Session: Garage Technology Ventures Workshop


Part 2: Living in the Real Economy

Date: Thursday, October 25th 2001
4:00—5:30 pm

Session Leaders: Bill Joos and Bill Reichert, Garage Technology Ventures

Notes:

The session comprised of two speakers, Bill Joos, VP Entrepreneur Development at Garage Technology Ventures and Bill Reichert, President, Garage Technology Ventures.

Presentation 1: Top Ten Mistakes in Business Plans
Bill Joos

Slide 1: We have seen a few plans...
- We are speaking to you as entrepreneurs and not academics.
- After having 80,000 entrepreneurs approach us with over 17,000 executive summaries and 1,000 face-to-face meetings, we have come to draw some conclusions on business plans.
- These conclusions have an illustrative purpose so that you make new mistakes and tell new lies instead of repeating the old ones.
- Here are 10 top mistakes that entrepreneurs have made. These 10 pieces of advice have been adjusted for the current economic environment.
- In the last downturn, companies like Cisco were formed. This is a great time for entrepreneurial ventures, especially if they create true value.

Slide 2: Too Darn Long

- All venture capitalists have Attention Deficit Disorder (ADD)
- Present your businesses concisely and briefly.
- Mark Twain once wrote "I didn't have time to write you a short letter so I wrote you a long one" That concept should not apply when presenting your business ideas.
- A few guidelines on length - elevator pitch should be 1 minute long. It should be passionate and contagious.
- Executive Summary should be 2 - 3 pages and should contain the 3 Ts: Team, Technology and Traction (momentum).
- One-third of the executive summary should be about the team. Your plans should always be disproportionately weighted to the team. Venture capitalists will take a B plan with an A team but not an A idea with a B team.
- Powerpoint should be 12-14 slides long. It should be crisp and concise. We call it the dirty dozen at Garage. If you cannot convey your idea to us in 12 slides, you don't deserve to be heard.
The business plan should be less than 20 pages and cost less than $6 at Kinkos. No venture capitalist believes your financials but they do want to know the magnitude of your "lies" in your business plan. Place considerable emphasis on the underlying assumptions of your business plans. V Cs ask questions like "what happens at that inflection point in your graph".

Slide 3: Poor Positioning

- The number 1 problem that we encounter is incomplete and poor positioning. We have entrepreneurs present to us and 4 - 6 mins later they finally tell us the problem that they are addressing.
- Most entrepreneurs present solutions that are looking for problems and these plans do not get funded.
- You need to solve a problem that hurts a lot, to which there is an incredible need that needs to be fulfilled.
- People also come to us with plans that have no real customer validation. Show us which customer you have talked to.
- Define the solution phase and customer validations phase in detail.
- Also address the invisible benefits. There should be no "so-whats" in your plans. If you describe a technology to an investor and he turns around and says "so-what" that's a clear indication of poor positioning.

Slide 3: Lack of Focus

- We call plans with no focus "Swiss Army Knife" plans. It is humanly impossible to fight that many business wars.
- If you are tacking multiple problems, break them into phases and show how you will leap-frog.
- Showing your path to profitability is key.

Slide 4: Not Enough Real World Market Analysis

- Top down market analysis is not acceptable to most investors. Anytime an entrepreneur assumes penetration from studies done by others, it shows that they are attacking a market that has already been analyzed.
- Use bottom's up forecasting in your business models - e.g. How many customers can you land in the first 18 months and how much revenue will they bring in? Your forecasts should be reality based.
- Include a logical growth rate by talking to real customers in real time to develop real solutions that they need.
- Prove a reachable market. Do not include details on penetrating markets that are privileged, for example, if only Intel gave me its contracts.
- Investors would rather that you talk about getting a 25% share of a $15 million instead of a 1% share of a $200 million.
- The bottom line here is that you want to become the dominant player in a reachable market.
- Finally, don't prove the obvious. Don't state facts that everyone knows about already, e.g. "Internet is big".
Slide 5: No Business "Cockpit Gauges"

- Don't have Excel spread sheets with tons of gauges.
- Talk about two or three gauges that really matter.
- For example, in a real estate business, the top two or three metrics are how many listings do we have and how many of those have we sold.
- Pick out three metrics that really matter to your business. For Garage that's our clients, funding and how quickly we get them that funding.
- If you can't metric it, you can't monazite it.

