directors or board of advisors. Try to preserve the person's dignity. In most cases, there will be a blowup. Expect that. It might take years to heal your relationship, but that's how it goes.

RECOMMENDED READING

Lewis, Michael. *Moneyball: The Art of Winning an Unfair Game*. Waterville ME: Thorndike Press, 2003.

Meyers, David G. *Intuition: Its Powers and Perils*. New Haven, CT: Yale University Press, 2002.

CHAPTER 7

The Art of Raising Capital

At a presentation I gave recently, the audience's questions were all along the same lines: "How do I get in touch with venture capitalists?" "What percentage of the equity do I have to give them?" No one asked me how to build a business!

—Arthur Rock

GIST

This chapter explains the process of raising capital from outside investors. These investors may be venture capitalists, management, foundations, government entities, or any of the three Fs: friends, fools, and family.

My experience is with the Silicon Valley venture capital industry, a group from which you may never try to get an investment. However, if you can raise capital from a Silicon Valley venture capitalist, you can raise capital from anyone. As the Frank Sinatra song goes, "If I can make it there, I'll make it anywhere."

Skillful pitching, which we covered earlier, is a necessary, but not sufficient, part of raising capital. More important are the realities of your organization: Are you building something meaningful, long-lasting, and valuable to society?

BUILD A BUSINESS

If there's someone to believe about raising money, it's Arthur Rock. He was a founder and chairman of Intel and backed companies such as Fairchild Semiconductor, Teledyne, and Apple. Many, many venture capitalists are simply lucky. To misquote Eugene Kleiner, a legendary venture capitalist from Kleiner Perkins Caufield & Byers, in a tornado even a dodo's investments can fly.

Arthur Rock is more than lucky, and the man is telling you this: If you want to get an investment, show that you will build a business. Make meaning. Make a difference. Don't do it for the money. Do it because you want to make the world a better place. This applies to the geekiest of technology startups as well as to low-tech, no-tech, and not-for-profit organizations.

If you do succeed in building a business, either investors will be fighting to give you money or you won't need their money. Both are good problems to have. On the other hand, if you perform unnatural acts to raise money, you probably won't build a business, and you probably won't get the money, anyway.

A logical and fair question is *How do I build a business without capital?* This was covered earlier, in Chapter 5, "The Art of Bootstrapping," but the bottom line is this: You find a way. As venture capitalist Hunt Green said, "Everything is always impossible before it works. That is what entrepreneurs are all about—doing what people have told them is impossible."

GET AN INTRO

Thank you for sending me a copy of your book. I'll waste no time reading it.

—Moses Hadas

In publishing, movies, music, and venture capital there's a fairy-tale scenario that goes like this: You submit a draft, script, song, or business plan to an organization. Despite the mounds of other submissions, the quality of your pitch is so stellar that someone frantically asks you to come in for a meeting. After one meeting, you cut a deal.

Dream on.

God as my witness, the following is a true story. A startup had given up on getting money from a top-tier venture capital firm because the startup sensed there was no interest. I asked a partner at the firm why it had passed, and he told me it was because his associate knew a company in Europe that was doing the same thing. Also, the company had supposedly achieved "100 percent market share in Europe and was coming to the U.S." Therefore, it was probably already too late for another entrant.

I asked the associate who the company was. He didn't know—a friend had told him about it. I contacted this friend, and he also didn't know who the company was. Apparently another friend had told him about the company, and about how it had 98 percent market share in a tiny vertical market in Eastern Europe (as opposed to all of Europe!).

Let's review: A friend told a friend who told an associate who told a partner not to bother looking at the company. This tale illustrates why you need an introduction by a credible third party to get a decision maker to take a serious look at your organization.

The point is not that the submission process should be a level playing field. The point is to tilt the playing field in your direction by getting an introduction by sources that investors respect:

- **CURRENT INVESTORS.** One of the most valuable services a current investor can provide is to help find additional investors. This is part of the game, so don't hesitate to ask for help. Most investors will at least listen to the recommendations of other, current investors.
- **LAWYERS AND ACCOUNTANTS.** When you pick a lawyer, an accountant, and a PR firm, look for connections as well as competence. Ask them if they will introduce you to sources of capital. Lots of firms can do the work, so find one that can both do the work and make introductions.

- **OTHER ENTREPRENEURS.** A call or an e-mail from an entrepreneur to his investors saying, "This is a hot company. You should talk to them," is powerful. Go to the investor's Web site to figure out which companies he's invested in—you may well know someone at one of them. If not, get to know someone—execs at these companies are probably easier to get to than the investor himself. For those who are starting not-for-profits, look at the organizations that the target foundations have funded.

8 **PROFESSORS.** Investors are impressed by the suggestions of professors. In Silicon Valley, for example, a call or an e-mail from a Stanford engineering professor will get the attention of every venture capitalist around. I hope you did well in school!

What if you don't know these kinds of folks? It's a cruel world. Raising capital isn't an equal opportunity activity, so get out there and get connected. I've tried to help with a short course about schmoozing at the end of this chapter.

SHOW TRACTION

Generally, investors are looking for a proven team, proven technology, and proven sales. Investors rank these factors in different order, but the one factor that cuts through all the hyperbole is racking up sales. (In Silicon Valley we call this "traction"—in the sense that a tire grips the road and moves a vehicle forward.)

Traction counts the most because you've demonstrated that people are willing to open their wallets, take out money, and put it in your pocket. That's the bottom line. If you can do this, the provenness of your team and technology is less important. I don't know of an investor who would rather lose money on provenness than make money on unprovenness.

Traction takes different forms in different industries. It's a straightforward definition for companies with products or services: revenues. In other cases, revenue may not be the parameter:

Schools	Enrollment and student test scores
Churches	Attendance at services
Museums	Numbers of visitors
Volunteer organizations	Contributions and number of volunteer hours

This raises two logical questions:

- How can I show traction if I don't have any money to start the company?
- What if my product or service isn't finished yet?

The answer to the first question is a resounding "Who said it would be easy?" So review Chapter 5 ("The Art of Bootstrapping"), cut a consulting deal for a potential client, and do what you have to do.

The answer to the second question is more complex. There is a Hierarchy of Traction—with all due respect to Maslow's Hierarchy of Needs. This is the pecking order:

1. Sales (or the parameters discussed above for nonproduct or service companies)
2. Field testing and pilot sites
3. Agreement to field test, pilot, or use prior to shipment
4. Establishing a contact to pursue a field test

The higher you are in this hierarchy, the better. But if you don't at least have a contact for a field test, you will have a hard time raising money.

CLEAN UP YOUR ACT

Other than in times of irrational exuberance, most investors are looking for reasons not to do a deal. Statistically, they would be right because most deals don't pan out. Think of an investor's deal flow as a funnel. Two thousand business plans enter at the top of the funnel. Two hundred are moderately credible. One hundred are interesting enough to read. Forty undergo due diligence. Ten get funded. One makes a bundle of money.

Investors want to weed out the rejects as quickly as possible because they don't want to waste time, and obvious flaws make it easy to throw out a plan, so you must present a clean slate. Here are the areas in which flaws abound:

- **INTELLECTUAL PROPERTY:** Lawsuits, or the risk of lawsuits, by former employers claiming that your technology belongs to them; core technology belonging to a founder, not the company; infringement on someone else's patents.
- **CAPITAL STRUCTURE:** Ownership of the vast majority of the organization by a few founders who are not willing to spread it out; dominant control by an inflexible investor who doesn't want any dilution; substantially overpriced or underpriced previous rounds.
- **MANAGEMENT TEAM:** Married or related co-founders; unqualified friends or roommates in CXO-level positions; lack of relevant industry experience; criminal convictions.
- **STOCK OFFERINGS:** Grants of stock (as opposed to options) to consultants and vendors in lieu of payment; common stock sold to friends and relatives at high valuations; solicitation of investors who are not qualified according to securities laws.
- **REGULATORY COMPLIANCE:** Noncompliance with state or federal laws and regulations; nonpayment of payroll taxes.

DISCLOSE EVERYTHING

If there's crud that hasn't been—or cannot be—cleaned up immediately, then disclose it to investors. And do it early in the process. The later you reveal it, the harder it will get to do so and the more it will harm your credibility.

For example. Garage once invested in a company that disclosed that a potential investor had a consulting agreement with the company. This deal came to light shortly before the financing was closing. This investor was buying stock, as well as receiving stock and cash for consulting services. No other investor had a similar deal.

When the other investors found out about this arrangement, the deal almost collapsed. Had the company made a full disclosure earlier and explained why it made sense for everyone (which, in fact, it did), things would have gone much more smoothly. Unfortunately, a high-value investor bailed out because of this last-minute issue.

What if you started, or worked for, an organization that failed? There's no use in trying to hide this fact, because investors will uncover it. It's also poor form to blame anyone or anything else: the market, other employees, customers, or, in particular, the investors (no matter what the truth is).

My recommendation is that you do a *mea culpa.* That is, you accept as much blame for the failure as is justified and "confess" your sins. Sophisticated investors find this admirable, and many an investor has made boatloads of money betting on entrepreneurs who failed in earlier efforts. What's important is not that you failed—it's that you learned from your failures and are eager to try again.

The lesson is this: Clean up your problems or disclose your problems, but never hide your problems.

ACKNOWLEDGE, OR CREATE, AN ENEMY

Many entrepreneurs believe that investors want to hear that the organization has no competition. Unfortunately, sophisticated investors reach one or both of the following conclusions if entrepreneurs make such claims:

- There's no competition because there's no market. If there were a market, there would be others trying to win it.
- The founders are so clueless that they can't even use Google to figure out that ten other companies are doing the same thing.

Starting an organization to serve a market that doesn't exist or exhibiting cluelessness is not conducive to raising money. A moderate level of competition is a good thing because it validates the market. Furthermore, the fact that you are aware of your competition shows that you've done your homework.

It's your job to show how you are superior to the competition, not that it doesn't exist. A chart that explains what you and your competition can and cannot do is useful to accomplish this.

COMPANY	WE CAN DO, THEY CAN'T	WE CAN'T DO, THEY CAN
X		
Y		
Z		

You should list the things that you can't do and the competition can because this builds credibility, showing that

- You can realistically appraise competition.
- You can communicate your knowledge clearly and succinctly.
- You are willing to present facts that don't always make you look good.

You can also use this chart to promote the relevance of your product or service to the marketplace by mapping your capabilities to the needs of your customers. That is, the list of "what we can do" capabilities should immediately illustrate that there's a need for your product or service.

So be bold. Openly discuss your strengths and weaknesses. Doing so will make your strengths more believable.

Unfortunately, no one ever does it this way. Instead, they contrive a matrix that makes them look good—frequently with irrelevant, if not downright silly, parameters. Something like this:

	US	COMPANY X	COMPANY Y
Right-handed CEO	/		/
Drive hybrid cars	/	/	
Vegan employees	/		
Use Open Source code	/		/

If you truly don't have competition, then zoom out until you can define some. Competition can be as simple as the reliance on the status quo, Microsoft (since at some point Microsoft will compete with everyone for everything), or researchers in universities. Pick something, because saying you have no competition at all is a nonstarter.

TELL NEW LIES

In a typical day, an investor meets with two or three companies and sees another four or five executive summaries. Each company claims to represent a unique and earth-shattering opportunity with a proven team, proven technology, and proven market. No company claims to be a bunch of losers who don't know what they're doing.

Also, while you might think that you and your meeting are the center of the universe, in fact you're just the 10:00 A.M. meeting, when there was already one at 9:00 A.M. and two more follow you at 1:00P.M. and 3:00 P.M.

Part of she center-of-the-universe delusion is that entrepreneurs invariably believe that they're telling investors something new. For the sake of investors who are tired of hearing the same old lies and for the sake of entrepreneurs who hurt their case by telling them, here are the top ten lies that entrepreneurs tell investors. Study them carefully, and at the very least be prepared to tell new lies.

Lie #1: "Our projection is conservative."

Not only is your projection conservative, but you'll be doing $100 million by year 3. In fact, the company is going to be the fastest-growing company in the history of mankind. Your projection isn't conservative. Frankly, you have no clue what your sales will be.

I fantasize about the day an entrepreneur tells me, "Frankly, our projection is a number we're picking out of the air. We're trying to make them high enough to interest you, but low enough so that we don't look like idiots. We really will have no clue until we ship the product and see how it's accepted." At least that entrepreneur is honest.

