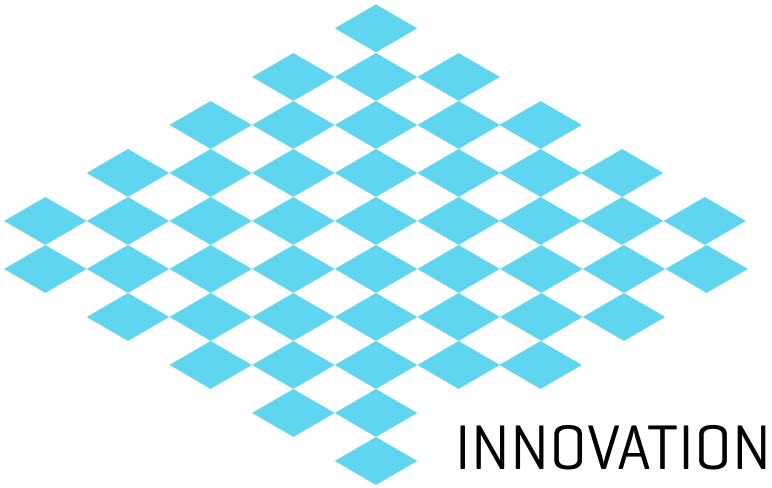
INNOVATION

CHAPTER 2:

INNOVATION

In the first chapter, we discussed at some length the ways that the foundation you establish for your business early on can set you up for success - or failure. If you'll remember, the primary metaphor that we referred back to throughout that chapter was the beach house scenario. If your business is your waterfront estate, than it's foundation is the lot upon which your house will be built.

If, at this point, you're reading this metaphor and thinking that you have no idea what we're talking about, we'd encourage you to go back to Chapter 1 and review the primary facets of a solid startup foundation. If, though, you feel confident in your understanding of the ways in which a startup's success is contingent upon its foundation, then let's move right along to innovation.

As an entrepreneur, innovation is likely a word that jumps off the page to you. I mean, after all, we're all here because we feel that our idea for a business can disrupt the market or improve upon an existing one, right? Right. Well, all that said, brace yourself for a truth that might be a bit uncomfortable:

You may not understand how innovation manifests in a startup.

It's true, and the less frightened you are to admit that there may be holes in your understanding of innovation, the better. This, as you'll learn through the duration of this chapter, is the result of buzzwords within the business world. We've created a culture of entrepreneurs, technologists and investors who all strive to innovate with their business ventures, but very few of them could give you a clean, stark definition for exactly how they intend to go about that innovation if asked.

Frankly, innovation often has less to do with the way that your product or service actually disrupts the market. Rather, it frequently has everything to do with the manner in which you present your company and product; the way in which you brand your services outwardly to the world.

Simply put, the ways in which you develop and brand your startup are often responsible for a greater portion of your overall innovation than the actual product that you deliver.

We can't ignore the importance of product development in establishing an innovative culture within your company, but it's important that we contextualize it appropriately in accordance with the above statement. With that in mind, in this chapter we're going to focus on three specific aspects of innovation that you should consider before, during and after launching your startup:

DEFINING YOUR USER EXPERIENCE (UX)

DEFINING YOUR USER INTERFACE (UI)

MANAGING YOUR PRODUCT DEVELOPMENT

As we move through this chapter, keep an open mind to the fact that there's no one correct way to go about developing an innovative culture within your company. You could focus on entirely different key areas of your business than the ones that we're going to delve into here and still end up with a deeply innovative business. With that said, we find that these three areas of businesses, particularly startups, are often neglected in terms of innovation. Let's jump right into it with a discussion of user experience, shall we?

Let's take a second here and note something simple but important. While there's a decent chance that you have some familiarity with user experience and design, there's an even higher likelihood that you do not.

Maybe you're an entrepreneur whose traditional work experience falls on the design side. If so, that's great, and you may not need the contents of this section as much as the next guy. But - if you haven't worked extensively with user experience and design - you're still going to be able to follow along here in a meaningful way. We're going to present a less technical, more high-level overview of how your UX can benefit your business.

All that said, let's dive in with a quick mental exercise: Take a few moments to think about some of the most successful (or at least notable) digital platforms that you can think of.

Regardless of what industry you chose to focus on, the odds are high that two companies came to mind in your list: Reddit and Google. You've thought of these with good reason; both companies are early digital natives that have experiences a great deal of success, attracting countless users from all over the world to their sites daily.

What we can learn from these two companies, though, lies less in their similarities and a great deal more in their differences. While the differences between these two are many, there's one that's extremely hard to miss: the respective UX strategies of the companies.

