

# *Start Fast!*

*How to accelerate your  
software / internet / mobile  
venture*

*(free excerpt)*

by Chuck Stormon

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## DEDICATION

To the divine source of inspiration and those with the perseverance to see it through to realization. And to Steve, Arthur, Albert and Samuel.

*“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, heart and intuition. They somehow already know what you truly want to become. Everything else is secondary.”*  
– Steven P. Jobs

*“Any sufficiently advanced technology is indistinguishable from magic.”*  
– Arthur C. Clarke

*“Anyone who has never made a mistake has never tried anything new.”*  
– Albert Einstein

*“The harder I work, the luckier I get.”*  
– Samuel Goldwyn





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## INTRODUCTION

*"My suggestion is that you go home. At the back door they will give you your money back and you can go home now and not get started on this very difficult and terrible process. It is a lot more difficult than you know when you begin. Once you start it is very difficult to stop. So my suggestion to you is not to begin. Best not to start at all. But if you do, then it is best to finish."*  
- Chogyam Trungpa Rinpoche

This book is for anyone starting a software, mobile or internet business, for first time or serial entrepreneurs, for investors and for friends, family and loved ones who want to better understand the entrepreneurs in their lives.

This is not a feel-good introduction, designed to pump you up with excitement and confidence. This is not the

kind of introduction designed to get you to buy/read/share this book. I'm going to do something very unusual, almost radical. I'm going to tell you the truth.

Most books on starting a company begin by telling you about the great success stories. I'm going to begin by trying to talk you out of it. If I fail to talk you out of it in this Introduction then read the rest of the book.

Why do you want to start a company? You should examine this. Sit with it. Write down your reasons. Are any of these reasons on your list?

- Entrepreneurs get rich and I want to be rich.
- In today's world of global economic crisis, my job could be on the line at any given moment so starting my own business isn't any riskier.
- One of the greatest perks about owning my own company is that I get to be my own boss.
- Starting a company will give me the freedom to set my own hours and schedule so I will be able to enjoy a lot of time off, work at my own leisure, spend a lot of time with my family and friends and create a life that I enjoy.
- I want to turn my passion into my livelihood. Doing what I love for a living will make me fulfilled and enrich my life.
- I want a more relaxed work environment where everyone can be friends.

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In fact the above are the six *worst* reasons to do a startup. These myths and lies came from a recent article published on the Small Business Administration website, from which I paraphrased these 6 bullet points.

The truth is that only some entrepreneurs get rich. Many spend their life savings and that of family and friends and fail anyway.

Yes the economy stinks right now, and it will probably get worse before it gets better. If you have a job, it is best to keep it as long as you can. More people have become well-off by getting a regular paycheck, living within their means, and saving and investing for the long term.

If your startup succeeds, you won't be your own boss. There are investors, boards of directors and don't forget your customers. And oh, yeah, you'll probably be replaced soon by a boss brought in by your investors to run "your" business.

As for more leisure, that's a laugh! Running a business is a 24×7 endeavor. There is no way around it; it's just plain hard. Expect stress, less hair, exhaustion, ruined relationships, you name it. In the pressure-cooker of starting a business you may completely forget what you loved about the idea in the first place.

What about a relaxed, friendly work environment? Not very likely. You will be the focus of everyone's projections. Your co-workers will love you one day and

hate you the next. Expect to deal with difficult, brutal, no-win people problems, threatened and real lawsuits, and heartbreaking reversals of fortune.

In case you're not convinced, here are some more reasons NOT to start a company.

1. It's up to you. There is no one else to blame for poor performance or failure to execute.
2. Where will you get the money you'll need to grow the business? Banks aren't lending to and venture capitalists aren't investing in early-stage startups.
3. I wouldn't advise anyone with a family to found a startup. If you have a family, they will suffer with you. If single 20-somethings start a company that fails, so what? They'll learn a lot, and can still get a job. If you've got a spouse and a couple of toddlers, you've got too much to lose.

So sit with this decision and be sure, because starting down this road you're taking a step onto a slippery slope. If you find that you *can* avoid starting a business then do. If, on the other hand you, like me, *can't not do it*, well then you might as well do it right. Go ahead and read the rest of the book.