Lie #2: "Gartner (Forrester, Jupiter, or Yankee Group) says our market will be $50 billion in five years."

In Chapter 3 ("The Art of Pitching"), I discussed what listeners think when entrepreneurs try to "prove" market size, and I advocated "peeling away the onion" or catalyzing fantasy instead. To repeat my advice: Don't cite these numbers and expect to impress investors. No one comes in and says, "We're in a crappy little market." Everyone does what you do.

Lie #3: "Boeing is signing our contract next week."

As I said, traction is good. It really makes you fundable. But until a contract is signed, it's not signed. When the investor checks in a week, and the contract isn't signed, you've got a real problem. In five years, I've never seen a contract signed on time. Talk about Boeing and your big deals *after* they're done. In general, make sure that all surprises to investors are upside surprises.

Lie #4: "Key employees will join us as soon as we get funded."

Let me get this straight: You're two guys in a garage, you're trying to raise a few hundred thousand dollars, your product is twelve months from completion, and you're telling me that these well-known people are going to resign their $250,000 per year, plus bonus, plus stock option jobs to join your company?

When we've checked with these key employees about whether they're in fact all set to join the company, the response, more often than not, is, "I vaguely remember meeting the CEO at a cocktail party." If you're going to tell this lie, make sure that these potential employees are locked and loaded and ready to quit.

Lie #5: "Several investors are already in due diligence."

That is, "If you don't hurry, someone else will invest in us, and you won't have the chance." This works well in times of irrational exuberance, but it is generally a laughable tactic. The reality, and what the listener is thinking, is *You've pitched a few other investors, and they haven't gotten around to rejecting you yet.*

The odds are that the investors know one another better than you know them. They can easily call up their buddies and find out how interested another firm is in your deal. To pull this lie off, you'd better be either a great bluffer or smokin' hot, or you won't have a chance against the investor network.

Lie #6: "Procter & Gamble is too old, big, dumb, and slow to be a threat."

Procter & Gamble, Microsoft, Oracle, Ford . . . pick a successful company. Many entrepreneurs think that by making such a statement, they are (a) convincing the investor of their moxie, (b) proving that they can defeat an entrenched competitor, and (c) establishing a competitive advantage.

In reality, they are showing how naive they are about what it takes to build a successful business. There's a reason why people such as Larry Ellison can keep the San Jose airport open late for their private jets while you and I are munching peanuts on Southwest Airlines. And it's not because they are old, big, dumb, and slow.

It's scary enough to investors that you are competing with an established company. Don't seal your coffin by showing how clueless you are by denigrating such competition. Instead, build the case for these kinds of alternatives:

- partnering with the competition
- flying under its radar
- addressing a niche that it can't or won't address

Lie #7: "Patents make our business defensible."

Patents do not make a business defensible. They might provide a temporary competitive advantage—particularly in material science, medical devices, and biotech companies—but that's about it.

Garage, for example, has a patent on the process of investors and entrepreneurs using the Internet to catalyze investments. Do I sleep better at night because of this? Has it prevented investment banks, laid-off investment bankers, and consultants from using the Internet to connect buyers and sellers of private placements? Would we try to enforce the patent? The answers are, respectively, no, no, and no.

By all means, file for patents if you can, but don't depend on them for much more than impressing your parents unless you have the time (years) and money (millions) to go to court. If Apple and the U.S. Department of Justice can't beat Microsoft in court, you can't, either.

When talking to investors, the optimal number of times to mention that your technology is patentable is one. Zero is bad because it implies you don't have anything proprietary. More than one mention means that you're inexperienced and think patents make your business defensible.

Lie #8: "All we have to do is get 1 percent of the market."

This is what venture capitalists call the Chinese Soda Lie. That is, "If just 1 percent of the people in China drink our soda, we will be more successful than any company in the history of mankind." There are four problems with this line of reasoning:

- It's not that easy to get 1 percent of the people in China to drink your soda.
- Very few entrepreneurs are truly going after a market as large as all the people in China.
- The company that came in before you said something similar about another market. So will the company after you.
- A company that is shooting for only 1 percent market share isn't interesting.*

The right thing to do, as I discussed earlier, is to either come up with a believable total addtessable market figure or catalyze fantasy so the investor can come up with a number himself. But saying that all you have to do is get 1 percent of a big market labels you a bozo.

Lie #9: "We have first-mover advantage."

There are at least two problems with this lie. First, it may not actually be true. How can you possibly know that no one else is doing what you're doing? As a rule of thumb, if you're doing something good, five other organizations are doing the same thing. If you're doing something great, ten are. Second, first-mover advantage isn't all that it's cracked up to be. Being a "fast second" might be better—let someone else pioneer the concept, learn from their mistakes, and leapfrog them.

Lie #10: "We have a world-class, proven team."

The acceptable definition of *world-class* and *proven* in this context is that the founders created enormous wealth for investors in a previous company, or they held positions in highly respected, publicly traded companies. Riding the tornado of a successful company in a minor role, working for McKinsey as a consultant, or putting in a couple of years at Morgan Stanley doesn't count as a proven background.

* Every venture capitalist secretly wishes to fund a company whose greatest threat is an antitrust lawsuit by the U.S. Department of Justice and the European Union.

EXERCISE

Give the list of lies to a friend and ask him to listen to your pitch. How many of these lies do you tell? You fa,, the exercise ,f you tell more than two,

DON'T FALL FOR THE TRICK QUESTIONS

In addition to telling new lies, you also need to correctly answer trick questions. Investors pose these questions to see if you're inexperienced or dumb enough to utter the wrong answers. Use the following table as a guideline.

INVESTOR TRICK QUESTION	WHAT YOU WANT TO SAY	WHAT YOU SHOULD SAY
"What makes you think you're qualified to run this organization?"	"What makes you think you're qualified to run this venture capital firm?"	"I've done OK so far, getting us to this point. But if it ever becomes necessary, I'll step aside."
"Do you see yourself as the long-term CEO of the organization?"	"What did your limited partners see m you?	I've been focused on getting our stuff to market. I will do whatever is necessary to make this successful—including stepping aside if needed. Here are the logical milestones at which we can make this transition . . ."
"Is ownership control of the organization a big issue for you?"	"I'm going to be putting in eighty hours a week to make this successful, and you're asking me if I care how much of it I own?"	"No, it's not. I realize that to make this successful, we need great employees and great investors. They all need to have a significant stake. I will focus on making the pie bigger, not on getting or keeping a big part of the pie."
"What do you see as the liquidity path for the organization?"	"An IPO that sets a new record for valuation for NASDAQ."	"We know that we have a lot of hard work to do before we can even dream of liquidity. We're designing this company to be a large, successful, and independent entity, Right now, our heads are down, and we're working as hard as we can to to do this. An IPO would be a dream outcome—plus these five companies are possible acquirers in the future . . ."

Got this straight? Tell new lies and old truths—not vice versa!

HERD THE CATS

There may be fifty ways to leave your lover, but there are even more ways for investors to tell you no. Unfortunately, entrepreneurs can't take no for an answer (this is part of being an entrepreneur). Simultaneously, investors don't like to provide clear and unequivocal rejections; they prefer the SHITS technique: (Show High Interest, Then Stall). Here are the common responses (using the term loosely) that entrepreneurs receive:

"You're too early for us. Show us some traction, and we'll invest."
"You're too late for us. I wish you had come to us earlier."
"If you get a lead investor, we'll be part of the syndicate."
"We don't have expertise in your sector."
"We have a conflict of interest with one of our existing companies." (Trust me, if they thought they could make money with your company, they'd resolve this conflict.)
"I liked your deal, but my partners didn't."
"You need to prove that your technology can scale."

Most of the time what the investor is really telling you is "When hell freezes over." But there are some cases in which investors are genuinely interested but not yet committed. You may get an investment from them, but it will be as hard as herding cats.

The key to herding the cats successfully is (to mix metaphors) to get one in the bag rather than several close to the finish line. It's helpful if this cat is a big, beautiful, and well-known one, but any cat that isn't your relative will do. Investors—like misery—love company.

Winning over an investor is not only about providing objective, quantifiable, and compelling information through your pitch, business plan, and references. It's as much a dating process as it is an analytic process. The investor who "might" have said no is still watching what you do:

- Did you try to establish contact after the pitch?
- Did you answer questions that came up in the pitch?
- Did you provide supplemental information that supports your case?
- Have you surprised the investor by closing big customers or meeting milestones early?
- Have other high-quality investors written you a check?

Persistence along these lines can pay off, and you can provide this sort of update weeks and months after your initial pitch to herd the cats. However, continuing to make contact without demonstrable, significant improvements in your story will change your status from "persistent" to "pest." And nobody funds a pest.

UNDERSTAND WHAT YOU'RE GETTING INTO

Raising money, particularly from venture capitalists, is a difficult and long process—and this is if it goes well. May the go-go days of the 1990s return, but they may not, and only a bozo would depend on timing the market.

To illustrate what kind of people professional investors and venture capitalists are, let me tell you a story. It's not an urban legend like the story about the guy who strapped a rocket engine on his car and plowed into the side of a mountain. I heard this story directly from the venture capitalist herself.

The woman in question took her father to dinner one night, to a swanky restaurant with valet service. On the way there, her father chided her for buying a snazzy BMW. She pulled up in front of the restaurant, and the two of them went in.

Several hours later, she and her dad emerged and saw that her car was still where she parked it. Seizing the moment, she told her father, "See? This is why I drive a BMW. Restaurants keep the nice cars out front. Now we don't have to wait for a valet to get it."

At that moment, an irritated valet approached her and said, "Lady, you took your keys with you. We couldn't .move your car."

What can we learn from this slice-o'-life venture capitalist story?

1. Venture capitalists believe that the rules are different for them.
2. They believe they are entitled to special treatment.
3. You should leave your car running when you pull up to a valet service.
4. Venture capitalists aren't necessarily different from you and me—they just happen to manage hundreds of millions of dollars.

The correct answer is "all of the above." Allow me to demythify the aura of venture capitalists:

- They don't know any more than you do about your sector. Still, how could you not think that they do when they are managing hundreds of millions of dollars?
- Getting a top-tier investor doesn't guarantee that you'll succeed. These firms make many bets, and they assume that most won't pan out.
- The moment you take a dollar of outside money, you lose "control." Control has nothing to do with the math of voting shares. When you take outside money, you're obligated to all shareholders even if they own a minority position.

- Lower your expectations of what they can do for you, and you won't be as disappointed. Outside investors can open doors for you to kick-start sales and partnerships. They can help you find future investors. They can prevent you from making mistakes if they've seen other companies make similar mistakes. They can make the world take you slightly more seriously because "they invested in you." But this is about it.

FIND YOUR TRAIN TICKET

I cannot verify if this is a true story or an urban legend, but a good entrepreneur or writer never lets the truth get in the way of a good lesson.

Albert Einstein was on a train. He couldn't find his ticket after searching through all his pockets and bags. The conductor approached him and said something to the effect of, "Dr. Einstein, everyone knows who you are. We know that Princeton can afford to buy you another train ticket."

To which Einstein replied with something along the lines of, "I'm not worried about the money. I need to find the ticket to figure out where I'm going."

Like Einstein, you should worry not about the money, but about where you are going. If you figure out where you're going, the money will come.

MINICHAPTER: THE ART OF RAISING ANGEL CAPITAL

I shot an arrow into the air, and it stuck.

—graffito in Los Angeles

Professional investors and venture capitalists are not the only source of money for startups. There are also thousands of wealthy individuals who can provide funding. Raising money from these folks requires a different approach because their goals are different from those of professional investors. This doesn't mean they are easier to get money from—only different. This minichapter explains the process.

- **DON'T UNDERESTIMATE THEM.** They may care less about financial returns than professional investors, but this doesn't mean they are suckers. Approach them with the same level of professionalism as if you were pitching a top-tier venture capitalist such as Kleiner Perkins Caufield & Byers or Sequoia Capital.
- **UNDERSTAND THEIR MOTIVATION.** Where professional investors want to make money and maybe pay back society, many angels want to pay back society and maybe make money. Angels see two ways to pay back society: help young(er) people get a start, and help a product or service that makes meaning get to market.
- **ENABLE THEM TO LIVE VICARIOUSLY.** A side benefit that many angels seek is a chance to relive their youth or a romantic past. Even though they can't or don't want to start another entity, they can enjoy watching you do it.
- **MAKE YOUR STORY COMPREHENSIBLE TO A SPOUSE.** The "investment committee" of an angel is his or her spouse. It's not a bunch of geeks, pundits, or former entrepreneurs. This underscores the importance of making your business understandable in plain terms.
- **BE A NICE PERSON.** Whereas a professional might invest in a jerk because "money is money," an angel won't. Angels fall in love with entrepreneurs in a fatherly or motherly way: "She's a nice kid. I

want to give her a start." So be nice, malleable, and approachable. Come to think of it, this attitude can't hurt when dealing with professional investors, too.

