Top Ten Rules For Startup Success

By Robert Norton

In my experience, few people understand the many different ways that a start-up must be managed as compared to more mature companies. Decisions must be faster, risks must be higher, and the solutions that are developed must be less complete (80% or less) and more narrowly targeted. During the bubble many "big company" executives were recruited to run startups with little more than an idea and a huge VC investment. This, of course, came back to haunt the investors when they realized too late that running a startup is a very different animal than a larger company. Most of these executives, though looking good on paper and in front of a board, were fish out of water in any startup company, no matter how much money they had in the bank.

There are so many unknowns involved with a new product and market that you must ALWAYS iterate towards the best solution in increments – You cannot pretend to know all the answers up front. Odds are, many, many changes will be required along the way. There must be a trial and error phase to reduce risk and move from theory to real customer feedback and/or market data. In technology this is an alpha or beta test and it is NOT just for debugging. The sooner you can get here the few resources will be wasted. The best entrepreneurs are flexible and can change on a dime so long as it is not the fundamental principal, or the primary customer value proposition they are building their company on.

A startup must be designed and launched quickly, and then, with high quality and bandwidth customer feedback (read quality face-to-face interviews), it must be constantly modified. It is like a heat seeking missile that is always readjusting its course based on the latest radar data. Generally, big companies cannot do this, while startups MUST DO IT so as to leverage their main advantage over companies with larger resources!

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Once you start burning cash, and until you reach profitability, time is your enemy. Respect it and limit any product development to a fixed schedule. (You Are Leaking Fuel and at high risk!) If the SR-71 can be designed, developed and launched in 18 months so can your project. Replace anyone who does not believe that they can develop a product in 12-18 months. Most should be 6 months maximum after the team is in place.

Expect, and constantly make, small course changes daily, then weekly, and then monthly. Iterate towards the best customer focused solution until you hit gold and find a solution the customer cannot live without and is different than anything else out there. This means constantly showing potential customers what you have so far. Although many entrepreneurs are paranoid about this, it is clearly a NECESSARY evil. So get a confidentiality agreement signed and share your progress and ideas in exchange for feedback. A startup is like a heat seeking missile and requires constant course corrections.

Be willing to take significant calculated risks and manage those risks aggressively by tracking them closely. Keep a list of major risks and assign each key risk to a specific senior individual to always be thinking about, tracking and managing.

You must remain flexible; do not invest time and money in things that can change rapidly, invest only in those fundamental things that will have sustainable value. Many companies blow resources on things they know will not last because a single customer wants a special feature. Early stage companies cannot afford much of this. Don't fall into this trap! You must build value long-term by investing in things that will last and apply to many customers, not one. If a customer wants a special feature tell them it is not part of the standard product and we can not resell this work so it will cost you $XXX,XXX, where X is cost plus a very significant margin. Most will back off and if they don't then you learned a valuable lesson about a market need and gotten the new feature paid, for worst case.

You must be willing to use or leverage things that have already been learned, built or done that apply directly to your business. (Reuse existing parts and lessons – don't' reinvent the wheel because no one is willing to pay for that!) So few entrepreneurs seek out the advice of failed ventures that are similar to their desired market positions in order to learn their multi-million dollar lessons without repeating their mistakes. Egos get in the way! It is possible a lunch with the right person could save you from making a $1 million mistake and almost any good entrepreneur will be glad to share their experiences.

Employees must have greater scope and responsibility than at a larger company, and every employee must directly contribute "work product" or real results on a daily basis. Only the CEO will truly be a "manager" in a startup, and the CEO will also have 3 to 5 other jobs that contribute "real work" too. The organization must be flat with everyone talking to everyone. As Jack Welch says "boundarylessness". There is a lot here but they are all deeply interrelated.

Hire the best people you can find at every level, from top to bottom, as early as possible; never settle for "average" people. Average people can, and probably will, kill a startup before it leaves the ground.

Bootstrapping is necessary no matter how much cash you might have. It not only conserves cash, it forces you to optimize your business model for minimum effort and maximum results. It forces you to accept the only real proof there is for a business – That is that people are willing to pay a price that makes your company money. If you can't charge someone more than the fully loaded costs of delivering the product or service you really don't have a business. This is a mistake that was made thousands of time in the bubble period when "eyeballs", "traffic" or registered users were considered proof of a concepts viability even though they were money losing transactions. There is only one proof – cash paid by a customer that exceeds your costs by a reasonable margin! Often called "traction" by venture capitalists today.

Develop a business plan and vision. These will save you many times their cost, even if you don't need them to raise money, even if you throw them in the trash when you are done. A good business plan will be a living document that is updated regularly and will force you to:

Identify your target market VERY specifically. This means an actual list of names, or a very narrow filter criteria, that can be used to identify a target niche of customers where you can provide something competitors cannot. Spell out specifically how you will sell to them.

Position your product/service to be different in as many ways as possible from larger players (a UNIQUE Selling Proposition or USP). It must be much better, faster and/or cheaper for that target customer segment to change vendors or even risk a new vendor. VCs want at least twice as good at half the cost, which is really a 4X improvement. If this is done well then no one can win that customer in a competitive bidding situation, because you have some unique features or benefit they need.

Understand your market and competitors as completely as possible. Study them and institutionalize competitive intelligence and market research to be ongoing and up to date. One person should be assigned to each major, competitor to update the team on developments at their assigned competitor can work well.

Understand the financial sensitivities of your business and how much you need to invest in each department/area to achieve success

Define how you will maintain a competitive advantage over time, which allows premium pricing in order to protect your margins and fuel growth. This means a narrower market entry strategy with an evolving product(line), which can be broadened to a wider market once you have established your initial market entry position and some revenue. Often times a technology or product lead is not sustainable long term and your USP needs to transition to another advantage after a couple of years to keep customers.

Get all your management team on the same page in terms of resource allocation, interdependencies, financial constraints etc.

Never give up! There are always options, if you are seeing your vision far enough in advance (3-6 months in a startup phase), to make course changes in advance of disaster.
If you are not meeting most of these criteria your chances of success are greatly diminished and you should be looking for help with ways to adjust your company's management into "startup mode". I would recommend no less than 50% of the senior executives have previous startup experience and virtually never have a CEO that does not have that experience under his or her belt.

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