute non-compete agreements. These are very difficult to enforce, as well they should be. I question the ethics of blocking someone from pursuing a career that builds on their knowledge and experience. And besides, you should be a moving target – bring them on.

- Executive perks – Wait a minute, we have entrepreneurial leaders not corporate executives. Right; so don't start planning executive autos, country club dues, 5 star hotels, business class tickets and the like. Your employees understand their effective leaders are paid well and can afford a better life style. They don't, however, want to be seen as second-class employees. I've never been able to justify business-class airfare premiums. With a little shopping, I could find fares for about $500 compared to $2,500 to $3,000 for business-class. If you must permit business-class under some circumstances, permit it for all. Two perks that might pass the business and cultural test are annual physical exams to keep your leaders healthy and financial planning assistance to keep them from being distracted.
- Succession plans – Some day one of your directors might ask for your management succession plan. Try to appear thoughtful as you explain that start-ups don't have the time or money to invest in management depth. You hire people to meet urgent priorities. You do try to hire people with growth potential and try to develop that potential as you progress. If something happens to you, however, you're sure they will do what's needed.
- Employee surveys – Your professional HR person, if you have one, may recommend a confidential employee survey where employees are provided confidential questionnaires. I guarantee that some employees, when guaranteed anonymity, will pursue some personal agenda. Why is it fair that leaders are expected to confront their associates directly with performance feedback, but employees can hide behind confidentiality?
- Organizational obesity - All organizations, including governments, tend to spend ever more money and add staff. Why? People think they're overworked and deserve help and also power and status increase with management scope and head count responsibility. You must manage People, Projects and Priorities to overcome organizational obesity.

Assets (Cash) Waste

In addition to headcount and its deployment, non-essential expenses aggravate organizational obesity. Your capital was expensive and will get more expensive unless you make huge progress between financings. Preserve your precious cash as long as possible by reducing all non-essential expenses. Some ideas:

- Facilities and furniture – Unless you urgently need to be in the city, locate in the suburbs. Find a functional, but simple facility and sign as short a lease as possible. Buy adequate quality used furniture and it's OK if it doesn't all match. Build modest offices for leaders and create one nice conference room for customer visits, board meetings and internal meetings.
- Working tools – Buy or lease the tools to make your people most effective. Second hand is OK. For example, at Waters and Zymark we developed many electro-mechanical products. We recruited, whenever possible, engineers who were also machinists. We equipped our development team with full machine shop, which sat idle most of the time. When an engineer was designing a product, however, he could make parts, test them and modify them in a fraction of the time required to submit drawings and wait in queue at an internal or external machine shop. When an energized creative person is closing in on his target, don't slow him down.
- Travel – There are lots of ways to travel economically. Before deciding to travel, see if phone plus Internet will accomplish your goals. If possible, even when you must travel, can you schedule several meetings on one trip? Finally plan the trip economically. I've never

been able to justify business class air travel at 5 to 6 times the cost of lowest available fares. If the trip is less than 250 miles, consider driving not flying. Given the stress of today's flying, this may be the low stress alternative. Stay at modest, but clean and safe hotels. Eat at modest restaurants and go light on the booze. When two same-gender colleagues travel, share a hotel room.

- ❑ Administrative support – As the pace picks up, you will need some administrative support, but not an executive assistant. Think sharing; limit your company to one administrative support person for as long as you can.
- ❑ Outsourcing – Outsource as many non-critical activities as possible. Find quality providers to manage such infrastructure needs as; payroll, benefits, insurance and facility cleaning,

Remember, capital isn't free. Preserving capital works even better than stock options enabling founders and high-impact contributors to preserve their equity stakes.

Entrepreneurial Leadership – Communications

It's time to decide. Do you prefer sharing business information openly with your colleagues knowing that some may leak to competitors or do you prefer to restrict business information to you and your very senior managers? In my opinion, open communication throughout your team engages your colleagues in the business and provides a foundation for them to make good business decisions. Do you really think that competitors can't find out your approximate revenue, financial condition and product ◀▶ market strategy? It's not that hard.

Believe me; you must earn your colleagues' trust in order to lead. How can you lead if your colleagues don't trust you enough to follow? Not only should you share most, other than confidential personal information, business information and you must present it honestly and openly. Don't mimic our politicians who feel they must spin everything to their advantage.

As you build your business, you will face serious challenges. Your colleagues will see these and look to you for realistic analysis and thoughtful response. Denial or false bravado will destroy your credibility, fuel even more insecurity and limit your leadership capability. Earn your trust and credibility during the good times so you can lead during bad times.

Staff Meetings

Not all meetings are bad; only too frequent, too long or non-productive meetings are bad. Your senior, high-impact contributors need to be fully informed to do their job and help you do yours. A former colleague of mine often quoted; "reasonable men, equally informed, seldom disagree". While institutionalizing full consensus management is dysfunctional, gaining consensus becomes a powerful force for alignment. Insist that critical information be distributed prior to meetings and then insist that participants prepare for the meetings.

Use staff meetings to assess the 3Ps; people, projects and performance. Think of building your business as a single project with the CEO as The Project Manager. Use your key advisors to surface lack of alignment, roadblocks and other issues. Lead the meetings to crisply identify problems, consider alternative solutions and then assign tasks to implement the selected solution. Achieve consensus when possible, but demand support once the decision is made.

Company Meetings

Emerging companies have a unique asset compared to larger companies. They can host face-to-face meetings with all employees. What an opportunity to teach culture, recognize contribution, humanize management and inform the entire organization. To the extent a few colleagues are located remotely or traveling, inexpensive phone and Internet connections permit them to participate.

Layoffs

Unfortunately layoffs are common and often essential for survival for start-up and emerging companies. How you manage a layoff can help those being laid off, but more importantly, tell the remaining employees about your values and respect for them. On August 29, 2006, RadioShack Corporation laid off about 400 employees through the following e-mail: "The work force reduction notification is currently in progress. Unfortunately your position is one that has been eliminated." The laid off employees were given about 30 minutes to pack their personal belongings and leave the premises. What message did Radio Shack's management transmit? Our employees are commodities. It's not our fault that we have too many people. We don't trust you to remain on our premises. How do you think the surviving employees felt?

Of course layoffs are management's fault. The organization's expenses exceed its affordability. Hopefully, the decisions leading to this condition were logical under the information available at the time. Accept responsibility and acknowledge the consequences to your trusted colleagues.

In my companies, direct supervisors spoke face-to-face with each person being laid off. We offered the person the option to leave immediately or stay and wrap up his work and gather his personal belongings. If he chose to leave, we made an appointment for them to return. We explained our severance and benefits availability and our support program to help them find a new job. More importantly, we scheduled a company meeting later that day to explain to those remaining what we did and how we did it. We accepted full responsibility and asked the remaining people to help us through the adjustment.

Leadership Accessibility

Leaders are accessible to their colleagues and customers. If you want honest feedback, make it easy for people to reach you and be comfortable in sharing their observations and conclusions. Whenever possible, answer your own phone. Reply to your phone messages and e-mails promptly. (Note; I don't apply this to bulk or spam messages.) Why? Maybe the caller wants to do something for you or you can do something for the caller and you also demonstrate living your culture to all your team.

Consider this in the context of your customers and employees as "Free Agents". Loyal customers and employees will stay with you only as long as it's in their (long term) best interest to do so. Unhappy customers and employees will change in the hope of finding something better. The more confidence they have in your leadership and commitment to them, the more they will want to retain their relationship with you.

Entrepreneurial Decision Dilemma – Responsible Decisiveness

As an entrepreneur, time is your enemy. You need to solve the problem of "simultaneity" – hire the team, develop the product, raise money, close deals and more – all in parallel. You may have to make decisions with only 60% to 80% of the data surrounding a decision; you simply make the call and move on.

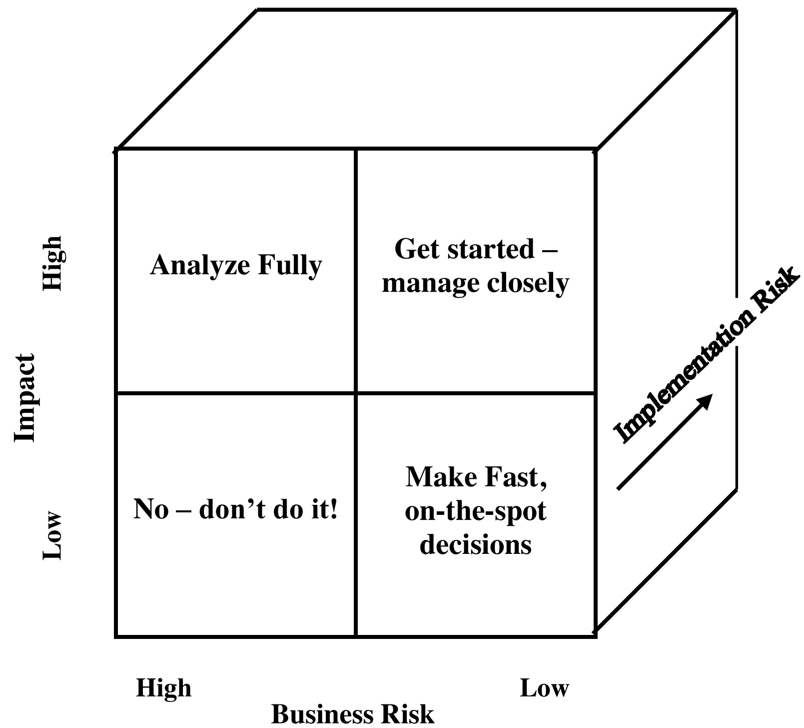
Over the years, I've studied many approaches to responsible decision-making. My approach is a composite of work done by others. My observations may seem obvious, but consider them in your decision process. This decision process model may even be more valuable in understanding customer response to your product offerings – their decision process.

The dilemma is that in your entrepreneurial environment, you want to make quick, decisive decisions – often lacking all the desired data and analysis. Rather than just considering impact and cost, I'll focus on Impact◄►Risk relationships because risk takes two forms - business and implementation risks. Business risk assumes successful implementation and reflects the risk of achieving the desired customer response. Implementation risk, on the other hand, reflects the barriers in successfully implementing decisions. A large proportion of complex projects take longer and cost more than projected, and some are finally abandoned – this is implementation risk at work.

Deciding to do nothing also generates impact and risks called opportunity costs. When making decisions; always compare the benefits of success with its risks vs. the impact and risks of doing nothing.

Large companies, particularly today, may spend years evaluating potential initiatives using multiple layers of study committees. Entrepreneurial companies, however, are forced to make similar decisions in weeks – even when the decision commits a higher percentage of their total resources than the decision under extensive evaluation at large companies. This is simply part of entrepreneurship.

Lowering implementation risks demands timely, flexible and detailed project management. Complex implementation takes time and often uncovers hidden problems requiring additional work. For example, outsourcing manufacturing work may require re-engineering workflow and other supply chain processes. During long implementations, the business justification may change significantly. Whenever possible, with complex implementations, break the project into phases – ideally with a pilot phase to uncover hidden problems and to verify business and implications risks.



Three Dimensional Impact <> Relationships

Let me cite some customer decision examples from my experience.

- At Zymark, we developed a wonderful product called TurboVap with different models for life science and environmental applications. TurboVap provides compelling benefits over prior manual techniques, about 10:1 productivity improvement and it's easy to install and use. When introduced, TurboVaps sold for about $4,000.
  We used direct mail to introduce TurboVaps and their benefits citing customer testimonials for performance and productivity gains. We followed up inquiries by phone - answering any questions and offering a free trial with money back guarantee. Our performance claims placed TurboVap in the high impact region and our free trial eliminated the customer's business and implementation risk. We didn't use direct sales visits or demonstrations. We sold thousands of TurboVaps and only about 1% of these were returned and the product remains successful more than 15 years following introduction.
- Also at Zymark, we introduced another automation product for environmental labs. This product was priced at about $25,000 and provided projected paybacks of less than two years – a 40% to 50% ROI. We believed it offered above average impact with low business and implementation risk. Yet, we couldn't sell it. We finally recognized that while our ROI was based on the customer's projected utilization; decreasing environmental testing, competitive pricing and low backlogs challenged these environmental labs and undermined their confidence in their revenue forecasts. If they purchased our product, they would add its cost to their capital lease facility and pay for it over some years with equal monthly installments.

Given their business uncertainty, they were unwilling to add fixed cost and preferred to continue their higher variable cost labor-intensive practices.

- VelQuest offers a software solution enabling FDA regulated companies to replace manual entries into paper-based records with automated, validated electronic records. Manual systems require redundant checking in order to claim data integrity while data generated by VALIDATED electronic systems are deemed OK without redundant checking. In its early days, VelQuest projected labor savings of 20% to 25% - customers now report savings and cycle time improvements in the 25% to 40% range. Here we see relatively high impact and low business risk, yet we experience long sales cycles with layers of customer investment analysis.
  We've learned, however, that over the years pharmaceutical companies have purchased many software solutions only to discover that implementation was harder, demanded more resources and became more costly than expected. With this history, it's not surprising that pharma approaches new software acquisitions cautiously and analytically.

Entrepreneurial Compensation – Culture in Action

This is a test. Your true leadership and cultural commitment are exposed through your compensation practices. The point isn't to pursue "objective" compensation; it's to pursue "fair" compensation consistent with your culture – which values high-impact contributors who enable you to offer unique customer value. While some value indicators can be objectively measured, individual contributions to this value are ultimately subjective. You don't want to base compensation on skills, experience or knowledge, but on their effective application. Most objective compensation systems are skill or management-scope (hierarchy) based.

What do we all have in common as "compensatees" (my word for those who are compensated)? We all want more. We don't personally zero base our expectations, we increment from wherever we are. In reality, however, we must constantly prove ourselves – our value. We may well feel great after receiving our last pay increase, but we quickly focus on getting the next one.

Creating wealth as a reward for creating value is very different from pursuing incremental pay increases. Honest wealth creation forms the foundation for our free market capitalism. You're betting some current income and years of hard work to create wealth. It's a worthy cause and a just reward.

Pursuing incremental pay increases is not limited to hourly workers and salaried professionals; it has slipped into our corporate executive suites. Corporate CEOs and their senior executives hire compensation specialists to create a virtual compensation war. Everyone below average compensation wants to at least be average, thereby always increasing the average. Public companies adopted broad use of equity compensation to align management with ownership. During the stock market boom of the late 1990s, management focused on meeting market expectations, thereby increasing their stock price. It paid off sometimes regardless of poor fundamental business performance and even negative value creation. Subsequent managements may face stock price erosion even with improved performance – yet they're criticized for not increasing shareholder value.

An example – General Electric: Jack Welch became GE's CEO in 1981. On February 2nd of 1981, GE's split adjusted share price was $1.40. On July 3rd of 2000, GE reached an all time high of $57.81 and was about $40.00 per share when Welch retired in September 2001.

> Welch was recognized as one of the great all time executive value builders. He received substantial current compensation and generous retirements based on these results. Under Welch, GE built huge financial services and entertainment operations. During subsequent years the financial services operations suffered the same operating problems pervasive to that industry and never achieved great success in entertainment.
>
> Welch was followed as CEO by Jeffrey Immelt on September 7th, 2001. Immelt has spent much of the intervening time restructuring GE's businesses and writing off financial losses. GE's stock fell to about $10.00 per share in January 2009 and recovered to about $20.00 per share by May 2011- still about half its value when Welch retired.

How fair is this? My point is that compensation can easily degrade into a game where greed drives short term results and compromises long term value creation.

Our job as entrepreneurs is to manage compensation, as best we can, using it to reinforce our values and create long-term shareholder and customer value. Compensation plans should be as simple as possible to encourage desired results and minimize unintended consequences.

I believe that compensation has two elements:

A. Market Driven Compensation – Compensation required for recruiting and retaining valuable colleagues in a competitive job market. Market driven compensation includes base salaries and benefits and may also include variable or incentive compensation. The key is that the competitive job market determines compensation ranges. Established companies and entrepreneurial start-ups all compete in this market. Entrepreneurial start-ups may pay slightly below market and offer stock options to offset the gap, but options will only fill this need for a limited period.

B. Value Sharing Compensation – Once you've provided "fair" compensation, you want to create an upside opportunity for employees to share in the business's value being created. Traditionally, broadly issued stock options and profit sharing are company-wide team-based value sharing tools. Entrepreneurial companies traditionally rely on significant equity participation for key employees to align them with shareholders (investors) making them true owner/managers. By definition, significant participation must be limited to the few individuals who become true value creators.

Entrepreneurial equity participation is traditionally created in the form of stock options, restricted stock or outright purchase of founders stock. These techniques effectively align the long-term goals of both shareholders and management. They require little or no company cash outlay during the time when cash must be preserved. Purchase or exercise prices are set by the Board of Directors and are not subject to the wide stock price swings of publicly traded stocks. And neither shareholders nor management can capture their share of the enterprise value until a mutually agreed on liquidity event (acquisition or public offering).

Equity participation, today, however, is far more complex than in years past. Two factors are at play:

A. Regulatory Factors – Stock option abuses by publicly traded companies, such as: large grants to senior management by management recruited boards, backdated options to create favorable exercise prices and many more. These abuses are virtually impossible in entrepreneurial private companies because their largest investors dominate their boards and control management compensation. Some consequences:

a. Limited use of qualified or incentive options requiring greater use of non-qualified options with potentially significant tax consequences.

b. Recognizing stock option costs as a financial expense.

B. Venture Capital Deal Structure – Today's VC financings often include liquidation preferences. Liquidation preferences take the form of guaranteed returns to preferred stock before any participation by common stock. As preferences increase, management's stock options become less valuable and potentially valueless. This means that common stock options only own their % of the entity's value after some multiple of the preferred investment is paid out first. Without significant value creation, the common stockholders may receive little or no payout. Some consequences:

a. Entrepreneurs become more like salaried employees rather than owner/managers and far more vulnerable to reduced motivation and recruitment into new career opportunities.

b. To preserve motivation and retention, entrepreneurs negotiate carve-outs to ensure some financial participation in a future acquisition.