## CHAPTER 1 - START FAST

*“Start fast, that's the biggest thing. Start fast.”  
- Ohio State senior defensive end Solomon Thomas*

Hi, my name is Chuck and I'm an addict. To be more precise, I'm addicted to starting companies. People more polite than myself call me a serial entrepreneur. I've spent the last 25 years starting companies, learning what to do and what not to do, being mentored and mentoring others.

The single biggest thing I've learned in all these years is how to start fast, which I believe is the best way to build a software, internet or mobile app business today. In the few hours it takes you to read this book I'm going to share with you what it took me 25 years to figure out.

Of course reading about it is not enough. So throughout the book you will find these little grey action boxes, which give you something specific and practical to do.

**Go to a Startup Weekend:** ([startupweekend.org](http://startupweekend.org)), commit to the entire 54 hours and experience in microcosm what it's like to do a startup. By the way, I recommend this for everyone, not just first-timers. This will give you an opportunity to practice the concepts in this book and see for yourself. It's also a great way to network and meet potential co-founders, partners, sponsors, and investors in your community.

There are tremendous advantages to a fast start. You'll be able to see your idea in action quickly, get feedback from early adopters, adapt your product or service in response to that feedback, test and refine your business model all before investing a lot of money (yours or someone else's).

I'm going to give you a method, specific tools and action steps to start fast, build a real business fast and attain as much success as possible in the least time and with the least capital. Bear in mind that this method will not be applicable to every business. Not every business can be capital-efficient. Some take longer to build than others. I know that this method applies to a business if it is software-based and your customers can be reached through the Internet or mobile phone network. If your

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business is of a different character entirely, some but not everything here will apply to you.

There are reasons that software, internet and mobile companies can start fast, and most of these reasons are obvious once you know them. But most of them weren't true 10 years ago, some five years ago, and a few weren't true only 1 year ago. Here they are:

- More than two billion people (30% of the world) have access to the internet. That's a big market. This includes roughly 80% of the people in the North America and 60% of the people in Europe. In Asia, only 25% of the population has internet access, but that accounts for almost a billion people.
- You can access your market directly. In the past it was difficult to break into markets. You had to know the right people, play politics, pay your dues. The Internet has led to the disintermediation (cutting out the middle-men) of every market it has touched (books, music, retail, travel, insurance, you name it). TV is going through this process of disintermediation and realignment right now. The Internet makes it much easier and faster to "break in" to almost any business.
- Thousands of developers have created an open source software stack which makes the development of new products and services much easier. This platform is available for free, further reducing your capital requirements.

- Cloud computing – ever heard of it? You can now rent everything you need to scale your online business. There are millions of servers and millions of lines of code available for the asking.

The next five chapters cover each of the five stages of starting a business<sup>1</sup>. Following the steps and using the tools in each chapter will ensure that you start fast.

Chapter 2 – Formation of your business. You'll need a team, a product or service idea, a business model and a value proposition.

Chapter 3 – Prototype your product or service to validate your value proposition and business model with real customers. You'll need to create a landing page, collect prospects, prototype your product, sign and get feedback from early adopters.

Chapter 4 – Iterate - Promote, validate, and adjust your startup product and business model. Iterate until you have traction. This is the drumbeat of a fast start. Get good at it and you'll build a successful business.

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<sup>1</sup> This book presents my adaptation of the Lean Startup method, which means reducing waste by maximizing contact with real customers, testing assumptions as early as possible using rapid prototypes, evolving quickly using customer feedback and eliminating any work or investment that doesn't produce value for customers.

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Chapter 5 – Financing and Scaling the business represent new challenges. You'll need to understand and carefully select investors who fit. You'll need to adapt as the needs of your business evolve.

Chapter 6 - End Games are the scenarios for you and your investors getting an economic return on all this work.

Throughout the book you will also find footnotes with personal stories from my entrepreneurial life as well as a few jokes and notes on additional reading. The first time you read this book you may find the footnotes illustrative, helpful and even entertaining. When you reread a chapter you can easily ignore them. The stories in the footnotes are not told in any chronological order. There is a timeline in the Epilogue that will help you sequence things if you're so inclined.