Google, for example, has an extremely clean aesthetic, one that's very becoming of a search engine.

Reddit, on the other hand, operates very, very differently. To the casual observer, the site appears messy and disjointed (when in actuality, as we will discuss, it very much isn't).

Now, if these two sites are so disparate in the way that they present themselves, why are they both so successful. That's the million dollar question, and it's something that we're going to come back to later on in this chapter. Since we're thinking along these lines currently, though, we're going to need to draw the distinction between UI (user interface) and UX.

UI, which we will also be covering more completely later on in this section, is everything that could be considered a piece of a company that users are going to interact with directly. UX is the experience that they're going to have while interacting with the company through its UI.

Confused yet? Hang in there. Here's where the Google/Reddit comparison becomes a lot clearer. While the UX and UI of a company that offered predominantly, say, consumer packaged goods might be starkly separate entities - the two often have a great deal of overlap. With Google and with Reddit, the website itself is the product. Google's product (keep in mind we aren't counting cell phones, Chromebooks, Google Glass, etc.) is more or less it's website, so it's UI and UX are intertwined. The same is true of Reddit.

As we said, we're going to come back to why Google and Reddit have been able to achieve such pronounced individual successes with such wildly different UX's - and why each company's UX and UI are so intertwined. Before we can do that, though, let's develop a working definition for UX.

> **User Experience (UX)**: The overall experience of a person using a product such as a website or computer application, especially in terms of how easy or pleasing it is to use.

Like many aspects of startup culture, UX is something where you'll receive wildly different answers depending on who you ask for a definition. We've lifted this definition directly from Google, because we believe it offers an unbiased, basic and easy to understand picture of what UX entails.

Your user experience is at the core of what people take away from their experiences with your company. In keeping with that, having a well designed UX offers you the rare and extremely valuable opportunity to make a good first impression (and a second, and a third, and so on..) upon your users. Now that we've given a working definition for UX and offered a sense of it's importance, we can meaningfully consider how your UX will affect your startup after launch. Begin by asking yourself (and your co-founders, if applicable) the following question:

HOW ARE WE GOING TO MAKE OUR UX STAND OUT?

Now, staring down this question at the outset of your startup can be intimidating, but it doesn't have to be. In order to arrive at the proper answer, however - the one that best suits the goals you and your cofounders have established for your company you need to take the question apart granularly. In doing so, you're going to need to be able to put yourselves in the shoes of your imagined average user.

Please note, here, that your average imagined user is not what

you hope your average user will be. Be honest with yourselves, here, and consider who's going to use the platform. Don't immediately imagine some tech-savvy digital native who will have no problems at all navigating your platform and seeing the meaningfulness in your company and product.

Once you've drawn a mental image of who this average user is, consider what they're going to value in a UX. Is this type of user going to want a platform that allows them to make autonomous decisions as they explore your products and offerings? Are they going to want a system that quietly does all of the work for them, or are they going to want one in which they have not only a glimpse into but also a say in the inner workings of your process? There's no one-size-fits-all answer to these questions for all companies, but you should be confident in your understanding of what that user will want before you begin designing and implementing your UX.

This can seem like a great deal of information to have to work through just to determine the general theme of your UX. In order to best answer our original question (How do we make our UX stand out?), it may be helpful to reduce the sentiment to a much simpler inquiry:

WHAT DO WE WANT PEOPLE TO FEEL?

Once you can begin thinking about your UX this way, you're already much closer to answering our initial question than you were with the initial question itself. Case in point: the initial question asked how one would go about making their UX stand out, which can be misleading from a phrasing standpoint. For example, if you focus entirely on making your user experience stand out, you may create a service that's disruptive enough, from a visual and experiential perspective, that it actually drives away more passive, relaxed, or nontechnical users.

Of course, it can be equally dangerous to consider this sentiment and then focus instead on making your UX simply blend in. In order to strike a balance where a valuable UX strategy can be developed, it doesn't hurt to consider the following metaphor:

You're planning a party for all of your friends and - more importantly - your partner's friends. Not everyone at the party has to like you or pretend that you did a good job if you didn't, so it's very important that you take the time to develop a solid plan. You decide to go with a themed party, for the sake of streamlining the planning. Whatever the theme is, there are going to be two primary decisions to make: where you host the party and what you put in the room where you're doing the actual hosting itself.

In the party metaphor, the room where you're hosting the event is, effectively, the UI. The decorations and the space are the interface that the party-goers are going to interact with. The drinks, food, music, entertainment and guest list are all, then, components of the UX. Everything that makes the interaction that the party-goers are having an experience - that's the UX.