Slide 6: Unclear Business Model

- How will you make money? Talk clearly about return on investment. Investors love to hear that.
- Describe fully your path to profitability. How long will it take you to get there? What factors could lengthen that time?
- Explain sell and budget cycles.
- Do not be too dependent on other players. Many entrepreneurs are unrealistic about the amount of cooperation necessary to work with the big players.
- How will you scale this idea to become big? For this reason, services are rarely funded because they are hard to scale.

Slide 7: Poor or Incomplete Competitive Analysis

- If entrepreneurs say that they do not have any competition. They are either clueless or lying.
- Be realistic about your competition because you always have competition.
- Differentiate yourself from others.
- Disclose all your competitors. Do your homework on your competition. If an investor finds competition in your field and you haven't mentioned it in your business plan.

Slide 8: Weak Team Information

- Remember the 3Ts of an Executive Summary - Team, Traction and Technology
- Show how your team will implement your plan
- Admit your holes e.g. That you do not have a CFO yet but will hire someone once funding comes through
- Astute entrepreneurs admit that they will resign when a better leadership is required. This is the team equivalent of knowing your business assumptions.

Slide 9: Leverage Points

- Ask yourself, where is your fulcrum? Who has a vested interest in your success? Obviously, you cannot do it alone. Show those leverage points to would-be investors.

Slide 10: Goofy Fundamentals that Distract

- Do it right the first time. Construct a typical Silicon Valley company. Do not incorporate in other states, do not have your divorce attorney write your placement memorandums.
- Use specialists to guide you through the process.
You must have a standard Silicon Valley deal.

**Presentation 2: Living in the Real Economy**
Bill Reichert

In this real economy with the downturn, there are new rules for entrepreneurs and investors. It is key to notice that entrepreneurship is the next big thing. It is absolutely crystal clear that entrepreneurship makes the difference in the economy. The innovation and passion to change the world that emanates from aspiring student entrepreneurs is responsible for the growth of the United States.

However, the key factor to reign in a little bit on how you approach the process of building a company.

Trends in venture capital over the last four years were all wrong.

- The whole concept of "new" vs "old" economy implied that there was some new code to business in the technology world when in fact there isn't.
- The whole illusion of the old economy being big, slow, dumb and sporadic was wrong.
- There is old one economy - the real economy where real products or services are provided to real customers with real technology transfer and payments.

**Top Ten Rules for Building a Great Company in the Real Economy**

**Slide 3: Focus on Creating Value, Not Wealth**

- The concept of value was lost in the Bubble.
- The focus became the NASDAQ metric that was driven by analysts' description of market capitalization.
- Businesses today have to create real fundamental economic value

**Slide 4: Assume the Worst**

- The worst case scenario is the most likely scenario and you need to assume this and show this to potential VCs and investors
- It seems that Silicon Valley entrepreneurs are genetically optimistic and by nature we are oriented towards thinking about a future different and better than today
- The technology sector won't come out of this slump for a long time - over a year from now at least. Therefore you should not assume consumers buying products until early next year.
- There are also crucial modeling issues that investors and entrepreneurs alike have to deal with. Sales cycles will be much shorter than is actually the case. Don't be overly optimistic when predicting sales cycles. Be pessimistic on the table and this will pay off in terms of a long term strategy.
- Venture capitalists always discount the worst case by 40%

**Slide 5: Hype vs Reality**
It seems that men generally have more of a tolerance for hype than women. Somehow people orient and condition themselves to thinking that things are actually bigger and better than they actually are.

Looking at the technology adoption rates graph, the fastest cycles have been for the radio. It is the ultimate plug and play technology. The next fastest was the TV.

The internet is less than half the rate of the radio. The internet curve is often skewed as well. The internet was invented in 1969 and not in 1991.

The good news for entrepreneurs is that the internet is still so bad and has so many things wrong with it that there are plenty of opportunities to fix it and do good business in the mean time.

Slide 7: Catch the Next Wave, You can't Catch the Last One

If there is already a study on your industry, you are catching the last wave. If Gartner or Forster have reams of research on what you are doing, you are looking at yesterday's technology.

