

Experiences of a

Hi-tech

Entrepreneur

University of Puerto Rico | August 1, 2006

Topics

- Why am I here?
- The Quiz
- The People - Lead Entrepreneurs & their Teams
- The Business Plan – Key Elements of Successful Plans
- Resource Acquisition & Entrepreneurial Finance
- Managing Growth
- Closing Thoughts

Why am I here?

- Since 1980 35 million jobs have been created in the U. S. - while Fortune 500 has lost 5 million jobs
- 1960 – 1 in 4 worked for the Fortune 500
- 2000 – 1 in 14 (7%) worked for the Fortune 500
- 95% of all wealth in the U.S. has been created since 1980
- 5% of all start ups create 85%+ of new wealth
- CNE / Brookings report
- Most rewarding, exhilarating roller coaster ride ever!

The Quiz

1. Trying something new is attractive, even if I know the risk of failure is significant
2. I want to be financially independent and be rewarded for my accomplishments.
3. When I am faced with a challenge, I am confident that I can work through it.
4. I would prefer to gain independence and control my destiny
5. I like working with others and can provide leadership when called upon.

The Quiz

6. My experiences during my youth and early career have shown me the benefits of starting a new business.
7. Starting a new business some day soon is always in my thoughts.
8. Our society and my family provide a strong, supportive base for my initiatives.
9. I possess strong technical and relationship skills in the industry I wish to enter.
10. Building a new enterprise is important to me.

The **Difference** between an “Idea” vs. a “Real Opportunity”

An Opportunity has ...

- A “window” that has (or will soon) open up ... but it will also close eventually – an unmet need
- An identified “big enough” and growing market and a “reachable” customer (with money)
- A clear, compelling & quantifiable value proposition (“reason to buy”): What is the customer’s pain?
- A clear and sustainable competitive advantage
- A product or service that can be delivered profitably
- A fit with the lead entrepreneur and his/her team
- Resource requirements that can be reasonably assembled
- Financial profile that provide an acceptable ROI to investors

The Opportunity - The Investor's Perspective

What are investors looking for when evaluating an opportunity?

- Large & growing market opportunities (early entry)
- Leading market positions (hate competition)
- Big fat margins (room for mistakes)
- A team that can execute (biggest challenge of all)
- A clear exit
- Investing an amount worth their while – but structured appropriately

Continuum of Opportunity Attractiveness

Most Attractive



Least Attractive

- “Disruptive innovation”
- Recurring Revenues
- Imperfect, fragmented, emerging markets
- Market big enough to be interesting
- 30% + growth rates
- Leading Mkt.Share - 25%+
- Low capital/variable costs
- All star team
- Clear Exit - Liquidity
- Fits deep personal objectives
- “Stageable” Risk

- Incremental change
- One time, erratic
- Concentrated, mature, declining
- Not too small but not too big either
- 10% or less
- One of many 5-10% or less
- High Capital/fixed costs
- Solo Entrepreneur, weak team
- No clear exit – low liquidity
- In it for the money
- All at once/large investment

My Experience

- Why Educational Space?
- Previous Experience
- Motivation
- What's Unmet Need?
- What's sustainable competitive advantage?
- Market Research – what made it an attractive opportunity?
- Sources of Information
- What made it attractive/unattractive?
- What was the basis for the go-no go decision?

The People

The Team

“I prefer a ‘Grade A’ entrepreneur and team with a ‘Grade B’ idea over a ‘Grade B’ team with a ‘Grade A’ idea.”

General George Doriot

“In the world today, there is plenty of technology, plenty of entrepreneurs, plenty of money, plenty of venture capital. What’s in short supply is great teams.”

John Doerr

“Nearly every mistake I’ve made has been I picked the wrong people, not the wrong idea.”

Arthur Rock

The People

The Founder - Leader

- Learns and teaches faster – better
- Deals with adversity – is resilient, determined
- Is passionate & committed – makes tough choices
- Exhibits Integrity, dependability, honesty
- Pragmatic – willing to compromise
- Attracts top-top talent – endlessly in the people/recruiting business
- Builds entrepreneurial culture & organization

The People

The Team

- Surround yourself with people who know a lot more than you
- Talent, Skills & Experience - relevant experience & track record
- Fit of individual goals with Team
- Motivated to excel
- Commitment, determination & persistence
 - Starbucks, Intuit
- Tolerant of risk, ambiguity and uncertainty
- Rejoices in others victories – team players
- And it isn't just the founders and employees – it's the board members, the service providers, the advisors etc.....