Much like your target audience and foundational statements (which we discussed in chapter 1) you should be able to lay out your target UX appeal and strategy in one to two sentences, tops. Let's illustrate this through a few different methods, beginning with the party example we started above.

If you were trying to throw a pirate themed party for someone's birthday, you might initially come up with a target UX strategy that read something like this:

> ***"I want to throw a party for my friend's birthday that's very pirate-themed, like, I want everyone to feel really pirate-y and remember it that way after they leave."***

While this doesn't entirely miss the mark, it's a bit too broad, which can lead to issues of feasibility when it comes to actually executing the strategy at hand. Similarly, developing a target UX strategy that's too narrow comes with it's own share of problems, as well. An overly narrow UX strategy for the same party might read like this:

> ***"Everyone has to wear an eyepatch to this party and can only enter by walking the plank. We're going to put all of the gifts in a bag that says "pirate booty" and have swashbuckling sword fights on the dance floor."***

This target UX strategy for the pirate party may seem like one that could be actualized, and it is. The problem with it isn't that it's too hard to execute (as the overly broad example was,) but that the UX is so theme-specific that people will largely forget that they were at a party for a birthday at all. In fact, they'll probably just think that you're weird. Those people we mentioned earlier who don't have to like you - remember them? They're not going to.

You need a UX strategy that can be quickly summated, easily manifested and still bring the identity of your company or product quickly to the forefront of the mind of the user. The benefits of clearly developing this strategy become clearer when we apply

this theory to an actual business example, so let's do just that. You might remember our running example of Uber in Chapter 1. Imagine that you asked the founders of Uber, very early on in their company's pre-launch history, what their UX strategy was. If they responded with something like the following, it would be too broad and wouldn't work.

> ***"We want to create the most popular private transportation service in the world. We want our users to consider our service and brand synonymous with private transportation."***

While Uber certainly has gone on to do just that, this likely would have been far too broad a UX-strategy to execute. Instead, they arrived at their end result through constant honing of their UX and product as a whole. Similarly, if they had answered the question with the following, it would have been far too narrow, and also likely wouldn't have worked.

> ***"We want our UX to convey the importance of private transportation, all of the different services that we offer, our various pricing models, our philanthropic side, our company history and the colors black, white and blue. That's what we want our users to come away from our application thinking about."***

While users of Uber can, again, achieve most of this information from the website and mobile application, this would have been far too narrow a UX strategy to begin with.

One of the best ways to begin working towards a UX strategy that is neither too broad nor too narrow is to consider color theory, pattern matching and typography. While these theories are too broad to encapsulate here (honestly, they'd warrant

their own book), the effectively boil down to the fact that certain colors just don't mix. You don't want a clashing aesthetic on a website or application designed to entice people towards a product or service. With this in mind, you may want to take the time to complete some work through Google Material Design, an instructional best-practices framework that makes understanding these principles simple. Later on, we'll discuss a few products that our UX and UI team have had success with, and we'll discuss Google Material Design therein.

There's a reason that this section may seem convoluted the first time that you read it through: this is difficult stuff. You need to be able to put your target UX strategy into a sentence that can be modified as your business progresses to meet the needs of not only your ideal users, but also your average users. If you aren't able to pare the series of processes that define your UX into a target sentence, then you likely won't be able to execute it in a way that is simultaneously meaningful and simple for your users.

Take a deep breath, relax, and let the contents of this last section sink in. As we move into our next two topics, user interface (UI) and managing your product development, the points we've made here about UX are going to start to make a lot more sense.

Before we move on, we'd like to encourage you to take a second to look once more at the technical working definition we listed for UX:

> **User Experience (UX)**: The overall experience of a person using a product such as a website or computer application, especially in terms of how easy or pleasing it is to use.

Remember, when you start to think about how you can make your UX appealing, think about what exactly it is that your product or company aims to make people feel. That, paired with what we're going to discuss along the lines of product development and UI, will be key to developing a name for your company early on.

Alright, now that we're rolling, let's move on to UI, shall we?

User interface (UI), may seem like an entirely different beast than user experience, and in some senses that's true. For the most part, though, the two are overlapping and intertwined pieces of the same puzzle, and in order to understand one, it's important to have a firm grasp on both.

If you're reading the above paragraph and thinking to yourself, 'well, I still don't have much of a sense of UX at all, so I'm screwed,' don't worry, you aren't.