Please feel free to write in this book; make it your own. If you've got ideas for improvements, contribute them via [startfast.net](http://startfast.net) and I'll consider including them in the next revision.

Before we embark upon this journey, let me share a few words specifically with first-time entrepreneurs to help you set aside any unrealistic expectations you may be harboring.

## ***Most people won't understand***

*"My son is an entrepreneur. That's what you call someone who is un-employed."*

*- Ted Turner, founder of CNN and philanthropist*

Friends and family<sup>2</sup> will think you're nuts to give up your job to chase your startup dream. When you achieve major milestones in the startup process (e.g. getting first customers, raising capital, getting press) "normal" people won't get it or appreciate it. If you're not the next Facebook (and let's face it, most of us won't be), only others in the entrepreneurial ecosystem will understand what you're trying to do or why you would bother.

## ***Long hours but the pay stinks***

You will make less than normal wages for a while. If you got into entrepreneurship first and foremost for the money, then it's time to rethink. The day you sell your company and make a killing is a long way off. Until then, any extra cash you take in will go to growing the company, hiring the best team and building the platform rather than giving yourself a raise. You will

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<sup>2</sup> The first time I started a company my mother tried to talk me out of it. Now, since I've managed to do well, she just says, "Oh that's nice." But does she actually know what I do for a living?

make less than most of your friends who took jobs for big companies and much less those who became accountants, attorneys or investment bankers.

### ***Count me in for metric<sup>3</sup>***

Everything takes much longer than you think it will or should. I developed a rule of thumb to help me estimate how long projects would actually take or cost versus what I thought they should. First gather your team's best estimates, throw out any outliers, average the rest, then double the result and add thirty percent. Works every time. A piece of software should take two weeks to develop, plan for five weeks. Your plan says you should be at break-even in six months, be prepared for 15 months of negative cash flow.

### ***Nineteen 'no's for every yes.***

In what other realm of life is a 95% failure rate normal? It is that way in sales and in a startup. Be prepared for a lot of rejection as you try to gain your first customers, raise capital, and form partnerships. Persistence is key, but so is trying new tactics until you crack the code. Most deals never work out – from acquisitions down to

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<sup>3</sup> Remember Bob and Doug McKenzie from SCTV? “So how many beers in a metric six pack? Well, let's see. Double it and add thirty, eh? Six and six is twelve, plus 30 is 42 beers. Count me in for metric!”

simple sales agent agreements<sup>4</sup>. Deals fall through all the time. You should prepare for this eventuality and remember that for now you're your own best salesperson.

### ***Titles are meaningless<sup>5</sup>***

So you're the CEO, Chairman of the Board or Co-founder of a startup company. Just remember that titles mean nothing. Everyone is going to have to pitch in and do what they can. It is a grind, but it's also exhilarating. Business cards are nice to hand out at trade shows, but don't ever take yourself or your title too seriously. You have to do whatever needs doing.

### ***You are the object of my projections***

When you have employees, they will not love and respect you for who you are and what you've done. Generally, they will bring all their personal emotional "stuff" or "baggage" to work with them and project it on you. As the founder, you get to be a person with

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<sup>4</sup> In my most recent startup I signed half a dozen independent sales agents to push business to business sales of our startup's products and services. Only one of the individuals ever actually sold anything.

<sup>5</sup> My first title in my first startup was "CEO and Chief Scientist." How impressive, right? I got to clean toilets, move racks of computers, crawl around in the ceiling and pull cables. And I loved every minute of it. Well not the toilets.

whom they work out their Mommy/Daddy issues. I have no advice for you. I just know it helps to have an idea where some of the crazy comes from when inappropriate, hurtful or downright nutty comments are coming at you.

## ***So why am I doing this?***

Don't ask me. Ask Tony Robbins. I'm just going to tell you how to do it fast and successfully. I'm glad I've worked for start-ups for 21 of the last 25 years and I'm grateful to have co-founded four of them. Once I started down this road I was hooked on the thrill of creating something from nothing through the pure effort and will that my co-founders and I could sustain. But why did I start the first company before I knew that? I'm not sure I had any choice in the matter<sup>6</sup>.