- **SIGN UP PEOPLE THEY KNOW OR HAVE HEARD OF.** Angel investing is often about socializing as much as profiting. Thus, if you can attract one member of the "club," you can usually get more to follow.

MINICHAPTER: THE ART OF MANAGING A BOARD

Being in the army is like being in the Boy Scouts, except that the Boy Scouts have adult supervision.

—Blake Clark

With money comes responsibility. One of the blessings and burdens of taking outside investments is that you will have to create a board of directors. This minichapter explains the art of board management.

The first issue is the composition of the board. Your major investors will require a board seat, so some choices are already made for you. In total, you need people with two kinds of expertise: company-building and deep market knowledge. Here are the typical roles that need to be filled:

- **"THE CUSTOMER,"** This person understands the needs of your customers. He doesn't have to be a customer, but should be thoroughly versed in what your market wants to buy.
- **"THE GEEK."** This person provides a reality check on your development efforts. For example, is your technology defying the laws of physics? Even if you don't have a tech company, the question remains the same: Is your task possible?
- **"DAD."** Dad (or Mom) is the calming influence on the board. He brings a wealth of experience and maturity to help mediate issues and reach closure on problems.
- **"THE TIGHT-ASS."** This is the bad guy who tells you that you're full of sushi when you're lying. This person also pushes for totally legal and ethical practices.
- **"JERRY MAGUIRE."** This is "Mr. Connections." His most important asset is his Rolodex of industry contacts and his willingness to let your organization use it.

The second issue is creating a good working relationship with your board members. Here are some tips:

- **SAVE TREES.** Less paper is better than more paper. It is a mistake to bury your board in documentation because these are busy folks. Make your accounting and financial reports about five pages long. They should include a profit-and-loss statement, cash flow projections, your balance sheet, and a list of accomplishments and problems.
- **PROVIDE USEFUL METRICS.** On their own, accounting and financial reports aren't sufficient. Nonfinancial metrics—such as the number of customers, number of installations, or number of visitors to your site—are equally important. This information should add no more than three to four pages to your reports,
- SEND THESE REPORTS TWO DAYS BEFORE A BOARD MEETING. Board meetings are the time and place for discussing strategic issues—not for conveying the factual information contained in your reports. You should spend little time in the meeting communicating the facts—and a lot of time figuring out how to improve them in the future. Thus, it's useful to send your reports in advance. However, don't assume that your directors will read them—you still need to review them in the meeting.
- NEVER SURPRISE A BOARD (EXCEPT WITH GOOD NEWS). The worst time and place to announce bad news is at a board meeting—unless you want a pack of hyenas tearing your flesh from your bones. When you have bad news, meet privately with each member in advance and explain what happened.

GET FEEDBACK IN ADVANCE. The corollary of never surprising a board » to prepare board members well In advance of key decisions. If you know that you are going to dxscuss a key issue at an upcommg meeting, then talk to each member before the meeting They might provxde feedback that wiil change your perspective about the decision.

FAQ

This FAQ is the longest in this book. Its length reflects how difficult the process of raising money is for most people. I answered the most common questions about this topic within the main body of the chapter, and I've included only the most specialized ones here.

Q. I've got a venture capitalist who wants to invest $5 million in my company! What should I expect in terms of how he will want to interact with the company?

A. As long as things are going well, a venture capitalist will leave you alone. Understand a venture capitalist's life: He's on as many as ten boards that meet at least quarterly and sometimes monthly; he has to raise money to invest and keep about twenty-five investors informed and happy; he's looking at several deals a day; and he's dealing with five other partners. He doesn't have the time to micromanage you—and if he thought he'd have to, he probably wouldn't have invested in you in the first place.

The more important question is "What can I expect from a good venture capitalist?" Here is the answer: five hours a month of mindshare during which he opens doors for you with prospective customers and partners and interviews candidates for high-level positions at your company.

Q. How can f identify the venture capital firms that have new funds with a maturity sufficiently far out so they align with my liquidity timeframe?

A. You're thinking too much. The timing of a fund is hardly ever a factor. Besides, the firm is going to pick you and not vice versa, and there is no way to predict a liquidity timeframe.

Q. What is the order of approaching the tiers of venture capitalists: tier one, then two, then three, or the other way around?

A. You're thinking way too much, too. Pitch almost any firm you can get into. After trying to raise money for nine months, you'll realize that all money is green. Plus, it's not at all obvious who is a tier-one, -two, or -three firm.

Q. What is the internal rate of return expected from tier-one, -two, or -three venture capitalists? How firm do they stand by that projection?

A. First of all, it is unlikely that a venture investor will admit that his firm is not a tier-one firm. Even if he did, he isn't saying to his partners and investors, "Since we're not a tier-one firm, let's just try to get 10 percent."

All venture investors are looking for a high return on your specific investment, not a return that matches their target average. (Remember: They know there is a high likelihood that your company will flame out.) But your question misses on another point. Although venture firms are ranked against one another by their IRR performance, venture investors do not evaluate individual deals by calculating prospective IRRs. Not even VCs are so arrogant to believe they are that visionary.

Practically speaking, investors look at cash-on-cash returns—that is, if I put in $1 million today, what can I reasonably expect to get back in four or five years? ($5 million would be a 5x return.) Expectations for cash-on-cash returns vary by the type of investor and the sector of investment, not by the prestige of the firm. For an early-stage, high-tech investment, you had better be able to convince the investor that there is a realistic plan for returning 5x to lOx his money in three to five years.

Q. Should I admit that our sales to date are lackluster (or even nonexistent)?

A. Yes, but I would spin it: Your sales aren't lackluster—you're simply "early in the sales cycle with an extremely innovative product." Also, this is why the longer you can bootstrap and get to revenue, the better.

Q. Should I admit to the venture capitalist that I am new to all of this?

A. You won't have to because it will be obvious. Thus, you might as well tell the truth. However, to ameliorate this situation, surround yourself with directors and advisors who are experienced. Also, express clearly that you'll "do what's right for the organization and step aside if this is the right thing to do."

Q. How much do venture capitalists talk among themselves? Will my faux pas in front of one be the talk of the watering hole and poison the well for me with the others?

A. It's unlikely that venture capitalists will talk about you because there isn't enough time in the day to discuss all the lousy meetings and clueless entrepreneurs. You'd have to do something astoundingly stupid to be a topic of conversation.

Q. Is it necessary to have hired a law firm and accounting firm prior to fundraising?

A. It's not necessary, but it's better if you have a law firm for two reasons. First, assuming you pick a law firm that's recognized for its corporate finance/venture capital work, it shows that you know what you're doing. Second, you need an experienced corporate finance lawyer to work through the paperwork of a financing. An accounting firm is less important because there's probably not much to account for yet.

Q. Is it better to ask for the cash to support the whole project up to a liquidity event or just what is needed for the first one or two years?

A. You can't possibly know if there will be a liquidity event, when it will occur, and how much money you'll need to get there. However, what you want to get, and what investors want to give, is enough capital to get to the next big milestone, plus six months of cushion for when you're late.

Q. Does my business need to be fully functioning and profitable in order to attract investment capital?

A. The venture capital business is cyclic—some would say bulimic. During times of feast, venture capitalists will fund anyone who can boot PowerPoint. During times of purging, most venture capitalists turn cautious and want "fully functioning and profitable" companies.

Your job is to find venture capitalists who make early bets on "unproven" companies. When venture capitalists tell you that they only invest in "proven" companies, they're lying. What they are saying is, "We don't get it, so we're blowing you off by telling you this. If we really got it and believed, we'd take the chance with you."

Q. Does the existence of a ciear leader in my target market preclude me from getting funding?

A. I can unequivocally say, "It depends." If it's early in the life cycle of the market, and it's "clear" that the market will be huge, you can get funding. Commodore was the clear leader in personal computers, and plenty of companies got funded after it. On the other hand, it would be difficult in a mature, capital-intensive industry such as automobiles.

It also depends on the investor. Some will be scared off by a market leader. Others will see the existence of a market leader as proof that there is a market and be willing to take the leader on.

There's one more thing to think about. Your question is specifically about funding. However, fundability and viability are not the same thing. Your idea to take on the market leader may not be fundable, but it could still be viable, so don't let negative responses from investors stop you.

Q. Is it better to have fewer, bigger investors or numerous, smaller investments?

A, You should be so lucky to have the choice. Fewer investors means that there are fewer relationships to manage. Also, if bringing in more investors means you're also getting less sophisticated ones, forget it.

However, there are several compelling reasons to get additional investors: (1) More investors means that there are more people helping you by opening doors, recruiting, and generating buzz. (2) When you need additional capital, it's nice to have several sources already in the deal. (3) It's dangerous to have only one investor calling the shots in case you have a disagreement.

Q. When accepting angel money, is it reasonable and customary to have a buy-out clause, to allow me to retain my stock if I am able to pay back the angel's loan with interest?

A. Absolutely not. Angels are putting money into your company at the riskiest time, so they should benefit as much as anyone. If you do pull off a buy-out clause, you'll rack up bad karma points—and a startup needs all the good karma it can get.

Q. Should current investors attend company pitches to prospective investors?

A. If it's OK with the prospective investor, this is usually positively viewed: "The current investors care enough to come with the company to our meeting." If the current investor is a famous person, by all means bring him or her.

Q. Which would appeal more to investors: a product concept that has a proven billion-dollar market in which there are already some big players, or a product idea that will create a new, potentially billion-dollar market that has no competitors in the short run?

A. This depends on the investor. There are a handful of investors who like "brave new world" investment, but the vast majority are similar to buffalo: running with their heads down toward a cliff because the rest of the herd is, too. At some level, raising money is a numbers game: You've got to make a lot of pitches to find one investor to write a check.

Q. Which should we have more focus on: pitch how the product solves pain and competitive analysis, or pitch how the investors can get *x* percent return?

A. The former, never the latter. No one can predict when and how liquidity will occur. Attempting to do so will make you look silly.

Q. When should an entrepreneur give up on getting capital from an investor?

A. I've never seen an entrepreneur reverse a negative decision by arguing. When an investor says no (in so many words, as discussed earlier), accept the decision gracefully.

Do go back, however, when you can produce "proof." You get proof by finishing your product or service, opening prestigious accounts, raising money from other sources, and building a great team. Persistence, with proof, works.

Q. What is a reasonable salary that a CEO should set himself up with that will not scare an investor away?

A. This is hard to answer in absolute numbers. Circa 2004, for technology startups, the answer is probably $125,000 per year. An answer that can better stand the test of time is this: The CEO should not be paid more than four times the lowest-paid full-time employee.

Q. Angels want entrepreneurs to have some skin in the game, i don't have any money to invest in the business. How do I overcome this? What do venture capitalists look for these days as far as "skin in the game"?

A. An entrepreneur's skin in the game, for a venture capitalist or an angel, is nice to have—not a necessity. Certainly you shouldn't believe that because you were stupid enough to put money into a lousy idea, other investors will follow suit.

If you think that the only reason a potential investor declined was because you didn't have skin in the game, you were going to get a negative answer anyway. What's more important is how long you've been working on the product and bootstrapping the company and what progress you've made.

Conversely, if the investor agrees to provide capital primarily because you have skin in the game, then the investor is a fool, and you wouldn't want him. Also, in almost all cases, you will have a lot of skin in the game in the form of days of sweat equity.

Q. If an angel investor asks what his return will be, what is the best answer?

A. The best answer is to tell him that he must not be a sophisticated investor because such an investor would know better than to ask a question that has no answer. I'll bet, however, that you don't have the guts to do this. Instead, you can ask him to go over your financial projection with you and then ask him, "What do you think is realistic?"

Q. What do I wear to meetings with venture capitalists?

A. It depends on what part of the country you're in. On the East Coast, you should wear a jacket and tie. On the West Coast, you can be much more casual—Dockers and a polo shirt will do. No matter where you are, if you're the geek genius, you can probably get away with a clean T-shirt and jeans.