Interesting Entrepreneurship “People Factoids”

- “Pattern Recognition” – 90% of founders start companies in same marketplace, technology or industry they have been working in.
- “Sweet Spot” for entrepreneurship is 5-10 years AFTER graduating from college.
- Most successful start Co’s in their 30’s
- Failures in college, apprenticeships, early jobs are greatest learning experiences

My Experience

- How does description of Founder fit me?
- What did early team look like?
- What made each person the right person at the right spot?
- How did the team evolve?

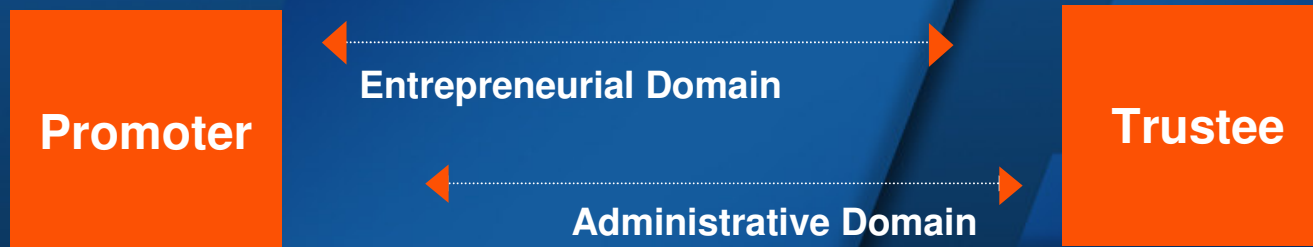
The Business Plan

- What is the market? Who is the customer?
What is the value proposition?
- What new “space” are you occupying? What is your competitive advantage and why is it sustainable?
- Who is going to execute it and why are they uniquely qualified to do so?
- How are you going to execute- the details?
- What are the risks and how are you going to manage them?

The Business Plan

- What are the options for financing the venture? How do you stage them? Maximizing cash in and minimizing cash out.
- What's the exit – how do investors get rewarded?
- What do the numbers tell you? Are they aggressive but credible? Have you drilled down deeply? Do you know them inside out (even if your not a financial person)?
- What's the deal on the table – are the risks and rewards distributed fairly – is everyone motivated appropriately?

Resource Acquisition – The Entrepreneurial Mindset



- Driven by Opportunity
- Revolutionary – Short Duration
- Multi-staged – minimal exposure per stage
- “Rent” Resources
- Flat multiple info networks
- Value/Performance/Team oriented

- Driven by resources controlled
- Evolutionary – long duration
- Single staged – complete commitment
- Ownership of resources
- Formal Hierarchy
- Security, resource control, promotion

From “A Perspective on Entrepreneurship”
By: Howard H. Stevenson

Resource Acquisition & Entrepreneurial Finance

- **Resource Marshalling**
 - Creative & Parsimonious - Frugal
 - Stage – minimum necessary per stage
 - Think money LAST – Bootstrap
 - Minimize & control resources, don't own

Resource Acquisition & Entrepreneurial Finance

- SBIR & other government grants
- Friends, Family & Fools
- “Bootstrap” Financing
- Angel Investors
- Venture Capital Investors
- Traditional Sources – Banks etc.

