

Starting New Ventures 64-361.202

Chap 9. Building New Venture Team

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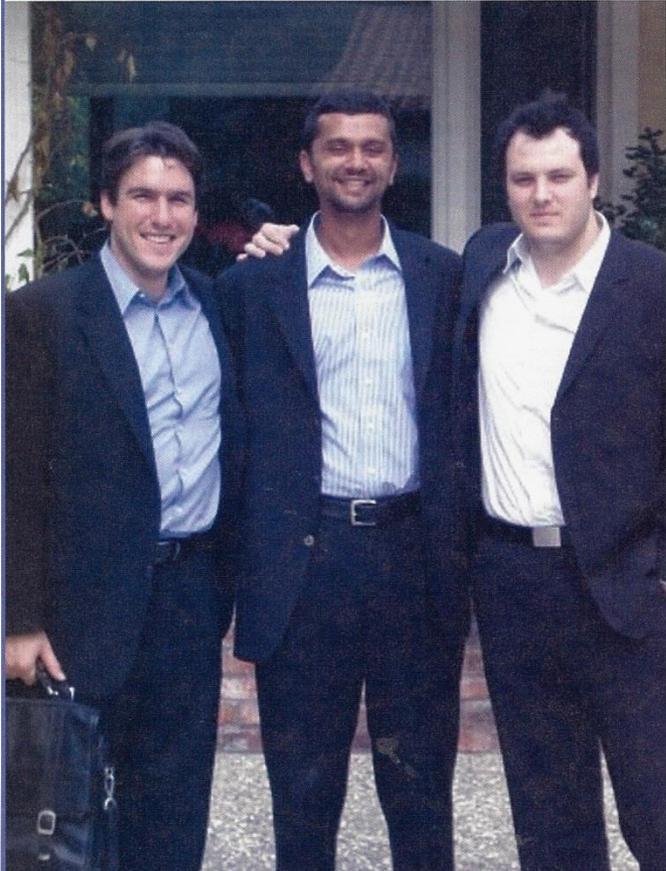
Distinguished Professor of Higher Education, Emerging Technologies, and Innovation



Scripted- Screenwriting Software

- Sunil Rajaraman,
MBA UCLA 2008
- Zak Freer,
USC Peter Stark Producers Program
2002
- Ryan Buckley,
MBA MIT-Sloan &MPP JFK School
of Public Policy 2009
- Sunil's friend Zak was an aspiring
(out of work) writer and his other
friend Ryan was developing
software to allow writers to
collaborate.

Getting Personal *with* **SCRIPPED**



Cofounders:

SUNIL RAJARAMAN
MBA, UCLA, 2008

ZAK FREER
Peter Stark Producers Program,
USC, 2002

RYAN BUCKLEY
Joint Program—MPP, JFK School
of Public Policy, Harvard University
2009; MBA, Sloan School of
Management, 2009