Q. if I do not have an IPO or acquisition as my exit strategy, will I ever be able to attract investors? Would investors ever be interested in making their return through profit sharing or a buy-out from the founders of the company in five to ten years?

A. Only if the investor is your mother. If the investors are professional investors, you can forget about raising money without a shot at an IPO or acquisition. If they're angels, investing in your organization might represent a flight of fancy or sympathy—then liquidity doesn't matter as much. But profit sharing or buying out investors is attractive to few investors.

Q. Do entrepreneurs have to accept the valuation proposed by the venture capitalist who wants to invest into their business?

A. Whatever the first offer, ask for a 25 percent higher valuation because you're expected to push back—in fact, if you don't push back, you may scare the venture capitalist if he thinks you're not a good negotiator. It would be nice to have some arguments to show why you believe your valuation should be higher—saying that this book told you to push back isn't sufficient.

At the end of the day, though, if the valuation is reasonable, take the money and get going. You'll see that either you will make more money than you ever thought possible or your organization will die. In either case, valuation and owning a few more percentage points seldom make a difference.

For a rough approximation of your valuation, circa 2004, you can also use Kawasaki's Law of Premoney Valuation: For every full-time engineer, add $500,000. For every full-time MBA, subtract $250,000.

If this is too unscientific for you, then use services such as VentureOne (www.ventureone.com) or Venture Wire (www.venturewire.com) for information about current financings.

Q. How can one protect an idea, given that few investors will sign an NDA (nondisclosure agreement)?

A. You're right. Few investors will sign one, and even if they did, simply hearing your idea had better not make it copyable. I've never seen a case where an entrepreneur told an investor about an idea, and the investor ripped it off.

Investors are looking for people who can implement ideas, not simply come up with them. Ideas are easy. Implementation is hard—and where the money is. Quite frankly, few investors are capable of implementing an idea—that's why they're investors . . . but I digress.

Here are the fine points of using an NDA:

- Never ask an investor to sign one to have a first meeting or in the first meeting. No one who would sign one this early is an investor you'd want.
- If you're asking for an NDA to merely discuss your idea, keep your day job, because you're clueless. To this day, I get asked to sign an NDA to hear such ideas as selling books online!
- Freely circulate your executive summary and PowerPoint pitch. These documents should entice investors to go to the next step. They should not reveal your magic sauce.
- Ask for an NDA if an investor is interested in your deal and wants to learn more at the bits-and-bytes or molecular level. It is teasonable for an interested investor to ask this in the due diligence stage. This is most relevant for life sciences and material sciences companies.
- Once patents are filed, you should feel pretty safe in discussing your magic sauce under an NDA—not that you'll have the time or resources to sue for patent infringement.

The bottom line is still that the best protection of an idea is great implementation of the idea.

Q. When do I stop trying to find/negotiate a better deal and take what's offered?

A. It's a good idea to stop looking and negotiating if you can't meet payroll. If the deal that you're offered is within 20 percent of what you wanted, take it. Focus on building your business, not finding the best deal. In the long run, the quality of your business determines how much money you'll make, not the deal you cut years before with an investor.

Q. Should I worry more about dilution, the real needs of my business, or the amount the investor wants to put in?

A. Here's the priority: the real needs of your business, the amount the investor wants to put in, and, last and least, dilution.

Q. How do I get more value out of my board of directors?

A. The first and most important step is to take away their Blackberrys during board meetings. Then, generally, you ask. Surprisingly, many entrepreneurs are too intimidated by their board to actively manage them. Give them assignments and hold them accountable. They're holding you accountable, too.

RECOMMENDED READING

Stross, Randall E. *eBoys: The True Story of Six Tall Men Who Backed eBay, Webvan, and Other Billion-Dollar Startups*. New York: Crown Business, 2000.

CHAPTER 8

The Art of Partnerin

Alliance, n. *In international politics, the union of two thieves who have their hands so deeply in each other's pockets that they cannot separately plunder a third.*
—Ambrose Bierce

GIST

Anyone who took part in the dotcom phenomenon of the 1990s developed a lot of partnerships. There were research partnerships, marketing partnerships, distribution partnerships, and sales partnerships. Frankly, there were more partnerships than there were revenues.

What most organizations learned is that partnerships are hard to make work. Though both parties wanted 2 + 2 to equal 5, they ended up with 3 instead. The problem is that glamour, flattery, and potential press coverage often seduced organizations into entering nonsensical collaborations.

The gist of good partnering is that it should accelerate cash flow, increase revenue, and reduce costs. Partnerships built on solid business principles like these have a much greater likelihood of succeeding.

Once you understand this, a partnership is simply a matter of implementation: making sure the people who do the real work buy into it, finding internal champions, focusing on strengths, cutting win-win deals, waiting for the right moment to bring m lawyers and legal documents, and establishing ways to end the relationship.

PARTNER FOR "SPREADSHEET" REASONS

An effective partnership can produce attractive results for a startup. It can speed entry into a new geographic area or market segment, open additional channels of distribution, accelerate new product development, and reduce costs.

I call these "spreadsheet" reasons because they change your financial forecast. Unfortunately, many organizations form partnerships for reasons that don't affect spreadsheets. Instead, they enter into them for a halo effect, to silence critics, because everyone else is doing them, or for the thrill of the chase.

For example, Apple and Digital Equipment Corporation formed a partnership in the late eighties in response to criticism of both organizations by the press. In short, Apple did not have a data communications story, and Digital did not have a personal computer story.

Little came of this alliance—certainly no products that vaulted Apple into big-business legitimacy or DEC into personal computer coolness. I doubt that spreadsheets at either company were affected, unless it was to reflect increased costs. It was, at best, a PR ploy to get the press off the backs of both organizations.

At least I learned a valuable lesson from that experience: Never form a partnership to make the press happy.

Apple created a much more successful partnership with a startup called Aldus Corporation, the publisher of PageMaker. At the time, Apple was floundering because big businesses perceived Macintosh as a cute little graphics toy, not a "business computer."

Apple needed a "killer application" that would jumpstart the sale of Macintoshes. Simultaneously, Aldus needed help selling its software by getting inventory into the distribution channel, educating retail salespeople, opening major accounts, and training end users.

This was perfect serendipity: Each organization needed the other to increase revenue. With its sales force, advertising, and marketing clout, Apple could help Aldus achieve critical mass. Aldus did its part by providing a compelling reason for people to buy Macintoshes instead of Windows computers.

The Apple-Aldus partnership created a new market called desktop publishing, and desktop publishing "saved" Apple and "made" Aldus. As they say, the rest is history.

EXERCISE

Go back to the bottom-up revenue forecast that you made in Chapter 5, "The Art of Bootstrapping." Does the partnership you're thinking about cause you to change any numbers?

DEFINE DELIVERABLES AND OBJECTIVES

If you accept the theory that the foundation of a good partnership is spreadsheet reasons, you'll understand why the next step is to define deliverables and objectives such as

- additional revenues
- reduced costs
- new products and services
- new customers
- new geographic markets
- new support programs
- training and marketing programs

There are two reasons why very few companies ever define deliverables and objectives. First, the partnership is built on sand, so it's difficult even to come up with deliverables and objectives. This is a bad omen.

Second, and less depressing, is that people don't have the discipline to establish these deliverables and objectives because they are too busy, disorganized, or lazy—or they are simply afraid of measuring results.

Here is a checklist of areas that should be covered:

- What will each organization deliver?
- When will they deliver it?
- Where will they deliver it?
- What interim milestones must each organization meet?

You'll find that by basing a partnership on spreadsheet numbers and defining deliverables and objectives, you've tripled the probability of the partnership's succeeding.

ENSURE THAT THE MIDDLES AND BOTTOMS LIKE THE DEAL

A second fundamental flaw of the Apple-Digital partnership was that the middles and bottoms (that is, where the real work is done) of both organizations didn't believe in it.

As an Apple employee at the time, I remember thinking, *What would a bunch of East Coast, minicomputer people add to Apple's story?* It's safe to assume that the DEC employees were thinking, *Why are we partnering with a flaky California company made up of hippies wearing Birkenstocks and Grateful Dead T-shirts who sit around in beanbag chairs all day?*

If you want to make a partnership work, don't focus on getting CEOs and upper management to agree and show up at the press conference. Ensure, instead, that the middles and bottoms understand the partnership, want to make it work, and value each other's contributions.

This cooperation starts when there is a true win-win solution, and both sides need each other. An announcement, if any, should come *after* the partnership is working well. Indeed, the best partnerships form when the upper management of each company is barely involved.

FIND INTERNAL CHAMPIONS

To form a successful partnership, both organizations need an internal champion to keep the partnership going. CEOs are seldom effective in this role because most CEOs have attention-deficit disorder. It's got to be a person or a small group who truly believes in the relationship and will live or die by it.

Many people have heard of John Sculley, the former CEO of Apple. Fewer people have heard of John Scull. John Scull was the desktop publishing champion inside Apple. The year was 1985, and John was the point person for Apple's efforts in this nascent market.

At any given point, he worked with Apple departments such as engineering, sales, training, marketing, and PR to help Aldus. Simultaneously, he worked with Aldus to fill Apple's needs for product information, copies of the software, and analysis of the needs of corporate customers. Additionally, he proselytized desktop publishing to journalists and pundits. To both internal employees and external parties, John was clearly established as Mr. Desktop Publishing.

If desktop publishing had failed, it would have been John's fault. Since it succeeded, it was many people's idea. (Such is the nature of a champion's life.) And arguably, if it had failed, there would be no Apple today. Here are the key takeaways from John's success with desktop publishing:

- **IDENTIFY A SINGLE POINT PERSON IN EACH ORGANIZATION.** The partnership's success can't be built on a matrix where multiple organizations each contribute a slice of their time.
- **MAKE SUCCESS OF THE PARTNERSHIP THE SOLE GOAL OF THE CHAMPION.** For the point person, nothing but the partnership counts. Thus, the champion can seldom be an executive because executives always have something else to do.

- **EMPOWER THE CHAMPION.** Making a partnership work involves cutting across internal departments, priorities, and turfs. It can require stepping on people's toes and getting them to do things they don't want to do. For all these reasons, the champion must be empowered, and people have to know he's empowered. It's also helpful, as in the case of John Scull, to have a name that sounds similar to the CEO of the company.

ACCENTUATE STRENGTHS, DON'T COVER WEAKNESSES

The third fundamental flaw in the Apple-DEC alliance was that it was built on weakness. Both organizations were trying to ameliorate fundamental gaps in their product offerings. The philosophy was "You cover up our weakness, and we'll cover up yours. Together, we'll fool everyone."

A far better philosophy is to accentuate the strengths of both partners: "You do this really well; let us help you do it even better. We do this really well, please help us do it even better."

In the Apple-DEC example, it would have gone this way: "Apple, you build a great personal computer. If it could do data communications better, it would be even better." And, "DEC, you really understand data communications. If you could bring data communications to the masses because of ease of use, it would be even better."

By contrast, the Apple-Aldus partnership did accentuate each party's strengths. Apple's strengths were its marketing resources, field sales force, trainers, and national account connections. Aldus's strength was its knowledge of page composition software and publishing.

CUT WIN-WIN DEALS

To make the flow of products, services, customers, and money truly work, both partners have to win. Many partnerships are formed between two organizations of vastly different sizes, so there is often a temptation to cut win-lose deals.

In 1990 United Parcel Service (UPS) and Mail Boxes Etc. cut a win-win deal.* Mail Boxes Etc. provides packing, shipping, receiving, secretarial, faxing, and photocopying services via retail storefronts. UPS invested about $11 million in the company; here's how both sides won:

- UPS got an instant nationwide network of convenient sites for customers to drop off and pick up packages. It didn't have to invest the time and money to build its own offices.
- Mail Boxes Etc. locked in UPS's business and averted the competition that would have occurred with UPS if it had decided to build its own offices.

The lopsidedness of many partnerships is not born of necessity. It usually occurs "just because" the larger entity can muscle the smaller one into a poor deal. This is a bad idea for both partners:

- Win-lose deals won't last. Oppression has seldom proven to be a sustainable system.
- If you want the middles and bottoms to support the partnership, both sides have to see the union as a win.
- It's bad karma, and karma counts for everything in a partnership.

