Troubles Ahead
How to Help an Entrepreneurial Company; Entrepreneurial Finance

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Stress

- "If you can't stand the heat, get out of the kitchen" – Harry Truman

Stages

- 1. honeymoon….
  "this is fun!"…. 0 stress

- 2. early development
  "this is interesting"   10 stress points

- 3. early acceleration
  "this is interesting"   20 stress points

- 4. takeoff
  "this is challenging"   50 stress points

- 5. real operation   "This SUCKS" 100

What can go wrong?

- 1. miss sales target
- 2. wrong product
- 3. run out of money
- 4. key employee
-    quits
- 5.product fails
- 6.competition/new tech obsoletes product

Assumptions: Trouble City

- Every technology company hits the wall.
- Experienced companies have a cushion; new companies do not.
- Experienced companies have hit the wall before; new companies do not know how to react.
- Problems: over reaction; under reaction.
- What's going to go wrong? Everything.

Problem Number One: Sales Will Not Hit Target

- Your model was too optimistic; you only projected that amount to raise money.

- Your model did not anticipate how long it takes to hire/fire/train and build a sales pipeline.

- (75% of v.c. backed companies miss)

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Why?

Possible reasons:

- 1. product was not ready
- 2. product was late
- 3. product didn't work
- 4. sales force couldn't sell
- 5. sales force not in place
- 6. channel couldn't handle
- 7. all of the above… and more

What are your options?

- Write a reduced sales plan - and give to your board; hope they don't remember the old one.

- Keep pushing for sales to make goal.

- Build a plan that looks at MONTHLY sales as goal; strive to hit that run rate.

- Beware of punting early; bad precedent.

- But striving to meet unreachable goals is demoralizing, stressful, and counterproductive.

Do what?

- Right the plan by breaking it into solvable parts; aim at achieving monthly goals

- Missing your sales goal has reverberating results everywhere:
    - ‣ increased losses
    - ‣ requires more cash; may mean looking for cash sooner
    - ‣ may trigger cash squeeze: rent, A/P, bonuses

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Root cause analysis

- Without parcelingout blame, what is
 THE Number One
     Reason?

1.

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You need 3 sales plans

1. Official Plan = 100%

2. Sales budget = 115%

3. Operating Plan = 80 - 85%

When you hit a problem...

- Temporary problem? Are you really on the right track?

- Permanent problem? …and has to be fixed within the next 6 months… or RIGHT AWAY?

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Entrepreneurs Wear Two Hats: Enthusiastic charismatic leader… and stark realist...

- If EITHER is too dominant, your company will suffer. When to panic and how much to panic are critical

	Jan	Feb	Mar	April	
	100	110	115	125	Goal
	50	40	55	60	Actual

How should you react?

A.   Steady as she goes

B.   Cut expense line in Feb

C.   Fire sales manager

Part of your answer depends on fund position. Sitting on a lot of cash, then you can afford to wait it out. If not, maybe you need more funds: your capital, friends/family, Angel, or V.C.

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Make a Decision!

- "If you don't know where you are going, any road will take you there"

- Alice in Wonderland

Your company, Your investment?

1. Get to B/E as quickly as possible; cut expenses, cut salaries, cut people, reduce need for capital, steady ship until it settles, then reassess.

2. Your staff on their own will never suggest this. Up to you. Angels won't; Friends and family won't. Only VC will; or VC may push HARDER because he may have different agenda: 10X on his money.

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Next?

Problem Number Two: The Product

A. Doesn't work

B. Is Late

C. Is the wrong product (and is late or doesn't work)

- MOST products are late... Now HOW late is it? Beta due out 1/1, Production: 6/1
- Pressure to Ship; Ship with bugs; no product ships bug free.
- Your problem: you do NOT know how big a problem you have... So you don't know WHEN it will be fixed.

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Feeling any Pressure yet?

And you are under PRESSURE to make some promises...

- To sales; to customers, to Board, to employees… and if you blow you credibility… then what?

- This is where you rely on your people.. And where it helps to have worked with them before.

- Joe always overestimates time and comes through; Mary is always 25% overoptimistic…. And you have to commit today….

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Advice

- Break problem into solvable parts.

- Estimate person hours to fix each part.

- Estimate WHO can fix each part.

- PERT chart.

- Add 20% more time….

- Have ONE PERSON in charge of Quality. Quality Czar, who will not let the product ship no matter how much pressure is put on them. Independent person; un-bulliable. Even by you.

Quality Czar

- Performance Criteria
- Documentation
- Shipping Criteria
- Voice of Customer
- Help Desk
- Have DAILY meetings; what has to be done. Have day end meetings: what has to be accomplished.
- Use outside consulting help to meet new targets.
- Weekly goals.