You'll be happy to know that user interface is a great deal easier to lock down in terms of practical application. There are a number of popular programs that we can suggest when it comes to actually designing your user interface, and a plethora of examples where the utility of those programs becomes immediately clear.

We're going to go through a few of these applications and programs in moderate detail, but before we can do that, let's take a second to pin down a working definition of user interface that we can refer back to later on in this section (and this chapter as a whole). For the sake of simplicity and consistency, we'll lift the definition for UI from a basic Google search, which you'll remember is how we arrived at our UX definition, as well.

> **User Interface (UI):** The means by which a user and a computer application interact, in particular the use of input devices and software.

In reading that definition, you probably feel a certain amount of relief at its simplicity. Considering that the vast majority of our readers are going to be starting companies in the tech space (or that at the very least have something to do with tech in general) this shouldn't come as a surprise. This ease of understanding, of course, also comes from the fact that a great deal of you are likely digital natives, born in the '80s or '90s and highly familiar with technical applications as a whole.

Whenever you open an app, log on to a website, or even turn on your computer, smartphone or tablet, you're dealing with a UI. For lack of a more eloquent way of putting it, UI is a veil that hides the inner workings of an application and provides you, the user, with a simple and easy to manage (hopefully) method of navigating the tool at hand.

Consider Uber, which we've spoken about at some length in the first two chapters of this text. When you open Uber, what you see is a carefully designed UI that displays a map, some basic information regarding pricing models (current supply and demand of available Uber vehicles) and some easy to swallow graphics. Of course, this isn't what the application is actually doing as you use it. The computer doesn't "see" the map or the pricing models in the same sense that you do. Your phone or computer is reading lines of code that are built out on the back end of the program, and providing you with a simple, easy to navigate method for commanding those lines of code to do what you want (such as

check a price, call a car or contact a driver.) Uber is an extremely complicated application from a technical perspective, but it's users never need to consider this, because the UI is so well designed.

Let that sink in. Take a deep breath. There, UI isn't so hard to understand, see?

Now this is where some of the examples that we cited earlier on in this chapter become applicable once more. With that in mind, let's take a second to return to the case of Google and Reddit. To review, both of these companies or platforms have extremely different UX's. The experience that a user has when searching on Google is a world away from the experience that one has when searching through Reddit, and this is largely due to the respective UI's of the companies themselves. Here, we can see how UI and UX work together to create the entirety of the user experience, largely through the interface. See how the two are linked?

The reason that we bring back the example of these two companies is that, despite having wildly different UX's and UI's, they're both very successful in their own right. That's because -and this is important- both companies have designed their UX and UI with their intended user in mind. Take a look at Googles search page.

What we see here is what a Google user would immediately encounter if they ran a search for the website Wikipedia. The first thing that should jump off the page at you is that the interface is extremely simple here. Even if - somehow - you had never run a Google search before in your life, you would be able to clearly understand what was going on here. The 'hits' that the

search generated are listed in order of relevance, and it would be extremely difficult to not arrive at what you wanted by simply working your way through the list and clicking on the links that are displayed.

In other words, the aesthetic is very clean. The UI is simple, even though the processes that the search engine had to go through (and the code that supports these processes) to deliver these results were no doubt extremely complex.

Now that we've established that the UI here is clean and simple, let's consider the user that Google had in mind when they designed this. In short, Google's intended user is literally everyone. Of course, you might make the point that every company's intended user should, in theory, be everyone, because that would allow them to maximize their impact and, eventually profit. While you wouldn't be incorrect in this, it's not a technically accurate response, as search engines are one of the only services created by man where we can reasonably assume that everyone, literally everyone, can benefit from the product.

Google wants their product to be accessible to everyone, so they make it extremely easy to use. They've taken something deeply complex and made it friendly, non threatening, unintimidating and simple. They've created their UI with the intention of making their UX very easy to work through, and it's driven a large part of their success. See how the UI and the UX work together here? Good. Moving right along, take a look at what the average user of Reddit, another highly successful technology platform, might see when they log on and begin searching.

If you didn't immediately notice a large difference between

the Reddit screenshot and the Google screenshot, then the whole technology startup thing may not be for you. Just kidding, we're not like that - but isn't the difference striking?

That's the great thing about this example: you'd have to be blind to not notice that the differences between the two are stark and numerous. Reddit has provided a messy aesthetic where Google provided a clean one, but has still managed to become an extremely successful website in terms of traffic and average daily users. How can that be?

While, as you may have expected, the answer to Reddit's success comes not in spite of its messiness, but rather in accordance with it. See, Reddit, just like Google, has designed their UI with the average user in mind.