Value sharing is essential to robust entrepreneuring and equity-based techniques are still the best technique to maintain our thriving entrepreneurship tradition - which, in turn, energizes our economy. Entrepreneurs can work with most of the regulatory trends, but large liquidation preferences could well fatally destroy equity's value in the entrepreneurial process. It's too early to predict the outcome and I continue hoping that equity will play a key, even if a smaller, role in entrepreneurial compensation.

Value sharing may take many forms. In addition to equity, it might include profit sharing or milestone achievement bonuses. In some start-ups undertaking long-term developments such as pharmaceutical R&D, interim value can only be recognized through milestone achievements. Investors, directors and senior leaders will have to design compensation plans that offer high impact contributors a clear path to sharing in the wealth they're creating. Even after commercialization, the strategy may be to reinvest all earnings and other metrics must be used to define value creation. As the new enterprise settles into profitable operations, profit sharing becomes an effective tool for value sharing.

Ideally profit sharing plans reflect a two to three year profit index to minimize short-term fluctuations and include two to three year vesting. I've called the basis a profit index, because the goal may be to build value beyond just reported profit. The vesting is similar in concept to stock option vesting in that someone leaving walks away from unvested value.

A few other compensation related observations:

Unfortunately, I've learned the hard way - never try to justify a person's pay when challenged why it isn't higher; and never blame it on your boss or HR. Explain that there is no "right" amount and that you've made the best judgment you could after reviewing market pay scales and his individual business impact - reminding him of your widely shared cultural statement. As I mentioned earlier, how can you debate +/- 10% of total compensation. Doesn't a grade of 90 get you an A in school? While you can't defend the pay level or incremental increase, you can ask your colleague to trust your commitment to him, his career development and your effort to be fair. Once you begin defending your decision, you will be forced to criticize something or someone in order to justify the difference, which will inevitably lead to a contentious and damaging interaction.

I've served as a board director for companies that decided to review all employees on the same day each year such as January 1st. While this may be convenient for management, I see no value in this practice. In doing so, you're communicating that we treat all employees the same, which is very different than fairly. You've now planted the seeds for a union; after all you're treating all employees as a group – more unintended consequences. The standard review date has further negative consequences as all employees are distracted by the big review date and are likely to ask their colleagues; "How did you do?" Don't decide on each person's pay review in a vacuum. Maintain perspective by assessing relative impact compared to your larger staff. By all means, review everyone's pay with respect to impact and relatively fairness several times a year. Tailor individual compensation changes - amounts and timing – by flexibly making adjustments early or late with respect to annual review anniversaries.

Contests, if they are for trophies and bragging rights, work well in a strong team environment. Contests, however, that create a winner take all competition with significant financial incentives will only encourage win-lose relationships with the organization. Number 1 Salesman, for example, is great for a trophy, but not a large bonus. Your sales incentive plan rewards relative sales results. Not only are the intended consequences of win-lose contests anti-cultural, they seed destructive unintended consequences that will persist for years to come.

Assuming your leadership team embraces stretch goals, they should not be overly financially penalized for "almost" meeting them. Once you adopt win-lose goals, you will constantly argue over achievability. Professional baseball illustrates this principle. Virtually all teams begin each season with a dream (stretch goal) of playing in and winning the World Series. Even those teams with clear deficiencies hope management will trade for needed talent and their teammates will play above their historical performance. With free agency, today's players negotiate the best possible base salary and individual incentives. Do the World Series and playoff bonuses all accrue to the World Champion? Hardly! The chart below summarizes the team distribution for the 2004 World Series. Distributions of the pool into individual shares are voted by the team players.

Bonuses in $ millions rounded to nearest $0.1 million.

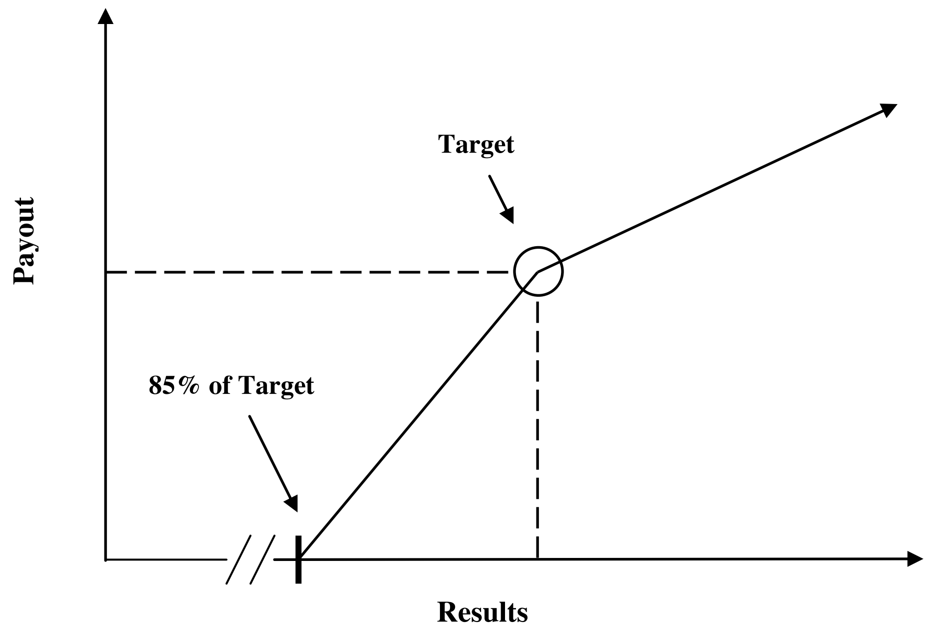
Team	Playoff Result	Bonus per Team	Combined Bonus All Teams	Each Team % Of Total Bonus Pool
Boston Red Sox	World Series Champion	$15.2	$15.2	36.0%
St Louis Cardinals	National League Champion	$10.1	$10.1	23.9%
2 - Teams	League Champion Runners-up	$5.1	$10.1	12.0%
4 - Teams	Division Series Runners-up	$1.3	$5.1	3.1%
4 - Teams	Second Place Teams – non-playoff eligible	$0.4	$1.7	1.0%
	Total Bonus Pool		$42.2	

World Series Bonus Shares - Courtesy of MLB.com

While the winner receives 36 % of the total bonus pool, thirteen other teams participate, to some extent, in the added value of the playoffs and World Series. Winning is most rewarding, but almost winning still gets rewarded.

In this spirit, any bonus plan built around stretch goals should trigger payouts at some point "close" to target. 80% to 90% may be appropriate depending on the degree of stretch. Since most bonus plans intend to reward value creation, the payout should not be capped. Remember the goal is value sharing.

The plan's payout might look like the following graphic.



Bonus Plan Design – Payout for Results

I've found it extremely valuable to have a well thought out compensation philosophy in order to gain alignment among your senior leaders and, more importantly, your board and compensation committee. While redundant, it's worth repeating the philosophy with each annual plan. The next pages illustrate one such approach that I've developed and used at several companies. Again, it's a model that must be tailored to your specific situation. Make sure your leadership team understands your compensation philosophy, explains it to their colleagues and practices it in their compensation administration.

In this example, Entrepreneurial Enterprise Company (EECo) is early in its commercialization phase. With revenue of about $5 million and a modest loss during the prior year, the management and Board have endorsed stretch goals of $7.5 million revenue and breakeven profitability. They've defined that the best way to create value during the coming year is to build their cFranchise with 50% revenue growth and to become self-financing with breakeven operations. EECo's proposed compensation plan reflects these goals. This compensation example only illustrates the need to plan compensation in terms of current company needs and goals. Think through how you want to strategically and culturally use compensation and test your ideas for unintended consequences. Engage your leadership team in the planning and review process to ensure they truly understand and support the intent and its administration.

Keep in mind that the following is simply an example created for EECo under these current circumstances. Detailed compensation plans for the following year will reflect the then current situation and goals.

The first document is a sample memo from the CEO to the Compensation Committee describing the underlying logic for the plan. The second document, Annual Compensation Plan for Year 20XX, is the CEO's recommendations for specific changes including base salary, additional stock options and leadership bonuses. Note that the leadership group includes managers as well as key individual contributors.

To: Compensation Committee, Board of Directors and Senior Management
Entrepreneurial Enterprise Company – (EECo)
From: CEO
Date: --------20XX
Subject: EECo Staffing and Compensation Logic

EECo Culture

EECo employees strive to create an environment recognizing entrepreneurial spirit, innovation, enthusiasm for change, willingness to take thoughtful risks, and eagerness to solve new problems. EECo-colleagues are responsible for customer satisfaction, adding value to our customers, and being recognized for their commitment, integrity, quality products, and superior services. By working towards these goals, EECo represents a dynamic, energetic place to work with challenging jobs, exciting career opportunities, and excellent compensation recognition for valuable contributions.

Staffing Logic

1. EECo hiring will be opportunistic and flexible - filling short-term needs based on business requirements and looking ahead for skills that will increase our long-term strength.
2. EECo will create a meritocracy throughout the organization by rewarding effective individuals who provide leadership and business leverage and, when necessary, by removing ineffective colleagues.
3. The EECo hiring process will include a rigorous screen to increase the probability of attracting the "best of breed" colleagues.
4. EECo is committed to the continuous improvement of staff skills as evidenced by significant investment in training and infrastructure development.
5. EECo's Employee Handbook outlines and defines the vision, value system, and benefits for all EECo colleagues.
6. EECo provides competitive benefits.
7. EECo believes in reciprocal leadership contracts between supervisors and colleagues reporting to them. These contracts ensure timely and ongoing coaching and feedback to colleagues.

EECo will strive to create a superior company to work for, a fun atmosphere, and a culture of excellence.

Compensation Logic

EECo is committed to attracting, retaining and rewarding high achieving individuals and teams. Our compensation programs are designed to reward value creation, leadership and strong performance. We will coach individuals and guide them toward their most valuable role within the company and, if necessary, remove individuals who are unable to achieve the necessary performance levels. EECo's compensation program utilizes a combination of base salary, competitive benefits, team incentives, individual incentives, and equity; in order to attract, motivate, and retain the best people.

1. **Base Salary/Benefits:** EECo offers competitive base salaries and benefit packages. We review market compensation and benefits surveys and also benchmark compensation information from our recruiting initiatives. We also utilize a variety of benefits and payroll partners.

2. **Team Incentives:** EECo may offer appropriate team incentives based on corporate or project objectives. These incentives may be in the form of cash bonuses or company profit sharing.
3. **Individual Incentives**: EECo may offer appropriate individual incentives based on individual contributions to the company. These incentives may reward unique accomplishments, personal goal achievement or commissions on revenue/bookings contributions.
4. **Equity**: Incentive Stock Option (ISO) programs will be offered to high leverage individuals who create value by contributing ongoing business impact throughout the company. EECo will periodically review and grant ISO's over time for key individuals. At this time, our option pool is in the 15-18% range of total equity.
5. **Value or Profit Sharing** – Our predefined, annual program where a portion of the company's increased value or profits are shared among all employees.
6. **Senior Leadership Bonus Plan** – An annual plan of team bonuses for a limited number of senior leaders. This is a team bonus aimed at aligning all senior leaders on our enterprise's financial performance. Senior leaders in this plan are participating in a high leverage risk **<>** reward spectrum and they will not be included in company-wide profit sharing,
7. **Spot Awards** – Special program where individuals may be granted cash, stock or options in response to a specific contribution beyond their normal job function. These may typically have a cash equivalent value of $500 to $2,500. The key is to award them in timely response to the event. We will recognize these awards throughout the company – but not disclose their specific cash value.

EECo's Staffing and Compensation Logic:

	Base Salary/ Benefits	**Corporate and Team Incentives**	**Individual Incentives**	**Equity* (% of Total Equity)**
Very High Business Leverage	Market Driven	Selective Bonus & Profit Sharing	Low	High (.5-1%)
Moderate Business Leverage	Market Driven	Profit Sharing and Special Programs	Moderate	Moderate (.05-.5%)
Sales/ Marketing	Market Driven	Profit Sharing and Commission Programs	High	Low** (0.01%)
Professional	Market Driven	Profit Sharing and Special Programs	Moderate	Low** (0.01%)
Support	Market Driven	Profit Sharing & Spot Awards	Spot Awards	N/A

* - Founders may have larger ownership due to their founding investment. These founders may be ineligible for additional option grants. Early, higher-risk employees will tend to have more equity than later stage, lower risk people in the same roles.
Equity percentages will decrease as company matures.

**- Nominal grants are available for teambuilding.

Annual Compensation Plan for Year 20XX

Recommendation to Compensation Committee & Board

Base Salaries: Per following table, based on market data.

Profit Sharing (or Alternative Value Creation) Plan: Reference Description

Sales and Marketing Commission Plan: Reference Description

Other Plans: Reference Description

20XX Summary:

Note – The specific numbers are only illustrations.

EECo Key Leaders and Contributors	Current Cash Compensation	Proposed Compensation	Current ISO Options & Owned Position	Total Stock & ISO Position as % Total Equity	Proposed ISO Option Grants
CEO	$200,000	$215,000	250,000 + 100,000 Owned	6.6%	None
CEEO	$170,000	$180,000	120,000 + 50,000 Owned	3.2%	10,000
Senior Leader/ Contributor #1	$150,000	$160,000	65,000 + 5,000 Owned	1.3%	5,000
Senior Leader/ Contributor #2	$140,000	$145,000	45,000+ None Owned	0.8%	None
Senior Leader/ Contributor #3	$135,000	$145,000	40,000+ None Owned	0.8%	5,000
All Other See Option Grant Proposal					22,000

Stock & ISO Reconciliation:

	Shares	% of Total
Total Outstanding Equity (Including ISO Pool)	5,300,000	100%
Total ISO & Non-qualified Pool	900,000	16.9%
ISO and Non-qualified Outstanding	650,000	12.2%
Total Remaining in Pool	250,000	4.7%
Recommended Grants for 20XX	37,000	
Available for future additions	213,000	

Annual Compensation Plan for Year 20XX

Recommendation to Compensation Committee & Board

Plan Description - Senior Leadership Bonus Plan: – An annual plan of team bonuses for a limited number of senior leaders. This team bonus is aimed at aligning all senior leaders on our enterprise financial performance. Senior leaders in this plan are participating in a high leverage risk<>reward spectrum and they will not be included in company-wide value or profit sharing,

Business Goals: For 200X, we have two key business/financial goals:

1 Build our cFranchise by achieving revenue of $7.5 million (GAAP).
2 Become financially self-sufficient by operating at breakeven and reinvesting any additional margin into key initiatives. Breakeven defined as after accrual for all leadership bonuses.

To achieve this, we believe that we will achieve all key project initiatives.

Leadership Bonus Participants:

The Leadership Bonus Plan will include 10 key senior leaders. Target bonus rates (as a % of base salary) bonuses are as follows:

Leader	Target Bonus Rate
CEO	25%
CEEO	20%
Next three senior leaders	15%
Next five senior leaders	10%

At target the total bonus pool would be approximately $170,000.

Eligibility and Payment:

This is a team bonus where each participant's bonus is based totally on corporate financial results. Payments will be made by check within 5 days following completion of the annual financial audit and all participants must be on the payroll at the time of payment.

Structure:

Revenue element – The revenue element will begin at 85% of target revenue and ramp linearly to the individual target bonuses at 100% of the $7.5 million revenue goal. Revenue above $7.5 million will increase the revenue element as follows: Individual bonus targets will increase by 20% of the % increase of any revenue over $7.5 million according to the following formula:

<u>New Bonus Rate = Target Bonus Rate multiplied by 1 + (20% X % Increase in Revenue above Goal)</u>

For example if the actual annual revenue is 10% over goal ($8.25 million), the new CEO Bonus Rate would become: 25% times 1 + (20% of 10%) = 25% X 1.2 = 30%. Other Bonus Rates would increase proportionally. In this example, the total bonus pool would increase by approximately $34,000.

Breakeven element – The goal of this element is to achieve breakeven and ensure bonus affordability. Breakeven must be reflected in audited financial statements including full accrual for the leadership and any other bonus plans. Since the goal is to reinvest additional margin contribution, the bonuses are not increased through additional earnings. If a loss is projected at full accrual, the bonus fund will decrease until achieving breakeven and individual bonuses will be decreased proportionally.

Product Development Projects

I'll focus on product development projects, but the concepts can easily be adapted to systems development, re-engineering, facilities or any other project activities.

Consider this question? If bureaucracy and hierarchy are ineffective ways to manage your business, why would they be effective ways to manage or lead projects? Let's briefly look at two highly visible projects in today's news.

The Airbus A380 is being designed as a super wide-body airline to compete with Boeing's 747 the current leader and market standard. Airbus commenced A380 development in 2000 – and they're not done yet. Earlier Airbus aircraft were well within aircraft design state of the art and enabled Airbus to capture market share and become a major aircraft manufacturer. The A380 project, however, included innovations requiring high levels of creativity and coordination.

Note: The first commercial Airbus 380 flight took place on October 25, 2007. As of the end of 2010, forty-one A380s have been delivered and a total of 234 have been ordered.

> "The 555 seat, double deck Airbus **A380** is the most ambitious civil aircraft program yet. When it enters service in March 2006, the **A380** will be the world's largest airliner, easily eclipsing Boeing's 747. - **A380** final assembly will take place in Toulouse, France, with interior fitment in Hamburg, Germany. Major **A380** assemblies will be transported to Toulouse by ship, barge and road.
>
> (From - http://portal.aircraft-info.net/article8.html,
> Posted August 31, 2002).

On October 3, 2006, following a review of the A380 program, the new CEO of Airbus, Christian Streiff, announced the program's third delay. This longest delay yet pushed the first projected delivery for Singapore Airlines to October 2007, to be followed by 13 deliveries in 2008, 25 in 2009, and the full production rate of 45 aircraft per year in 2010. This delay also increased the earnings shortfall projected by Airbus through 2010 to €4.8 billion.

The best I can tell is that Airbus is a consortium of multi-national bureaucracies. A what? It's one thing to crank out a me-too product and a whole different challenge to change an industry through innovation while saddled with multi-national bureaucracies with multiple agendas.

Let's look at an example in the public sector, Boston's Big Dig Project.

