Start-up Advice for "Business Savvy" Technology People

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Abstract

The article describes the experiences of a software developer who decided to take his newly developed product to market and start up a business. Our technological age and fast expanding small business environment demands more and more such start ups. The article is full of personal anecdotes which will prove highly interesting and useful to other people comtemplating similar (ad)ventures.

Sommaire

Cet article décrit les expériences d'un concepteur de logiciels qui décida de partir son entreprise en commercialisant son tout nouveau logiciel. Une telle initiative cadre très bien avec notre ère hautement technologique qui favorise l'éclosion de telles entreprises. Cet article regroupe donc plusieurs anecdotes personnelles qui seront sûrement très intéressantes et utiles pour d'autres personnes qui convoitent des rêves similaires.

1.0 Introduction

It's sometime said that we come to write what we would like to read. And three years ago, I would have liked to come across an article just like this one, filled with ordinary-sounding but important insights to help counsel the "technologically savvy" thinking about starting up a business.

I should, perhaps, mention that the title was inspired by the suggestion that the world of software products is led by "technologically savvy" business people and "business savvy" technology people. This article is therefore intended for technology people looking to become "business savvy".

Here, I can only claim to speak knowledgeably about software product businesses. And at the outset, I'd like to acknowledge the advice that I myself have obtained from all kinds of people involved with start-ups in all kinds of ways: founders of successful start-ups, consultants who've been employed by start-ups, business development people at research institutes and university tech transfer offices, and people I've met at technology incubators and venture capital firms. And the many books about entrepreneurship that kept me up late at night. And finally, my own business partner, our employees, my professional colleagues, and our business customers. They have all had a hand in shaping my thoughts which have turned into this article.

2.0 Getting Ready

So: you've developed some kind of new (software) technology. Even better, you have a prototype that's gone out to potential customers for field trials with real users. And best of all, the trials clearly demonstrated the merits of your technology (because if the results were inconclusive, you'd be wise to stop here). So commercialization is now on the horizon, and lately, you find yourself thinking (dreaming?) about starting up a business to do just that.

Well, most people begin by looking for similar existing products, academic research that if commercialized, might become a competing product, etc. Remember that the world seems to be growing smaller each day and the pace of business is increasing. And what might look like a wonderful business opportunity to you might just look like a wonderful business opportunity to other people too. They might be down the street or across the ocean. Luckily, the Internet can help you find out. Getting ready in this way is typically conducted while you're preparing a "business plan" to make the case for starting up a new company.

Starting up a business takes time and in order to stack the deck in your favor, look for a market niche and a product category that are "off the radar screen" of existing players. In this way, you just might have enough time to:

- create a first product from your technology with enough added value that you'll be able to sell it or to find customers to buy it
- improve that first product based on feedback from your first customers, by making existing features work better, adding new features, porting to additional computing platforms, etc.

Because there are competitors lurking everywhere, whether they are existing players with enough technical and business smarts to quickly bring to market something that might compete head on with your first product, or business savvy technology people like yourself thinking through these very same steps. On the other hand, you can't drive a car by only looking into the rear-view mirror. So face forward and push on!

3.0 About Partners

Starting up a software product business is rarely something for an individual to take on alone. Mostly, people have partners and there are really three kinds:

- Cofounders
- Strategic investors
- Financial investors

3.1 Founders

The first category comprises all the like-minded people, typically your professional colleagues (and friends), who are ready to make something out of nothing with you. Here, you must be absolutely certain that everyone looks at the world in the same way. There should be mutual recognition of, hopefully, complementary talents, strengths, and interests. And there must be absolute trust: if every single business decision always requires a half-day meeting to sort out, then you'll never get very far. (Technical people in particular can sometimes hold opinions with religious zeal). Founders must be able to count on each other: count on each other to be informed, to take the lead in their respective ways, and, of course, have a say in the most important business decisions.

Of course, your business plan should spell out in detail exactly who are the founders, what roles will they be playing as part of the start-up, etc. (If all of the founders want to be President, you've got a serious problem.) The business plan also spells out in some detail exactly what the start-up business is, what its product(s) will be, what kind(s) of customers will be targeted, etc. So all of the founders should help prepare the business plan, just to make sure that everyone "knows the score", by way of anticipating and resolving possible future conflict.