**Dialogue *with*
Sunil Rajaraman**

**MY BIGGEST SURPRISE
AS AN ENTREPRENEUR**
5% idea, 95% execution

BEST ADVICE I'VE RECEIVED
Listen first

**MY FAVORITE
SMARTPHONE APP**
Instagram

**MY BIGGEST WORRY
AS AN ENTREPRENEUR**
Not working hard enough

**FAVORITE PERSON I FOLLOW
ON TWITTER**
@edward_burns

**WHAT I DO WHEN I'M NOT
WORKING**
Play tennis

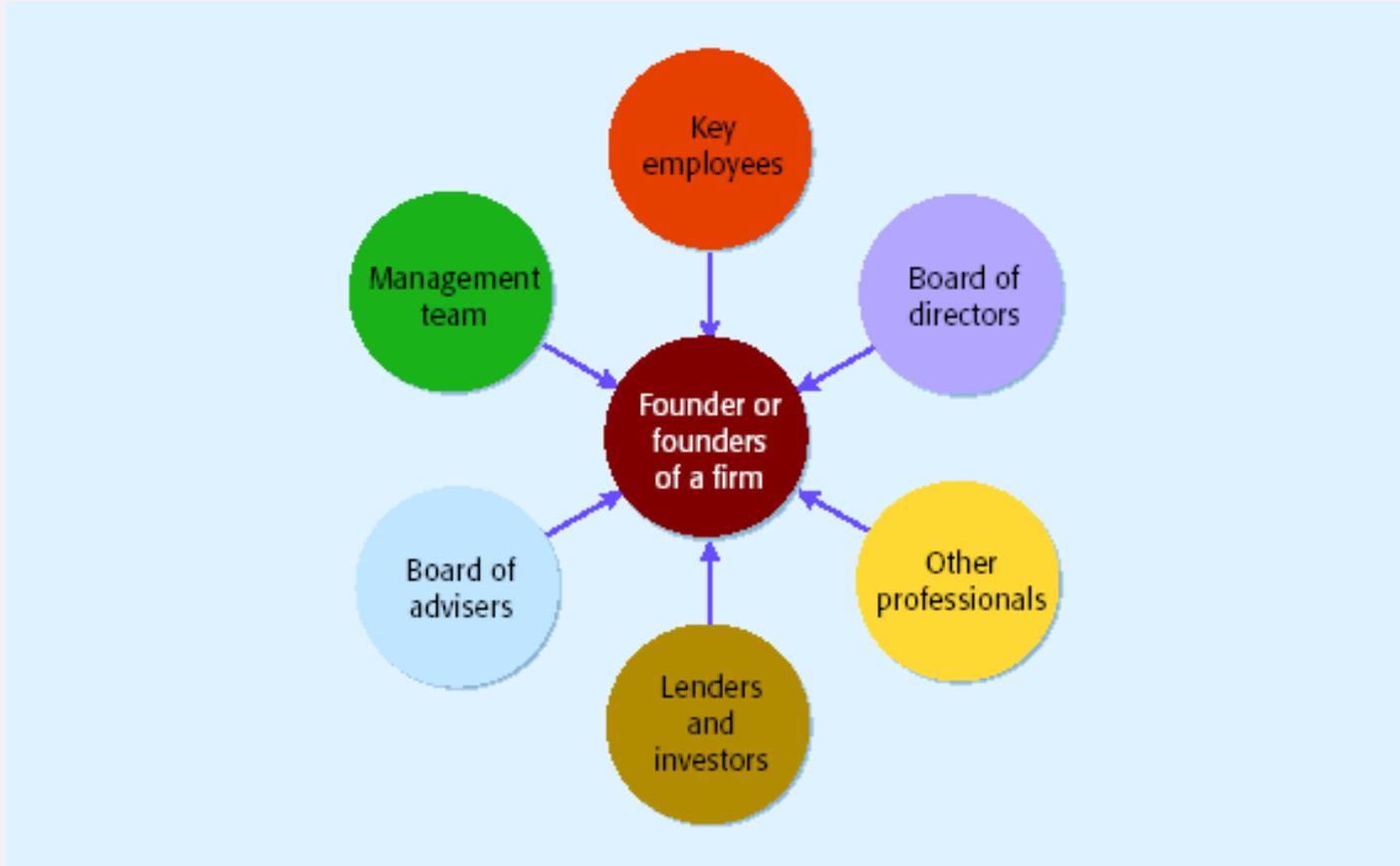


Scrapped

- Three Founders – 2007
- Product Launch in 2008
- Each co-Founder put in \$10,000
- Friends and Family put in \$50,000
- Complementary Skills
- Angel Investors put in \$250,000 in 2010
- Merged with Zhura –a similar product
- 60,000 users of a free product.



Building the New Venture Team



The Founder or Founders

- Founder or Founders
 - The characteristics of the founder or founders of a firm and their early decisions have a significant impact on the manner in which the new venture team takes shape.
- Size of the Founding Team
 - Heterogeneous vs. homogeneous
 - heterogeneous with respect to knowledge, skills and experience
 - Homogeneous with respect to personal characteristics and motives
 - The bigger the better?
 - 50-60% are founded by individual
 - Teams bring more strength but also more complexity.

The Founder or Founders

- Qualities of Founders
 - Several factors are thought to be significant to a founder's success.
 - Prior entrepreneurial experience
 - Relevant industry experience
 - Passion
 - The ability to “network” effectively
 - Cohesion of the team
- Liability of newness

Founding Team Relationships

Several factors are crucial in developing strong working relationships among the team:

- Clear initial assignment of roles
- Effective communication
- Careful attention to perceived fairness
- Clear defined founders' agreement

Mike Wozniak (Woz) and Steve Jobs

“No one wants to die. Even people who want to go to heaven don’t want to die to get there. And yet, death is the destination we all share. No one has ever escaped it. And that is as it should be, because Death is very likely the single best invention of Life. It’s Life’s change agent. It clears out the old to make way for the new. Right now the new is you, but someday not too long from now, you will gradually become the old and be cleared away. Sorry to be so dramatic, but it is quite true.

Your time is limited, so don’t waste it living someone else’s life. Don’t be trapped by dogma — which is living with the results of other people’s thinking. Don’t let the noise of others’ opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary.”

-Steve Jobs –Stanford University, 2005



Would this be a team that you would invest in?



- Microsoft Founders -1978 Top-Steve Wood, Bob Wallace, Jim Lane
Mid- Bob O'Rear, Bob Greenberg, Mark McDonald, Gordon Letwin
Front – Bill Gates, Andrea Lewis, Marla Wood, Paul Allen

Maybe this group would be better?