As several digital media companies have reported over the years, Reddit's target demographic is predominantly males in their mid twenties who are already digital natives. In fact, Response Marketing from New Haven, CT, confirmed as much in a blog post they published several years ago analyzing Reddit's user data.

Once this information becomes clear, it makes perfect sense that Reddit has stuck to a slightly more crowded, busy aesthetic. The site is supposed to be a little less user friendly and more focused on personalization, because Reddit knows that's what males in their mid twenties will want. These individuals don't need quite as user-friendly a process as the average Google user might, because they're already digital natives and are likely more interested in customization of experience than ease of use. In keeping with that, Reddit has gone ahead and maintained their product with the best interests of their average user in mind. Their

UI informs a UX that appeals to the interests of their largest user demographics.

In short, the mess that they've created is actually brilliant, because those who use their platform don't see it as a mess. Reddit is giving their users what they want; what they want just happens to be very different from what Google users likely want, so the two have taken very different UI strategies and achieved considerable success through their own respective methods.

Now while these examples may seem like a lot to swallow, they point to one extremely important facet of UI development, which is best summed up as a question that you, your cofounders and anyone else involved in the production of your UI should be considering:

> ***"Who's our average intended user?"***

While it may seem like far too broad a question to lock down any one simple answer for, this is something that you'll need to have a convincing answer for before you can design a successful UI.

Of course, in answering this question, you're going to encounter a great deal more questions (if that sentence doesn't make you anxious you legitimately have nerves of steel). While this might seem unfortunate or like a lot of work (which it is) these questions are going to help you arrive at the right user interface strategy for your company and product.

Let's work through a few of these sub-questions in route to answering who our intended average users are, but not before an important disclaimer:

> **Your UI is never going to be done. It's never going to be perfect. As your company and platform grow, it's always going to be important that you use the company's performance as a means to target and infer how to best change your UI. Consider your UI a constant work in progress, and the success of your platform the signal for when and how to alter that work.**

Good, now that that's out of the way, let's delve into the sub-questions.

In order to discover your average intended user, you'll need to ask yourself not only who they are, but what their intent is. In the case of Uber, for example, Travis Kalanick and Garrett Camp might have answered that question like this:

> ***"Our average user's likely intent is to get a ride without having to put too much thought or planning into it. They want simple, on-demand service and reliability, and not much else."***

While we can't say that this is an actual conversation those two had, it seems believable enough, and the proof of it is the UI that Uber has developed. The app lets you preload payment information and a user profile; once you're set up you really don't have to do anything else. Just touch and request a ride. The UI is simple, and it's built that way because the two founders and early staff understood that their average intended user would likely want it to be that way.

In addition to asking yourself about your users intent, you might also ask yourself what it is you imagine that they want to feel when experiencing your platform's UI. Moving back to the Uber example, the answer to this sub-question would be very similar to the last sub-question we asked, and might read something like

this:

> ***"Following from the simplicity our average users will likely desire in a service, they probably want to be left without much to think about the ride - perhaps just a quick afterthought and the availability to provide commentary on it's quality if they see fit."***

Here, we can see how understanding what the eventual users of Uber would want to feel informed another aspect of the application's UI - the ratings system and receipt. These are the only two pieces of information riders are provided with after a fare, and they're quick, simple and easy to navigate. In fact, the ratings system simply presents as five stars that can be highlighted in one to two seconds, as well as a comments box if the user wishes to provide more technical or complex feedback.

Inversely, if they had imagined that their average user would want to have a highly technical understanding of how the application worked and the ability to heavily customize it, Uber's UI would likely present considerably differently, right?

Again, exploring the needs and wants of the average potential user informs decisions regarding the UI and - with any luck - leads to a product that caters as directly as possible to an intended audience.

This is why it's so critical to have a target demographic firmly established before getting out of your pre-launch phase. Knowing as much as you can about the individuals that you imagine will be using your product ahead of time allows you to make decisions about critical aspects of your platform - including the UI - that can benefit you down the stretch.

As you move further and further into the launch of your company, be sure that you're frequently referring back to your target demographic and noting any changes in it - as these changes will certainly affect your UI strategy.

With all that said, we've only spoken about UI strategy here in a largely abstract sense. Let's take a few minutes, then, to discuss some of the actual tools that you might use in order to create the best UI for your startup. In order to keep this simple and create a list that you can easily refer back to, we're going to describe each tool with a brief bullet point, followed by a link to more information.