Because some people "need" to be everywhere and take part in every single decision. Having a partner like this will only cause you grief. That kind of person needs to be steering his own ship and never feels comfortable with shared management

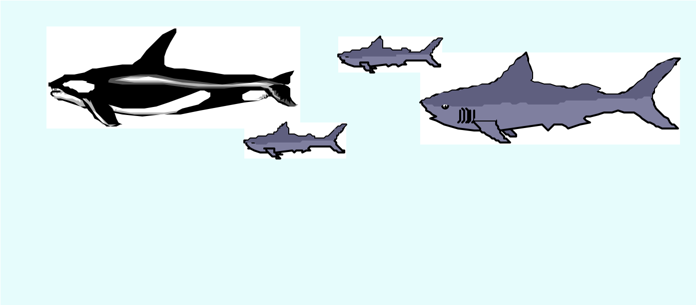
Founders must share, and that sharing must be based on mutual respect. And one of the most important things to share is the recognition that there is simply too much to do every single day, that you've just got to trust people to get on with things by themselves, while you concentrate on your own things. (Otherwise, the business won't move forward.)

I've been told that at a leading technology incubator, half the business plans never turn into businesses, just because the promoters can't sort out the human side of pulling together as future founders. Not enough mutual respect, not enough shared vision, not enough mutual recognition of complementary strengths and interests that people are bringing to the table. How sad. But then again, people are people are people. In my own case, when we were just dreaming, we were four. When things became more serious, we were three. By the time we were shipping first products, we were just two.

And this seems to be typical. The more founders there are, the more difficult business things are to manage just because it become's harder to reach consensus. One colleague, who's been a part of two start-ups, has even suggested to me that just one or two founders is the ideal number: even three is asking for trouble. (Of course, when there are many people, it might be possible to create categories of "junior" and "senior" founders with different amounts of responsibility and ownership).

So be absolutely sure (or as sure as you can be) before things begin and before shared ownership is established. Because when you're just starting up, all founders must be pulling their weight and pulling together. There'll be no time to be on the outs with someone, and probably no money to buy someone out. And without such money, you'll discover that it's just not healthy to have someone around who's just not contributing 100%. (At one start-up that I know, now very successful, three founders were obliged to buy out a fourth founder in the first year, long before there was a product to sell and a revenue stream in place. As a result, one was forced to sell his car, another some furniture, another his stereo, etc. just to raise the money. These things really do happen).

One last thing: preparing the business plan should also help the founders sort out their "exit" plans, i.e. their personal (professional) goals. Are you looking to be a big fish in a little pond, or a much bigger fish in an ocean of even bigger fish?



Are you looking to be a majority owner of a little company, or a minority owner of a much bigger company? And what kinds of circumstances would oblige you to "bow out" and leave the start-up? These are very hard questions and especially at the start, when everyone is (hopefully) dreaming the same dream, it's a subject that is often (unwisely) left for future discussion.

3.2 Strategic investors

The second kind of partner, "strategic investors", are established companies who decide to become a part of your adventure. These investors are counting on you to develop products that will somehow complement and promote their own, and bring new customers to the table that might be interested in buying their own products. Such strategic investors are really partners insofar as they provide tangible help to your start-up such as access to their personnel, space in their booths at trade shows for you, etc. And because they are partners, they will do their best to be supportive and patient.

3.3 Financial investors

Of course, it's sometimes the case that in order to get going, a lot of investment must be made up front. This is especially true in the telecommunications world (where product development means manufacturing) and in the biotech world (where product development means costly laboratories and clinical trials). But such needs are In the software business, this kind of situation is rarer but when too little technology exists already, or when it is judged to be too "primitive" to be exploited "soon", then large scale software development will require large scale funding. (to pay for the many people hours required).

So depending upon the nature of your business, how much work needs to be done to create a first product, what kind of sales and distribution channels needs to be set up, etc. and how quickly everything needs to happen (because there are other people looking at the very same business opportunity), then a third kind of investor can be not only advisable but essential.

These "financial investors" are choosing to invest their money in your adventure, instead of someone else's. Here there are no complementary products, no domain-related expertise. Just dollars. And these people are counting on you to hit a home run; nothing else will do. Because if you're not going to hit a home run, then they'll simply invest their time and money elsewhere.