- Mark Zuckerberg, Yuri Milner, Eduardo Saverin, Sean Parker, Peter Thiel, and Dustin Moskovitz -The Facebook Billionaires
 - <http://www.switched.com/2011/03/10/six-facebook-billionaires-hit-forbes-list/>

ILinc LearnLinc Team

- One Professor of Physics Information Technology, Engineering Science, and Management.
- Two MBA students
- Degerhan Usluel –Electrical Engineering Undergraduate now getting MBA. Had already started a tech company in Turkey.
- Mark Bernstein- MBA –Former “top gun” Salesman at Computer Associates.
- Heterogeneous team –but very compatible personalities.
- Began in 1993, three rounds of VC, mergers, acquisitions, sold in 2000 to Gilat. Became Mentergy –worth \$500 million in weeks after sale.



Recruiting and Selecting Key Employees

- Recruiting Key Employees
 - Startups vary in terms of how quickly they need to add personnel.
 - Why hire someone else to be the top managers?
 - Desired characteristics
 - Broad experiences
 - Intellectual curiosity
 - Objectivity
 - Building respect
 - Vision
 - Pattern recognition
 - A sense of competition
 - Appreciation of people

Recruiting and Selecting

- What do you need
 - Job analysis—what knowledge, skills, and abilities are required?
 - Job description—an overview of what the job involves
- Where to look
 - Social networks, Web, Facebook, Twitter, LinkedIn, etc.
 - Trade journals, newspapers, etc.
 - College and university employment centers
 - Internet sites
 - Referrals from employee or current customers
 - Headhunters

Selection Process and Technique

- Phone interviews
- On-site interviews
- Reference checks
- Homework assignments
- Open house hiring
- *Topgrading: How Leading Companies Win by Hiring, Coaching, and Keeping the Best People* by Brad Smart



The Roles of the Board of Directors

- Board of Directors
 - Required by a corporation
 - A board of directors is a panel of individuals who are elected by a corporation's shareholders to oversee the management of the firm.
 - An **inside director** is a person who is also an officer of the firm.
 - An **outside director** is someone who is not employed by the firm.
 - Responsibilities:
 - Appoint the officers of the firm
 - Declare dividends
 - Oversee the affairs of the corporation

The Roles of the Board of Directors

Function	Importance of Function
Provide Guidance	Although a board of directors has formal governance responsibilities, its most useful role is to provide guidance and support to the firm's managers. Many founders and CEOs interact with their board members frequently and obtain important input and advice.
Lend Legitimacy	Another important function of a board of directors is to lend legitimacy to a firm. Well-known and respected board members bring instant credibility to the firm. Signaling: When a prominent person takes a major role, it signals that this is likely to be a high quality start-up.

Board of Advisers

- Board of Advisers
 - A board of advisors is a panel of experts who are asked by a firm's managers to provide counsel and advice on an ongoing basis.
 - An advisory board possesses no legal responsibility for the firm and gives nonbinding advice.
 - the members of a company's board of advisers provide guidance and lend credibility to the firm.
 - “signaling” –using appointments to show credibility

Board of Advisers

- Guidelines to Organizing a Board of Advisers
 - Advisers will become disillusioned if they don't play a meaningful role in the firm's development and growth.
 - A firm should look for board members who are compatible and complement one another in terms of experience and expertise.
 - When inviting people to serve on its board of advisers, a company should carefully spell out to the individuals involved the rules in terms of access to confidential information.

Lenders and Investors

- Lenders and investors have a vested interest in the companies they finance, often causing them to become very involved in helping the firms they fund.
- Example: eBay took VC from Benchmark Capital to establish credibility –even though they did not need the money. (Recruited Meg Whitman as the CEO)

Other Professionals

- Other Professionals
 - Attorneys
 - Accountants
 - Insurance agents
 - Business consultants
 - Outsourcing with independent contractors

Questions

- Scripped is built on a “Freemium” model. How does that function?
- What does “liability of newness” mean?
- In what ways should an entrepreneurial team be homogeneous and in what way should it be heterogeneous?
- Describe the difference between the Board of Directors and Advisory Board.
- How does “signaling” work?
- In the project that you are doing for your term project in this class, tell me what kind of team you envision and why you plan to do it this way? (-or why and how you plan to go it alone.)



In Class Exercise

- Gather into small groups of 4-5 students per group.
- (5 min) Go around the group and each give a 60 second description of the project that you are working on for you term project.
- (2 min) Pick ONE of these projects to discuss further.
- (5 minutes) Discuss what kinds of people that you would want to involve in the project as founders, employees, board members, board of advisors, other contributors.
 - Be as specific as you can be.
- Elect one member (not the person whose project is picked) to present the plan that you develop.
- (5 minutes) Present that plan to the entire class for one minute for each team.