Without further adieu, we've had good luck with:

UserForge: Perhaps one of the most useful tools out there for making informed and reasonable UI and UX decisions, UserForge is nothing short of revolutionary. While in the past, designers and decision-makers have had to aggregate incredible amounts of static data in order to get a sense of the various demographics of their user base, UserForge automates that process to bring your company into the future more quickly.

Effectively, UserForge creates profiles of individuals that represent the various slices of your user base as one person. These profiles, in turn, provide an age, income, relationship status, occupation, location and more that are indicative of the average information provided by your (potential) user base. In turn, this information allows you to make critical UI decisions that cater to your potential or active users without having to necessarily solicit direct feedback from them. Best of all, the platform allows for communication with team members along the way, and it's free.

Adobe Creative Cloud: Whether you're a designer, an

entrepreneur, a technologist or an investor, you likely are at least familiar with the concept of the Adobe Creative Suite. Considered by many to be the industry standard of design, the Adobe Suite (now available in the cloud for increased ease of access and collaboration among teams) includes PhotoShop, InDesign, Illustrator and more.

While pricing plans vary, the Creative Cloud is definitely one of the better investments that you can make as a young company. Not only will it allow you to create some of the work most integral to the success of your UI as a whole, but most designers that you hire will expect access to the program as a part of their role resources. I

Google Design Sprint: One of the most interesting tools that you can use when developing your UI isn't a piece of software at all, but rather a framework. Google Design Sprint is a process modeled on Agile project management techniques that allows for new features and functions to be designed and put into practice quickly and efficiently.

The program is designed to run across five cardinal features: Understand, Diverge, Decide, Prototype and Validate. Google Design Sprint has proven to be an especially effective framework when working with UI features, as it allows for a collaborative prototype process before any feature is truly put into beta.

Google Material Design: A subset of Google Design Sprint, Material Design is one of the most basic resources at the disposal of your UI and UX professionals, but potentially one of the most important. In short, the good folks over at Google put together a series of living documents regarding what they've found to be true in designing not only web applications and interfaces, but also tangible products.

The documents include a great deal of information on typography, color theory and font design, as well as countless other topics. No matter what space your startup exists in, you can and should benefit directly from seeing what they have to say.

Sketch: If your company runs an entirely PC environment, then Sketch isn't the program for you. Of course, if your company or design staff use Mac's, then this may be your best option. Sketch provides a highly accessible and powerful design suite at a very low price compared to the market rates.

Sketch is particularly useful for companies whose product or platforms require the design of a UI with many different buttons and individual features. Instead of creating a complicated series of paths, every object or shape that your designers create will be saved as an individual layer which can be easily accessed anytime.

The software starts at $99, and may be the best value buy for a young company with a limited design budget.

Invision: Another great option for design teams in a startup, Invision provides users with a platform designed to enable prototyping, collaboration and workflow with ease. Used by companies such as Uber, Salesforce and Adidas (to name a few), Invision is designed to allow designers, technical users and creatives to share their work in one space, allowing for collaboration in real time.

The basic premise of the platform is effectively plug-and-play design, in which designers can upload static wireframes and add the buttons, animations and transitions that bring a web platform to life. Best of all, Invision is fully open source and has pledged to always be free, making it perfect for young companies on a

budget.

While all of these tools may be effective for your company, you'll likely need to have critical conversations with your founders, investors, backers and staff before deciding on the product that's right for you.

As you go through this process, be sure to consider the needs and desires of your design staff, your budget and the return you're hoping your investment in your UI provides. You'll also want to remain clear on the fact that your needs in terms of UI and design will change a great deal over time. Be open to the fact that your product's progression, as we mentioned, will be the best source of data regarding when you need to make changes to your UI, and what changes you'll need to make.

Now that we've taken the time to discuss UI development from both an abstract and semi-technical perspective, we can move on to our next area of focus - product development.

Product development is one of the most intersectional topics that one can discuss when it comes to getting a young company up and running. For better or worse, almost all facets of your startup will need to come together as one in order to meet the ongoing demands of product development.

Think of product development as a fire at the center of your company. In order to keep the company running hot, product development needs to be a constant process. Someone always has to be stoking the fire, monitoring its levels, making sure both that it doesn't go out and that it doesn't get ahead of itself.

Now, maintaining that balance can be tricky, but it's best accomplished (at least in our experience) when you take the time

to divide product development as a whole into three main silos: product goals, company financing and personnel operations. While the two latter silos may not seem directly related to product development, they very much are when dealing with startups, and we'll get to the how and why of that as we move through this final section of the chapter.

Diving right into the first of these three, let's discuss product goals. More specifically, it's important that we discuss the method by which your startup goes about setting these goals. Obviously, you likely understand that you can't do everything at once, but it's actually extremely important to constantly remind yourself of this sentiment.