> "Boston, Massachusetts had a world-class traffic problem, an elevated six-lane highway called the Central Artery that ran through the center of downtown. When it opened in 1959, the Central Artery comfortably carried about 75,000 vehicles a day. It has carried upwards of 200,000, quite uncomfortably, making it one of the most congested highways in the United States.
>
> This extraordinary traffic mess has represented a continuous economic and quality-of-life drain on Boston and New England. The solution, called the Central Artery/Tunnel Project (CA/T), was constructed under the supervision of and is operated by the Massachusetts Turnpike Authority.
>
> The project's two major components:
>
> (1) Replacing the six-lane elevated highway with an eight-to-ten-lane underground expressway directly beneath the existing road, culminating at its northern limit in a 14-lane, two-bridge crossing of the Charles River. After the underground highway opened to traffic, the crumbling elevated was demolished and in its place will be open space and modest development.
>
> (2) The extension of I-90 (the Massachusetts Turnpike) from its former terminus south of downtown Boston through a tunnel beneath South Boston and Boston Harbor to Logan Airport. The first link in this new connection- the four-lane Ted Williams Tunnel under the harbor - was finished in December 1995."
>
> Courtesy of: http://www.masspike.com/bigdig/background/index.html.

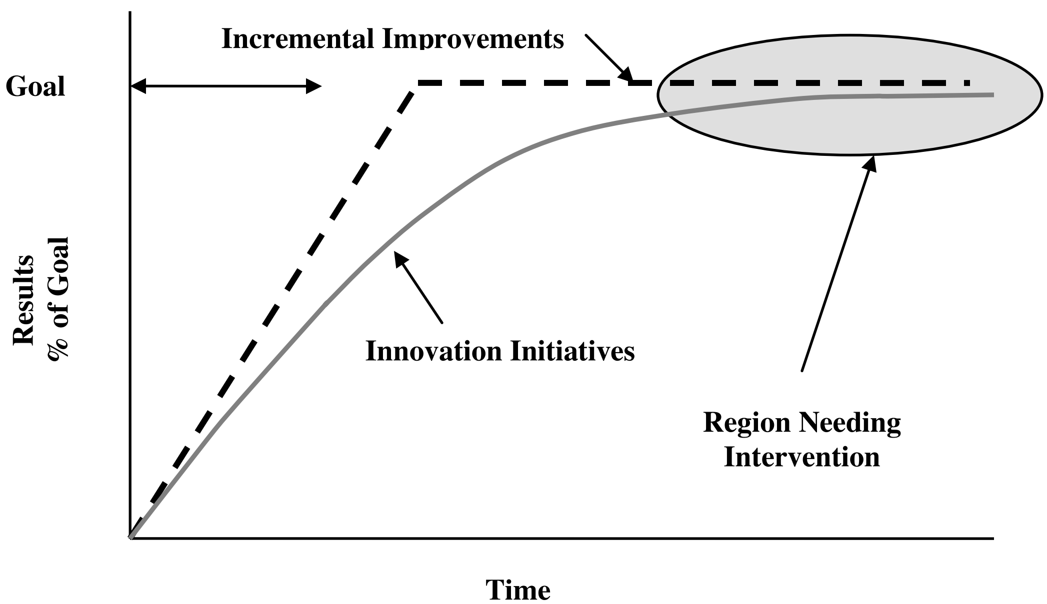
Preliminary design began in the 1980's being finalized in late 1980's with construction beginning in late 1991. Although project cost was estimated at $2.5 billion in 1985, over $14.6 billion of federal and state tax dollars have been spent through 2006. We now know that the project has incurred criminal arrests, escalating costs, leaks, poor execution and use of substandard materials – and the direct death of one commuter.

Let's now review Big Dig's organization – primary funding by the federal government, financial administration by a semi-autonomous state agency (Massachusetts Turnpike Authority) and project management by Bechtel/Parsons Brinckerhoff, a joint venture between two independent corporations. No one knows how much time or money will be spent in the future to remediate the problems and safely achieve the Big Dig's traffic improvement goals – if ever.

In these examples, how do you lead and how do you assign accountability? Let's be clear, smarter people than me will have to develop better ways to manage large innovative projects. My point here is to cite approaches and conditions that simply don't work - so we don't apply them to our entrepreneurial projects.

First, let's define the difference between truly innovative initiatives as compared to incremental improvements to existing products or systems. Innovations truly obsolete existing practices and usually require developing new technologies or processes. Incremental improvements apply existing technologies and processes toward a clear and achievable goal.

Incremental improvements compared to significant innovations are illustrated in the following graphic. With incremental improvements built on known technology and well-understood market needs, it's reasonable to expect linear progress and full goal achievement. Innovative initiatives, on the other hand almost always introduce market risk on top of technology risk and it's likely that progress will proceed exponentially with rapid progress in the beginning to demonstrate feasibility and rapidly overcoming the easier challenges. The more subtle and difficult problems aren't apparent until most of the easy ones are solved. Hence innovative projects stall as they approach completion. What's presented as the last 5% to 10% of the project, may take almost as long as all the preceding work. Even then, innovative initiatives rarely fully achieve their full technical goals. Why? The final technical challenges often require technology breakthroughs, which you may or may not discover, and you may also need to adjust the goals as you learn more about real customers' needs. Given all this, it's very difficult to guide complex innovation initiatives to a successful conclusion. Here you must apply business judgment (intervention) to balance product capability with time to market and product cost considerations.



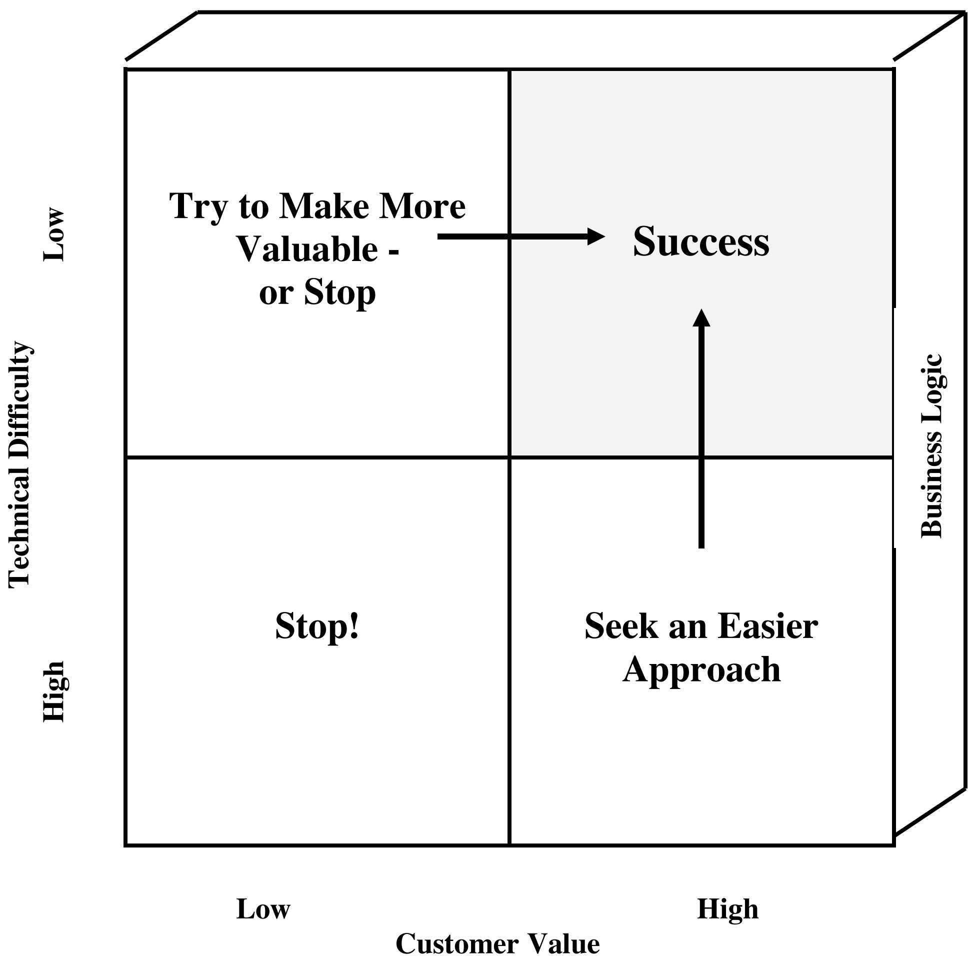
Projects – Incremental Improvements vs. Innovation Initiatives

How do entrepreneurs, therefore, successfully implement innovation initiatives without falling into the hierarchical and bureaucratic trap?

First of all, you need CEO engagement and a solutions architect. The solutions architect plays a similar role to an architect you might engage to design a new home. The architect meets with his clients to probe their needs, architectural tastes and economic constraints. He then presents conceptual designs to the clients for further discussion. Finally, the architect recommends one or a few alternatives for final consideration. Once an approach is agreed on, the architect typically delegates details to engineers and draftsmen. More importantly, the architect monitors progress and unexpected discoveries. The most effective architects reengage their clients when needed to ensure the final design best meets their needs and expectations. For customer-centric innovations, architects become far more important than project managers. You've already developed a customer-based business vision and strategy and now your architect must convert this into a product vision and strategy. Ideally the CEO, the architect and a few other key leaders engage in an iterative process of testing your targeted customer needs against technical and financial feasibility. Get good at this because you will repeat it many times as you discover more about customer needs, technical difficulty and business/financial implications.

Keep in mind that your innovative development begins with your "assumptions" about true customer needs and technical difficulty. Even your potential customers can't understand their needs in the context of your proposed new tools. Only after your customers have worked with version 1 of your new product can they really understand how effectively you meet their needs, explain the deficiencies to you and help you understand how to maximize its value. You will also discover that some development challenges will turn out easier than anticipated while others will prove virtually impossible to achieve.

While all organizations have resource constraints, they're more acute in entrepreneurial organizations with their ambitious goals. The good news is that these constraints force entrepreneurs to become highly creative in seeking the fastest and simplest possible ways to commercialize their vision.



Driving Toward Simple Solutions to High-Value Customer Solutions

Starting with your architect, here are some ideas to help your innovation initiatives move rapidly to successful conclusion.

- If you haven't done effective customer research, do it first. The architect must be deeply engaged in this process because the architect will make numerous future tradeoffs between complexity and customer value. Don't have marketing people set specifications for engineers. Traditional marketers will encourage creeping features to position against future competition rather than the simplest, cost effective customer solution.
- Keep the team as small as possible. Seek multi-disciplined members who will consider and apply different approaches to achieve each functional requirement. Time-share as few people as possible so the project is everyone's only priority. Physically relocate the team to common area and make that space special in order to recognize the project's importance – encourage team members to take their lunch and other breaks together. If you're a true startup, think of the whole company as one project.
- Set ambitious time goals and have fun trying to meet them. Establish critical milestones and celebrate success.
- Force yourself and the team to explore alternative ways to reach the goal – simpler is better – not only will it simplify the development process it should lead to an easier to use, lower cost and more robust product. The best way to do this is to focus on the critical customer benefits you want to deliver and eliminate any features that don't contribute to these benefits. Think "out-of-the box".
- Reject feature creep – those elegant technical features that add to complexity without adding customer value.
- Stress-test your prototypes to uncover their problems not to demonstrate how good they are.
- Wherever possible apply the 80%/20% rule. Since you expect to change your customer's behavior you need their feedback to finish your product. Get to market quickly with something close to your perception of their needs. Don't invest a lot of time working on scale-up economics - you will have plenty of opportunities to improve your product and its economics.
- To accelerate development, work on multiple tasks in parallel even though it's more efficient to run sequentially letting each task build on the successful completion of prior work. My companies all developed electro-mechanical products and we encouraged a culture that if a development project produced little or no scrap, it was managed far too cautiously.

Refer back to the "Region Needing Intervention" highlighted earlier in Projects – Incremental Improvements vs. Innovation Initiatives graphic. This figure illustrates that innovation initiatives never achieve all their product goals and these projects bog down, after rapid initial progress, as only the most difficult challenges remain unsolved. Worse yet, almost all these unresolved issues are now on the critical path to completion. Remember that you began with ambitious goals to achieve capabilities far superior to current practices; as progress slows down it's probably time for some timely trade-offs. The first choice is to back off on some features because they're either not as important as you thought or you've discovered alternative paths effectively achieve your desired capabilities. Software developers call these work-arounds.

When you go to market somewhat short of your goals, you've replaced a difficult technical problem with a minor marketing challenge. Believe me; it's usually easier, cheaper and faster to solve problems in the marketing rather than the technology domain.

Keep in mind that great developers are tenacious and goal centered and they believe that missing goals is personal failure. Their strengths become their weakness because they will "never" give up and admit failure. As projects approach completion, CEOs and architects need to increase project monitoring - and intervene, when necessary, to move the project into its commercialization phase. Never forget that a development project is not finished at commercial product introduction, release to manufacturing, shipping the first unit or first customer installation. These are all important milestones, but not yet successful completion. I believe there are two tests for successful innovation:

- Customers actually want to buy your product, and;
- Having bought your product, they plan to buy more and to recommend it to their respected colleagues.

To achieve this, your architect and key contributors must follow the innovation into your customer's work place. Don't rely on second hand feedback from sales or customer support people. Force your developers to physically enter your customer's world and to embrace, rather than resist, the changes required for success. As long as your business assumptions remain valid, keep going.

This book is my project. I'm the architect and the only team member. I requested and received lots of help during the editing process, but the book represents my, and only my, beliefs. Just as with all projects, I'm having trouble finishing. I'm now down to the topics that are most complex and difficult to logically pull together – and they're all on the critical path.

I will, however, practice what I preach. You, as entrepreneurs, are my customers. I'm not doing this for financial gain, but I do want it to elicit reactions like; now I understand, I wish I had read this earlier, I'm going to share this with my leadership team, I have to rethink my opinion on this, I wish my boss would read this etc. My plan, therefore, is take this project to draft manuscript form and print a few hundred copies. I'll then offer to conduct seminars and workshops at business schools and executive education programs in order to test my ideas and my presentation of them. I'll also offer to conduct tailored consulting engagements for entrepreneurial companies trying to align their leadership to these concepts. I'll continue working on the manuscript during this process and declare completion when I'm finished editing.

Not all books are one-person projects. Jim Collins, author of business bestseller "Good to Great" built a 20 person research team to gather data and help identify great companies and formulate the principles differentiating great from just good ones. Collins describes in some detail his leadership processes to gain support for their conclusions. My guess is that Collins also bogged down finalizing the manuscript and applied his best leadership skills to gain alignment in the final manuscript.

Intellectual Property – MP (Market Power) Trumps IP

Patents (Intellectual Property – IP) offer the promise of competition free products. Reality, however, rarely fulfills this promise. Try to think of any product, other than regulated healthcare products, that you buy personally or professionally where there aren't similar or equivalent competitive alternatives. Why? Patent applications face a dilemma in that you are more likely to get a strong patent where you have narrow or highly specific claims. With broader claims, it becomes more difficult to get your patent awarded and to defend it.

Keep in mind that if your product fails in the market nobody will want to copy it. OK, then, what are the potential outcomes of successful patent applications? How do these impact you? Potential competitors may:

1 Respect your patent and abdicate the market to you.
   a) Very unlikely as your product gains market success you **WILL** attract competition.
2 Respect your patent and invent an alternative way to achieve similar capabilities.
   a) If you play hardball with strict enforcement or prohibitive licensing, you will discover how creative people will become – maybe inventing a superior product.
3 Respect your patent and purchase a license from you.
   a) Great outcome. It strengthens your patent, provides license revenue and adds cost to your competitor's product.
4 Ignore your patent and copy or reverse engineer it.
   a) This is more likely than you might think. Although you have an issued patent, competitors may conclude that your patent is unenforceable or that you can't afford to enforce it – and they're probably right. An issued patent doesn't guarantee validity or cost effective enforcement.

The regulated pharmaceutical and medical product industries are an exception to this generalization. A potential drug competitor can discover molecules similar to your patented molecule. This new molecule may actually prove superior to yours. Our FDA regulations, however, require you carry out full clinical studies and manufacturing qualification before you're permitted to market your similar drug. Only when the patent expires can "generic" manufacturers offer your exact molecule with just proof of equivalency. We read about constant patent disputes for drugs as the original branded manufacturers try to extend their patent protection while the generic manufacturers challenge. Here the stakes are high, 100s of $ millions and huge legal departments are committed to regulatory appeals and litigation. This isn't the world of entrepreneurship.

Good patents generally buy you a head start in the marketplace by forcing potential competitors to design around your IP. If reputable competitors offer to license the use of your IP, certainly negotiate with them. Win your competitive battles in the customer driven marketplace not the courts. Don't think that you can or should use IP to monopolize the market for your product. Build your leadership position in the marketplace through high quality, superior service, appropriate pricing and follow-on products to build an enduring cFranchise. Let me cite another personal experience:

> Some years ago, I served as a director of a scientific instrument company. They believed that a much larger competitor infringed one of their patents and filed suit. The legal proceedings took nine years from filing to final damage determination. During the process:

- Legal expenses exceeded $2 million.
- Senior management was frequently distracted to discover relevant documents, prepare lawyers, testify in court and review prior court proceedings.
- The jury determined our patent was valid and the competing product infringed.
- The judge confirmed validity and infringement, but determined that the infringement was not willful.
- Final damages of $50,000 plus nine years' interest were awarded.

While winning the legal battle, our company was seriously set back in its commercial strategy.

Don't delude yourself into thinking that you simply file an infringement suit and some judge tells your competitor to stop. Our legal system is also a bureaucracy of rules and precedents – justice may or may not be served. It's easily manipulated and it takes huge amounts of money and time to litigate – and you are never assured of a favorable result.

So go ahead and seek patent protection where you have true inventions. Patents certainly provide bragging rights for new companies, will provide some protection, will recognize your inventors, will create an opportunity for cross-licensing, enabling you to use a competitor's IP, and most investors love IP.

Selling and Marketing Your Products and Services

No Product Sells Itself - Yes you occasionally get an order out of the blue - "Blue Bird", but this doesn't mean that you didn't sell it, only that you don't know how you sold it.

Keep in mind our sales definition: Selling is motivating people to do what you want them to do because it's in their best interest to do so. Use professional selling to increase your product's value and differentiate you from less professional competitors.

We've already discussed your critical need for total commitment to entrepreneurial selling and professional sales skills. Fortunately, there are a wide range of excellent books and programs for building these sales skills. Use them and insist that your senior leadership team actively participate in these training programs – get everyone on the same page and actively engaged in building commercial momentum.