If you're in a startup, be wary of entering into a win-lose partnership no matter how attractive the terms. They seldom work out. If you're in a big company, rein in your hormones and cut win-win partnerships. They are the only sustainable kind.

FOLLOW WITH THE FILE

Here's a nontheoretical question. Which comes first: a Kumbaya meeting of the minds or a draft of a legal document detailing the partnership? You can guess my bias.

"George Gendron, "A Sweet Deal," *Inc.*, March 1991.

Many entrepreneurs send a draft of the document as a straw man to get the discussion rolling. The thinking is that your organization is more nimble than the behemoth you're trying to partner with. You can move faster, so you'll do the drafting. Also, if you draft the document, then the other party has to start negotiating from your starting point, not theirs.

In fact, this is a high-risk approach because a document takes on a life of its own. It may, for example, be forwarded straight to an executive—or worse, a lawyer (see next section)—who wasn't informed that it was "just a starting point for our thinking." A document that's floating around can raise premature red flags that can derail the process.

Here's a better approach:

1. Get together face to face. Discuss the deal points.
2. When you start agreeing, go to a whiteboard and write them down.
3. Follow up with a one- to two-page e-mail outlining the "framework" for a partnership.
4. Reach closure on all details via e-mails, phone calls, and follow-up meetings.
5. Draft a legal document.

Many people try to go from Step 1 directly to Step 5—not a good idea. A document should always follow a discussion, never lead it.

WAIT TO LEGISLATE

For certain people, after fifty, litigation takes the place of sex.

—Gore Vidal

If there's one way to ensure that a partnership won't go through, it's asking for legal advice too early. If you do this, you'll learn that the number of reasons not to do a deal always exceeds the number of reasons to do it. The point is to agree on business terms *before* you bring in the lawyers. Then find a lawyer who genuinely wants to do deals, not prevent them, and set the right legal framework.

Many lawyers view their role as the "adult supervision" that will prevent stupid deals from taking place. However, their bias is often that a deal is bad until proven good. Avoid this kind of lawyer. Instead, find one who views his role as a problem solver and service function for you, the customer.

Having found the right lawyer, you need to establish this perspective: "Here is what I want to do. Now keep me out of jail." This is different from asking, "Can I do this?"

PUT AN "OUT" CLAUSE !N THE DEAL

As the Japanese *(sic)* say, "Mazel tov"—you've got the deal nearly done. Because everybody should win, the last thing in the world you want is for your partner to be able to end the arrangement, right?

Counterintuitive as this may seem, you snould always be sure to include an out clause in the deal, something along the lines of "Either party can end this agreement upon thirty days' notice." The reason is that an easy "out" promotes the longevity of a deal because it assures both parties that they won't be trapped in an untenable predicament.

A safety like this enables everyone to chill out and work harder to make the partnership function—knowing that in the worst case, it's easy to end the deal. Also, people are more likely to take chances and be innovative when the partnership isn't set in stone.

Don't misunderstand me: I am not advocating partnerships that are easy to get out of. On the contrary, a good partnership involves the commitment of serious resources by both sides. However, it should be hard to get out of because of the importance of the partnership to both parties, not merely because of a contract.

GET OUT OF THE BELLY

In the words of Heidi Mason, coauthor of *The Venture Imperative,* trying to form a partnership with a larger, established organization is like being "stuck in the belly of a snake." You may get it done, but all you'll have left is a pile of bones. Thus, it's very important to recognize and interpret the top ten lies of partnering.

BIG ORGANIZATION SAYS ...	YOU HEAR ...
1. "We want to do this for strategic reasons."	They can't figure out how why this partnership is important.
2- "Our management really wants to do this."	A vice president heard about the proposal for thirty seconds and didn't have time to say no yet.
3. "We can move fast."	No one has talked to the legal department yet.
4. "Our legal department won't be a problem."	The legal department will be a huge problem.
5. "We want to time the announcement of our partnership with the release of a new version of our product."	The release will be late, and there's not a thing we can do about its delaying our partnership.
6- "The engineering team really likes	The marketing team is going to kill it.
7. "The marketing team really likes it."	The engineering team is going to kill
8. "The engineering and marketing teams really like it."	The lawyers are going to kill it.
9- "The engineering, marketing, and legal teams really like it."	Pinch yourself—you're asleep and dreaming.
10. "We're forming a cross-functional team to ensure the success of this project."	No one is accountable for the success of this project.

MIMCHAPTER: THE ART OF SCHMOOZING

It's not what you know or who you know, but who knows you.
—Susan RoAne

It's much easier to build partnerships with people you already know—or, more accurately, with people who already know you. The process of building these social connections is called schmoozing.

If you're reticent about schmoozing—because you are shy or you consider it offensive or manipulative—you shouldn't be. In his book *The Frog and the Frince,* Darcy Rezac defines *networking* (which is "schmoozing" for goyim) as "discovering what you can do for someone else."*

World-class schmoozers adopt Rezac's outward, what-canT-do-for-you attitude. It is the key to building extensive, long-lasting connections. Upon this foundation, here's how to get more people to know you:

- **GET OUT.** Schmoozing is a contact sport. You can't do it at home or in the office alone, so force yourself to attend trade shows, conventions, seminars, conferences, and cocktail receptions.
- **ASK GOOD QUESTIONS, THEN SHUT UP.** Good schmoozers don't dominate conversations. They start them off with interesting questions and then listen. Good schmoozers aren't good talkers; they are good listeners. No one is more fascinating than a good listener. The best opening question is "What do you do?"
- **FOLLOW UP.** Follow up within twenty-four hours of meeting someone. Send an e-mail. Give him a call. Send him a copy of your new book. Some people are afraid to give out their phone number or e-mail address because they fear they'll be inundated. That's never been my experience. So few people ever follow up that the ones who do are clearly special and worth knowing.

[a]"Darcy Rezac, *The Frog and the Prince: Secrets of Positive Networking* (Vancouver: Frog and Prince Networking Corporation, 2003), 14.

- **MAKE IT EASY TO GET IN TOUCH.** This is ironic, but many people who want to be great schmoozers make it hard to contact them. For example, they don't carry business cards or don't print their e-mail address and phone number on them. If they do provide contact information, they don't respond to e-mail or voicemail.
- **UNVEIL YOUR PASSIONS.** If you can talk only about your business, you're a boring person. Good schmoozers are passionate about multiple and diverse interests. A benefit of these passions is that they provide additional ways to connect to people.

  I'm not saying you should take up a hobby because it will be good for business. For example, I'd rather be poor than play golf. However, I've made many business connections through hockey—and I've made many hockey connections through business.

  Just in case you don't like hockey, here are other points of passion through which we can connect: Audi cars, Breitling watches, tinnitus/Meniere's disease, boxers (the dog breed), adopting children, London, digital photography, and Macintosh. With these eight passions, I can connect to anyone in the world.
- **READ VORACIOUSLY.** If you're a pathetic person with no passions, then at least read voraciously so that you can talk a little about a lot of things. Set your home page to Google News (http://news.google.com/) to make this easier.
- **GIVE FAVORS.** There's a karmic scoreboard in the sky (more about this in Chapter 11, "The Art of Being a Mensch"). This scoreboard tracks what you do for people. If you want to be a world-class schmoozer, ensure that you're hugely positive on the scoreboard.

  You accomplish this by helping people—especially folks who seemingly can't do anything for you. And do this without expectation of return. Eventually, the scoreboard will take care of you.
- **RETURN FAVORS.** Since I believe in doing favors, I surely advocate returning favors. When something is done for you, you have accepted a moral obligation to pay it back. Great schmoozers return favors and do so with joy. This not only moves the scoreboard a little in the positive direction but enables you to ask for more favors.
- **ASK FOR THE RETURN OF FAVORS."** Counterintuitive as this seems, you should ask for the return of favors. Doing so reduces or removes the pressure from a person who feels he owes you something. Thus, it provides an opportunity to clear the deck. Then the other party can ask for new favors.

MINICHAPTER: THE ART OF USING E-MAIL

I have made this [letter] longer, because I have not had the time to make it shorter.

—Blaise Pascal

E-mail is a key tool of a good schmoozer. It is fast, almost free, and ubiquitous. It's also poorly used by most people. Here's how to improve your e-mail effectiveness to make it a powerful schmoozing weapon:

- **FIX YOUR SUBJECT LINES AND NAME.** If people think your messages are spam, they won't read them. You may not be able to prevent spam filters from sorting out your messages, so be sure to use good subject lines to make it easy to see that they aren't spam.

  For example, "Follow-up to our meeting," "Enjoyed your speech," and "Nice to meet you in Kona" sure beat "Save on Viagra now!" "Increase your sales," or "Funds in Nigeria." Also, send yourself a message to see how the "from" line appears to a recipient. If your e-mail client software isn't sending out your properly capitalized first name and last name, fix this, too.
- **ANSWER WITHIN TWENTY-FOUR HOURS.** As I said before, responsiveness is a big factor in cementing a contact. You need to answer while the topic of the e-mail is fresh. Messages that are below the first screen of a person's inbox are often forgotten.
- **DON'T USE ALL CAPS.** All-caps text is more difficult to read, and it is considered "SHOUTING" at the reader. If nothing else, it's a sure sign that you're clueless about e-mail, and cluelessness is not conducive to successful schmoozing.

"Susan RoAne, *The Secrets of Savvy Networking* (New York: Warner Books, 1993), *56.*

- **QUOTE BACK.** Select the question or section of the e-mail that you're responding to and quote it back so the sender knows what you're referring to. People get dozens of messages per day, so a simple "Yes, I agree," is not useful.

- **KEEP IT SHORT AND SIMPLE.** Cut the crap and get to it. The ideal length for an e-mail is fewer than five sentences. If you can't say what you have to say in five sentences, you don't have much to say.

  Use plain text, not HTML. I assume that all HTML e-mail is spam and have my e-mail client delete them automatically. If you have something significant to say, you don't need bold, outline, shadow, red text, and graphics to say it.

  Don't attach files unless you have permission. Imagine that your recipient is sitting in a hotel room making a slow phone connection, and you've sent a two-megabyte PowerPoint file. Do you think you'll get a positive reaction? Also, many people think attachments from strangers are viruses.

- BLIND CARBON COPY (BCC) E-MAILS TO LARGE GROUPS. As a rule of thumb, the more people you send an e-mail to, the fewer will respond. Thus, you should either reconsider whether everyone should get the e-mail or if you should conceal the list of recipients. When you send an e-mail to several people, it should always be a BCC to prevent inadvertent responses to everyone and to prevent revealing e-mail addresses to the other recipients.

- **REDUCE CARBON COPIES (CCs).** Either a person needs to get the e-mail or not. A CC is in the meaningless middle ground—it might be nice if the person were informed. The other heinous (and ineffective) uses of a CC are to cover one's butt ("But you were CCed!") or to threaten ("Look here! I CCed your boss."). When I get a CC, I assume that other people are taking care of the issue, and I ignore the e-mail.

- **INCLUDE A GOOD SIGNATURE.** A "signature" is several lines of text that your e-mail software automatically includes at the end of every outgoing message. A good signature provides your name, organization, postal address, phone and fax numbers, e-mail address, and Web site information. This is useful for copying and pasting into a calendar or database. God forbid someone should actually want to make more contact with you, and they have to hunt down the information. Here's what mine looks like:

  Garage Technology Ventures
  3300 Hillview, Suite 150
  Palo Alto, CA 94304
  650-354-1854
  650-354-1801 (fax)
  kawasaki@garage.com
  www.garage.com

- **DON'T FORWARD SOMETHING YOU THINK IS FUNNY.** The odds are that your recipients have already gotten it ten times. If you generate something funny, more power to you. But if you're just forwarding a forward, spare your recipients.

- **WAIT WHEN YOU HATE.** Although you should generally answer e-mail in under twenty-four hours, there is one case where you should wait at least twenty-four hours before responding: when you're angry, offended, or argumentative. E-mail written when you're in these moods tends to exacerbate problems, so delay your response. It's even better to call when an issue is touchy because e-mail is a poor communicator of emotion and tone.

FAQ

Q. Since partnerships are supposed to *be* fifty-fifty, win-win situations, shouldn't the other party meet halfway in setting up meetings, moving the process along, getting its employees to cooperate, and so on?