To my mind, such investors are not real partners. They are not looking to become your business friend and they don't share your business dreams. Worse, if they come to decide that you're moving too slowly, or in the wrong direction, then you'll be kindly asked to step aside (or otherwise forced out) to make space for a new captain of the ship. And that's why many founders end up as "Chief Technology Officer" (CTO) or "Vice-President, R&D" instead of "President". This happened to two founders at two different start-ups that I know of. (Sometimes, founders are simply bought out and "shown the door").

But for many technology founders, moving into a role with technical (instead of business) emphasis suits them just fine. (Once the perceived blow to the ego fades with time.) These people are often uncomfortable setting aside their technology hats in order to wear business hats anyhow. Because running a start-up means doing just that: if you're not out talking to customers, then who is? If you're not on the phone or at the trade show chasing down leads, then who is? So if you're not prepared to play that role, then you'd be wise to recognize that sooner instead of later and look for someone else to take on that job instead. Don't forget: so long as you continue to be a part-owner, you'll still take part in the most important business decisions, whether you're the captain of the ship or not.

4.0 About Ownership

Don't confuse ownership with management direction. Regardless of how much or how little you own of your start-up, if you're in charge, then you'll probably stay in charge so long as things go well: first products roll out, customers buy them, new products roll out, customers buy them too, etc.

But if sales are growing slowly (or not at all), or if new products aren't selling well, or if your markets are judged to be small with not enough room for exponential growth, well that's when the other owners will want to make changes (unless you can persuade them otherwise). And here's where owning more than the others can count: when things get tough, you can stay in charge.

Of course, staying in charge also means that if you're not careful, you'll simply bankrupt your company, when someone else might have been able to turn things around. So there are times and places when business replanning is not only wise but essential. But if you own more of your own start-up, you can simply better choose when those moments arise.

5.0 About Employees

Sooner or later, your start-up will hire employees. When there are many founders, this might happen “later than sooner” but in most cases, there are employees right from the start, just because there's so much to do and not enough founders to go around.

These first employees are a key part of your team, often as essential as anyone else, since they've been hired to complement the skills that you already have. But don't expect them to work with the same kind of devotion and emotional attachment that you have. They are employees and if they're not well treated, then they'll simply move on to work somewhere else. So right from the start, you'll need to offer competitive salaries, competitive insurance benefits, etc. because those employees are taking a risk too: as a start-up, there's a lot more emotional and financial uncertainty about working for you instead of for somewhere else who's already well established. Of course, it might be more exciting to work for you and that's a “plus”, but a “plus” can quickly turn into a “minus” when things get tough.

So don't forget the daily/weekly words of encouragement, support, and appreciation. Of course, we all work better when we do something we like, when we do it well, and especially when others acknowledge that we do it well. But employees at a start-up need to hear this more often, given the start-up circumstances.

One last comment: whenever possible, it's wise to bring new people on board one at a time (or a few at a time). Firstly, this reduces the time spent by your existing technical staff on training new people, so that they can continue to concentrate on new technology development. Secondly, this helps preserve and promote your company's way of doing things (“culture”), i.e. it's easier for the new person to learn to do things your way if everyone else is already doing things your way (coding styles, source code configuration management, weekly reports, etc.). When many new people begin together, this fragile cohesiveness can break down fast.

6.0 About (Software) Consultants

Given that money is tight and product quality so essential, it's wise to look, to software consultants for outside help with your technology development when you're starting up. Due to their vast experience (seeing and doing good and bad things elsewhere), such people can advise your own technical team about all kinds of “infrastructure” including coding styles, testing procedures, source code configuration management and eventually, tracking customer problems.

It's when consultants, not employees, come to take on big parts of new product development, that the start-up can run into trouble, especially when the “how things get done” (and not just the “what to do”) cannot be sufficiently supervised by your own technical team. Because in the software world, you need to know your own technology inside out, in order to be able to control its development, support it in the field, and continue to make it grow.

7.0 About Your First Product

Quality is absolutely essential for a first product: one of the simplest ways of spinning out of control is shipping a first product that doesn't work well enough. That's because when you begin, the people who'll be dealing with customer problems are the same people who'll be responsible for new product development. So when customers start calling with problems, new product development simply stops. And once products are “in the field”, it becomes so much harder to make them work right, even with Internet access to download system logs, upload patches, etc. And dealing with these problems will demoralize your technical staff, throw off your business planning, and discourage your partners. Remember: you need compliments from first customers, not complaints.