If entrepreneurs propose the value proposition that they can do something cheaper with lower cost technology, that is also a last wave solution.

Ideas that rely on cost comparisons are not going to be big companies and therefore, venture capitalists will not take them up.

Next wave businesses add to the top line by enabling growth and revenue in revolutionary technology.

They do things that people could not do before. These ideas have a better change of VC funding.

Slide 8: Trend does not constitute business model

Stating trends in the industry does not automatically imply that you are stating a business model. Everyone understood that web services was becoming a trend but many internet company took off stating that as their models.

How will you capture value in your company? Talk about how you will deliver, distribute and market your product. Also emphasize what someone else is willing to pay you for what you have.

Slide 9: If you build it, they probably won't come

This issue deals with inherently being an engineering based company. There is an underlying idea that building the product will bring in the customers.

However, engineers need to realize that they have to bring on seasoned CEOs and business manager to run their companies. These people understand what it takes to get customers to adopt their products.

Quote Bill Joos "It's not enough to building another mousetrap, you have to really want to murder mice".

Slide 10: Not every small business is a big business

This is a hard concept to internalize. You can have a legitimate business that is small but just not scalable.

Very often entrepreneurs will take a small business and run some excel iterations and extend it out to become a big business.
However, they don’t account for the special forces like product life cycles that will prevent this from happening.

- We’ve told entrepreneurs that venture capitalists do not fund small businesses.
- There are very few truly big businesses like Sun Microsystems or Cisco.

**Slide 11: Not every great company should get venture funded**

- Society has married the concept of entrepreneurship with venture capitalists. This is not always the case.
- Venture capital is a very narrow slice of financing and is specialized and focussed on certain business models.
- The number of new companies that were backed by VC’s last year was fewer than 100.
- In the grand scheme of things, relatively few companies get venture financing.
- Do not architect a company that cannot be very big just to nail down venture funding.
- There are other methods like alliances, boot strapping to big great companies without VC’s.
- VC’s are specially looking for "sustainable disproportionate profit opportunity". They are looking for disproportionate market dynamics and unique, proprietary, monetary products with long-term profit opportunities.
- Service companies can hardly ever get there because labor-intensive services can hardly ever create that amount of sustainability.

**Slide 12: People triumph technology**

- Know your customer well. Business is not just about being technology driven. You have to be customer driven.
- Orient yourself towards people because in every transaction you carry out, there is another person involved. Whether this is legal work, renting, hiring, you have to deal with people every step of the way.
- It is too easy to architect a company that is not focussed towards people.

**Slide 13: Follow your passion**

- Money is not a sustainable passion. A decision to start a company has to be a long-term decision and not short-term. You have to be realistic about what it takes.

**Q&A**

- Can you give us an insightful definition of sustainability?

After 2 to 3 product life cycles, ask yourself whether you can still command a premium and disproportionate profits? In order to be sustainable, you have to have world class people around your product development teams. You also have to be dominant in your market space but shortening your life cycles through these world class people.

- Since entrepreneurs are synonymous with venture capitalists, what can they do to get financing from elsewhere.

Well entrepreneurs should think about Plan B financing and wait it out until the tide comes back in. Bootstrap and grow slowly. HP, ten years after being in business, only had 247
employees. Go slowly. When the tide comes back, you will already have a proven business model with real customers that investors can look to. Look to the usual suspects for money - friends, fools and family. Most successful companies start this way. In order to become a NASDAQ 100 company however, you need VC s. Only 5 or less companies in that list were not started by VC s.

- Is it irresponsible to teach entrepreneurship to students at this time.

Absolutely not. Entrepreneurialism is fundamental to our economy. Corporations want entrepreneurs because they are risk-taking, innovative leaders who are persevering to do things they are passionate about.

However, it is inappropriate for students to seek a degree in entrepreneurship at the undergraduate lever. It is important to understand what it takes to start and build a successful company but at this level, students should be acquiring practical skills.

- You do not seem to put much emphasis on the team in the business plan.

We certainly do. Remember the 3Ts. Team was one of them. We absolutely need an A team to lead whatever idea comes to our table. The team needs to demonstrate competency in that industry.

*Notes taken by Sunaina Sinha, Stanford University.*