Over the years, I've discovered a few key fundamentals about entrepreneurial selling that I want to share with you. They may not make immediate sense to you, but they will, and you will discover their value as you move into commercialization.

The Selling Process

Selling isn't a single skill – it's a multi-dimensioned process that changes with each sales opportunity and its stage in the sales process. Think of selling as a three-phase process: Prospecting, Closing and Leveraging.

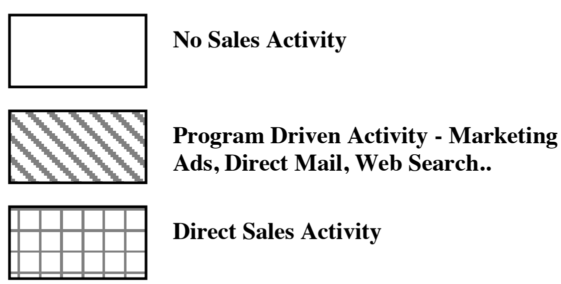
- **Prospecting** is the process of building awareness, identifying potential customers, determining how your product's capabilities match these customers' needs and convincing customers that they should consider purchasing your products. In a complex business-to-business sale, the prospect may have little or no direct buying power. Your job is to convert him into a champion and advocate in your sales process.

- **Closing** moves a qualified prospect to a buyer. This typically requires confirming that the product meets his needs, developing any supporting formal justification, identifying and replying to any buyer objections and, when necessary, coordinates the sales process to all buying influencers.
- **Leveraging** is the least appreciated and, perhaps, most valuable phase in the selling process. In virtually every case, existing customers become your best prospects for new business and your best source of leads to new prospects. We often move post sale functions to a customer service activity that is measured by resolving complaints at the lowest possible cost. Leveraging fuels your sales process by building enduring customer relationships and ensuring that satisfied customers become your advocates within their organization and with their personal and professional colleagues.

Let's examine a few examples to understand these phases as related to familiar products.

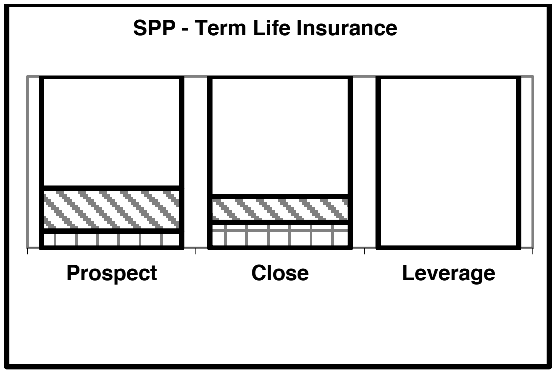
Introducing the Sales Process Profile

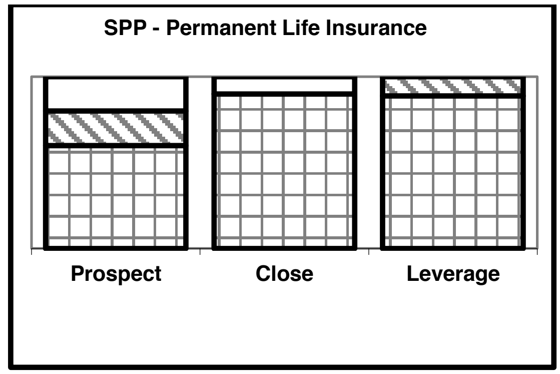
The Sales Process Profile (SPP) helps you determine and visualize an effective sales strategy, identify the required resources and skills, and deploy these sales resources. Use the following legend to interpret the Prospect, Close and Leverage bar graph model. In all examples, the vertical axis is relative effort during this phase of the sales process.



The Life Insurance industry offers great examples ranging from an almost pure commodity product, Term Life, and extremely complex products, Permanent or Whole Life. Selling Term Life, as a virtual commodity, is transaction centric while selling Permanent Life is relationship centric.

Term Life is pure life insurance that pays a death benefit to beneficiaries when the insured person dies. Once you've specified the insurance amount and its guaranteed term, insurance companies basically compete on price. From a sales perspective, much term life is actually provided as a fringe benefit by employers. Individuals may supplement this through their employers, purchase directly from insurance companies or get competitive quotes on-line from numerous life insurance web sites. In many Northeast states, we can buy Term Life Insurance through local savings banks – Savings Bank Life Insurance, SBLI. Term life selling is fundamentally a passive process where the buyer buys rather than the seller selling. Permanent life insurance, on the other hand, is far too complex to purchase passively. See the comparative SPPs and then let's examine the differences.



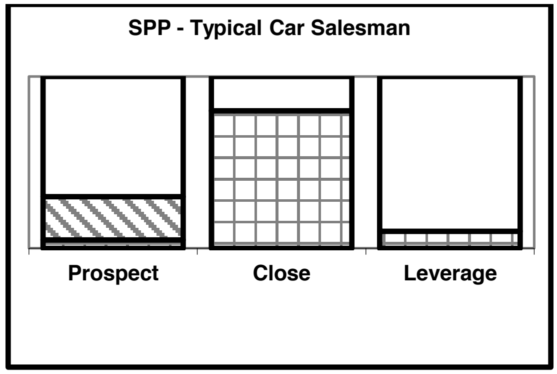


Permanent Life covers a complex family of life insurance products combining life insurance with planned savings, retirement annuities and investments into a customized array of product features – it's designed to become a solution sale. Only life insurance experts (salesmen) understand these complex offerings – and I'm not at all sure that even they understand the subtle complexities.

The permanent life selling process begins with an advisor (salesman) approaching you, offering to develop a personal financial analysis - at no cost or obligation – and it is hard to say no. The insurance company provides the advisor with a script and well-crafted questions to discover your financial situation and personal priorities. This transforms most advisors into highly skilled sales prospectors with perceived expert knowledge and credibility as advisors. The advisor then processes your information through a sophisticated computer model, which produces professional analysis and recommendations accompanied by the underlying logic for the recommendations. Your personal financial analysis is professionally prepared with graphic illustrations and data tables bound into a quality notebook – encouraging you to feel important and unique. The advisor then returns to review the analysis and recommendations and asks for the order (closing). If you question and challenge one of the assumptions, no problem, the advisor reprocesses the revised information and presents revised recommendations and; again asks for the order. Once the sale is closed, the advisor builds an ongoing relationship with you. Why? To make sure you keep the policy active by paying premiums (his ongoing commission) and to get referrals for new prospects for him to prospect. Ever wonder why insurance agents send you birthday cards? Even though you know it's a selling activity, you still appreciate it.

It's clear, permanent life insurance is a highly differentiated family of products requiring significant advice to select the product best suited to you. The insurance companies have analyzed their selling process and developed programs to professionally prospect, close and leverage using highly trained, but unsophisticated, sales people. Well-done – it's a clear example of highly effective selling with consistent quality. This is a great model for entrepreneurs selling novel, primary-demand products.

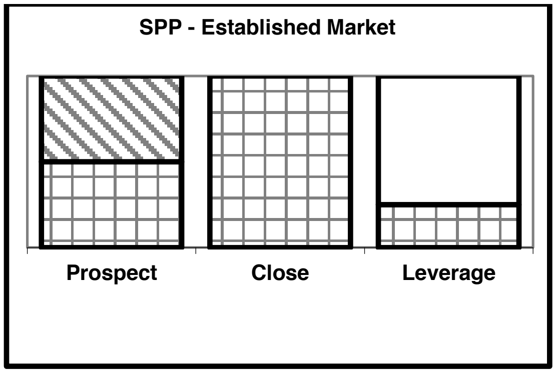
Let's examine another sales process familiar to all of us – buying a car. Joe Gerard, self claimed "World's Greatest Salesman", describes in great detail how to become an extraordinary car salesman in his books; including "How to Sell Anything to Anybody". Even with this great guidance, most car salesmen are single dimensioned enjoying limited success.

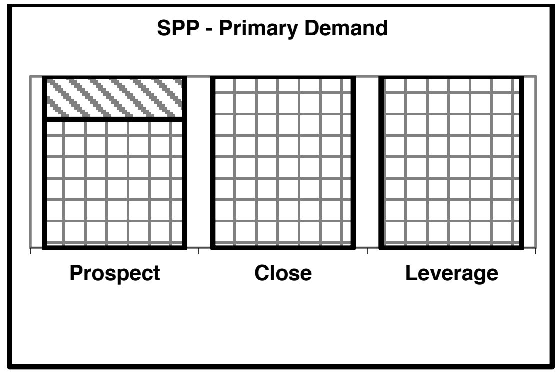


Typical car salesmen wait at the dealership for a prospect to walk through the door and it's his turn to take the next prospect. Car manufacturers prospect, on behalf of their dealers, through massive advertising campaigns highlighting their brand features and then local dealers advertise their promotional deals. The dealer salesman's job is to close a sale before you escape from his dealership.

More often than not, the salesman asks if he can help you and then asks what brand and model you're interested in. He then confirms that you've made a good selection, may try to up-sell you to an in-stock model with more options and then launches a trial close by asking what it would take to get you to buy today. If you leave saying you want to think about it, you rarely hear from the salesman again – even if you're favorably inclined to buy. If you buy, the salesman introduces you to the service department and you may never speak with him again - he's done. Customer satisfaction and leveraging isn't his job. In addition to poor selling skills, the typical car sales process ignores the value of highly satisfied customers as their best source of new business. You can see in this SPP, the salesman plays a very limited role in the full selling process. If an individual salesman supports his prior customers, ensures their satisfaction and maintains communications with them, he will ensure a steady flow of new prospects approaching his dealership and asking for him. Maybe dealerships don't want salesmen building enduring customer relationships because salesmen keep changing jobs. What a lost opportunity – more unintended consequences.

Now let's apply the prospecting, closing and leveraging model to entrepreneurial enterprises – both established market strategies (better, faster, cheaper) and primary demand strategies. Keep in mind that both entrepreneurial commercialization strategies require huge relative commitments to direct sales and programmed sales and marketing processes because you're trying to change habitual customer behavior. While I continue to refer to direct salesmen, everyone must become actively engaged in entrepreneurial selling – it's a team sport.

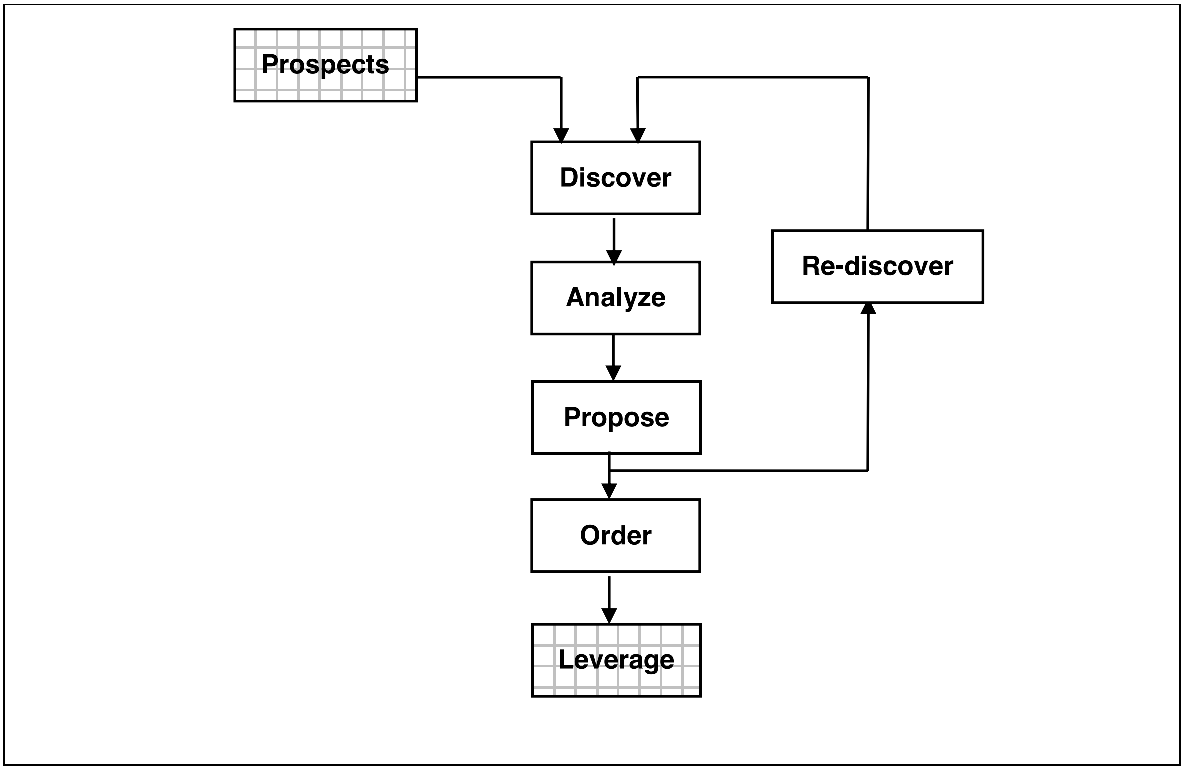




Established market entrepreneurial strategies must build initial awareness to your better, faster cheaper value proposition. Prospecting will use marketing campaigns to the entire market combined with targeted direct sales to industry leaders and key accounts. Direct selling must then surface objections, prove the claims and tailor a business proposal to close the sale. In general, established markets rely on prospecting and word-of-mouth testimonials to grow their business.

Primary demand prospecting requires more than awareness. You are making compelling claims of significantly higher value compared to well-established products. Initial reaction is to dismiss these claims as marketing BS. You must find an interactive forum to present a more complex value proposition and explain how you can deliver this value. Primary demand prospecting, therefore, becomes a two-step process; convincing people to participate in your forum and then delivering a compelling message motivating the prospect to permit you to start your closing process. Why do so many financial planners, estate planners and resort developers offer free lunches to attend their sales presentation? Don't confuse agreeing to attend your forum as an invitation to ask for the order – it's only permission for you to make your best sales shot. You have only earned the right to develop your value proposition and to qualify your prospect for the closing phase.

Many people perceive selling as only the closing phase – and only limited to the tasks of presenting the product, answering questions, resolving objections and getting the order. I see closing as a multi-step and often iterative process - as illustrated in the following Sales Closing Process flow chart.



Sales Closing Process

While there's lots of excellent training material on closing techniques, it always begins with the most important step – discovery. Discovery is similar to customer research, but focused on an individual customer and his specific needs. While you've developed a generic value proposition, it's likely to be reasonably applicable to most of your customers, but not a bulls-eye for any. Once you get to the details each customer has unique needs, priorities and concerns. Skilled discovery and analysis enables you to understand these and tailor your proposal to directly address your prospect's needs. During discovery, your customer teaches you how to present your benefits and justify the customer's purchase. In this primary demand scenario, discovery and closing are a face-to-face direct selling interaction. Your sale is doomed if you propose the wrong solution or even the right solution for the wrong reasons.

I've found that whenever a sale seems to be slipping away, don't sell harder – re-discover. You may have missed or misinterpreted a key point or, more likely, the situation has changed. If you face long sales cycles; some of the buying influencers and their justification may change or disappear. Better to find out sooner rather than waste time with the wrong proposal or a lost cause.

A quotation is not a proposal – it's similar to the marked price on a head of lettuce in your supermarket. First of all, in a business-to-business transaction, you may never meet or speak to the decision maker. In fact, there may not be a classic decision maker. Large corporations often use committees or subcommittees to screen significant purchases and then, with the committee recommendation, several executives must sign off (that is, not veto it). The only impression they may have of your company and the only in-depth justification for the purchase may be your proposal. Don't assume your champion has the skills or the will to sell his management. After all your face-to-face work, your written proposal may become your sole sales representation to senior management. Get good at proposals, develop standard (boiler plate) formats, and tailor your value proposition in terms of this customer's specific benefits and make it exude professionalism – insert the specific company and individuals names in the proposal, spell them correctly, in fact, spell all words correctly. Format the proposal for professional appearance and print on letterhead and quality paper.

Why do I introduce the prospecting, closing and leveraging model? First, it's an effective way to plan your programs and deploy your resources. Second, it's rare that you can find one sales individual skilled at prospecting, closing and leveraging. If you have one such person, treasure him and assign him to develop your most important prospects and customers. In most cases, you will be fortunate to have individuals skilled at one or two of the selling phases you need, therefore, to apply your situational leadership skills, to recognize each person's limitations and to add complementary support where needed. Without this, your most highly skilled people may fail or leave to work in a more supportive work environment.

Leveraging – your hidden sales asset. Successful customers are (or at least should be) your best sales prospects and customer referrals are your second best prospects – after repeat customers. If your salesmen support and advocate for their customers; these customers will want to pay back by buying more and recommending you and your product to their colleagues and friends.

Winning one sale is a successful transaction,
leveraging your successful customers, builds your cFranchise.

Take leveraging seriously; it's truly your hidden asset, commit resources to it – including your senior leaders. Don't think customer satisfaction questionnaires will provide quality and realistic feedback. Most questionnaires ask quantitative questions so you can statistically summarize the responses – they don't, however, gather valuable information. You can't even rely on phone interviews because indifferent customers will tell you everything's OK just to get rid of you. When your waiter in a restaurant asks about your food you reply "fine" even when you're almost choking? You know that he rarely cares. If you really want to understand how well you are satisfying your customers; hit the road, meet face-to-face on their turf and explain that you really want and need their help. Customers who like you and your company don't want to hurt your feelings – make it easy for them to tell you the truth.

The Entrepreneurial CEO – Chief Salesman

You probably have a sales and marketing leader in your early leadership team. Truth is, however, you the entrepreneurial CEO, are often chief salesman. You must ensure your message dynamically converts your vision into compelling customer value and that your sales team embraces your culture of professionalism and integrity.

Entrepreneurial businesses never have enough sales resources. As its loving parent you want to believe that once you explain your innovation and its benefits, customers will buy. That's rarely true with BFC (Better, Faster, and Cheaper) products and virtually never true with primary demand products. In the beginning, quality messaging is FAR more important than quantity. The only way you ensure your message resonates and is professionally delivered is to actively participate. To tune up your message, you must go eye-to-eye with your prospects and adjust in real time until you're effective. This isn't a one-time exercise; it's a continuing process. Once you have refined your message, you can train your sales team and only when they're effective should you consider scaling up. Prematurely scaling up sales and marketing activities have probably squandered more invested capital than any other cause. Poor quality sales and marketing may be more damaging to your reputation than product problems – you can fix product problems.

