Informal Comments on Software Strat ups

1. Personal Experience
   1. Early stage experience in major software company (Microsoft)
   2. Central partner in 3 successful start ups
      1. Customer software
      2. Semi-custom software
      3. Service delivery
   3. Ownership and active operation of consulting LLC
   4. First start-up: 1994
   5. Active partner in existing service software spinoff from U of S
   6. Close witness of many failures and pathologies
2. Up-front clarifications for U of S students
   1. Undergraduate students 9as inventors) own artifacts of their project
   2. Generous U of S policy towards software start ups
   3. An idea by itself does not enjoy property protection
      1. Absent preexisting agreement, cannot prevent spread of the idea
   4. Default pubic Github situation remains subject to copyright laws – code cannot be legally copied or used for derivative work
   5. It is in your interest to proactively work to head off conflict
3. Business Draws
   1. Low capital investment
   2. Low overhead
   3. High growth and profit margins
   4. Diversity of business models
   5. Rapidly evolving technologies
   6. Mass market use and demand
   7. Unfilled market niches
   8. Few Visible constraints
   9. Mythology/romance
4. Personal Draws
   1. Own boss
   2. Working with close friends
   3. Setting corporate culture
   4. Forging own path, per interests and values
   5. Building a business from nothing
   6. Turning an idea into practical reality
   7. Possibility of prosperity
5. Common Challenges
   1. Partner tensions
   2. Identifying business model
   3. People ware
   4. Aligning architecture and business model
   5. Balancing
      1. Focus and flexibility
      2. Risk and return
      3. Growth and stability
      4. Processes and agility
      5. Financing and control
   6. Incentive alignment
   7. Crossing credibility gap
   8. Risk management
   9. Finding senior people
   10. Navigating domains
       1. Financial
       2. Legal
       3. Marketing and Sales
       4. Managerial (PM)
       5. Resources (HR)
   11. Intangible constraints
6. Entrepreneurship Antipatterns
   1. No partnership agreement, dispute management plan
   2. Gross inequity in partner risk exposure
   3. Part-time partners with fuzzy, contingent transition plan
   4. Absence of experience in project management
   5. Entering unfamiliar vertical markets
   6. Raising too much money
   7. Tension, divergent visions among founders
   8. Predatory and controlling financing
   9. Fuzzy, infinitely flexible business plan
   10. Inadequate project management push back
   11. Neglect of soft factor
   12. Desperation-driven sales
7. High level pieces
   1. Financial \*
   2. Legal \*
   3. Marketing \*
   4. Sales \*
   5. Managerial \*
   6. Resources \*
      1. Human resource
      2. Office space
   7. Technical (fairly generic; will not cover) \*
   8. Incubators can achieve economies of scale \*
8. Ownership
   1. Many start-ups perish because of partner conflicts
   2. Equity division should reflect risk, investment
   3. Vesting (key motivator; fixed schedule vs. milestone-based)
   4. Dilution
   5. Contingencies
   6. Stock options
   7. Corporation type and taxes
   8. Transfer constraints
9. Common Financing Mechanisms
   1. Private ownership
      1. Partners put in won money
      2. Borrowing from friends and family
      3. Sweat equity (risk)
      4. Angel investors (typically investing own money)
      5. VCs (typically investing corporate money)
      6. Crowdfunding
   2. Larger companies
      1. Public ownership (begins with IPO)
         1. Shareholders as co-owners; preferred vs. common
      2. Bond market, etc.
10. Venture Capital
    1. Basic deal: give money in return for % of company, sometimes
       1. Managerial control
       2. Business plan control
    2. Widely sought after
    3. Sometimes predatory
    4. Critical role of business plan
    5. Vulture capitalists
    6. Sometimes source of HR
    7. Problems from unneeded funding
11. Diversity in Business Models
    1. Products vs Service
    2. Target market
       1. Individuals vs enterprise
       2. Mass vs niche
    3. Leader/follower/complement
    4. Growth model
       1. Scaling
       2. Duplicating (semi-customizing)
       3. Granulating
12. Daunting Statistics (Cushman)
13. Pricing strategies
    1. Metering / money per transaction
    2. Fee for service to accompany software
    3. Fixed-term license fee
    4. Per-seat license
    5. Value-derived pricing (share of revenue)