When you're getting a young company off the ground, it's easy to fall into the trap of biting off more than you can chew. The key to avoiding this is to make sure that you're constantly setting granular goals. If you want to have an industry leading application, you can't just attack the process by saying "we're going to build the best application in this field." You need to break off small, manageable pieces of the final product and come at them one at a time. This not only allows you a clearer sense of how your product is progressing over time, but also allows you and your partners to modify the product as you go.

Consider the following: If you drew up a schematic for your company's entire product before launching the company, and then proceeded to build the product strictly from that plan without every stopping, you would invariably have a worse product than if you built the product piece by piece. This is because your initial idea for your product is never going to be more complete,

functional and solid than one that you've had the chance to revise several times. Revision is inherent to the process of establishing and completing granular goals, so granular goals are critical to the success of your product development.

The second silo of establishing an effective product development cycle is to be very clear on the best company financing strategy for your organization. If you're still in the pre-launch phase, you're likely acutely aware of the fact that there are effectively two ways to finance your business: bootstrapping your company or taking VC funding.

*****NOTE - LET US BE CLEAR ABOUT SOMETHING FROM THE OUTSET OF THIS DISCUSSION: THERE IS NO ONE CORRECT WAY TO FINANCE YOUR COMPANY, BUT THERE ARE MANY INCORRECT WAYS TO DO IT. EVEN THOUGH WE'RE ONLY PRESENTING TWO PRIMARY OPTIONS HERE - KEEP IN MIND THAT YOUR SOLUTION MAY LIKELY BE A COMBINATION OF THE TWO, OR PERHAPS EVEN AN AMALGAM OF OTHER FUNDING SOURCES. WE'RE CHOOSING TO OUTLINE THE BENEFITS AND DRAWBACKS OF BOTH BOOTSTRAPPING AND VC FUNDING BECAUSE THAT'S WHERE OUR FAMILIARITY LIES.*****

Bootstrapping your company finances provides you with more control of your startup as a whole, but at greater personal risk. For those of you unfamiliar with the term, the working definition of bootstrap is as follows:

> **Bootstrap:** Get oneself or something into or out of a situation using existing resources.

When you make a company finance plan that involves bootstrapping as your primary source of funding, you're

developing your company and your product using resources that are already at your disposal. In layman's terms, you aren't borrowing money from outside resources such as angel investors or venture capitalists. Now, keep in mind that this doesn't necessarily mean that you aren't borrowing money in an absolute sense. For example, when you're bootstrapping a company, you might place cash reserves into the company from your founders and yourself, but you might also take out cash advances on your credit cards to fund your venture. This is, in technical definition, borrowing, but it's borrowing from a resource (a line of personal credit, in this case) that you had already established, so it's still bootstrapping.

Bootstrapping comes with several undeniable downsides. First and foremost, the amount of capital that you're able to generate to get your company off the ground in the launch stages is simply a great deal lower. Unless you're fortunate enough to come from incredible means, you're not going to have as much money at your disposal privately as you would if you went the route of venture capitalists, banks and general investor funding series.

While it can seem a great deal scarier to drain your bank accounts and max out the cash advance lines of your credit cards than to take money from investors, the process comes with one distinct advantage: control. To put it bluntly, every dollar that you take from investors or venture capitalists comes with a price, and that price is usually going to be a loss of autonomy within your company.

Of course, there are two sides to every card when it comes to dealing with company financing, and venture capital backing

comes with it's fair share of advantages and disadvantages, as well. Before we get into that, let's offer a definition of venture capital to contrast with our definition of bootstrapping.

> **Venture Capital:** Financing that investors provide to startup companies or small businesses that are believed to have long-term growth potential.

When taking financing for a company in its early phases from venture capitalists, founders of startups sacrifice a small amount of autonomy for the knowledge that they're going to have money to cover their operational costs and draw salaries for their employees for a specified period of time.

Typically, venture capitalism comes with a stipulation where the investor providing the money gains a percentage of equity within the company in exchange for an overhead payment. That equity usually vests over a pre-established period of time, allowing the investor to gain control of their share of the company at an expected rate, and allowing the company the opportunity to buy them out before their shares fully vest should the founders and powers that be see fit to do so.

Venture capital funds can come in a wide array of flavors, and the options can seem overwhelming. It's important though, to understand the differences between the vehicles by which you'll actually receive your funding. Primarily, you'll find that venture capitalists make funds available through either priced equity rounds, convertible debt, and SAFE notes. Let's get some working definitions here, for these three tools:

> **Priced equity rounds:** An offering and sale of new stock within your company at a predetermined price per share.