A. "Should" and "will" are two different things. You're right that the other party should meet you halfway, but it probably won't. If you want a partnership, sale, or almost any transaction to happen, you've got to push for it. The other party may owe you a phone call or response, but don't just wait for it. Call again. You'll probably have to make 80 percent of the effort to bring something about, so swallow your pride.

Q. I've noticed that executives who are well established in their fields tend to resent a newcomer. There's a sense that I "haven't earned" the idea and that they should rightly have it because they were there first. How do I work with this attitude in potential partners?

A. Find others to partner with.

Q. How do I avoid being bullied by my contractual partners if they are larger, **more established, and better funded than I am?**

A. Never believe, or at least never act like you believe, that might makes right. For all you know, the elephant needs your product or service as much as you do. Go in there with a win-win attitude. If you encounter a win-lose attitude, and you can't change it, then don't do the deal.

Q. We're in some partnerships that aren't going anywhere. Should we invest the time and money to make them work or simply abandon them?

A. There's an old medical proverb that goes like this: "Nothing requires more heroic efforts than to keep a corpse from stinking, and yet nothing is quite so futile." * Focus your energies on partnerships that are working and new ones that have greater promise. But before you commit to new partnerships, figure out why the previous partnerships didn't pan out.

RECOMMENDED READING

Rezac, Darcy. *The Frog and the Prince: Secrets of Positive Networking*. Vancouver: Frog and Prince Networking Corporation, 2003.

RoAne, Susan. *The Secrets of Savvy Networking*. New York: Warner Books, 1993.

"Peter F. Drucker, *Innovation and Entrepreneursbip; Practice and Principles* (New York: Harper & Row, 1985), 152.

The Art of Branding

The best brands never start out with the intent of building a great brand. They focus on building a great—and profitable—product or service and an organization that can sustain it.

—Scott Bedbury

GIST

There are two major schools of thought regarding branding: The first holds that it's incomprehensible voodoo that marketers practice. I belong to the second, which contends that it's a simple matter of applying the classic Ps of marketing: product, place, price, and promotion.

To this list, some people have added another P: prayer. They are not far off—but instead of prayer, I prefer proselytization, which is the process of converting others to your belief, doctrine, or cause.

Proselytization, or evangelism, represents the core of branding for startups in today's highly competitive world, in which information is free, ubiquitous, and instantaneous. The art of branding requires creating something contagious that infects people with enthusiasm, making it easy for them to try it, asking them for help in spreading the word, and building a community around it.

Though I love marketing, great brands start with a great product or service, so that's where we'll start, too.

CREATE A CONTAGION

I call it "Guy's Golden Touch." It's not the vainglorious concept that whatever I touch turns to gold, but rather, simply and more humbly, "Whatever is gold, Guy touches."

Herein lies the secret to branding: Align with a product or service that's gold—or enhance it until it *is* gold. Then successful branding is easy if not unavoidable. How hard do you think it was to brand Macintosh in 1984 when the competition was butt-ugly and boring?

If you have something that's gold, you can make a lot of mistakes with it and still succeed. If you don't, you have to do almost everything right. So make it easy on yourself and create or find products and services that are inherently contagious. These are the key elements of contagiousness:

- **COOL.** Cool is beautiful. Cool is hip. Cool is idiosyncratic. And cool is contagious. Few companies purposely design products and services that aren't cool, but we continue to see hundreds of eye-numbing efforts. Why did it take Apple to ship an MP3 player as cool as the iPod?
- **EFFECTIVE.** You can't brand crap. You can't brand something that doesn't work. No one would have heard of TiVo if it didn't almost effortlessly record the television shows you wanted.
- **DISTINCTIVE.** A contagious product is easy to notice and advertises itself. It leaves no doubt that it is different from the competition. Does anyone confuse a Hummer with other vehicles?
- **DISRUPTIVE.** Contagious products are disruptive. They either upset the status quo ("Oh, hell, this is better. We're in trouble.") or make them go into denial ("Why would anyone want a graphical user interface?"). But they do not leave people unaffected.

- **EMOTIVE.** A contagious product or service exceeds expectations, and by exceeding expectations, it makes you joyful. This is how I feel about our Miele vacuum cleaner—I'm amazed that it can suck so hard yet make so little noise.*
- **DEEP.** A contagious product or service "has legs." The more you use it, the more you discover it is capable of. Going back to TiVo, if you want to skip through advertising, enter this keystroke sequence: Select, Play, Select, 30, Select. Then, pressing the key that takes you to the end of a recorded program (—>l) will now make you jump ahead in thirty-second intervals.
- **INDULGENT.** Purchasing a contagious product or service makes you feel as if you've indulged yourself. This may be because it costs more than the alternatives, it's cooler, or it's more than you really need. Thus, it enables you to escape the mundane. The tag line for Miele, for example, is "Anything else is a compromise."
- **SUPPORTED.** Providing exemplary service makes a product or service contagious. I once broke a medical device that treats my ear problems. The manufacturer, Medtronic Xomed, sent me a loaner via overnight delivery at no charge. It also repaired and shipped out my unit on the same day that the unit was received—also at no charge. And that day was a national holiday. Finally, in a bold stroke of accountability and personal touches, Medtronic provided the name, e-mail address, and digital photo of the technician who hxed it on the packing slip. Do you think I recommend this product to others with similar ear problems?

EXERCISE

The next time you get technical support from a company, ask the person for his name, e-mail address, and photo.

*As opposed to people—the ones who suck the most are the noisiest.

LOWER THE BARRIERS TO ADOPTION

An innovation, to be effective, has to be simple and it has to be focused. It should do only one thing, otherwise, it confuses. If it is not simple, it won't work.

—Peter Drucker

Lowering the barriers to adoption is a theme that has been repeated often in this book. It applies to making it rain as well as to branding. The more prevalent your product or service, the more likely you'll build a big brand.

A Chinese pharmaceutical company named Kunming illustrates what not to do. This company was determined to make a childproof aspirin bottle, so it created one that had thirteen moving parts and took thirty-nine steps to open. For added safety, the company changed the design every six months. The problem was that its intended customers couldn't open the bottle. Ironically, the company discovered that adults were buying the pills and giving the bottles to kids as puzzles.*

The most common barrier that startups erect, however unintentionally, is complexity. Sure, if 1 percent of the people in China bought your aspirin because of the safety feature in the bottle, you'd achieve a lot of sales. But if it takes too long to learn how to use your product (or to open its bottle) or service, you're making it harder to build a brand.

Few companies set out to create a complex and difficult-to-use product or service, but you have to wonder why so many products have such an incomprehensible interface. Almost anything from Japanese consumer electronics manufacturers, for example, illustrates this point. (They then compound the problem with an unreadable, broken-English manual printed in four-point gray type.) Here are ways to reduce complexity:

*Brad Schreiber, *Weird Wonders and Bizarre Blunders: The Official Book of Ridiculous Records* (Deephaven, MN: Meadowbrook Press, 1989), 17.

- **FLATTEN THE LEARNING CURVE.** A customer should be able to get basic functionality right "out of the box" without having to turn to a manual. Imagine if you bought a car and had to read the manual to turn on its radio, change the station, and increase the volume. Mandate this to your designers: Customers must get immediate gratification without opening a manual.
- **WRITE A GOOD MANUAL AND INDEX !T THOROUGHLY.** Typically, an underpaid person down in the bowels of an organization writes a product's or service's manual at the last possible moment. The manual isn't tested, and it's laid out in a tiny font with out-of-date illustrations. *

  Your manual is a marketing opportunity. It is a window onto the soul of your product or service! The better the manual, the more people will enjoy using your product or service. This in turn fosters more good word-of-mouth branding.

  If manual writing is at the bottom of the totem pole, manual indexing is under the ground. Have you ever tried to determine the correct tire pressure for your car, and been unable to find "tire pressure" listed in the manual's index?

  Think of every possible thing a customer will want to do with your product and make sure there's an entry for it in the index. If you want to see an example of a great index, look at the index in *The Chicago Manual of Style.* It contains approximately forty page references to the topic of dashes! Hold your organization to this standard. (FYI: I indexed *The Art of the Start.)*
- **INCLUDE PICTURES.** One more thing about manuals: Add pictures and diagrams. This might increase the cost of your manuals, but it's well worth it. Not every user is text-centric. Pictures do count for a thousand words.

EXERCISE

Run a contest asking your customers to write the best manual for your product or service. You'll have a handful of good manuals, and you'll uncover some evangelists.

- **TEST IT ON YOUR MOTHER OR FATHER.** Ageist as this may seem, the ultimate test of a new product or service is seeing if your parents can use it. If your mother and father are no longer alive, try it on anyone over forty-five years old.

  Do not, however, attempt this with teenagers—they can figure out anything, so their feedback is irrelevant. If you want free, word-of-mouth brand building, spend the time and energy to create a user interface that a mere mortal can comprehend.

In addition to complexity, a high price is also a barrier to building a brand. To avoid this, when Toyota introduced its Lexus line of luxury cars, it priced them far lower than the German competition. Because the cars were less expensive, there were more owners out there. Since there were more owners, it was easy to find someone to talk to about them and learn how great they were.

I hate competing on price and leaving money on the table. However, squeezing every penny out of your customer is usually not the right philosophy, either. A reasonable price that fosters the creation of a brand can produce larger returns later.

EXERCISE

Which company would you rather own: Toyota or Rolls-Royce? I

The final common barrier to adoption is the cost of converting (measured in money, time, or effort) from an existing product or service to your new one. Your product or service can be cheap, and it can be easy to use, but if it's painful to switch to, you're making branding more difficult.

Branding aside, it makes good sense to make converting as easy as possible. Few companies would make it difficult to convert from an existing product to their product on purpose, but few companies seem to realize that a lower conversion cost is good marketing.

Finally, you might think that making it hard to switch *from* your product is a good idea. This is a way to lock in your customer, but exit barriers are also entry barriers. If you make it hard to switch from your product, you'll also scare people from trying your product in the first place.

RECRUIT EVANGELISTS

Evangelists believe in your product or service as much as you do, and they want to carry the battle forward for you and with you. Recruiting evangelists can help you achieve critical mass through sustained, continuous, and low-cost proselytization and branding. If you are involved in politics, not-for-profits, schools, and churches, evangelism is an especially powerful tool to achieve success.

When it comes to evangelism, it's not true that "if you don't ask, you don't get." When your product, service, or idea is contagious and there are low barriers around it, you often "get" without asking. But if you do ask, you can get much more, much faster. However, many companies hesitate to ask because of thinking like this:

- "If we ask for help, people will think we're weak. A strong company like Microsoft never asks its customers for help."
- "The people we ask will expect something in return: discounts, special treatment, etc. Then what will we do?"
- "Our customers, much as we love them, can't help us. We know what to do, and we can do it ourselves."
- "It will cost too much to maintain special support programs. They'll defocus our efforts."

These reasons are bogus. When customers want to help you, you should rejoice, not restrain them, so stifle your paranoia and accept the help. The customers will turn into evangelists who spread your good news.

Following are the keys principles of recruiting evangelists. You'll notice several similarities to concepts in Chapter 6 ("The Art of Recruiting"), which is no accident. In a sense, you are recruiting "employees"—you just don't need to pay these folks.

- **ASK!** Go to your early and best customers and ask for help. Tell them you want to achieve critical mass, and that you need to spread the word. This isn't a sign of weakness—it is a sign of openness and aggressiveness. You'll be amazed at the number of people who are willing to help, and who have been waiting to be asked.

- IGNORE ACADEMIC BACKGROUND AND WORK EXPERIENCE. (Very) theoretically, the best evangelist for a software product might be someone with a Ph.D. in computer science from MIT. Avoid this type of thinking. Track records mean little when it comes to evangelism. The greatest Macintosh evangelists never used a computer before they bought one.