You want those first customers to become your references for winning additional customers. So better to ship late with something solid, than ship on time with something that doesn't work well enough. (Of course, shipping on time with something solid is the ultimate goal.)

8.0 About Product Pricing

Everybody knows that when it comes to software products, the purchase price has little to do with “real” costs. For example, the price of a software-based product shipped on CDROM has little to do with the cost of the CDROM, its label, and its box. Here, product pricing has everything to do with the perceived value of the product in the customer's hands. Of course, if the purchase price is too low, then you won't be able to stay in business very long. On the other hand, if the purchase price is too high, then you won't make a sale (and once again, you won't be able to stay in business very long). So what can you do? Well, if you're marketing a new product that competes with existing products but somehow does its job differently (better), than you can look to those product prices for help when establishing your own.

But when you're marketing a new kind of new product, then you'll need to look elsewhere for guidance, and do your best to evaluate the perceived value of your product in the customer's hands. And then persuade the customer that your estimate is accurate! Here is where customer references can become so important: there's nothing like having documented evidence about value from an existing customer to help you make a sale to a new one.

9.0 About Marketing

Once I got past the vocabulary and the business school articles, I discovered (as I always suspected) that marketing is all about turning technology into products that customers buy. Not “want to buy” or “might buy” but “buy”, because unless money changes hands, there's no business. (There's just somebody spending money, presumably yours and somebody else's.) And remember too that customers have to associate enough perceived value with your product to buy it at the price that you've set. (More about establishing prices later).

So marketing means asking questions, listening carefully to the answers, and thinking even more carefully about collections of questions and answers, in order to develop a sense of how best to create products from your technology that customers will buy. This means thinking about how to characterize those customers in order to create a first product that they will buy. It also means recognizing that customers' buying decisions are not always logical or rational; after all, customers are just people too and sometimes we all buy things for “emotional” (irrational) reasons.This too must become part of your equation.

Marketing is part detective work, part psychology. And to do it well, I think that you must be truly interested in people, not just technology.

As a result, better marketing will always triumph over better technology. Stated otherwise, superior knowledge about what the customer wants and will buy is much more important than superior technology, when it comes to product success. And that's why it's important, especially at the start, to limit the number of product markets, since acquiring superior knowledge takes time and perseverance.

Of course, even “inferior” technology, as measured by fewer or more limited features, still requires first class product quality! (cf. “About your first product”).

So don't forget: when defined in this way, marketing is too critical, too essential, to leave to other people to do for you. It's all about making sense of things, of seeing farther ahead than the next guy, of looking at things more clearly than the next guy.

It's the basis of every business, and you need to learn how to do it, or step aside and find someone to do it instead (and make him a founder too).

Oh, one more thing. You might discover (as I did once) that an advanced engineering degree can be perceived as an insurmountable handicap when it comes to successful marketing. It's as if there's only room to excel in one domain, technology or business, but not both. Well, since I'm not going to return my advanced degree to the university, all I can do is shoulder on and teach myself what those kind of people think I can't learn. Because when all is said and done, business success (as measured by dollars) has a way of overcoming prejudice.

10.0 About Funding New Technology Development

The easiest way to pursue new technology development and more generally, grow your business is through "retained earnings", i.e. profit that you re-invest. So that means, pricing your products as "expensively" as you can in keeping, of course, with the value of your product as perceived by your customers (cf. About product pricing). And that's why first sales are so important to start-ups, since they provide the necessary funds to keep you moving forward.

But it's sometimes the case that even more funds are required to finance new technology development, especially in the beginning when your revenues are limited. Here you'll discover that the "cost-sharing" governmental funding initiatives designed (in principle) to promote business growth are simply unsuited to start-ups. That's because even paying fifty cents on the dollar can be more than your cash flow (and bank balance) can stand. Worse, unless you can demonstrate tremendous growth potential (thanks to the anticipated new technology development), your start-up won't even qualify for such funding!

So in the end, it's wiser to look for potential customers with "special" needs who, for their own business reasons, are ready to bet on an uncertain horse. In our case, one such customer had ordered a bunch of new, costly, crane-like equipment and had experienced all kinds of problems with operator training. As a result, when placing another order for more of the same new, costly, equipment (as part of a major modernization effort in their plant), the customer was ready to turn to us to develop a new simulator to help train new operators better and more cheaply.