Truth is that you never know how effective your value proposition and delivery really is until you actually close some business. Only then, after overcoming real sales objections and buying obstacles, can you begin to model your sales process, your pricing and your sales cycles. Don't assume your prior business experience is directly applicable to your new venture – your customer's buying priorities are constantly changing.

In addition to message and professionalism, you must work within affordability constraints. You don't want to raise additional capital to scale up commercialization until you've proven market traction. Once you've entered commercialization, your cost of capital will reflect real progress rather than your intangible market vision. If you face long sales cycles, carefully manage your resources and expenses through the cycle – don't just sell harder and harder.

The entrepreneurial CEO must bring both creativity and discipline to his sales process. Career sales professionals tend to be tactical, not strategic. Much like skilled athletes, they focus on executing immediate tasks – transactions in preference to cFranchise building. Of course, you may have encouraged this with your incentive compensation plan. I don't mean to criticize; closing transactions is a great strength that simply needs leadership to remain consistent with your overall business vision. One symptom is when avoiding losing takes precedent over winning the business. For example: spending more time attacking competitors rather than building the strongest case for your product and solution. Don't directly attack your competition – it's unprofessional. You can suggest that the customer ask competitors to prove their claims. There are also times to let customers proceed through their bureaucratic buying processes and times to abandon potential sales when you believe they will never buy, or are pre-committed to a competitor or will become a "problem" customer. Yes, abandon the deal in a friendly way and go find new and better prospects – your time is extremely valuable.

Direct Sales Employees vs. Distributors

Another consideration is the use of employee direct sales vs. independent distributors. Distributors are very attractive in that good distributors are already calling on your customers and most distributor costs are variable – commissions only on actual sales. Distributors, however, make money by selling a wide range of complementary products requiring limited product and application knowledge. Distributors also buffer you from direct customer feedback. If you're a BFC (better, faster and cheaper) business, distributors make sense – you already have market demand driven by competitive products, you need feet on the street, ready access to customers, good product information and sales people with good closing skills. If you do utilize distributors, closely monitor their activities and insist on frequent end-user contact. If, however, you're a primary demand entrepreneur, you need sales people skilled at developing complex value propositions, deep product knowledge and the patience to develop the sales through extended sales cycles. It's difficult to impossible to obtain this with independent distributors.

Entrepreneurial CEO Checklist

- ❑ Allocate 25% to 33% of your time for direct customer selling. Plan to spend as much of this as possible on your customer's turf.
- ❑ Encourage your sales team to use you to gain access to senior customer management.

- Coach your sales team to become skilled at using tension to discover reality in a sales situation or to force appropriate closing, but also when to back off when tension becomes counter-productive.
- Coach your sales team how to deal with competition. Understand what they're doing and why. React thoughtfully, but don't over-react. When entering a new field (your innovation) potential competitors will claim, "We can do that too!" even when they can't. Call their bluff have the customer demand a bake-off. I've lost important orders to larger competitors making this claim only to have them fail and then re-award the business to me.
- Professionalize your sales effort – don't knock the competition and don't do your customer's competitive analysis – inform the customer that you will explain your capabilities and why you chose this product/service mix, but it's their job to evaluate competitive offerings and decide what's best for them.
- Develop a personal customer contact list – particularly senior customers who your sales team may not be able to contact directly. Earn the right to use these contacts by being their advocate in your company.
- Encourage customers to phone or e-mail you directly. Whenever possible, answer your own phone.
- Ensure your sales compensation reflects your business strategy. Use high variable compensation (commissions) when sales activity directly and quickly drives sales. Use higher base salaries when you face long sales cycles and need to develop long-term customer relationships. Incentive systems work they will incite behavior – make sure it's the behavior you want.
- Pricing – bundle pricing early and unbundle later. Negotiate pricing, but be fair to all customers. Don't let the toughest negotiator get the best deal because you can't defend if your best customer discovers your unfair pricing. Sometimes appropriate discounts provide low cost capital
- Teach that your job is not to deny business to competitors, but to achieve your market penetration and financial performance goals. When competitors claim they can do what you do, make them prove it.
- Use technology to be more effective and efficient. Adopt a sales management database and lead management system. Make your website exciting, informative and include incentives for registering with you – free newsletter, gift to complete a survey etc. Take advantage of low cost web seminars, webinars, to educate and qualify prospects before you dispatch a salesman for a personal sales call.

Helping Your Customers Buy – Business-to-Business (BtoB)

When commercializing an established market product, you are blessed with existing customer demand. Your sales job is to get your value proposition in front of as many prospects as possible and prove your better, faster, cheaper claims that your product is far superior to competitive products. Demonstrations, samples, free trials and money-back guarantees are easy ways to do this.

Primary demand products, however, require a more comprehensive buying process – particularly in business-to-business relationships. You're claiming high value because your product is different, not just better, than existing products. This is a process that you must tailor to each sales situation, but all the elements must be in place to close the sale.

With a primary demand strategy, seek early adopters who enjoy the excitement of new ideas and want to be known as industry or technology leaders. While early adopters are more risk tolerant than the later pragmatic buyers, they are unwilling to take excessive risks.

Proactively address risk for your early adopters - they want to “declare success”. Help them. Here’s an approach that I discovered the hard way.

There are four steps to building a Primary Demand business. A potential customer needs to answer the following questions:

1 **What is it?**

This may sound silly, but customers may have no frame of reference. Two examples:

a) Beginning in 1981, at Zymark we pioneered laboratory robotics to automate manual procedures in chemistry and biology laboratories. When referring to robotics during early sales calls, customers visualized large industrial robots used to weld automobiles chasses or R2 - D2 from the Star Wars movies. They simply couldn’t visualize our concept. We then prepared an 8 mm movie and arrived for sales calls with movie projectors and screens. Shortly thereafter, we were able to adopt VHS videotape where customers had their own viewing equipment.

b) More recently, realtors now offer virtual tours of homes for sale on their websites. Sure, they are selling a house, but they need to describe what it is before proceeding to the next step.

2 **Does it work?**

Don’t assume customers believe totally new products actually work – after all, many don’t. Until you have numerous, credible customer testimonials, you need compelling demonstrations. Make your demonstrations as realistic and interactive as possible.

3 **Will it do my application?**

OK it works, but how do I know it will do the job I want to do. Buyers don’t want a product that claims to do “everything”, they want a product that does their job well. Many new BtoB products start as software platforms requiring customization or configuration for each specific application. In these cases the buyer is buying work not a solution. Learn about the most important applications your customers want to do, tailor your solution to these applications and demonstrate applications rather than pure capability and features.

4 **Can I do it?**

Early adopters enjoy new challenges, but they know some new products are hopelessly complex or unreliable. You literally, for example, had to program early PCs. The mass adoption of PCs was enabled by easier to use operating systems and application software. Make your products intuitive and easy to use – even if you have to reduce or hide some clever functionality.

Once early adopters embrace new products, your market expands through lower cost, wider applicability, high reliability and continuing simplification and ease of use.

BtoB Buying Influencers

In Sales 101, we learn to identify and sell to decision makers. Real life is never that simple. Businesses, particularly those with more than a few hundred employees are well down the bureaucracy road using layers of committees to evaluate projects and recommend approval or rejection to senior management. Since committees don't want to make mistakes, they analyze every detail and try to reach consensus. Further analysis is safer than definitive decisions. In the BtoB world, you must sell to all buying influencers.

Each sales situation is unique. Understand buying influencers for each customer opportunity. Let me illustrate this with our VelQuest experience. VelQuest sells software solutions enabling FDA regulated operations to replace inefficient manual, paper-based processes with automated and validated electronic systems. Customer benefits include 25% to 40% increased productivity, significantly shorter cycle times for QC release, dramatic error reduction, faster regulatory reviews and audits and greater confidence in regulatory compliance. As an enterprise IT (information technology) solution many people influence the VelQuest purchase decision as shown in the following table of Buying Influencers in the Complex Sale.

Influencer	Role in Buying Process	Motivation	Sales Action
End User – Laboratory Analyst	Champion	Wants it to do his job. Eliminates tedious tasks and provides real-time alerts.	Keep building the vision of working in the new environment.
End User – Laboratory Management	Advocate & Management Champion	Wants strategic benefits – productivity and compliance	This is the key buyer. He has the organizational power to keep committees moving and confident that there's strong user commitment.
Quality Assurance & Regulatory Compliance	Ensure solution is truly compliant.	Wants to reduce compliance problems and risk. Needs confidence the solution is better than today's manual processes	Demonstrate VelQuest's internal quality system and the built in compliance of VelQuest's solution.
Technical Support i.e. IT or Mfg. Engineering	Technical Buyer - Must agree to support the new capability.	Needs confidence that this solution won't overload his support resources or corrupt their IT infrastructure.	Explain the VelQuest architecture in detail and how it fits in similar IT infrastructure. Establish technical-to-technical staff communication.
Finance & Sourcing	Ensure Financial Justification	Will this really deliver the productivity benefits without creating more work someplace else? Is the vendor financially viable?	Provide credible ROI models based on data from other companies or benchmarking within customer operations. Be prepared to negotiate price or some incentive to get the deal closed.

Buying Influencers in the Complex Sale

The Customer Isn't Always Right

Many years ago at Waters, we had a German professor as a scientific consultant. He was also a business philosopher and frequently shared his wisdom with us. One favorite expression was; "The customer isn't always right, but the customer is always the customer". At first this observation seems trivial or silly; but stop and think about it for a minute.

Your job in selling is to help the customer meet his needs within a sound business framework for your company. So when a customer says your product is too expensive he may or may not be right. What he may be really saying is that you haven't convinced him your value is worth your price, or that he thinks there are equivalent products at lower prices or that he's afraid to ask his management to authorize a purchase of this magnitude. What do you do? Don't argue; discover and find the issue. Focus on meeting real customer needs, rather than blindly doing what they ask.

Through no fault of your own, most people don't a value salesman's time – even if it's you, an entrepreneurial CEO. I recently heard the following story on a radio call-in program.

> A customer went in to small, local camera store. He spent a half hour questioning the sales person about features and recommendations. When satisfied, the customer asked the sales person if he could recommend a website, where the customer could purchase the camera at a lower price.

In BtoB transactions, sellers may spend huge amounts of time educating and supporting end users only to have purchasing or procurement then insist on competitive bids.

Most business-to-business buyers are risk averse and want more and more proof to justify their purchase recommendation to senior management. They will tell you that your product is great and important to their company, but they need more information. They'll even ask you to perform their competitive analysis. Don't do it, that's their job.

Communications – Marketing and Everywhere Else

Question ➔ Clarify ➔ Understand ➔ only then express your viewpoint. Do this in real-time during conversations or formal presentations – only recommend action AFTER you understand the needs, perspectives and priorities of your audience.

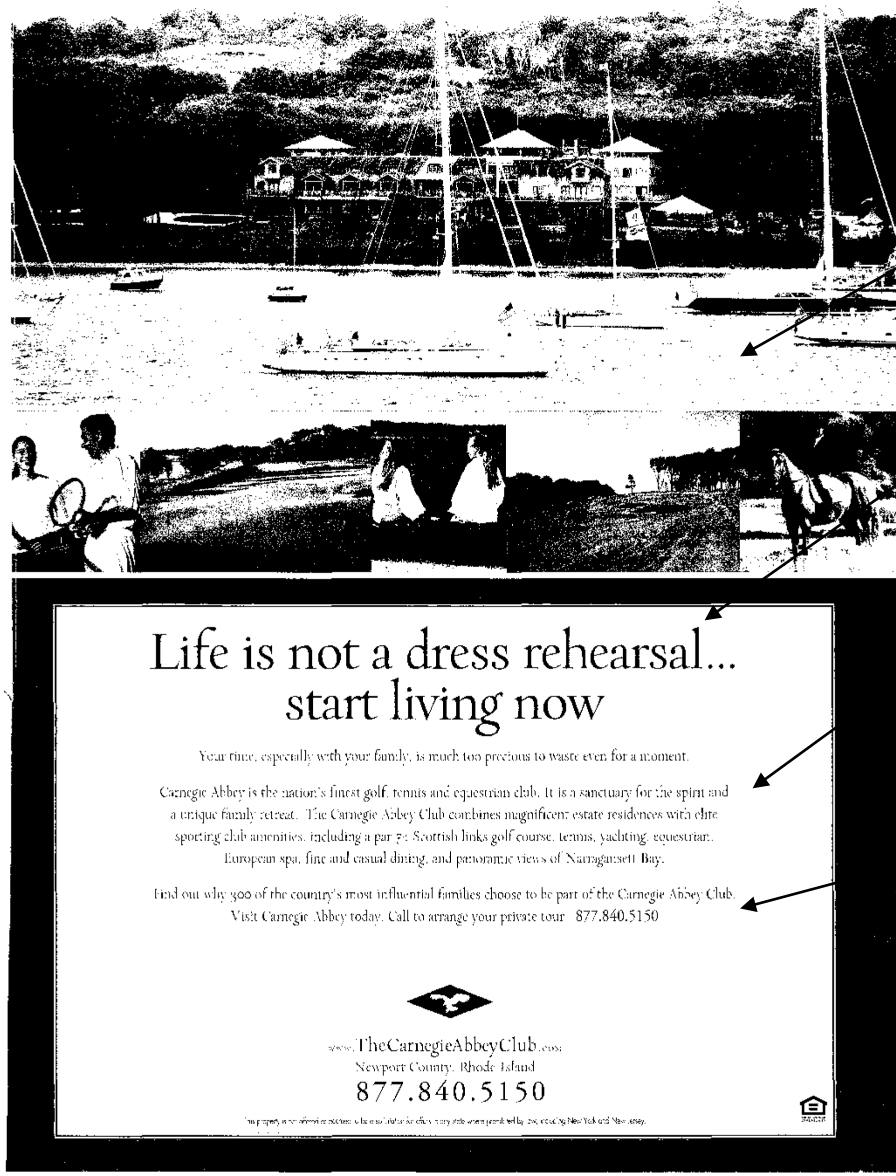
Most communication has an agenda, but it shouldn't be hidden – it had better be crystal clear and aimed at "explaining or selling" your viewpoint. Even if you don't want to change other people's opinions, you do want to appear thoughtful and logical about your opinion.

Forty some years ago (yes I am that old) my employer invited me to a one-day communications seminar called the APEX Communications method. I have no idea whether some successor organization still teaches this method, but I frequently apply it in my communications – including this book. The method is simple:

A	**Attention** – Dramatic phrase and/or graphic that captures your audience's attention.
P	**Point** – What viewpoint or conclusion do you want your audience to accept? In sales and marketing communications, your point is often a strong claim where the ideal response is; "Prove It".
E	**Examples** – Supporting information or examples supporting your point.
X	**X = Strong Close** – Call to action. Ranges from intellectual acceptance of your point to purchasing your product. It may be a question such as; What do you think or does that make sense?

An ad or business letter may use APEX once, while a longer conversation, presentation or document might be structured into multiple APEX sections. Think of a sales presentation, where you summarize the customer's problem and gain agreement that your summary is accurate. Then you present an ideal solution and get agreement that, although it probably doesn't exist, it would fully meet your customer's needs. Then you present your proposed solution against the criteria of the ideal solution acknowledging any gaps that might exist. Now you're ready for a trial close leading to the next step in your customer's buying process.

The following ad illustrates a well-executed APEX format using a real estate ad in Newport, Rhode Island. I've no idea whether it was effective, but I found it clear and persuasive. Keep in mind that you need to practice your message with live audiences and refine it until it works well.



Attention: Beautiful color pictures of the facility, landscape views and water.

Point (Claim): "Life is not a dress rehearsal - start living now – Your time, especially with your family, is much too precious to waste even for a moment."

Examples: "Carnegie Abbey combines magnificent estate residences with elite sporting club amenities, including a par 7-1 Scottish links golf course, tennis, yachting, equestrian, European spa, fine and casual dining and panoramic views of Narragansett Bay."

X (Close): Find out why 300 of the country's most influential families choose to be part of the Carnegie Abbey Club. Visit Carnegie Abbey today. Call to arrange your private tour 877.840.5150"

Competition –

You aren't successful until you've attracted credible competition.

Competition is always good because it validates your value, grows your market and forces you to be better.

Think about it, your strategy as an entrepreneur is to either;

1. Attack existing companies in an established market (BFC), or
2. Successfully build primary demand and attract competitors from other products.

Forget about your monopoly dream with customers flocking to buy your products and services. Remain customer focused - effective entrepreneurs re-commit to meeting customer needs not reacting to competition. The common, and worst, response to competition shifts your goals to defeating competition rather than serving your customers. When you simply react to competitive products, you will differentiate by adding unnecessary features that make your product more complex, difficult to use, less reliable and more expensive.

At election time, we experience constant examples of destructive competition as we listen to the conflict between our two major political parties. They are so committed to beating each other that they amplify every possible difference and use these to enrage the extremes within their party and demonize the competitive party. Aren't all of us the customer of both parties? Are they serving our needs?

So should you ignore competition? Hardly! Vince Lombardi once said, "If it doesn't matter who wins or loses, then why do they keep score?" You win, however, by better serving your customers. Make your competitors follow-you – be the leader. Build competitive challenges through a multi-dimensioned strategy. Try to add a service (customer relationships) dimension to your product strategy. Make your product easier to use and more reliable. Look at adjacent customer needs and enhance your product to meet these additional needs. Don't be intimidated or paralyzed. Use your superior customer knowledge to innovate, so your competitor is attacking yesterday's products. Don't assume you and your people are smarter than everyone else and that you can win on pure product excellence, more clever features and/or low cost.

When a large competitor emerges, your people will immediately fret over your lack of resources compared to your new adversary. It's true; if a much larger competitor makes wiping you out its top priority by assigning ten times your resources, slashing prices and pledging its reputation to capturing your business, it will succeed – get out of the way; you can't stop them. Microsoft did just this to Netscape when it decided to dominate web browsers. With rare exceptions, however, competitors won't do this. If their shares are publicly traded, they have to meet analyst earnings estimates and protect their existing businesses from guys like you with BFC strategies.