    6. Charging for hardware
    7. Separating terms for introductory vs. production use
14. Legal
    1. Quality influences potential buyout
    2. Incorporation
    3. Documents
       1. Articles of organization/incorporation (stockholders’ rules…)
       2. Corporate bylaws
       3. Contracts
    4. Recognition of early investments
    5. Importance of contingencies clauses
    6. Intellectual Property Issues (prior claims)
    7. Client lawyers know can push around small company
    8. Want on-call lawyer
15. Importance of Written Agreements
    1. Written agreements critical for
       1. Common understanding
       2. Legal resource
    2. Often make mistake of skipping
       1. Hard to ask friend about need to put in writing
       2. Easy to procrastinate
       3. Tempting to skimp by avoiding dealing with and paying a lawyer
16. Conflict Resolution
    1. Seek clear path to prompt settlement of disputes
    2. Want maximally proactive identification of potential for conflict
       1. Longer that wait, less time to fix it or find alternatives
    3. Share agreement on dispute resolution helpful
17. Marketing mechanisms
    1. Focus: trying to attract customers
       1. Danger of promising too much
    2. Typical avenues
       1. WoM
       2. Trade shows
       3. Newsletters
       4. Hosting conferences
       5. Advertising (delay)
       6. Customer testimonials
       7. Cold-call
    3. Customer cultivation key
    4. Tension with sale
18. Sales
    1. Focus: Closing the (medium-to-large) deal
    2. Key concept: Sales pipeline
    3. Key skills:
       1. Negotiation
       2. Understanding: client constraints / structure
       3. Understanding give and take in own organization
    4. Importance of convenience for smaller scales
    5. Often some tension with marketing
    6. Learn much from sales failures
    7. Can often get prospective client to pay for visits to talk about issues
19. Critical Role of First Client
    1. Difficult to price
       1. Companies realize special place
          1. Often give extra latitude for good price
       2. Company price pressure can harm product
    2. Critical to impress
       1. Credibility, testimonial, good reputation
    3. Often word of mouth
    4. Often special relationships
    5. Sometimes breaks company
20. Managerial Issues
    1. Balancing
       1. Keeping at predefined plan
       2. Doing what market seems to most need as learn more
       3. Doing what strengths allow
    2. Key
       1. Prioritization: Balancing long and short-term
       2. Managing uncertainty
       3. Avoiding temptation to get involved technically
       4. Balancing great possibilities with limited energy
    3. Wearing (too?) many hats
       1. Facilitation and office resource management
21. Supervision
    1. Supervising (often very green) staff
       1. Guaranteeing quality delivery
       2. Preventing burnout
       3. Recognizing early and heading off partner problems
22. Partnerships and buyouts
    1. Often anticipate, hope for “end game” from relatively early on
    2. Strategic partnerships not unusual
    3. Technology sharing/complementary assets
    4. Often big companies will purchase small outright
    5. Partner issues hurt: look for odd liabilities
23. Human Resource Issue
    1. Hiring
    2. Partner vs. employees
    3. Partners
    4. Critical role of first server employees
    5. Who get often depends on risk
       1. Risk lovers
       2. Secure and looking for challenge
       3. Little to lose (fresh out of school)
       4. “On the fence” employees elsewhere
       5. “Nepotism”
24. On-Call staff
    1. Typical
       1. Legal
       2. Accountant
    2. Domain expert
    3. Business development specialist
    4. Graphic artist/designer
    5. Sometimes
       1. Retained partly on equity basis
       2. Pay
    6. Important role of incubators in ensuring economies of scale
25. Peopleware
    1. Risk and reward
    2. Staff and market trust, credibility
    3. Sustainable software development
    4. Morale, fatigue, burnout, turnover
    5. Expectation management
    6. Balancing agility and process in software development
    7. Aligning incentive
    8. Balancing risk and reward
26. Space
    1. Sharing space
    2. Informal
       1. Less bonding
       2. Hard to meet with clients
       3. Hard to have bigger meeting
    3. Shared spaces
       1. Access to boardrooms, kitchens, etc.
    4. Semi-dedicated space (slight use by other)
    5. Dedicated space
    6. Incubators