But there are two things to look out for when someone else pays for your new technology development. Firstly, there's the question of applying for R&D tax credits, since he who pays is the one who typically files the claim. But when you're just getting started, this hardly counts. Of much more importance is who owns the new intellectual property; wherever possible, this should be you. Typically, you can retain ownership but your first customer (who's funding the new technology development) might demand some kind of royalty payment each time you sell the same new product to someone else. That first customer might even demand that any future sales be put off until some time in the future, to ensure that the competitive advantage that this first customer now enjoys (thanks to your help) is neither immediately nor easily acquired by that customer's competitors. So negotiate as best you can; it's not always when you're not dealing from strength.

11.0 About Focus

While every start-up begins life with a well-defined mission (as described in your business plan), once you begin, you'll discover that it's oh so easy to become "side-tracked".

At first, a potential customer might ask you to consider making important changes to your current or future products. And some start-ups spin out of control by promising too many changes to too many customers, even when those customers are ready and willing to pay for those changes. Because these changes are rarely complementary, and the ones required by some will be ignored by others. In the end, you might end up with a product combining all of these changes that no new customer would want to buy or worse, a whole series of slightly different products that can't be evolved together. Talk about a maintenance nightmare! (Don't forget that you'll be selling your product with something called a "one year guaranty".)

Being part of a start-up means making every day count

The danger is called "opportunity cost". When your technical team is busy thinking through the requested changes and preparing proposals, they aren't making progress on product development. And when you yourself are fielding calls of this kind, you're not chasing down leads to sell what you already have (or plan to have to sell very soon). Or push on with your own efforts to better understand your target market.

So be very careful. You can't be all things to all people. And this is especially so in a a start-up, when your revenue stream is uncertain and you feel that you just can't turn away "good business". Well, building a "one-of-a-kind" systems might keep your technical staff busy, and might even make you some profit (if you've been very careful with your quotation), but you can't build a product-based company this way. And product-based companies are, in the end, more profitable than service-based companies (building "one-of-kind" systems) just because in the software world, the cost of "building" a product for sale is the cost of preparing another hard disk for another PC. Or even better, it's just the cost of duplicating a CDROM. It's only when you can sell the very same thing over and over again that you'll really get going with as a software business.

Of course, when things look grim, changes are wise, even essential. And I know of a couple of start-ups which found themselves changing business focus at least once. For example, a computer vision start-up was planning to commercialize innovative camera hardware only to discover that their real business value was in their innovative software library (for the image processing). They were eventually purchased by a well established company looking to improve their own robotic solutions for machine vision.

Another start-up began life with ambitious plans to commercialize innovative force-reflecting input devices (based on primitive but promising prototypes) only to discover that their real business value was in their patent portfolio. They were eventually purchased by a well established competitor looking to improve its own force-reflecting input devices.

The moral of these stories is this: just because you begin with one idea, that doesn't mean that a better idea won't come along. But make this kind of decision consciously. And think about product-based versus service-based companies.

12.0 About Business Stuff

Starting up a business means dealing with all kinds of things you used to have other people deal with instead. Like the name of the company, managing bank accounts, making payroll, keeping track of bills to pay, invoices going out to customers, calling them when they don't pay on time, etc. And then there's the 1001 legal elements like sales contracts, rental contracts, employment contracts, and insurance contracts. Well, there's nothing to do except learn the basics by reading the "how to" books about starting your own business, and find people to help you: at the very least, you'll need an accountant and a lawyer (but only on a part-time basis). Remember: don't sweat the small stuff, because you need to stay focused on developing your business.

13.0 About Planning

Being part of a start-up means making every day count. It means planning and replanning as events unfold. There's only so much time in the day and you have to put that time to the best possible use. So if you don't like to look after more than one thing at a time, or don't feel comfortable keeping many balls in the air as a juggler must do, then think twice (three times even) before you begin.

And this is often hard for technology people. That's because software development is terribly difficult and requires enormous concentration for extended periods of time. If that's what you like, then stick to software development and look for someone else to captain the ship.

Of course, even software development people are “ambushed” from time to time by demo's for unexpected visitors, interviewing prospective employees, preparing project proposals, dealing with customer support, etc. So they too must plan and replan, if not daily than at least weekly, in order to soldier on with what must be done.