If Pressed, CUT FEATURES

1. Feature Creep
2. First model, base level functionality
3. Sales will bitch; engineering will bitch

Well run companies have the ability to predict timetables. Yours is not yet a well run company.

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Better a late functional product… than a recalled for-crap product.

- OK, that's the "late" product…. And the EASIEST of the problems you are going to have.

- More critical: the Product that Doesn't work!

- WHY isn't it working? Beyond State of the Art? Beyond the capabilities of your company? Or, even worse, does it work intermittently?

bad news: that is the easiest of your problems

Example: your assessment:

- To make the product "work" it will now take 2-4X the time estimated and even then the odds that it will work to our spec is no better than 60%. What are my options?
  - ▸ Hire a consultant. Find the right consultant.
  - ▸ Make a simpler product
- Do we KNOW WHY the product is not working? Did we misread the existing technology? Has a key supplier not delivered?

Was our engineering talent too naïve? Optimistic? Wrong engineers?

Here, you have to try a FEW things, walking a fine line between trying everything and not seeing what is working or trying a small number of actions and giving them time to germinate:

Engineering reorg?

Consulting help?
Divide talent? Let some work on shippable product now; others on future product.
Keep cash flow coming in

Problem Three: You are Making the WRONG Product

- Most serious of the three; first two may/will get solved with time. This one, no.

- Example: Dot Matrix Printer/IBM

- Rarely will this be obvious: begins as suspicion.

- Competitor is making headway;

- customer reaction, sales feedback

now what?

What are the iterations?

- Priced OK, market wants a different product
- Priced too high; market will still take the product
- Priced wrong, product wrong
- Options:
- Finish product now, redirect R&D for next product
- Abandon product now; start R&D for new product now, cut sales, cut everything; RESTART
- Raise more money

Or… re-engineer the product; take out cost; take out features

- Don't panic! The market will change; don't put head in the sand…. Now what is the right response level? How strong is the competition? What will the MAJOR competitors do?

- How quickly will the market switch? Your smaller competitors may not have traction or market share.

Year	2010	2011	2012(est)
Old	95	90	80
New	5	10	20

Next?

Problem Number Four: Key Employees Leave

A. Sales under goals

B. Product late; wrong product

C. Hot economy

- This is going to happen. Demoralizing. Evidence of bad vision. Downward spiral.

- Is this necessarily a bad thing? Addition by Subtraction.

- Assume it is bad: What to do?

- Find out WHY they are leaving? Stress? Psychologically unsuitable for startup?

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Why leaving?

- Better offer?Too much responsibility? Not enough money? Equity? Security?

- Do you have an adequate backup to that person now? If not:

  ‣ how long to fill that spot?

  ‣ Who can fill in during short term?

- Your odds of changing person's mind: 25%. Even if they stay, assume 50% that they may be gone within a year. If they stay, immediately hire backup.

If they are going...

- Get immediate commitment that they will not hire others. Send legal letter.
- If they are leaving, much better if company is on upward spiral.
- Think through disaster control

What else?

Image in the public domain.

Problem Five:
Running Out of Money

Any of the previous problems will result in running out of money earlier than you anticipated.. Sales are off; expenses are too high for sales level.. Engineering taking too long.. Making wrong product

Options:

1. Cut burn rate. Outside consultants first; not employees

2. Sales people before engineering people, especially if product is not ready

3. Staff before line

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More.

4. Your salary first; entrepreneur team second;

5. Postpone salary first.

6. Substitute equity for salary.

7. Raise more money. Existing investors first, at same price if you can.

8. Keep list of potential new investors.

9. Always be in market for money.

10. Go to contingency budget.

Employees can stand adversity if it is temporary.

Remember when this was fun?

Still more...

11. Tell your board early; show action

12. Postpone all payments that will not shut you down (legal, advertising, accounting)

13. Only pay bills you have to.. And then as little as you can

14. Air Raid Mentality "we have had this problem before; here is how we handle it"

15. Meet with employees weekly. Upbeat but all the news. Spin control. Never promise unless you are sure

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Conclusions...

- Keep vague: new investor, OEM deal, new talent… until it is on

- tell your lead investor.."we will run out of money in 90 days.."; he needs time to tell his partners, contingencies

- Bridge loan. New investors. He has seen this dozens of times; you once. He wants to keep you going; he can bridge, raise money, do merger, arrange bank financing. He needs time….stick with it

Back to Square One

- "Anyone can start a company; its running a company that is hard"

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