Bowzo: a Case Study in Engineering Entrepreneurship

- “Bowzo would not be where it is today had I not met Larry Treanor when I was in a playful mood” comments Jim Oswald, joint inventor of a product which, it is anticipated, will dramatically change the way the violin is learnt.
- Jim is a career inventor and design engineer who, having left Rolls Royce after 25 years in the world of engine components specialising in heat exchangers, was ready for something new.
- It is fair to say that Jim found the first few months after his ‘release’ uncomfortable. He had spent years working on major projects involving teams, many of which he had led himself. He missed teams, and he missed the challenge of project management. Fortunately, Bowzo arrived out of nowhere and provided what he needed.
- Both Larry and Jim were attached to Coventry University’s Vision Works in order to get help in developing some new business ideas. The Vision Works provides accommodation, telecommunications and computer facilities, plus, perhaps most importantly, mentoring and coaching services for startup businesses. When Larry and Jim met, Larry was planning the launch of a multimedia design business but he had also been a professional musician and violin teacher.
- During a discussion about product ideas Larry revealed his thoughts about a device for helping novice violin players to learn faster and play more accurately by ‘bowing’ straight from the moment of the first lesson. The device fixes to the neck of the violin and offers precise control to students developing their bowing technique.

<http://www.heacademy.ac.uk/assets/documents/subjects/engineering/4-mini-case-studies.pdf>



The Idea

- Larry understood precisely the problems many students have in 'bowing' straight. The idea was to design and manufacture a simple device that controls the bowing technique by helping the student keep the bow straight at all times. Given Jim's background in product development and Larry's specialist knowledge both could see the potential of a collaboration.
- It worked and one year later the first prototypes were finished and market testing was underway.

<http://www.heacademy.ac.uk/assets/documents/subjects/engineering/4-mini-case-studies.pdf>



The Market

- To help explore the initial reactions of violin teaching professionals across the world, to what appeared to be a brilliant solution to a longstanding problem, both Larry and Jim felt that independent marketing expertise was needed at an early stage.
- Some staggering facts emerged, not least that more than half a million new violins are bought throughout the world each year. This probably means that almost another half a million second hand violins are bought too, leading to lots of lessons for many students keen to learn fast.
- The most likely route to market was identified as via the traditional wholesaler/distributor to retailer network. Initial research indicated that there was a market for a low cost, easy to use device and thus the design engineering and manufacturing priorities were set.

<http://www.heacademy.ac.uk/assets/documents/subjects/engineering/4-mini-case-studies.pdf>



University support mechanisms

- The market research was supplemented by further inputs from the University's Design Institute which provided a specialist support programme for small to medium sized enterprises.
- This included a comprehensive range of services featuring marketing advice, product design and innovation processes as well as financial management and technology transfer.
- Jim was impressed. "The range of services available from the Design Institute is fantastic; we were able to put the engineering issues on the table and deal with them in a wider team context with inputs from experts as required".

<http://www.heacademy.ac.uk/assets/documents/subjects/engineering/4-mini-case-studies.pdf>



The issues were clear:

- Styling and design values. The first handmade prototype was certainly functional but needed more work. Soon a more aesthetic shape was created that added a great deal to the presentation and packaging of the product
- Durability. New materials were tested and the best of a number of options selected, we will have to wait until the launch to know more on this point.
- Manufacturing options. Low volumes could be laser cut but high volumes needed a more appropriate technique for cutting and forming. Which would be best at launch?
- Production costs. How fast would sales grow and what would be an acceptable pricing structure for customer and distribution chain alike?

<http://www.heacademy.ac.uk/assets/documents/subjects/engineering/4-mini-case-studies.pdf>



Progress to date

- The excellent teamwork involving the inventor, musicians, design engineers and marketeers has resulted in preproduction prototypes that are working well in field testing.
- Seed capital has been secured on the back of this positive market research findings and the formal product launch is scheduled for early in 2006.
- The team are determined to bring a product to market that offers excellent design, practicality and the highest quality. To this end attention to detail is critical as are methodical engineering processes.
- Enter the entrepreneur, then exit The 'collision' between entrepreneur and inventor/engineer was brought about by the realisation of the existence of a market need. They met by accident and the inventor in Larry awakened the entrepreneur in Jim, and a new position for Jim, the inventor/engineer. He admits that he was feeling more open to other people's ideas at the time of meeting Larry and since then has probably reverted to type as he waits for "the next awakening".

<http://www.heacademy.ac.uk/assets/documents/subjects/engineering/4-mini-case-studies.pdf>



Questions to consider in small group of 4-5

- What key factors led to the formation of the founding team?
- How did the founders find expertise they did not have?
- If this were to become a large public company, what would the next steps be if you were the Founders?
 - What structures would you form?
 - What kinds of team members would you add?