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<sup>6</sup> My first startup happened out of necessity. I was a PhD student leading a group of other graduate students to design a new kind of chip. One day our professor came by to let me know that he was leaving for a year to go on sabbatical in Cambridge UK. He also mentioned that the funding for our project was running out in 3 months and suggested I contact our sponsors for an extension.

When our sponsors told me that no funding was available to continue our work, I had to come up with an alternative. Starting a company seemed to be the only answer, and with an SBIR Grant from the US Department of Energy we were on our way.

## ***Start fast or go home***

If you're determined to start a software, internet or mobile app business, then the next few chapters will help you accelerate the process. If you're not really determined, then please go home. I won't think any less of you, I promise. You can still walk away at this point and save yourself a lot of heart-ache. If you do go on, don't say I didn't warn you.

To succeed at a startup (or anything else for that matter) you need to develop certain skills. One of the most fundamental of these is effective time management and here is one way to master it.

## ***Time Management***

*“The key is not to prioritize what's on your schedule, but to schedule your priorities.”*

*- Stephen Covey*

If you're like many entrepreneurs you may feel like you're constantly putting out fires. Here are three techniques for time management I call Triage, Touch It Once, and Priority Quadrant Analysis. Apply these tools regularly and you'll soon feel as though there are more hours in the day.

Triage – Not everything that comes your way needs your attention. You can quickly divide incoming tasks or requests into three groups: items for you to do, items

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to delegate to or collaborate on with someone else and items to trash. A quick mnemonic for this is Keep, Give Away, Throw Away.

Touch it once – When you do triage, you will encounter certain Keep items that can be taken care of immediately or in just a few seconds or minutes.

Examples are returning a phone call, replying to an email, or paying a bill. Rather than putting these on the to-do list at all, just do them immediately so you only have to touch that task once. This way you avoid wasting time sorting and prioritizing trivial tasks. It's quicker just to get them done.

Priority Quadrant Analysis – this technique ensures that you're going the most important things first.

### **Priority Quadrant Analysis**



**Create a Priority Quadrant Analysis:** Draw two axes. The vertical axis runs from bottom to top - Less Urgent to More Urgent. The horizontal axis runs from left to right – Less Important to More Important.

- Now in each of the quadrants 1, 2, 3 and 4, write down everything on your To-Do list, placing each item into one of the four quadrants.
- In quadrant 1, write each task that is both very important and very urgent.
- Continue to quadrant 2, writing the rest of your very important but less urgent tasks.
- Then write your less important tasks in quadrants 3 and 4 depending upon their urgency.

Guess what? You've just defined your priority 1, 2, 3, and 4 tasks. It should go without saying that you should work on them in that order. Urgent things that are unimportant will cease to steal time from things that are more important. Soon you'll find that you have fewer fires to put out because you are applying your time more optimally, doing the things that really matter first.

OK now that you've got things prioritized, let's form that startup you're dying to work on.

## CHAPTER 2 - FORMATION

*“We go in with eyes wide open and recognize there will be a lot of hard work involved. But we anticipate having success. We feel like we have assembled a great group of people.”*

*- Troy Aikman, pro and college football Hall of Famer*

To form your new business you'll need a team, a product or service idea, a business model and a value proposition. Let's start with the team. Why? Because the team's more important than your idea.

### **Co-founders**

Who is going to execute the steps necessary to build your business? You and your co-founders. Your idea may be inspired, but inspiration without execution is a recipe for tragedy. You will need someone who can sell,

someone who knows the market, and someone who can write code. These three roles are required.

- The Salesperson
- The Domain Expert
- The Technologist

If you have one or two people that can fulfill all three roles then it's possible to start with a team of one or two. But I recommend one person for each of these roles because there is going to be so much to do and it's great to have people with whom to collaborate, share the workload and provide encouragement. Your chances of success are much greater if you don't try to go it alone.

How do you find co-founders? They might be people you already know: college buddies, co-workers, former co-workers or friends. They need to be local unless you're thinking of moving to them<sup>7</sup>. Start with your

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<sup>7</sup> Virtual companies (where there is no physical location and people can live anywhere) can work. In fact I'm on the Board of a startup right now that has no office. Everyone works from home and their homes are in separate cities. This style is more and more popular and grew out of the telecommuting trend that began late in the last century. But I don't recommend this for a startup because distance gets in the way of starting fast. It's fine to work from home, but you should be able to get together with your co-founders easily and often.

network and see who's interested, willing and available to co-found (not *confound!*) the business with you.