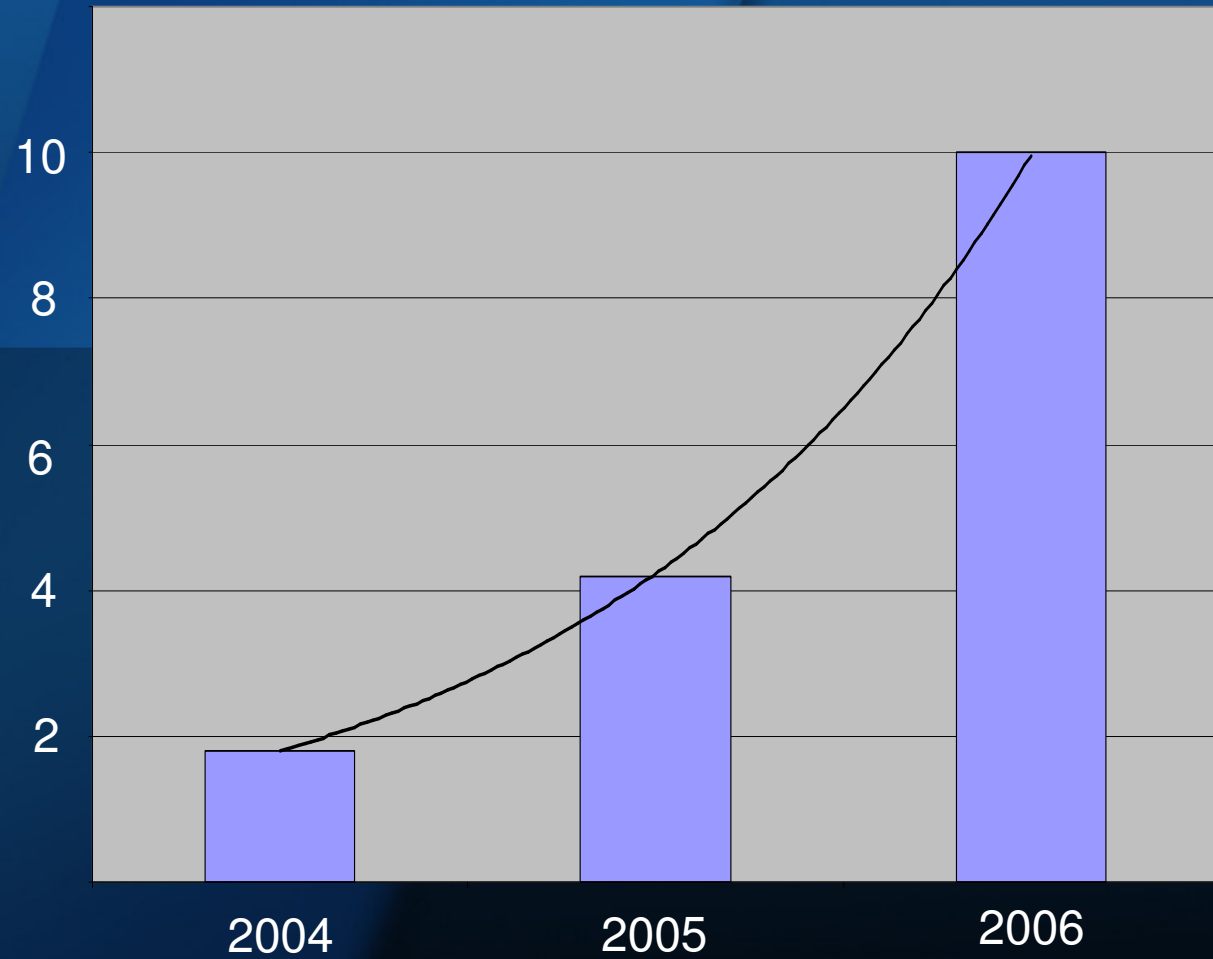
My Experience

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Managing Growth

- “CFIMITYM” “Burn rate” and other nice euphemisms”
- Leadership
- The Team
- Clear goals – but be nimble – adapt
- Keep your “eye on the ball”
- Take a step back, where are we?
Where are we going?
- The Company Culture
- Strains on People
- Strains on Finances

VERNET Explosive Growth



The ladder to success is not a straight ladder



Paradoxes of Successful Entrepreneurship

- Staying close the customer may be seed of self destruction – “Disruptive Technologies”
- Thinking small is much riskier than thinking big
- To make wealth you need to relinquish it
- Honest failure is good... failure is the rule not the exception, failure as learning tool
- Need to be creative and innovative AND rigorous and disciplined
- Requires much planning and preparation- but unplannable event – The business plan is “obsolete” the moment you finish it – the process is not

Interesting Entrepreneurship “Factoids”

- 80% of all “businesses” founded by “inventor” engineer, scientist etc. without “business” partner fail. Converse.....
- Think Big! Bigger is less risky than smaller

# of employees	Survival Rate
1 – 24	54%
25 – 49	68%
100 – 249	73%

- It’s not about the money – only 1 or 2 in 100 business plans get VC funding – on the other hand

Interesting Entrepreneurship “Factoids”

- Only 18% of the 2001 *Inc. 500* used VC financing (only 3% at start-up) the rest used “bootstrap” financing
 - Avg. 5 year growth rate 1,933%
 - \$25 million in revenues
 - 160 employees
- You can get “high tech” returns – 30x + return of original investment from low tech businesses

Defining Entrepreneurship

- Need to demystify
- Fundamental understanding of what entrepreneurship is all about
- Comprise a set of individual human characteristics (but not unique to entrepreneurs!)
- At the end of the day it is a systematic and rigorous application of a process
- Can it be learned – emphatic yes!!!
- Is it just for start-ups – emphatic no!!!!