Vince Lombardi also said "Confidence is contagious. So is lack of confidence". Relish the fight and use the threat to mobilize the troops. As an effective leader you should exhibit confidence but not arrogance. If you're as good as you should be, you will win the war, although not every battle. One of my principles is that in tight competitive sales situations, identify the most price conscious and unreasonable customers and intentionally lose those. Force your competitors to outperform you in the most demanding situations.

Final Thoughts – Reinvent Yourself Before Someone Obsoletes You!

"Even if you're on the right track, you'll get run over if you just sit there." - Will Rogers

Just as you're succeeding as a startup, don't rest on your laurels. At best, you've earned the right to keep building your business. Never forget the underlying principles that got you here, but don't assume your initial products and services have a long life. Your success will attract competitors who may have critical mass, strong market franchises and a need to find new growth areas. Business differs from sports where games and seasons end – enabling you to be the 20XX Champion forever. Even public companies are already into the next quarter or year before they report the score from the prior quarter or year. Your Balance Sheet is your aggregate scorecard since your founding. There are no lifetime achievement awards in business.

Don't delay, keep thinking like a startup and reinvent yourself. Don't let starting up be a one-time event, make it a perpetual process. While your new competitors are developing strategies attacking your current business, use your superior customer understanding to leap frog them. This is what I mean by building a cFranchise. I don't mean more superficial product bells and whistles; I mean solve additional unmet customer needs by enhancing your current products or even obsolete your current products with substantially higher value solutions.

Entrepreneurial passion and commitment are great strengths, but are also great weaknesses. Not all initiatives, strategies, people or businesses will succeed. Your entrepreneurial instinct is to never quit, but there are times and situations when it's time to cut your losses and move on. Don't give up too soon, but don't ignore realistic market feedback that this isn't valuable. These are mission critical decisions – good luck.

Sometimes we find great wisdom in everyday places. The great Johnny Cash captured our challenges in his song "The Gambler" written by Don Schlitz. The first verse addresses tenacity vs. prudent retreat.

You got to know when to hold 'em
Know when to fold 'em
Know when to walk away
Know when to run

The second verse reminds us not to dwell on our winnings while we're conducting business. Focus on delivering value to your customers until it's time to reap the rewards.

You don't ever count your money
While you're sittin' at the table
There'll be time enough for countin'
When the dealin' is done

Not every day as an entrepreneur will be exciting and fun. You will face threatening challenges and your investors and colleagues expect you to lead with confidence and fix the problems. With hindsight, however, you will thrive on the entire experience and never want to become a corporate employee – regardless of rank.

Enjoy the work and enjoy the winnings that you've truly earned.

Keep in mind, that you're obligated to teach and share your experience. Coaching the next entrepreneurial generation will help this process flourish for future generations.

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Appendix A - Entrepreneurial SnapShots

ESS # 1 - Entrepreneurial SnapShot – Waters Corporation	
ESS Time Frame & Place	**Early 1970s** **Milford Massachusetts**
Business Type	**Primary Demand**
Current Web Site	**www.waters.com**
Frank Zenie Role	**Joined as VP of manufacturing. Elected President and CEO in 1971, serving through 1980.**
Business Overview	Waters was founded in the early 1960s as a customer driven developer of niche analytical and process instruments. In the mid 1960s Waters collaborated with Dow Chemical on a technology called Gel Permeation Chromatography (GPC) combining Dow's chemistry and Water's optical detection technology. Waters then licensed Dow's GPC technology for commercialization. GPC became a niche precursor to modern High Performance Liquid Chromatography (HPLC). In the early 1970s, Waters was the smallest instrument company offering HPLC technology. The entire market was miniscule and Waters competed with Hewlett-Packard, Perkin-Elmer, Varian and other much larger broad based analytical instrument companies. Gas Chromatography (GC), already an accepted technology, is a powerful separations technology that works for small, volatile molecules. The challenge was that more than 90% of interesting molecules were too large for GC. The world needed similar capabilities for all these important molecules – hence HPLC. Waters, and others, recognized this opportunity and Waters decided to abandon its prior products and devote itself to this new technology. Waters and others positioned HPLC as a technology for "separating everything". We focused on experts, analytical chemists in chromatographic techniques, emphasizing HPLC technology and product features. Not surprisingly, the HPLC market developed slowly as these chromatographers developed applications and transferred the technology to other analysts in their organizations for routine use. We were dependent on customer adoption and application development. In 1971, we decided to change our approach from selling platform capabilities for technology specialists to selling applications to customers needing analytical solutions. We shifted our marketing focus to specific applications segments rather than product technology. Think about it, nobody wants to separate everything; they want to separate specific molecular mixtures that provide the information needed to solve their problems. We segmented the HPLC market into groups of scientists with similar problems – such as pharmaceuticals, industrial chemistry, chemical synthesis, food and agriculture, environmental and energy. Market adoption accelerated and we moved from, small niche player to highly focused industry leader.

A few examples of our transition:

We adopted the tagline "The Liquid Chromatography People". Corny, but it worked. Instead of hiring experienced instrument sales people, we hired customers (analytical chemists) sharing our HPLC passion and capable of performing field demos and post order support. We trained them in consultative sales skills to complement their strong technical base. Our commitment - All customers would succeed!

Next, we needed application examples and proof statements. In the beginning, we didn't have actual customer results so we began by creating "realistic" application highlights in our laboratories. We went to the drug store and purchased commercial pharmaceutical tablets and analyzed them to show precision and resolution. We did a few representative drugs for each product class and used these to help prospects to visualize similar results for their drugs. As we gained real customers we replaced realistic applications with real applications performed by customers.

One specific example will serve to describe how passionately we adopted our new strategy.

In the early 1970s, post-doc researchers from Professor Robert Woodward's labs at Harvard University contacted us. Woodward was a Nobel Prize winning, highly respected organic chemist and was undertaking the seemingly impossible job of synthesizing vitamin B12. His staff knew that existing separations techniques were insufficient to support their project and they wondered whether HPLC might offer the needed breakthrough.

We invited them to present their problem to our senior management and top application specialists. When they finished, we said we weren't sure if we could help, but it was an intriguing challenge. Immediately after they left, we reconvened and concluded that this could be a once-in-a-lifetime opportunity for us. Jim Waters, our founder, agreed to bring our best capabilities to Woodward's lab and test them side-by-side with their current practices.

A few weeks later, Woodward's staff abandoned their current practices and adopted HPLC as their separations technology of choice. With Woodward's support, Jim Waters wrote three application highlights featuring HPLC's unique capabilities for these applications. We then prepared a direct mail package, including a photo of Woodward and Waters shaking hands, and sent it to every full professor of organic chemistry at PhD granting universities. Jim Waters called every recipient of the package, asked about their challenging projects, and exploring how HPLC might help them. They were hooked by the power of Woodward's endorsement and Waters knowledge. Our sales force then followed up with product demos and we created and captured a significant market segment.

	As we gained momentum, we flooded the HPLC market with customer generated application highlights featuring the application methodology and the customer benefit. Scientists were encouraged to present their unique accomplishments in scientific journals and at scientific meetings – providing us an unending source of exciting application examples. In time, we sensed a transformation moving from early adopters to pragmatic users. In the earlier period prospective customers had to justify why they needed this new technology now they had to justify why they had not already adopted these powerful new tools. Once the first instrument succeeded and was fully utilized, it was easy for customers to justify adding capacity. This market transformation transformed our company. As HPLC's reputation spread through the scientific community, the market accelerated to 50% annual growth rates and we enjoyed dominant (60%) market shares.
Lessons Learned	Create Primary Demand markets with application driven strategies. Build enduring customer franchises (cFranchise) through strong customer commitment and support. Selling is a team effort; leverage all your talents. In primary demand strategies, be patient while your customers adopt your new solutions.
Postscript	Millipore Corporation acquired Waters in 1980. Although both companies served the same corporate entities, their customers were different. Efforts to merge their operations and blend differing cultures failed. Millipore spun Waters off a few years later in an LBO and both companies have flourished ever since. Following Waters spin-off from Millipore, Waters' new management acknowledged they were in a maturing industry and adopted strategies to hold market share during the maturing process. The acquisition and spin-off process enabled Waters to transition its management and operating style while maintaining its cultural foundation. May 2011 – Waters continues its success. Its current annual revenue rate is approximately $1.7 Billion and its market capitalization is almost $9 Billion.

ESS # 2 - Entrepreneurial SnapShot – Zymark Corporation	
ESS Time Frame & Place	**Early 1980s** **Hopkinton, Massachusetts**
Business Type	**Primary Demand**
Current Web Site	www.caliperls.com Note: Caliper Life Sciences acquired Zymark.
Frank Zenie Role	**Co-founder. Served as President, CEO and Director from 1981 through 1996.**
Business Overview	We founded Zymark in early 1981 with a team of five former Waters executives and engineers. Rather than begin with a pre-determined product, we defined our prospective customers as scientists and managers in analytical chemistry and biology laboratories. From our prior industry contacts, we scheduled appointments with approximately 25 leading companies and visited them over a three-month period. Our engineers kept busy on a subcontracted development from Waters. The unmet customer needs emerged quickly. Analytical instruments were rapidly advancing in precision, sensitivity and throughput and "sample preparation" became the quality and throughput bottleneck. To work well, analytical instruments require sample preparation - a precise amount of sample, dissolved in a suitable solvent and free of chemical and particulate contaminants. Sample preparation, therefore, becomes a series of manual, laboratory steps prior to instrumental analysis. In addition to the pharmaceutical industry, at this time, the chemical, energy, environmental, food industries also maintained active analytical laboratories. Given this wide range of samples and analytical techniques, Zymark chose to develop the most flexible approach – a small robot surrounded by peripheral devices each capable of performing one sample preparation step. System software instructed the robot where to place the sample and instructed the peripheral exactly what work to perform on the sample. Once we understood this, we had identified a real unmet customer need and conceived a truly innovative solution. Note: If we had commissioned a formal market study for laboratory robotics, it probably would have projected zero market demand and we would have abandoned this initiative. Fortunately we relied on face-to-face customer research rather than market research surveys.

	To be physically close to our early customers, we began commercialization by focusing on a limited region bounded by Midland, Michigan (Home of Dow Chemical) to the West and Research Triangle, North Carolina (Emerging pharmaceutical center) to the South. We divided this region into three roughly equal sales territories and assigned each to one of the three senior leaders, including the CEO, who was not actively engaged in product development. We were blessed with industry contacts that were likely to become early adopters; we picked up the phone to make appointments and introduced our unexpected innovation. We quickly discovered strong agreement with our problem definition, but a total inability to visualize a robot in their laboratory. We mobilized our resources to make an 8mm movie, later replaced by video, and showed up at future sales calls with our briefcase, 8mm projector and a movie screen. We were a sight. Our exciting technology received enthusiastic customer support. We enjoyed rapid sales growth and the early adopters accomplished a lot and helped us understand how to broaden our product offering for more applications. Because of our modular architecture, we constantly added new or modified devices for added capability. A powerful marketing innovation was sponsoring a scientific meeting, ISLAR, (International Symposium on Laboratory Automation and Robotics). This was not a traditional user group, but a quality scientific conference focused on laboratory automation. Initially customers challenged how a commercial enterprise could sponsor such a meeting, but our high quality program and venue overcame the objections and ISLAR became the definitive conference on lab automation. With hindsight, we and our customers became trapped in a fundamental logic flaw. We believed that successful automation entirely eliminates people from the automated process. We spent far too much time trying to have robots perform difficult tasks that are quite easy for people with their sight, feel and intuitive capabilities. We later understood that automation should leverage the strengths of machines AND people and use people when human skills are superior to automation. When we finally internalized this, our products shifted from complex robotic systems to automated workstations.
Lessons Learned	Identify your target customers and determine their unmet needs. Get on the field of play quickly, to determine necessary improvements needed to achieve high customer adoption. Help your prospective customers visualize your innovative solution. Focus within your resource limits. Listen carefully to your customers and be open to challenging feedback. Reinvent yourself when you need re-vitalization.

Postscript	If we were not acquired in 1996, we would have leveraged our size and market respect by returning to our entrepreneurial foundation. Traditional laboratory markets were shrinking while drug discovery and biotechnology markets boomed. Drug discovery was, and to a great extent still is, an empirical science – requiring screening thousands of potential drugs against hundreds of disease related targets. While we recognized these trends and shifted our emphasis, we should devoted more resources to dramatic new product strategies. Zymark pioneered the lab robotics revolution and built a lab automation cFranchise. Looking back, by reinventing ourselves we could have been even more successful.

ESS # 3 - Entrepreneurial SnapShot – VelQuest Corporation	
ESS Time Frame & Place	**Early 2000s** **Hopkinton, Massachusetts**
Business Type	**Primary Demand**
Current Web Site	**www.velquest.com**
Frank Zenie Role	**Co-founder in 1999. Serve as non-executive Chairman.**
Business Overview	VelQuest is truly a work in progress. A small team of former Zymark leaders founded VelQuest in 1999. VelQuest's CEO was always intrigued by our Zymark founding - with defined customers and a blank sheet product strategy. We began VelQuest with the assumption that accelerated investment and new technologies for drug discovery would create rich drug pipelines for pharmaceutical companies. We assumed that the future bottlenecks would include laboratories downstream from research critical to the path to commercialization. Our target customers became laboratories supporting drug development and manufacturing quality. Our name, VelQuest, means the quest for velocity. Defining VelQuest's unmet customer need turned out to be more complex than anticipated. Five of us visited about fifty pharmaceutical companies over a six-month period. The CEO participated in every customer interview. Initially our research uncovered ambiguous needs, but over time, a consistent theme emerged – the laboratories lacked sufficient resources to meet increasing workloads, more demanding regulatory compliance and tighter schedules. Even with approved job openings, laboratories couldn't find sufficient numbers of qualified applicants. The real insights came when we explored the underlying reasons for the resource shortage. Pharmaceutical development, manufacturing and quality are FDA regulated under rules called GMP (Good Manufacturing Practice) and GLP (Good Laboratory Practice). GMPs and computer validation regulations began in 1976 and have grown in scope and enforcement ever since. During 1999, our customer research discovered that typically 75% of total lab resources were devoted to formal documentation and compliance. In manual, paper-based systems, the FDA requires layers of redundant checking to ensure data quality. All entries into laboratory notebooks were double checked and then audited to discover errors. Over time with increasing compliance scope, more skilled analysts were redeployed from analysis to checking and review. FDA, however, provided a solution. Validated computer systems permit accepting data as generated and eliminating redundant checking. We saw the unmet need – replace manual, paper-based operations with validated computer-based operations. We projected significant labor savings, faster cycle times, reduced errors and improved compliance.

<table>
<tr><td></td><td>With clear, customer focused direction; we jumped into product development aided by collaborating with two leading drug companies. We installed Version 1 at these collaborators in 2000. We're now (2006 and 2007) at product Version 3. Our product evolution illustrates the value of going to market quickly and systematically enhancing it reflecting real customer use.

❑ Version 1 – Incorporated core functionality, FDA compliance and sufficient robustness for routine use in a typical laboratory.
❑ Version 2 – Added customer requested functions, strengthened integration with other laboratory IT solutions and improved robustness for larger installations.
❑ Version 3 – Added additional customer requested features and ergonomics, enhanced for enterprise-wide adoption and improved performance under very high volume use.

Customers using Versions 2 and 3 now report, 25 to 40% productivity improvement, cycle times up to 90% faster, better and more complete documentation and total error elimination. Many claim payback periods of less than 18 months. Our cFranchise is building and competitors circling.
VelQuest is now shifting from featuring its rich platform to tailoring solutions for specific FDA regulated applications. Building on experience gained from working with early customers, we're now packaging "best practice" software modules to provide lower priced entry points and rapid deployment of 45 to 90 days – virtually unheard of for enterprise quality IT solutions.
Even with great proven value, big pharma faces a wide range of challenges and have limited bandwidth to rapidly adopt new solutions. Recognizing this, VelQuest achieved breakeven operations and will expand using earned profit.</td></tr>
<tr><td>Lessons Learned</td><td>1 Listen carefully while conducting customer research.
2 Go to market quickly and let your customers help you develop the most valuable product.
3 If you're confident that you're serving real needs, be patient and self sufficient while building your cFranchise.
4 Even with a powerful product platform, find ways to sell packaged, easy to use application solutions. Don't rely on smart customers to ensure success.
5 Become financially independent.</td></tr>
<tr><td>Postscript</td><td>May 2011 – VelQuest's products are now known as Laboratory Executions Systems with three layers of capability; Instrument Data Acquisition, Electronic Notebooks and Work Flow Execution. In 2011, VelQuest is adding an administrative layer providing the functions previously known as LIMS (Laboratory Information Systems).</td></tr>
</table>

	VelQuest clearly leads this market although market growth remains slow. We have high-quality, published results from many leading pharmaceutical firms confirming huge productivity and compliance improvements. The slow growth is better attributed to macroeconomic factors impacting the pharmaceutical industry leading to weak product pipelines, deteriorating financial performance and industry consolidation. The tide is changing, however, with greater awareness of compliance risk and the need to increase productivity throughout all operations; many late adopters are beginning Laboratory Execution initiatives. VelQuest has learned to operate within its means and has been modestly profitable for several years. The intense focus and commitment of its people, make VelQuest a trusted vendor throughout the pharmaceutical industry.