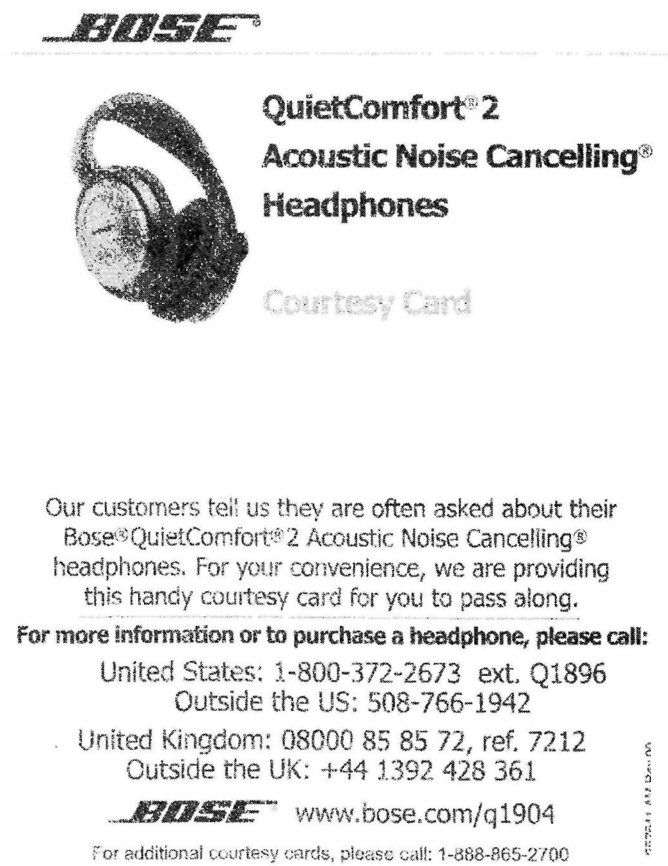
- **FOCUS ON WHAT'S IMPORTANT: DO THEY BELIEVE, AND DO THEY WANT TO HELP?** Take someone (me, for example) who twenty years ago had never had a computer class in his life and whose then-current job was schlepping diamonds. Would he be the ideal candidate to evangelize a new operating system? Looking back, what mattered most was that I loved Macintosh and wanted to change the world with it.

- **LET A HUNDRED EVANGELISTS BLOSSOM.** This is another recurring theme of this book: Don't be picky about how evangelists help you. Show them your product or service and let them work for you in any way they can. They will show you ways to market your product and services that you never would have developed yourself.

- **ASSIGN TASKS AND EXPECT THEM TO GET DONE.*** Have you ever volunteered to help an organization and then never been called to action? If there's anything worse than being asked to do something you don't want to, it's not being asked to do something you do. If you've gotten this far with evangelists, they've signed up for the cause. Now it's your obligation to make good use of them.

- **CONTINUE "FELLOWSHIP."**† The model for effective evangelism is the relationship between a good parent and child. As any parent will tell you, your kids will always be your kids. They never truly leave the nest, and you certainly don't push them out of it. Evangelists are the same—they need frequent and perpetual lovin'.

GIVE THEM THE **TOOLS TO EVANGELIZE.** Make it easy for believers to help you by providing stacks of information and promotional material. For example, Bose includes ten "courtesy cards" in the Bose QuietComfort 2 Acoustic Noise Cancelling Headphones case for owners to pass out to people who ask them about the product. The card explains how to find out more about the product, purchase it, and get more cards by calling a toll-free number!



*Brad Schreiber, *Weird Wonders and Bizarre 'Blunders: The Official Book of Ridiculous Records* (Deephaven, MN: Meadowbrook Press, 1989,) 92-93.
flbid., 47.

- **RESPOND TO THEIR DESIRES.** You should revise your product or service to reflect the wishes of your evangelists for two reasons. First, they will be among the most knowledgeable about what it takes to make it better. Second, and as important, demonstrating that you do listen to them will foster even greater loyalty and enthusiasm for helping you.

- **GIVE THEM STUFF.** You would be amazed at the power of a free T-shirt, coffee mug, pen, or notepad. (At one point, Apple had a $2 million per year T-shirt expense.) Evangelists love these goodies. It makes them feel like they're part of the team and special. This is money well spent, but never give away anything that costs more than $25. A Montblanc pen, for example, is over the line and will make you look like you're wasting money.

Let's assume that you are successful in recruiting customers to be evangelists. What should you ask them to do? That is the topic of the next section.

FOSTER A COMMUNITY

In the late 1990s, a group of business people and community leaders started an organization called the Calgary Flames Ambassadors. They were Flames fans who were alarmed by the prospect that their National Hockey League team might move to another city. According to the chairman of the group, Lyle Edwards, "The Ambassadors ran around Calgary and twisted arms so that people bought more tickets."

Circa 2004, the group had fifty members, and they don't have to help sell tickets anymore. To join the Ambassadors, you have to buy a season ticket and pay $100 Canadian to the Ambassadors organization. That's right: these evangelists pay for the privilege of proselytizing the Flames. They greet fans at games, promote community outreach, and conduct social events.

The goal of recruiting evangelists is to build a community around your product or service. Examples of companies that enjoy well-publicized communities include Apple, Harley-Davidson, Motley Fool, and Saturn. These communities provide customer service, technical support, and social relationships that make owning a product or utilizing a service a better experience—they also twist arms so that people buy more products, services, or tickets.

Surprisingly, most companies *react* to the formation of communities *after* they appear, and their reaction is: "Never heard of them . . . You mean to say that there are groups of customers who get together because of our product?"

This is suboptimal, if not downright stupid. Having seen how some companies have benefited from the spontaneous generation of communities, you should proactively bring one into existence:

- **IDENTIFY AND RECRUIT THE "THUNDER LIZARDS" OF YOUR PRODUCT OR SERVICE.** These are the customers who are the most enthusiastic about what you do and who are willing to serve in leadership positions.

- **HIRE SOMEONE WHOSE SOLE PURPOSE IS TO FOSTER A COMMUNITY.** This is your internal champion for the needs of the community; he evangelizes evangelists and fights for internal resources. As you achieve success, build a department around this person to institutionalize community support.

- **CREATE A BUDGET FOR COMMUNITY SUPPORT.** You won't need much, and the intent is not for you to "buy" a community. But you'll still need a budget for the community to hold meetings, print and circulate newsletters, and maintain an online presence.

- **INTEGRATE THE PRESENCE OF THE COMMUNITY INTO YOUR SALES AND MARKETING EFFORTS AND YOUR ONLINE PRESENCE.** For example, your Web site should provide information about the community, including instructions for joining it.

- **HOST THE COMMUNITY'S EFFORTS.** This means letting members use your building to hold meetings as well as providing digital assistance, such as operating an e-mail listserver, online chat, and bulletin board on your Web site.

- **HOLD A CONFERENCE.** No one loves electronic communication more than I do, but face-to-face meetings are important for communities. At these conferences, community members can meet one another as well as interact with your own employees.

Per dollar, building a community of customers and evangelists is the cheapest method for creating and maintaining a brand, so don't screw up by waiting for a community to form on its own.

1 EXERCISE

Look at the back of this book's dust jacket. Can you figure out why j we printed so many cover design entries? N

ACHIEVE HUMANNESS

Consider several great brands: Apple, Coca-Cola, Levi Strauss, Nike, and Saturn. They've all achieved humanness: the funkiness of Apple, the joy of Coca-Cola, the youthfulness of Levi Strauss, the gutsy determination of Nike, and the buddy-buddy feeling of Saturn.

To be sure, there are great brands that don't exhibit these qualities—Microsoft, Oracle, and IBM, to name a few. Call me a romantic, but wouldn't it be better and more fun to have a warm brand? If you agree, here's how to achieve this:

- **TARGET THE YOUNG.** No matter who actually buys your product or service, targeting young people forces you to build a warm brand. I have no data to back this up, but it seems that lots of old people are buying products that were initially targeted to young people. For example, check out how many bald heads are driving Toyota Scions, PT Cruisers, and Mini Coopers.
- **MAKE FUN OF YOURSELF.** Most companies are incapable of having a sense of humor about themselves, an attitude they view as suicidal: "People won't take us seriously if we don't take ourselves seriously." Or, they are so caught up in their self-image that appearing to lack total control scares them. As the saying goes, "To err is human," so don't be afraid to err and to make fun of that error.
- **FEATURE YOUR CUSTOMERS.** Organizations that feature their customers in marketing materials exude humanness. For example, Saturn features the owners of its cars in its marketing materials. Saturn's Web site even features an area called "My Story," in which customers discuss their Saturn experiences.
- **HELP THE UNDERSERVED AND UNDERPRIVILEGED.** An organization that supports the underserved and underprivileged communicates humanness. Hallmark Cards, for example, provides money and volunteers to many community programs. There's an easy-to-find section of their Web site about how to apply for such resources. This is a double win: Not only are you fulfilling a moral obligation to the community, you are also furthering the effectiveness of your brand.

EXERCISE

Go to the Web sites of your favorite companies and try to find information about how to apply for grants and volunteer for the company.

FOCUS ON PUBLICITY

For weeks before the debut of the Ikea store in East Palo Alto, California, residents of the area read story after story about its grand opening. For example, a story by Thaai Walker in the August 14, 2003, edition of the *San Jose Mercury News* started this way:

> CAR-GO HELP FOR IKEA SHOPPERS
> CITY BRACES FOR OPENING DAY TRAFFIC
>
> How do you move 16,000 shoppers packed into 8,000 cars through a 2.5-square-mile city on a day when the biggest, bluest store to grace East Palo Alto's horizon opens to the public?

If you read any local newspaper, listened to the radio, or watched television, it was impossible not to learn that Ikea was opening a new branch in East Palo Alto, and it was going to be a huge event.

Brands such as Ikea are not built on advertising. Advertising may maintain and expand brands, but it's publicity that establishes them. Here are the key concepts of attracting publicity and press coverage:

- **CREATE BUZZ, GET INK.** Most organizations think that press coverage generates buzz as readers clamor to become customers. This is backward thinking. Here's how it works: First, you create something grand. Then you lower the barriers to adoption and get it into the hands of people. They, in turn, generate buzz. Then the press will write about it.

- **MAKE FRIENDS BEFORE YOU NEED THEM.** When I worked for Apple, the press always wanted to interview "Apple execs" because it was a hot company. During such heady and flattering times, the temptation is always to focus on the important publications: *The New York Times, The Wall Street journal, Forbes,* etc.

  I gravitated instead toward helping reporters from publications that you would never have heard of. Years later, these reporters are now at the important publications, and they remember how I helped them. The lesson is "Make friends before you need them—and even before they can help you."

- **USE A RIFLE, NOT A SHOTGUN.** My reporter friends tell me that organizations often "shotgun" their newsrooms—meaning that every reporter in the news department gets a press kit or e-mail about some miraculous new product or service. This approach rarely works because your material will be irrelevant to almost all the recipients.

  Instead, first determine if your story is appropriate for the publication. Fascinating as you might find it, it might not be. Mitch Betts, features editor of *ComputerWorld,* described whom he would recommend contact his publication: "If CIOs of General Motors, Wal-Mart, Amazon would be interested, we'd be interested."" That's how relevant you need to be.

  Second, determine which reporter covers your specific area—for example, pitching the arts reporter about a new enterprise's software package isn't going to bear any fruit.

  Third, pitch that particular reporter only if your story can pass an important test: "Is it good and useful for the readers?" The test is not "Is it good for our organization?" Believe it or not, publications exist for their readers, not as vehicles for your marketing.

- **BE A FOUL-WEATHER FRIEND.** Many organizations kiss up to journalists when things are going great and they want coverage. But when things turn bad or busy, they disappear on them by not returning phone calls and e-mails. No matter what the weather, you must maintain good relations with the press.

- **TELL THE TRUTH.** When things go bad, there's a temptation to lie to the press to get out of a jam. Don't do it. You establish your credibility during bad times, not good. Anyone can tell the truth when things are going well. If you've established a record for being honest when times are bad, the press will believe you when times are good.

- **BE A SOURCE.** Sometimes your story isn't worth covering, or there is no place to mention your organization in the reporter's story. That's OK. At these times, simply be a source and help the journalist write a good story. Your turn will come.

TALK THE WALK

Hidden Villa is a 1,600-acre farm and wilderness preserve in Los Altos, California. The Josephine and Frank Duveneck family gave it to the people of Northern California to foster environmental and multicultural awareness. Its programs include summer camps, environmental education, community outreach, hostel accommodations, and organic farming.

In short, Hidden Villa "walks the talk"—that is, it makes enormous meaning for the community and delivers on its goals. (This contrasts sharply to the behavior of many organizations, which talk a good game but do not deliver results.) However, the organization noticed that its employees and directors didn't have the tools to promote it in a concise and compelling way.

To fix this problem, the organization created a program called "Talk the Walk," which involved developing one-liners that explain

"Found at http://www.marketingsherpa.com/sample.cfm?contentID=2420.