14.0 About Learning

As an undergraduate student, I remember hearing a professor suggest that engineering was all about problem solving. And that education (at least in his class) was all about learning to learn what you needed to know to solve problems.

Seen in this light, going into business is just another kind of problem solving, for which lots of new learning is required. So the day that someone compliments you on your ability to learn and learn quickly, that will be the day that (business) success is just around the corner.

15.0 About Advice

When my first daughter was born, I remember how eager everyone around me was to offer advice: What to do and what not to do with a newborn. Of course, by the time my second daughter was born, those same people had somehow decided that now I was not only older but much smarter too, and they kept their advice to themselves.

So it seems wise to close this article with the following thoughts: by all means, seek out advice. (That's what I continue to do.) Ask people what they think, and especially why they think what they think. But keep your own counsel. After all, at the end of the day, it's your start-up adventure, not their's.

And remember: it's what you do *after* starting up that separates the winners from the losers.

16.0 Suggested Reading

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About the author

Paul Freedman holds degrees in Engineering Physics and Electrical Engineering from the University of Toronto, the University of British Columbia, and McGill University.

He was for many years Lead Researcher at the Centre de recherche informatique de Montreal (CRIM), one of Canada's leading research institutes in information technologies. In 1999, he left CRIM to co-found Simlog (www.simlog.com) to commercialize innovative 3D simulation technology for heavy equipment operator training.

Previously Paul has served as Associate Editor and Managing Editor of the **IEEE Canadian Review**.

Characterizing Successful Start-ups

In his recent book “The Origin and Evolution of New Businesses” (Oxford University Press, 2000), Amar Bhidé of the Harvard Business School conducted an in-depth study of 100 of the businesses on “Inc.” magazine's 1989 top 500 list, a compilation of the fastest-growing privately held companies in the United States. (Such companies had revenues of at least 100,000 $ (US) but not more than 25 million $ (US) in 1984, with the greatest percentage increase in sales over the five years leading to 1989.) To be included in his subset, Bhidé chose companies founded in the previous eight years, of small to intermediate size, in order to obtain a more homogeneous pool for subsequent study. About 36% were computer-related businesses. In what follows, dollars are $US.

In 1984, the average company in Bhidé's subset had 12 employees and average revenues of just over five hundred thousand dollars. Thirty-eight companies were losing money, ten were treading water, another thirty-seven were turning a very small profit (1-10%), and just fifteen were showing real profit (> 10%).

Five years later, the average company now had 100 employees and average revenues of almost 9 million dollars. Now just 13 companies were losing money, another 68 were turning a very small profit (1-10%), and 19 were showing real profit (> 10%).

Based on his in-depth interviews with company executives, Bhidé was able to characterize successful start-ups as follows:

- Most founders had little or no business experience when they began.
- About two thirds of the companies surveyed had just two founders, and none had more than four.
- Over 80% of the companies were “boot-strapped” using funds provided by the founders, family and friends (median start-up investment was ten thousand dollars). Just 5% secured financing from venture capitalists.
- Companies were operating in small, niche, markets where there is too much uncertainty about market size and about successful product characteristics to interest established players. More generally, start-ups were created in an “improvised” way where founders were able to profit from “turbulent” market conditions due to technological innovation or perhaps changing business practices such as governmental deregulation).
- A founder was chief salesman.
- Products were sold directly to other businesses (direct sales, business-to-business focus).
- Product pricing was relatively high (5000$US on average), making it possible to offer/perform (sometime extensive) product customizing according to customer needs without taking a loss.
- Most companies had little or no technological differentiation (just 15% of the companies surveyed were founded with a “unique selling proposition” in the form of new technology). As a result, the founders “personal value” makes proportionately more difference (than in well-established companies).

Finally, Bhidé discovered that when he studied those companies on Inc.'s 500 list in 1985 which went on to attain revenues in excess of 500M$US ten years later (including Microsoft and Oracle, to name two examples), all but one still had the same CEO and senior management team. Stated differently, where successful startups became successful large corporations, the same people were in charge.

Bhidé's message then becomes the following: “The value of a firm in its early stages is closely tied to the entrepreneur's personal knowledge, skills, reputation, and legitimacy. When entrepreneurs have or can develop the requisite skills, their on-going leadership can also help their firms attain noteworthy size and longevity”.