ESS # 4 - Entrepreneurial SnapShot – SmartPak LLC	
ESS Time Frame & Place	**Early 2000s** **Plymouth, MA**
Business Type	**Established Market – Innovative Product & Process**
Current Web Site	**www.smartpak.com**
Frank Zenie Role	**Investor, director and consultant/coach.**
Business Overview	A husband and wife team founded SmartPak in 1999. The wife's passion for horses identified the need for a more reliable system to deliver nutritionals and other supplements to valuable horses. Show horses are typically dosed with one to six or more supplements, such as vitamins, wormers, joint support and many more. Most supplements are powders or pellets that are added to the horse's daily feeding. A typical boarding facility with 35 horses, each horse often with three or more supplements, requires 105 different supplement dosages to be measured, dispensed and the source buckets properly resealed. With minimum wage, sometimes non-English speaking caregivers executing these complex regimens, it's not surprising that horses are often miss-dosed. To meet this challenge, SmartPak's founders developed a truly unique product/service solution - a web-enabled subscription supplement service. Every four weeks, subscribers receive 28 customized packages of the exact combination of supplements ordered for their horse. Each SmartPak, essentially a custom TV-dinner style package, is labeled with the horse's name and the date it is to be fed to the horse. The founders understood they would have to develop efficient processes to minimize any price premium over conventionally packaged products in buckets. The smaller the price differential the greater market penetration. Top priorities include: ❑ Secure permission to repackage branded products into SmartPaks. ❑ Develop efficient processes to assemble, pack and ship custom orders. ❑ Build the IT infrastructure to support subscription-based customized shipments while permitting last minute customer changes ❑ Partner with shippers to minimize customer-shipping expense. SmartPak mails hundreds of thousands (now millions – 2011) catalogs up to six times a year to rented and house mailing lists. Customers are encouraged to call and speak with trained staff and ultimately manage their subscription at the website. Today, over 25,000 (now 50,000 – 2011) horses participate in SmartPak's service. As the SmartPak equine cFranchise and marketing power grows, they've added a broad range of equine, rider and owner accessories.

	SmartPak demonstrates the power of one-to-one marketing and mass customization. They've continuously built and improved their unique IT infrastructure, direct marketing skills, order fulfillment, supply chain and procurement and shipping. Even in their highly automated world, SmartPak retains their personal link with their customers. Most of SmartPak's customer service and sales people are, themselves, horse people. One example of recent customer feedback: "Dear SmartPak: I am in awe. My expectations for customer service have gotten pretty low in recent years, and so I've always been pleased with your great service and the fact that the little touches, like the welcoming phone call to me and my herd, really make the SmartPak experience special. But I am in shock at how extremely kind you have been to me upon hearing, via the cancellation of one part of my regular shipment, of my horse Meg's death. I thought the personal e-mail was incredibly nice, but when I received a handwritten sympathy card today, mentioning Meg by name, I was stunned. OK, I cried. But it was the tears that come when you are in grief and someone shows you they care. One word: wow. SmartPak customer service is way above and beyond just "customer service". You are truly special, wonderful, caring people and it matters SO much to me that you took the time to show this bit of concern. Even my vet didn't show this much care! Thank you, thank you, thank you. Knowing I'm dealing with real people, who truly do understand not just the joy of equine ownership, but also the attendant grief that is ultimately inevitably a part of it, is truly invaluable. I'm so touched that I don't know what to say or do -- other than to assure you that I am telling every horse, donkey and mule owner I know about the extra special person-to-person care from what many would assume is "just a faceless, nameless internet company." Oh no -- you are much, much more. Very gratefully," SmartPak's built their cFranchise and quality brand identity in the equine market. They're now expanding the equine cFranchise by opening their first retail store and developing unique collaborations with equine veterinarians. To expand their cFranchise, they're now developing unique product offerings for the larger canine market. (Note: The retail store in Natick, MA is a big success, SmartPak has scaled-back their canine initiative, but still offer unique canine products to their equine customers.) SmartPak illustrates a three-fold innovation strategy – product, process and branding.
Lessons Learned	1 Carefully define your customers and provide an innovative product to meet their unmet needs. 2 Focus on your business fundamentals – in SmartPak's case acquiring and retaining customers, build innovative processes to have the lowest cost basis and ensure your customers enjoy dealing with you.

	3 Build your cFranchise in a niche and then expand the cFranchise into broader, larger markets. No matter how well you automate your processes, maintain personal links with your customers. Make them feel special.
Postscript	May 2011 – SmartPak continues to grow by building their brand and franchise as a trusted vendor of equine health and specialty products. They've added a full line of private label supplements that are comparable to the recognized branded products, but often with improved formulation. Customers can and are using these products in the SmartPak format while gaining price equity with the leading brands. SmartPak recapitalized their company with a large investment from a leading growth equity firm. This new investor offered liquidity to any prior investor and provided new capital for further expansion. SmartPak is very sound financially, with; strong leadership, loyal customers and a leading position in their industry.

ESS # 5 - Entrepreneurial SnapShot – Sensors for Medicine and Science (SMSI)	
ESS Time Frame & Place	**Early 2000s Germantown, MD**
Business Type	**Established Market – Innovative Product – Breakthrough Technology**
Current Web Site	**www.s4ms.com**
Frank Zenie Role	**Director**
Business Overview	SMSI's core technology is based on a platform concept developed by the Company's scientific founder, prior to the Company's formation. In 1997, SMSI was formed with a new CEO who determined that SMSI should develop a "killer application" product. Given the principal's healthcare background and the potential of the core sensor technology, they decided to develop an implantable sensor for diabetic glucose monitoring. The sensor will monitor glucose levels every few minutes without user intervention. The sensor will wirelessly communicate to a small reader allowing the user to monitor glucose levels continually or on demand. The Centers for Disease Control and the World Health Organization estimate (www.cdc.gov/diabetespubs/glance.htm) that at least 171 million people worldwide have diabetes, and the number is expected to double by 2030. In the United States approximately 21 million people (about 7% of the population) suffer from diabetes. More than 200,000 people die annually from a diabetes-related complication, making it the sixth-leading cause of death. Many of these complications can be prevented through tight control of glucose levels. The current technique for glucose monitoring requires an uncomfortable finger lancing (finger stick) to obtain a small amount of blood and then transferring the blood sample to a monitor. Due to the finger stick inconvenience and discomfort, many patients seldom check their glucose levels – despite increasing medical and scientific evidence that more frequent monitoring enables improved control and substantial improvement in clinical outcomes. Even with this lack of compliance, the worldwide market for glucose monitoring is more than $5 billion per year with double-digit growth. In SMSI's case, the unmet need was clear – provide an accurate, rapid, convenient and painless technique for frequent glucose determination. SMSI didn't need new market or customer research, only the ability to invent a solution. Everyone in the healthcare world understands this unmet need, the problem is that a solution requires layers of scientific breakthroughs – many prior attempts have failed. SMSI believed their sensor technology provided the scientific foundation to enable accurate, rapid, convenient and painless glucose monitoring.

	In 1997 under the new CEO's leadership with the scientific founder as the solution architect and chief scientist, SMSI launched the glucose sensor development. With a small (under 20 people) team primarily of scientists and engineers highly focused on this single killer application they began building prototypes for in-vitro testing. Every step surfaced new challenges, which they addressed. Heading into 2007 (10 years from founding) SMSI has developed fully miniaturized prototypes that have successfully performed in-vitro and pre-clinical animal studies. With a successful pre-clinical confirming study, SMSI will file to initiate their initial human clinical study. Even with some specialization, the same technical team performs basic and applied research, product development, product engineering and manufacturing process development. There have been no hand-offs causing loss of continuity, technical conflict and dropped issues. SMSI's venture investors remained patient and supportive through this most difficult technical undertaking providing and committing funding through clinical verification. The company is free to explore collaborations or to proceed on its own. SMSI stands as an exception to my intellectual property advice. Why? The stakes are huge – a multi-billion $ market waiting for a better technique, inventions in basic physics and chemistry and a regulated medical device product. SMSI's rich patent estate should effectively block copycat competition. Good. Let competitors invent an even better way. While no customer research was needed to start, SMSI will need to work with their clinical patients and customer focus groups to determine final design and ergonomics.
Lessons Learned	1. Focus, focus, focus, – any loss of direction would likely have doomed this development. 2. Even in highly technical endeavors, business management must be intimately involved. 3. Understand the issues – be impatient when appropriate and patient when appropriate. 4. Some investors take a strategic position – bless them.
Postscript	May 2011 Update: SMSI began pilot human trials two years ago and discovered an anomaly that never appeared during in-vitro or animal testing. Since then, the company has researched this anomaly in depth and identified the source and several alternative solutions. The company has now restarted its pilot human tests with high confidence of success that will lead to approval for pivotal trials. SMSI has raised additional capital and hired a new CEO and fund the next steps in the development process. The new CEO has extensive medical device experience and knowledge of diabetes monitoring and treatment markets. It's been a long process, but success appears within reach.

ESS # 6 - Entrepreneurial SnapShot – Process Packaging & Control (PPC)	
ESS Time Frame & Place	**1998 through early 2000s.** **Operations moved from New Hampshire to Utah on January 1, 1999**
Business Type	**Started out as a Primary Demand innovation, but with market learning PPC adopted a Better, Faster, Cheaper strategy**
Current Web Site	**www.sideflo.com, www.control-flo.com, www.ppcrecycling.com** **www.mybulkbag.com** **(Note: The progression of websites, all still in active demonstrate the company's progress as it adjusted to customer input, market learning, and new opportunities.**
Frank Zenie Role	**Investor, non-executive Chairman and coach.**
Business Overview	Many industrial solid raw materials, powders and granules, are supplied on wooden pallets loaded with about roughly 50 reinforced paper bag – each containing about 50 pounds (#) of material. There are also many customers who use huge amounts that may receive the materials in truck or train loads and then unload these bulk materials into automated storage and dispensing systems. Many companies, however, use one or several pallet loads per week and can't justify the investment in large storage and automated dispensing. The problem for specialty users is that discharging materials from paper bags is very labor intensive, often dusty, and, over time, causes back problems for operators. The intermediate alternative, between Bulk (truck/trainloads) and Non-Bulk (paper bags) is for customers to receive semi-bulk loads where the equivalent of the pallet load (usually about one ton) is stored and shipped in a single reinforced plastic bag (alternatively called a Bulk Bag, super sack or FIBC (Flexible Intermediate Bulk Container). Customers then use a forklift to lift the Bulk Bag, so that it can be discharged (emptied) into their manufacturing process. While Bulk Bags eliminate the problems of dispensing individual 50# paper bags they create new ones – primarily that the user must either have their Bulk Bags custom filled to the exact amount required by their recipe or they must fill their vats with smaller quantities than needed and then top off the recipe using paper bags. Neither option is very attractive. PPC began with a packaging innovation enabling controlled dispensing from a unique Bulk Bag - called Side-Flo. With this unique Side-Flo bag, the raw material manufacturer could purchase full Bulk Bags and dispense the exact amount required for each of their recipes. In 1999, we recruited a new CEO with a strong business, sales and marketing background. We soon discovered that the original Side-Flo Bulk bag solution that on which we PPC wasn't robust, was too expensive, and didn't work particularly well. To quickly address this challenge, we added a skilled engineering executive, redesigned and tested improved products and re-launched our new solution - called Control-Flo.

	To demonstrate our new solution, we offered to fill our Control-Flo Bulk bags with customer materials, ship them with the unloading equipment to the customer site and demonstrate them under production conditions. Customers and operators (especially those operators who with lifted, opened, and dumped 50# paper bags) loved our Control-Flo solution, but very few companies ordered. We finally asked the right questions and listened carefully to the answers. While end-users loved our solution, they weren't the actual customers who would purchase Control-Flo Bulk bags. In this supply chain, purchasers would be raw material suppliers (we call them Fillers (because they "Fill" the Bulk Bags with the raw materials), were large specialty chemical companies. We discovered that these companies (Fillers) had already invested in automated processes to fill 50# paper bags compared to our solution that saved money for the end-users (Dischargers), actually increased costs for the fillers. We found that fillers, without strong pressure from their customers (dischargers) weren't willing to absorb the higher costs required to adopt our solution. We simply missed the supply chain ramifications of our value proposition. A further complication was market demand and pricing uncertainty in the commodity chemical business. Our solution required a modest investment in unloading equipment at the discharger location and some minimal facility modification. It also required changing their current manual discharging process and replacing it with an automated loading process – a sometimes-difficult task for their existing workforce. With uncertainty came inertia – if it isn't broken, don't fix it. What to do? We needed a way to become more price-competitive with paper bags throughout the entire supply chain. Our solution was to invent an automatic recycling program that, after our Control-Flo Bulk Bags were dispensed in the discharger's process, they would be shipped back to us, cleaned and returned to the filler. We had to develop packaging, shipping, tracking, and cleaning techniques that were cheaper than the cost of buying and disposing paper bags. We became a process innovator to enable our product innovation. This stabilized the company and made us financially self-sufficient. The business, however, couldn't afford employing our team on a full-time basis. We explored selling the business - found no interest – and considered winding down. With support of our investors, we chose a new path. Our CEO cut back to one day per week and began a new career path outside of PPC. The remainder of the leadership team was placed on modest consulting retainers and all found new full-time jobs in other companies. We then promoted the manager of our recycling process to manage the total business under the coaching of the CEO. Next, we went back to the market place and decided to attack the existing market for more traditional Bulk Bags. This market was for simple, less expensive Bulk Bags that did not allow any partial quantity dispensing. The industry refers to traditional bags as Bottom Flow. Traditional Bottom Flow bags are clearly commodity products – requiring no process changes by dischargers or fillers. The large bottom flow

	market caused us to accept the commodity characteristics of that business and become the lowest cost (better, faster, CHEAPER) provider of our products and services. We found even lower price sources of our bags and continued improving process efficiency across all areas of the company. Since much of our cost is fixed, we decided to compete for this lower margin business to gain economies of scale. We now have an active sales program and are achieving modest growth. We have also leveraged our bag recycling program, required for our specialty Control-Flo Bulk Bag business, and are offering similar recycling services to the commodity Bottom Flow bulk bag business as well. Since most dischargers of Bulk Bags currently simply throw away bags after use, we see a large opportunity from offering a cost effective and environmentally friendly alternative to re-use bags following PPC recycling. We believe with greater awareness to global warming and waste disposal issues, customers will be motivated to convert to cost-effective recycling – and our infrastructure is robust and in place. Over time, our investors should earn some return although there's no guarantee they will recover their entire investment. All of us, however, are proud of where we are and the opportunities we're giving young professionals to practice and understand business and entrepreneurship.
Lessons Learned	1. Understand who your customers are and their full economics and process investments. 2. When you don't understand customer behavior – assume they're rational and find out why. Test your solutions at all levels of your customer infrastructure – user, management, supply chain, etc. 3. You may and probably will have to support product innovation with process innovation. But then leverage your process innovations into other opportunities as well! 4. Listen to the market and understand reality. Are there trends and momentum? What are the future opportunities? 5. Never give up. Well at least not without giving it 100%+ effort – the reality may change your timing and your plan, but persistence may change a failure to a winner. 6. Coaching young entrepreneurs is a worthy cause. They have to carry the torch and your time invested in them is worth everyone's investment.

Postscript	Update May 2011 – The recent recession and still soft economy negatively impacted PPC as its customers were/are shipping less product. PPC has survived by aggressively pursuing new customers, retaining existing customers with excellent service and competitive pricing, and running very efficient operations. In addition to the logistics expertise previously developed, PPC has become experts in sourcing products (in their case, bulk bags) from China and other low-cost sources. They have learned, through challenging experiences how to ensure quality and timely delivery while maintaining low costs. PPC is always exploring opportunities to do more for their customers. When these customers become more strategic in their own businesses, PPC will be there to help.

ESS # 7 - "Special" Entrepreneurial SnapShot – Rico Lingerie	
ESS Time Frame and Place	**1920s into the 1930s** **New York City and Puerto Rico**
Business Type	**Primary Demand**
Current Web Site	**None - the company wound down in the 1940s**
Frank Zenie Role	**Son and observer.**
Business Overview	You've never heard of Rico Lingerie. It's an old but meaningful story about entrepreneurship. It's important to me because it's the story of my father. It's inspired me ever since. My father was born in 1890 in Alexandria, Egypt of Lebanese parents. By 1900, his mother, older sister and younger brother had moved to the US, but lacked the funds to bring him. His father had died earlier. About that time, while walking down a street in Alexandria, he found a wallet with money in it. He actually turned it in to the police, and when no one claimed it, they returned it to him. In 1890, my father hitchhiked across Europe to France and booked passage on a ship to New York City (NYC). Arriving in NYC, he discovered that his family was in transit back to Alexandria. So here was a ten-year-old boy, with little education on his own in a strange country. He was, however, smart, creative and tenacious. As many immigrants did, he found people with similar ethnic background and found a job. Some years later, his brother returned and they decided to start a business. They had both worked in the garment industry and possessed a sense of style. In the early to mid 1920's they conceived their entrepreneurial breakthrough. They believed that they could create affordable yet exclusive ladies lingerie by designing the garments, cutting the fabric (silk), and stenciling patterns on the cut fabric in NYC. They would ship these as lingerie kits to Puerto Rico where local women were skilled at hand sewing. The women would work at home and be paid by the piece. Note, this preceded the US tax incentives to manufacture in Puerto Rico, there was high unemployment on the island and the women were delighted to get the work. My father traveled to Puerto Rico, by boat, and verified their assumptions. They hired a nephew to move to Puerto Rico and manage the outsourcing.)Note, my cousin stayed there, married a Puerto Rican woman and I now have a Puerto Rican branch of my family.) They faced many challenges of quality control and supply chain reliability, but the business grew and prospered. Until the big depression - demand virtually dried up.

	My father told the story of he and his brother sitting in their NYC loft with no business and nothing to manufacture. One of them asked, what if we bought a lot of silk and manufactured the garments and sold them to the stores on consignment? How low a price could we charge and still break even or make a small profit? At these prices, they believed their products might sell. They called their silk merchant and asked him for the lowest possible pricing for a large order. The silk people also had no business and Rico had always paid their bills. They settled on a price, manufactured product and arranged consignments. After the goods were delivered to the stores, they waited for the verdict. Then one afternoon, they looked out their window and saw the buyer from a prestigious NYC department store emerge from the subway station. He arrived at their loft, looked at them and said the goods "flew" off the racks and he wanted more. Rico Lingerie was back in business.
Lessons Learned	1. Entrepreneurship is not new. 2. When you have little to lose because you're poor and uneducated, you are not giving up a secure, high-paying job to become an entrepreneur. 3. Don't let bad news and uncertainty paralyze you, assess your situation and act. It just might work.
Postscript	Rico continued doing well until WWII when all silk was diverted to war uses. They survived the war and had a few big years filling post-war demand. They then took a well-deserved retirement and gave the business to their nephew in Puerto Rico. The nephew allowed the business to shrink while supporting his family. The business finally got small enough to simply cease existing. **Thanks Pop!!!**

Appendix B – A Brief Zymark History – The Early Days

Preamble

The following narrative describes some key events from the founding of Zymark Corporation through the introduction of our Zymate Laboratory Robotics System in 1982. I originally wrote this when the events were fresh in my memory. My purpose for sharing this with you is to convey the urgency, uncertainty and passion required to develop and commercialize an innovative product.