So, in a priced equity round, you sell common stock in your company, and the investors who provide you with funds receive these shares. These VC's are then partial owners of your company, just like when you buy stock in, say, Disney or General Electric.

> **Convertible debt:** A loan, given to your company by investors, that isn't ever intended to be paid back. Instead, the loan is scheduled to convert to stock/equity within your company at a predetermined future date, and usually under a stipulation of interest or maturation over time.

With convertible debt, you receive a *free* loan in exchange for the promise of delivering stock to that investor later on. Please note here that, with convertible loans, the price per share f of the stock that you will eventually deliver isn't set yet. Rather, it's contingent upon a valuation that comes later, when you actually sell stock and have a price per share. Because of this, the investor and the entrepreneur never know how much their convertible debt is worth in terms of stock. The higher that eventual stock price is set, the less stock the investor receives, and vice versa.

> **SAFE Notes:** A SAFE note is essentially a simpler convertible note, as it doesn't include stipulations of interest or investment maturation.

While both SAFE notes and convertible debt become equity or stock down the road, a SAFE note does so in a far less complex matter, as the amount that the investor loans you is the amount that you will owe them in stock or equity, with no interest.

Regardless of what form of venture capital you may choose to fund your startup, it has to come from somewhere, predominantly, the two main groups that you'll find in the VC scene are angel

groups and early stage venture funds, also known as seed investors. The primary difference here is that angel investors or angel groups are usually comprised of several affluent individuals who are spending, more often than not, their own money. Typically, these are the individuals you will find seeking convertible debt or SAFE notes in exchange for funding. Inversely, early stage venture funds or seed investors are often individuals spending money from an established fund or people that you already know from your personal network. In these situations, direct equity is a more frequent form of investor compensation.

While venture capital can seem like an option that's far more desirable than bootstrapping, the answer is rarely that simple. The raw truth of it is that you need to have an open and honest conversation with your co-founders and the other individuals close to your company to determine what company financing strategy is right for you. More often than not, it's going to be a mix of the two or, as we alluded to earlier, a mix of several sources that may include funding options not listed here.

The vast majority of funding for startups comes from bootstrapped financial options. Now, this isn't necessarily because entrepreneurs are scared to lose control to investors or because investors don't want to take risks on entrepreneurs. Rather, it's likely a result of bootstrapped capital being the most easily accessible form of fuel for the average startup.

Note that options such as crowdfunding or bank loans are also popular means of getting a company up and running. If you chose to exercise the crowdfunding option through something like a GoFundMe account, you might incentivize users of the platform

to donate by offering certain donation amounts a small portion of equity in the company, not unlike a VC model. Similarly, when dealing with donations from friends or family, you might find that the best incentive to achieve donations from these individuals is to offer them an advisory position within the organization.

Keep in mind that no matter what company financing strategy you choose, you won't only be affecting your product development, but also your personnel operations.

Personnel operations are where your product development and day to day procedures intersect. The individuals who you choose to work with are likely a big part of the reason that you chose to leave your nine to five for a startup position, and they have a great deal to do with whether your product becomes a sensation, just gets by, or totally flops.

One of the hardest realities to accept when it comes to personnel operations is that if you take the venture capital route in terms of financial strategy, you may be dealing with diminished personnel autonomy down the line. This isn't to say that you won't be able to hire who you want, but you may have less say in decisions than you thought you might as the founder of your company.

For example, you might come across an investor who offers you what you're estimating two years of operational costs to run. This individual might counter your offer for a portion of company equity in exchange for an even smaller amount of equity in the company and a managerial position. While this may seem like a great deal at the outset - and why wouldn't it? You just held on to more of your own company than you anticipated! - it might not

be all it's cracked up to be. That individual investor may then gain the power to sway company decisions down the line, driving your product development further from your original vision than you had initially intended.

Now, of course, not all investors are going to be like this, but it's something that you need to keep an eye peeled for as you move closer and closer to the next phase of your company: acceleration. Personnel operations extend far beyond company financing strategy, as well. Arriving at the point where you're ready to begin onboarding people is a great accomplishment, but it brings with it a great deal more questions. How do you determine compensation for these individuals? What does the benefit structure look like when you're still a young company? How do you negotiate contracts?

Believe it or not, every one of these questions will have an impact on the growth of your company and your product development cycle. Once you feel that you have a sense for your UX definition, UI strategy and product development, you're ready to begin thinking past company launch and innovation and into the next frontier: acceleration.