**Find Co-founders:** If you've exhausted your personal network and still need to fill a role, there are lots of places to meet co-founders. Go to your local Tech Meetup ([www.meetup.com](http://www.meetup.com)) and talk to the people that show up to the meeting. Attend a hackathon (google it). Contact local colleges, universities and Chambers of Commerce and talk to the people in their entrepreneurship programs. Find out if your town has a tech business incubator or entrepreneur's roundtable and go talk to people there. Generally people like to act as match-makers, so you'll quickly get introduced to a number of potential co-founders.

A word of advice – when talking with potential co-founders, drop the gnarly lingo, dude. Seriously...don't use words like “rockstar”, “guru”, “ninja”, or any others of that ilk that may come along. These metaphors are so overused that they have become meaningless. If you actually had to articulate in plain language what you mean when you say “guru ninja”, what would that be<sup>8</sup>? Strive to be clear and it will save you both time and headaches later on.

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<sup>8</sup> Is a ninja someone who can slice through a problem while remaining silent and unseen? Is a guru someone who can effectively coach others?

My advice is to choose co-founders with whom you are truly excited to be working. Don't just fill a role with the first warm body that is willing to take it. Use the following descriptions to help decide the most appropriate additions to your team.

## **The Salesperson**

The Salesperson is a person who can meet a stranger and within five minutes get their business card and an appointment for a follow-up meeting. It's obvious why you need this role filled. More startups fail due to having too few paying customers than for any other reason. The Salesperson is naturally predisposed to listen to and be interested in learning about your customers, their requirements and their objections. But it's not just customers that you need. You need partners, investors and other people to help you build your business. The Salesperson's talents and people skills will be invaluable in these areas as well.

## **The Domain Expert**

The Domain Expert understands the market you're targeting. He or she knows the language and jargon of the industry you're serving. For example, if your market is NASCAR fans, the domain expert will know a lot about racing, cars, drivers, teams and how the circuit works. The Domain Expert can help identify real problems that your product or service can address, may have contacts that can become early customers and can go with the Salesperson to add credibility to meetings.

## **The Technologist**

Somebody has to build the prototype of your product or service. The technical co-founder should know CSS3, HTML5, LAMP (Linux, Apache, MySQL, PHP), and AJAX (Asynchronous JavaScript and XML) and be able to integrate open-source libraries to build your product prototype. Basically he or she should know how to code.

Unless you've already found your tech person, I recommend that you go to [findthetechguy.com](http://findthetechguy.com) and read every section. This will not only give you ideas on where to look, but more importantly it will help you understand what you're looking for and avoid common missteps. After that, you can go to a Tech Meetup or online forum like [techco-founder.com](http://techco-founder.com).

What if you're just not able to find someone for one of these roles? I suggest that you don't wait. Start fast and keep looking. You will find the right partners and co-founders soon enough. I don't recommend outsourcing development to contractors at this stage.

Don't worry too much about bookkeeping, accounting, and legal skills. If one of you has these skills, great. If not, you can easily get the help you need from professionals for a fee.

## ***Your Product or Service***

A lot of entrepreneurs start with an idea like, “wouldn’t it be great if...” Having an idea is fine, but how do you know if your idea is any good? Here are some tests you can perform to determine if your idea is good enough to begin with. Don’t worry if it’s not perfect. You’ll be adjusting all the time in response to customer feedback, if not throwing out the original ideal and moving in a different direction. Startups are expected to pivot until a scalable repeatable business is found. But even so, your basic idea of your product or service has to pass the following three criteria:

1. Does your idea solve a real problem for an easily identifiable group of people (your market)? By real problems, I mean something that is a pain or at least an annoyance. Ask people in your market about the problem you’re solving and see how much of a priority it would be for them if you could solve it. How much do your prospective customers care about what you’re doing?
2. Do you know of any competitors for your solution? If you answer, “No” to this one you should be worried. If there is no competition for your idea, chances are, there is no market either. Try asking the question a different way. How do people solve the problem now? The answer will point you to your competition. If there are still no competitors, it may be that you are too early – that the market is not yet ready

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for your solution. Unfortunately, being early is the same as being wrong<sup>9</sup>.