Hidden Villa. Then, at an offsite, members of the Hidden Villa staff and directors role-played using these one-liners. Now they are all able to "talk the walk" whether they are at a Hidden Villa event or bumping into a friend in the supermarket.

The starting point for branding is inside your organization so make sure that every employee can "talk the walk" and enthusiastically proselytize the organization.

MIMCHAPTER: THE ART OF SPEAKING

Why is it that those who have something to say can't say it, while those who have nothing to say keep saying it?

—anonymous

"Pitching" typically refers to making a presentation to potential investors, customers, and partners in a small, informal meeting at the prospect's office. In addition to pitching, there will be opportunities to give speeches and to participate on panels at conferences, seminars, and industry events. These are useful vehicles to build awareness for your organization.

The purpose of these appearances is not to raise money (though a good speech can generate interest in investing) but to increase awareness of the organization and build a brand. I've seen dozens of executives give speeches and participate on panels, and, with rare exceptions, they suck. This happens for the following reasons:

- Executives are surrounded by minions who don't have the knowledge, courage, or competence to tell the emperor that he has no clothes.
- Executives are egomaniacs. They have lofty self-images, so they cannot believe that they are not dynamite speakers right out of the womb.
- Executives are busy people who have little time to practice—or, more accurately, who *allocate* little time to practice. The combination of denying the need to practice and not having the time to do it is the kiss of death.

First, let's cover the principles of giving an effective speech. This opportunity is a powerful weapon because you have the podium all to yourself. You can, for the most part, control the entire block of time.

- SAY SOMETHING INTERESTING. This is an obvious but widely ignored point. If you don't have something interesting to say, don't speak. If you don't speak, people won't know you're a loser. If you do speak, you'll leave no doubt. Better the former than the latter.

- **OVERDRESS.** In contrast to when making a pitch, it is better to be overdressed than underdressed. An audience interprets casual dress as your saying, "You're not important enough to make any effort." If you overdress, the worst-case scenario is that you'll look too professional.

- **CUT THE SALES PROPAGANDA.** People attend a speech because they want information, not to get a blatant sales pitch. Logical or not, an audience tends to think that good speakers have good products and services. If you inform them with a high-content and relevant speech, they might buy. If you sales-pitch them, they won't.

- **TELL STORIES.** For some people, making an interesting speech is harder than upgrading Microsoft Windows. Great speakers don't simply make assertions, they tell stories. Make a point, tell a story to illustrate it, make another point, and tell a story to illustrate it.

- **CIRCULATE WITH THE CROWD BEFORE YOU SPEAK.** I give fifty keynotes a year, and I find it tremendously encouraging to see people in the audience whom I've already met. A few friendly faces give me the confidence to make a bolder speech. The goal is to recruit some friends who will be the first to laugh at your jokes, nod in agreement with your insights, and applaud your performance.

- **TALK ABOUT KIDS.** If there's a surefire way to endear yourself to an audience, it's to talk about your kids. If you don't have kids, talk about your relative's kids, your friend's kids, or when you were a kid. r ve never seen an audience that doesn't appreciate a good kid story.

- **SELF-DEPRECATE.** Another good way to win over an audience is to make fun of yourself. If you're nervous, mention that you're nervous. Most people in the crowd will empathize with you. If you can't find one thing to make fun of about yourself, you're either a total bore or a total orifice.

- **SPEAK AT THE START OF AN EVENT.** If you're given a choice, speak on the first day of the conference. That's when attendance and energy are at their highest, and therefore it's the easiest atmosphere in which to give a good speech. By the last day, many people will have departed, and those who remain are probably out of gas, which means you have to devote some of your time to lifting them * out of their lethargy. Giving a good speech is hard enough without this added pressure.

- **ASK FOR A SMALL ROOM.** If you can, speak in a small, crowded room. Audience energy is a function of how full the room is, not the absolute number of people in the audience. For example, 250 people in a 250-capacity room is much better than 500 people in a 1,000-capacity room. If you can't get a small room, try asking for a classroom-style layout (tables and chairs) rather than theater-style layout (chairs only).

- **FIND OUT WHAT HAPPENED EARLIER AT THE EVENT.** This is another reason why it's good to go on first: You don't have to learn what happened before you. In fact, you can be the "event" that other speakers have to cope with.

  However, if you're not the first speaker, try to attend the sessions that precede you, or at least ask your hosts if anything dramatically good, bad, or funny has already occurred. Then weave this incident into your speech. This accomplishes two things: First, it increases the perception that you customized your talk; second, it shows that you care enough about the event that you've been there for a while.

- **DON'T DENIGRATE THE COMPETITION.** It is a privilege and an honor to give a speech. Your duty is to inform and entertain the audience. This is not an opportunity to slash and burn your competition. Doing so will reflect poorly on you, not on your competition, and will create the opposite effect of what you intended.

- **PRACTICE.** As a rule of thumb, the twenty-fifth time you give a speech is when it gets good. Few people will practice or give the same speech twenty-five times. That's why there are so few good speakers. Ironically, the more you practice, the more you'll sound spontaneous.

- **USE A TOP-TEN LIST FORMAT.** I use a top-ten list format so that an audience can track progress through my speeches. Few experts agree with this, but I urge you to try it. If you can't come up with ten interesting things to say about a subject, then don't speak.

Next, let's discuss appearances on panels. Panels are excellent opportunities to build a brand because they allow you to position against others—frequently competitors—on the panel. Here's how to be a great panelist.

- **CONTROL YOUR INTRODUCTION.** Bring a copy of your bio and hand it to the moderator who will introduce you. Don't depend on what the moderator comes up with. And, as in speeches, cut the sales pitch about your organization. To make your organization look good, be an informative panelist, not a loudmouth braggart.
- **ENTERTAIN, DON'T JUST INFORM.** Answering the moderator's or audience's questions is only half the job of a panelist. The more important task is to entertain the audience. You can do this with penetrating new insight, humor, or controversy. Always ask yourself, *Am I being entertaining?*
- TELL THE TRUTH—ESPECIALLY WHEN THE TRUTH IS OBVIOUS. Most people expect panelists to lie when they encounter a tough question, so if you don't lie, you establish credibility for your other answers.
- **ERR ON THE SIDE OF BEING PLAIN AND SIMPLE.** Often a moderator will ask a technical question, so the temptation is to respond with a technical answer. This is usually a mistake. Keep it plain and simple: enough to show that you know what you're talking about but not so much that it makes you incomprehensible to 80 percent of the audience.
- **NEVER LOOK BORED.** You can look happy, sad, angry (at what's being said, not that you have to be on the panel), or incredulous, but never look bored. Someone in the audience will be looking at you, a photographer will snap a picture, or a videocameraman will focus on you. Unfortunately, you are most likely to be bored when other panelists are talking, so learn how to fake interest.
- **DON'T LOOK AT THE MODERATOR.** Play to the audience, not the moderator; the audience wants to see the front of your face, not its side. A good moderator will purposely not look at you or draw your eye contact.
- **MAKE CASUAL CONVERSATION.** You're onstage, but act as if you're not. Simply make conversation with the moderator and other panelists. Don't pontificate and don't "make a speech." Interact with everyone (even the audience) in a casual way.
- **ANSWER THE QUESTION POSED, BUT NEVER LIMIT YOURSELF TO THE QUESTION POSED.** For example, if you're asked, "Is file intrusion detection an important technology?," don't just say no. Say, "No, but let me tell you what is really hot." Most panelists go to one of two extremes: answering only the question or providing an answer that had nothing to do with the question.
- **NEVER SAY, "I AGREE WITH WHAT THE OTHER PANELISTS HAVE SAID."** Just say something different or new. If the other panelists have said everything you want to say (which is unlikely), be gracious: "Everything has been said. Let's move on out of respect for the audience." It's usually better to appear considerate rather than stupid.

MINI-MINICHAPTER: THE ART OF DESIGNING T-SHIRTS

The person who is waiting for something to turn up might start with their shirt sleeves.

—Garth Henrichs

Making T-shirts to announce a product or company is a fine Silicon Valley tradition, perfected by Apple back in the mid-eighties. We'd print and distribute the T-shirts, then announce the product, and then start development.

When we launched Garage in 1997, our first product was a T-shirt for kids that said, "I'm a little entrepreneur. My favorite letters are I, P, and O." We sold hundreds of them—being the e-commerce pioneers that we were.

In an attempt to build a brand and create a desirable tchotchke, many organizations print T-shirts. Unfortunately, many are downright ugly and scream, "We're dweebs with no sense of design!" Honestly, T-shirts aren't a big part of building a brand, but if you're going to do it, do it right.

- **DON'T USE WHITE SHIRTS.** White quickly turns to gray because people don't segregate their laundry like they should. If you use white, you'll significantly reduce the chest life of the T-shirt because few people like to wear dingy clothes.
- **MINIMIZE TEXT.** Think of a T-shirt as a moving billboard. People don't put paragraphs of text on a billboard. Follow the same rules for T-shirts. Use no more than six to ten words. At Garage, we printed a shirt that said, "Startup, kick butt, cash out."
- **USE A BIG (SIXTY-POINT) FONT.** The purpose of a company T-shirt is to publicize something. If you use a twelve-point font, no one will be able to read the text. If you can't read a T-shirt from twenty feet, the design is wrong.
- **SPEND A FEW BUCKS ON DESIGN.** T-shirts are an art form. If all you're going to do is slap on some text, don't even bother. This is especially true if you want women to wear them. Make your T-shirts bold and beautiful—go for it. It's only a shirt, after all.
- **MAKE THEM IN KID'S SIZES.** Some adults won't wear T-shirts-it's beneath their fashion standards (though you sure couldn't tell by looking at them). However, they don't care what their kids wear, and kids prefer them, anyway.

FAQ

Q. Should I advertise or depend exclusively on evangelism, buzz, and word-of-mouth?

A. In his book *The Anatomy of Buzz,* Emanuel Rosen provides a fine explanation of the relationship between advertising and guerilla marketing techniques. He unequivocally believes that advertising is an important part of branding. His reasons include jump-starting the process of buzz, reaching hubs of opinion leaders, reassuring customers, and providing the facts.* He goes on to discuss how advertising can both stimulate buzz and kill it. His book is well worth buying.

If you have to pick only one set of techniques, use the guerilla ones. But if you have the resources, do both.

Q. Do I need a PR firm? Or a PR department?

A. The answer is the same for a PR firm and an internal PR department. Here's what they can do: force you to create a solid branding message; open the door for you with members of the press via preexisting relationships; schedule meetings and interviews and make sure that you're presentable; provide postinterview feedback; and help you improve your meeting and presentation skills. Here's what they cannot do: take second-rate products and services and generate countless articles about them; make the company always look good; and prevent the company from ever looking bad.

Here's what they should never do: become the thought police through which external communications and branding must pass for "approval."

Q. Should I pay evangelists for their help?

A. No. They're not evangelizing your product or service for the money. They're doing it as a way to make the world a better place. You might, in fact, insult them by trying to pay them. The three best forms of compensation you can provide are to make your product or service better, to offer stacks of information and documentation, and to honor them publicly.

Q. Is it important to build a brand in our local area or start immediately with international exposure?

""Emanuel Rosen, *The Anatomy of Buzz: How to Create Word-of-Moutb Marketing* (New York: Doubleday/Currency, 2000), 206-9.

A. Generally, you should establish your product and service—and therefore your brand—locally before you venture forth. It's much better to establish your brand solidly in a small area than to have it almost established in many areas.

However, you may have the type of product or service where customers are spread out around the world, and their commonality isn't geographic but based on other parameters. This is OK, too. The point is to go deep before you go broad—along whatever parameter "deep" appears.

Q. What if we realize that we have a stinker of a branding concept, or we want to change our direction in the middle of a branding campaign?

A. Here are several thoughts, perhaps conflicting, for you. First, I don't believe in "branding campaigns," a term that implies that branding is a short-term project. It's not. Branding is continuous and perpetual.

Second, how did you decide it's a stinker? Do you want to change because you're tired of your logo, look and feel, tag line, mantra . . . whatever? Because typically it's about the time that you are getting tired of these things that the public is just getting them into their skulls.

Third, if you're not achieving revenues, the problem is probably something more fundamental, such as an inferior product or service.

Fourth, if your product or service is fundamentally good, and you truly have a mispositioned brand, do make a change. Ask the people who are buying your product or service what it stands for—this is usually a great start for effective branding.

RECOMMENDED READING

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