The People

The Founding Team	Our First Colleagues – In Order of Mention
Burleigh Hutchins – Chairman, Chief Technical Officer and Systems Architect	**Chuck Newhall** – Partner, New Enterprise Associates, a Venture Capital firm.
Frank Zenie – President & CEO	**Bruce Swanson** – Manufacturing Engineer
Lou Abrahams – Engineer & Designer	**Bill Buote** – VP, Software Development
Ray Dunlop – Engineer & Machinist	**Jim Little** – VP, Sales & Marketing
Cindy Unklesbay – Office Manager, Purchasing and Technical Support	
Larry Finn – Software & Electronics Consultant	

Prior History

Burleigh and Frank, along with the founding team worked at Waters Associates when Millipore acquired it in 1980. Our team led Waters to high growth, market leadership and outstanding profitability from its prior technology driven focus. During their Waters time, Frank served as President/CEO (after starting as VP Manufacturing) and Burleigh as VP of R&D.

Burleigh's position as head of R&D at Waters allowed him to set up a remote, advanced development lab, WA Labs, located on South Street in Hopkinton. Lou Abrahams, Ray Dunlap Cindy Unklesbay and Larry Finn (a consultant) joined him at WA Labs. Following Millipore's acquisition, Millipore decided to close WA Labs and they asked Burleigh to return to the central Waters facilities in Milford.

At this point, both Burleigh and Frank decided to start a new business rather than continue with Millipore or seek new jobs. We proposed that Burleigh's team finish all current projects for Waters and, when completed, Burleigh and Frank would purchase the lab and offer jobs to the team. The team was offered jobs at Waters or, if they chose, to join the new enterprise.

To ensure a quality transition, the date for launching Zymark was not based on a typical resignation notice, but on completion and transfer of all active projects to Waters. These developments were completed in about four months and all prototypes and documentation were delivered to Waters on Friday, March 6th, 1981. Zymark was officially born on Monday, March 9th, 1981.

The WA Labs purchase was completed on friendly terms and the Millipore management even offered to invest in Zymark - although the offer was not accepted. During the remainder of 1981, Burleigh and Frank invested $600,000 to start the company and fund initial market and product development. This formed the foundation for the new company, but we still had to identify unmet customer needs and convert them to an innovative product development opportunity. To keep the team busy and offset day-to-day expenses, Zymark agreed to develop a new product for Waters.

Our first facilities were the former WA Labs space of 5,000 square feet at 102 South Street in Hopkinton. To emphasize our commitment to innovation, Burleigh was named Chairman and Frank President and CEO of our new company.

Naming the Company

We did not want to name the company after the founders. We wanted a one-word name that sounded "good". The first idea was to name it Highland Labs, however, we found the name was already widely used. We then wanted a name that would be unique in at least the three important "corporate" states of Massachusetts, California and Delaware. (Note. Corporations are chartered by states not the federal government.) We then decided to become the last name in most phone books; the letter Z coupled with the last pronounceable letter, which happens to be Y. We then created multiple name candidates beginning with ZY followed by a range of suffixes. ZyTech and others were already used in one or more of the three states and only Zymark survived as unique.

The Business Concept

Neither Burleigh nor Frank had a non-compete agreement with Waters or Millipore. (No one had been asked to sign one Zymark as well. We only asked people to commit to non-disclosure of confidential information.) The decision not to develop improved HPLC was a strategic decision to create a new technology (Primary Demand) rather than begin by fighting for market share in an already competitive business.

In the meantime, Burleigh and Frank began working on Zymark's new product and business direction. We defined our target customers as chemists and biochemists working in sophisticated, industrial laboratories. In order to identify the unmet customer needs, we visited a wide range of labs to understand their real problems and work environment. Zymark's introductory brochure in 1981 defined a commitment; "Dedicated to increased productivity in chemistry and the biotechnologies…"to introduce Zymark's mission and help identify our potential customers' most important unmet needs. (Note: Even though the product direction was as yet undefined, the discussions probed sample preparation and even inquired about robotics.)

Each day, Burleigh and Frank tried to make sense of the insights they gathered. On April 16th, 1981, in a cheap motel room in Pittsburgh, Frank exclaimed that the problem was sample preparation. Burleigh, who was stretched out with his feet on the coffee table sat straight up – this was the proverbial light bulb.

At that moment, we saw a consistent message from our visits – with more powerful analytical instruments, sample preparation became the major source of errors, delays and increased costs in analytical laboratories. Now the ideas started to roll. The first idea was a chain or "train" that would move vials or tubes along as various chemistry operations were performed in an assembly line approach. The second idea was a simple manipulator that would move tubes from the chain to other operations, such as centrifuges or balances. The next idea came from Burleigh's experience at Westinghouse with computer-controlled machine tools. This insight began the revolution we now know as laboratory robotics. Chuck Newhall of New Enterprise Associates, who later invested in Zymark, was the first to use the term "robotics".

The Birth of Zymate

We completed the contract development with Waters/Millipore in June 1981. About July 1st, Burleigh and Frank created the robotics vision. We concluded that existing industrial robots were inappropriate for lab applications and that only an expensive mini-computer (think in terms of 1981 computer technology) was capable of controlling a robotics system. This meant that Zymark would have to develop a robot and a microprocessor-based controller as core technologies. Developing a suitable robot became the first project. On Monday, July 20th, we left for further customer visits and asked our development team to build a wood model of the design concept.

We returned to find a model of the "robot" ready for simple demonstration – not wood, but aluminum. This model became the first prototype and remained outside Frank's office for some years. This model was upgraded with each new design refinement and was actually used for the initial customer demonstrations.

During the development process, Burleigh and Frank continued their field visits and prepared their "Sample Preparation Questionnaire" as a discussion outline for future customer meetings.

The annual Pittsburgh Conference (Pittcon) was, and remains, the premier exhibition and conference for new analytical technology. If you want the industry's attention, bring your product to Pittcon. In order to introduce our product at the upcoming Pittcon in March 1982 (Atlantic City), we needed to go from concept model to working prototype in just nine months. In addition to the robot and a few peripherals, a system controller (computer) also had to be designed from scratch - so Larry Finn designed the electronics and Bruce Swanson (who joined in the spring) designed its chassis. Ray Dunlap and Lou Abrahams designed the robot, power and event controller, and the master lab station. Bill Buote (who also joined on the spring) developed the operating system and all related software. Burleigh guided the overall system architecture and designed the robot wrist and robot electronics.

The tension increased throughout the remainder of 1981 as the Pittcon deadline approached. Finally, in December, the Zymark team set out to preview our new concept to potential customers. On December 8th and 9th, two "customer previews" were held in Hopkinton, MA. About 40 people visited during the two-day program. In its very first public demonstration, the robot picked up a test tube that had been placed improperly in its rack and preceded to smash it - with glass pieces spraying around the bench. While the overall response was reserved and almost skeptical, we decided to proceed, and thereby further increasing the Pittcon deadline tension. After all, missing Pittcon would delay access to the most important new technology forum for a full year.

We then prepared a second corporate brochure to introduce Zymark's lab robotics strategy. Jim Little, who was driving our commercialization program and Pittcon introduction, created our first Product Brochure and Price List - prepared using an early word processor and Kroy lettering machine.

Entering 1982, the team knew it would be difficult to explain lab robotics. The word robot conjured images of R2D2 (Star Wars) in most peoples mind. This was a first-in-class lab product with nothing to compare it with. We needed live demonstrations at the upcoming Pittcon to help potential customers visualize the concept and enable us to begin selling.

Eight days before Pittcon, we had prototypes for all the individual elements needed for the demonstration application, a solid phase extraction. By this time, Zymark was open 24 hours a day on rotating shifts for our then 13 person staff. In these remaining eight days each element still needed to be connected and tested. We had used the "big blue box" (Intel's Microprocessor Development System) to emulate our system controller until now. Note: Zymark adopted Intel's microprocessor architecture long before it became the industry standard.

The Pittcon demonstration system included the robot, system controller, master lab station, racks of test tubes and interchangeable robot hands. The original goal was to depart Hopkinton, MA for Atlantic City (a 300 mile drive) on Thursday prior to Pittcon's Monday opening. Serious technical setbacks, however, kept everyone working in Hopkinton. Scheduled departure slipped to Friday, but that also was not to be. Finally, if all went well, our rented van (to carry all our equipment to

Atlantic City) would leave Saturday morning at 4:00 AM, with Burleigh at the wheel and Lou riding shotgun. Everyone else would get some sleep and meet Burleigh and Lou in Atlantic City late Sunday afternoon. To get some rest prior to departure, Burleigh went home Friday night. We told him to set his alarm for 4:00 AM and if the van was parked in his driveway, it was a go. If not, Pittcon was out. At 3:00 AM Saturday morning, Bill Buote was still inserting program ROMs into the system as the van was being loaded. At 3:30 AM, Burleigh woke up, saw the van, mounted the driver's seat (which was still warm from driving there), and drove to Worcester, MA to pick-up Lou and they were off to Atlantic City. Now real customers would react and provide feedback on the viability of our strategy.

Arriving at Atlantic City, Burleigh and Lou checked into the Best Western hotel. The Best Western was cheap, but off the boardwalk and distant from the convention center. Our development support computers were installed in the hotel room and the demonstration prepared for delivery to the convention center. The bellboy who helped Burleigh and Lou bring all these electronics to the room thought they would use it to "beat" the tables at the casinos. No, our gamble was different. Saturday night when they went out to dinner their waitress asked if they were in town to gamble. Burleigh responded; "Lady, were the biggest gamblers in town!"

At the convention center, our robotic system was installed in the Zymark booth, a very small booth at the rear of the convention center reserved for new companies. The demonstration was the chemical separation (by solid phase extraction) of grape Koolaid into its three component colors, red, blue and clear. The separation solvent was vodka, convention center acceptable and readily available in the middle of the night. Our slogan was; "If there's a problem with the chemistry, we'll drink it". Until then, very few companies demonstrated real chemistry at Pittcon - and avoided bringing real chemistry reagents into public conferences. The Zymark demonstration was also unique in that it actually moved materials around a lab bench. Most analytical instruments at that time looked like boxes with lots of lights and a bell or two.

Atlantic City's weather that March was cold and wet. Although our demonstration system ran all week, we uncovered numerous reliability problems. For some reason our controller memory board occasionally lost its memory and Larry Finn would run back to the hotel, about a mile away, and reload the memory board from the blue box development system. It seemed that there was also a timing problem with the main processor chip that caused the memory board to completely erase itself. Back at the convention center, Bill Buote stood at the keyboard and typed programs one command at a time. Other problems occurred and were solved quickly. Some, however, were spectacular, such as when we launched an entire rack of test tubes into the air.

All in all, Pittcon was truly exceptional. As word spread that there was something interesting in the back area, Zymark's aisle filled with crowds watching this strange machine. Nearby exhibitors complained that our crowds obscured their booths. Our demonstration robotic arm kept working (except for a few one or two hour shut downs) and the crowds continued to come. Local (Atlantic City) TV news featured Zymark as one of only two companies illustrating Pittcon's high-tech theme. Our system ran perfectly in the background as Jim Little was interviewed on TV. Right after the interview, however, the system quit and Larry Finn was off on another run. Zymark's lab robotics innovation became the news event for the industry's technical journals as well. Zymark's debut was altogether sensational.

After a few days off, our team digested the experience and went back to the drawing board. Something had to be done to improve reliability. Initially, we just replaced the defective chip that erased the memory board. With the replacement chip, however, the system didn't work at all. We tried a second and third replacement and nothing worked. Somehow, we had used the one chip in our 10-chip inventory that worked at all.

After calling Intel, we discovered that their manufacturing tolerances simply didn't meet our needs. The 086 microprocessor chips were the early version of the 286, 386 and 486 chips that later became industry standards. Only by chance, Bill Buote selected the one chip that actually worked for us. We needed to redesign around available technology.

Following Pittcon, we also needed to address a marketing challenge. Potential customers, who missed Pittcon, had no way to visualize lab robotics. We needed a "film" of the robot at work. 1981 was before the wide use of video, so Jim Little drove to the local drug store and purchased several rolls of 8 mm movie film. Bill and Burleigh then started filming the robot in action. As unexpected thing happened, Jim went back for more film and then returned for more until he had purchased their entire film stock. We then rented a film splicer and Bill and Burleigh sorted through the many feet of film, cutting and pasting, they had one reel of a perfectly mannered robotic system. We were now ready for face-to-face sales calls.

This was only the beginning of a long process. Many good things and challenges followed. Building a successful business is never easy. It's refreshing, however, to reflect on the earliest days to remember how fragile this process is.

About the Author

Frank Zenie spent twenty-five years as an entrepreneur and chief executive, building innovative, market leading and profitable companies. Served as President/CEO of Waters Associates (Now Waters Corporation) from 1969 through 1980 and co-founded Zymark Corporation in 1981, serving as its President/CEO through 1996.

Frank is currently an entrepreneurial coach, investor and director for a number of early-stage, technology-based companies – many are healthcare related.

He's also a trustee of the Zenie Foundation, a private foundation dedicated to education support for deserving students who are often unable to access traditional financial support.

He was appointed an MIT Senior Lecturer to teach "Starting and Running a Successful Technology-based Company".

Frank has a BS Electrical Engineering from MIT and an MBA from the University of Rhode Island

Frank and his wife, Dorothy, live in Sarasota, FL and Raleigh, NC.

I welcome your comments and feedback. Please contact me at frank@zeniegroup.com .
Visit our website; www.zeniegroup.com.

StreetSmart Entrepreneuring Reader & Speaking Feedback

"Frank Zenie has served as a Senior Lecturer in MIT's "Starting and Running a Successful Technology-Based Company". He also lectured to our special Entrepreneurship & Innovation MBA Program. Frank's combination of hardware and software entrepreneurial successes gives him unique capabilities to relate to all of our students' career interests. His systematic coverage of the factors affecting success and failure, and his own "street smart" insights make him a valuable addition to our classes."

Edward B. Roberts, David Sarnoff Professor of Management of Technology, and Founder/Chair, MIT Entrepreneurship Center, MIT Sloan School of Management

"Frank Zenie's talk to the students at the Johnson Graduate School of Business on the role of boards of directors in startup companies was just what we were looking for. The students were quite positive in their comments to me and I share their enthusiasm. A very valuable lecture."

David J. BenDaniel, Berens Professor of Entrepreneurship, Cornell University

"I was happy you all got a chance to see Frank in action. (Following an offsite planning workshop) I have been to literally hundreds of Board meetings in my career, for all types of companies, and I put Frank in the top of individuals in terms of insight into what it really takes to build a business. I have found his comments to be helpful in bringing SmartPak to this point, and I am thrilled to have him so engaged and energized in continuing to build our franchise."

Paal Gisholt - President & CEO, SmartPak LLC

"I only wish I had a copy of this document (StreetSmart Entrepreneuring) on Day One of Advion. It could have helped me/us a lot. …. Your book must be completed and made available to all new entrepreneurs. It is so practical and full of 'common sense' that some may not appreciate it, but some will and I certainly do. …. As you say, let's just get it out there and let customers guide/help us focus on what features it needs. …. Small companies need to be nimble and effective. As Nike says, 'Just Do It'!"

Jack Henion, Founder, Chairman & Chief Scientific Officer, Advion Biosciences

"Frank is a vital and inspirational leader who taught many of us who were fortunate enough to work with him to be entrepreneurial. His unwavering focus on customer relationships and personal integrity carries on in the careers of those he mentored. Frank showed us that thriving businesses center around their clients, and that to be successful you must really listen to your customers. He is one person in my life that I can point to and acknowledge that due to his counsel and example my professional life has been richer."

Andy Zaayenga, Laboratory Automation Consultant, Entrepreneur and Former Zymark Colleague

"Very well done and particularly useful to an aspiring entrepreneur! I especially liked the section on building a company – I think this is your strength."

Peter R Russo - former CEO and President of Data Instruments, Inc. Currently Director of Entrepreneurship Programs and Entrepreneur in Residence at Boston University's School of Management.

StreetSmart Entrepreneuring

"I've looked over your stuff, and I like it. Of course, this mostly means that I agree with it. Your underlying logic fits pretty well with how I teach (and how I experienced) entrepreneurship, right down to the near disdain for large company careers. I've never taught using an entrepreneurship text, but can imagine adopting yours."

Professor of Entrepreneurship, - "Major" State University

"Thanks for "StreetSmart Entrepreneuring". I think I will use it for 15.390A (MIT Sloan - Entrepreneurship and Innovation – New Enterprises) next year. "

Howard Anderson, Founder of Yankee Group and Battery Ventures & Professor of Entrepreneurship, MIT Sloan School

"Frank, I started reading StreetSmart today at the auto repair shop and all I can say is that it is GREAT. The style is great. Lot's of substantive content."

"Frank, I have been reading and re-reading the manuscript. It is by far the best and most concise material I have read on this topic. I really like it."

Joe Hadzima, Managing Director, Main Street Partners LLC – Former Chairman, MIT Enterprise Forum

"Frank Zenie has managed to close the gap between believing and knowing - pragmatically building on experience and success. This is a must read for anyone possessing the passion to succeed by converting vision to reality."

Andy Ferrara, President - Boston Healthcare

"It makes my job easy when I have clients as engaged and easy to deal with as you are. I have not finished going through the manuscript yet, but what I've read so far looks excellent indeed. It should be required reading for young (and old) lawyers who want to know how business should work."

Chris Holsing – Entrepreneurial Attorney

"Terrific job. It's the real world that students need to hear about."

Art Carr – Successful Entrepreneur & Former Executive Vice President, Motorola, Inc.

"Mr. Zenie, Thank you so much for sending me your manuscript. Your presentation influenced me profoundly, and I'm really grateful for your coming to Lehigh. I hope to be able to use all your tips and become a successful entrepreneur."

Sebastiano Corriere – Intern at Lehigh University Global Village for Future Leaders