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Road Map of a Start Up in the 21st Century

More than 500,000 businesses are launched each month, according to the Kauffman Index of Entrepreneurial Activity, which measures U.S. start-up activity at the individual owner level. Maybe you've been thinking of joining those ranks. If so, you're in luck. Veteran Seattle rain maker, Frank Artale, recently shared insights about being a start up in the early 21st century at a Northwest Entrepreneur Network meeting.

Artale has spent the past 20 years as an executive, entrepreneur, and investor. He's been a General Manager in the Microsoft Windows 2000 group, founder and CEO of Consera, a software management company acquired by HP in 2004. He is currently senior vice president of strategic operations at XenSource, a leader in infrastructure virtualization solutions. Drawing from this experience, Artale provided a road map of insights for entrepreneur's considering diving in.

Why do a Start Up?

"Great question and one answer is simple: current income shouldn't be the driver," says Artale who explains, "Your paycheck will be dismal compared to the $1.5 million Microsoft pays senior vice presidents." Many do it because they can or for the love of the game. The risk vs. reward element is usually a key driver. Some may have been labeled a malcontent or don't fit into the large organization structure. Big companies aren't for everyone. For others a start up is great training ground to fast track a CEO career. But Artale cautions, "Regardless of your reasons, you need to love chaos to survive."

Once you've decided to go for it Artale says that you'll face two kinds of work: the easy stuff and the hard stuff. It's important to know the difference so you don't sweat the small stuff.

Executive Insights

Cheryl Isen

The Easy Stuff

There are six really easy things you can do to get your business rolling:

1. Capitalize on ideas—they're free.
2. If you need engineering talent, overseas labor is abundant and cheap.
3. Enjoy the proof of concept phase. It's the easiest part of product development.
4. Buy search exposure. With a little engineering talent you can train search engines to place your site in the upper left corner and leverage creative linking.
5. Hire good counsel and let them do their job. Don't bother reading every book on company structure.
6. Raise money through small angel rounds. Angels are willing and want to help.

The Hard Stuff

After the idea and proof of concept phase the real work begins. Here's where entrepreneurs prove their mettle:

- Getting real usage. This takes time and a keen understanding of prospects. Gather as much feedback during the process as possible.
- Finishing the product. Ensuring it doesn't "blow up" and works as promised is one of life's greatest challenges.
- Getting the first round of real financing. Securing angel money requires proof of product. Now you'll have to prove the company is solid.
- Getting a meaningful review. Independent reviews take time, even with a high powered product.
- Keeping great people. Start ups grind through people. Have incentives and reward people in meaningful ways. Providing company ownership works.
- Leveraging industry partners. Every technology company wants to partner with Microsoft, Dell, Google and Yahoo. Getting a meeting is hard work, but getting in front of the right person is even harder. Still harder, convincing them to make you a priority.
- Getting analysts calling you. You know you're doing well if you can get analysts like Gartner to call you without having to pay; even so, be prepared for their reports to have disagreements.
- Staying focused. Entrepreneurs thrive on chaos. It's much harder to focus on three things and easy to be distracted by 10.

Swimming with the "Big Guys"

One of the most important and hardest things a successful start up will have to learn is how to leverage partners. This is the fast track to getting big and critical to satisfying investors.

In the past 15 years Independent Software Vendors (ISV's) like Microsoft, Oracle and Cisco have become small economies. Learn to leverage ISV's. They are well-oiled machines and provide direct market access and instant credibility. Their vertical sales force of 2-3,000 people could take 10 years to build on your own.

Know what you want from the ISV partnership. Take advantage of their distribution, marketing and "outsourced" sales force. When you do the deal, be smart. Don't worry about leaving money on the table. Trading off margins for volume and market awareness will pay off for years.

Setting Expectations

Realistic expectations need to be set at every phase of building a company. When working with venture capitalists, you'll have to determine how much of the company to sell. Avoid a winner take all mentality. If you're not realistic and fair on the front end, you'll suffer on the backend. It's how deals work. Set the terms fairly.

Also consider your exit. Understand what a good exit means to you and don't be shy about talking about it. On the flip side, make sure you understand what a "home run" looks like to your investors. Is it an unrealistic 20X money invested or a more reasonable 3-5X?

Above all, do your best to make the exit smooth. Make sure that the team you're leaving is happy. Oftentimes key staff signs off on a founder's exit. If late comers aren't taken care of you could end up writing a personal check to secure the deal. You'll reduce risk if you've taken care of others along the way.

Most important of all—remember it won't all be easy, but then again, nothing will be more rewarding.

These "Executive Insights" are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps emerging companies increase corporate visibility and brand awareness Contact Cheryl at (425) 222-0779, Cheryl@IsenandCo.com or on the web at www.IsenandCo.com.