3. Conversely, if there are competitors then there is a market. But can you say what's better about your solution for a particular segment of that market? Always have in mind the point or points that make you unique.

Talk to prospects about your product or service. Write down your answers to the above three questions as well as the feedback you get from prospects and talk about the answers with your co-founders. Are you on to something or not?

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<sup>9</sup> The first company I co-founded, Coherent Research, Inc. manufactured a Content Addressable Memory (CAM) chip my team and I conceived while in graduate school. We had the most advanced CAM on the market and I spent a lot of my time evangelizing the product with various potential customers. Cypress Semiconductor licensed the CAM architecture for \$750,000 advance plus royalties for five years, but then reneged on the contract and never manufactured the product in volume. Years later with the expansion of the Internet the market for CAM chips took off and today they are used in every high-performance Internet and Ethernet router on the planet (millions of units). If we had licensed our chip roughly three years later, we might have received millions of dollars in royalties or perhaps would have been acquired for mid eight figures. We were right about CAM, but we were early for the market. It was the same as being wrong.

## ***The Business Model***<sup>10</sup>

Simply put, the business model is how you plan to make money. For software, web and mobile applications there are choices of business model that must be made – software as a service (SaaS) or licensed, freemium<sup>11</sup> or advertising-supported, pay-per-use or monthly subscription?

This is the heart of the struggle for every startup, particularly in the web space. If you can dream it you can build it but you'll spend a lot of time trying to figure out how to make money. Some of the biggest web companies scaled without having an explicit business model (e.g. Facebook and Twitter) but they are the exception. Investors will buy in if they see massive customer adoption, particularly in the consumer internet space. Otherwise, you need to make money.

Your business model should be a match with how your target market wants to buy. Sometimes your

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<sup>10</sup> Academics use the phrase business model differently than I do here. When you have time, it's well worth reading Osterwalder's *Business Model Generation*, which defines a company's business model fully.

<sup>11</sup> Give away a basic version of the product or service; charge for the premium version.

opportunity comes primarily from your innovative business model rather than from new technology<sup>12</sup>.

I have trouble taking a startup team seriously if they tell me, “I don’t know,” when I ask them how they make money. You always need an answer to this question even if it changes from time to time. It doesn’t have to be the perfect answer as you will be testing and adapting as you learn more about your market.

## ***Differentiation***

It’s important to know exactly how your product or service is unique and how you are different from your competition. But differences alone are not enough – they have to bring additional value to the customer in order to be considered a competitive differentiator. Of course value is as perceived by the customer so it is not always obvious and certainly not fixed. Your customers’ perception of value can change with fashion, trends, fads and even advertising. But value is always determined by how well a product or service fulfills a customer’s need. Generally we think of solving problems, providing convenience or helping the

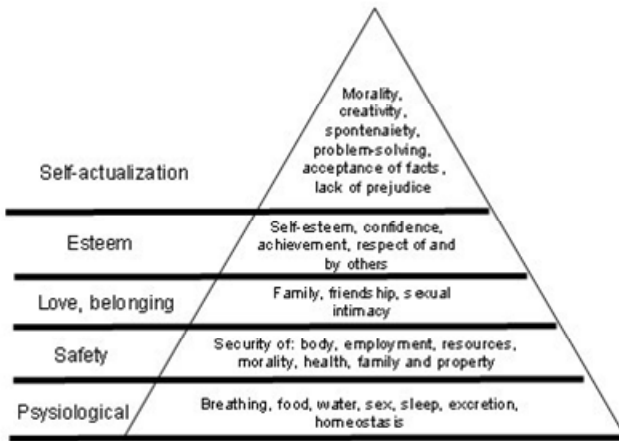
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<sup>12</sup> For example, when Salesforce.com was introduced to the market, it was arguably no better than other sales force automation products. The Software as a Service business model helped salesforce defeat its competitors more effectively than any new technology.

customer avoid a pain. No doubt these are valuable things.

Human needs have been defined more broadly by Maslow's hierarchy of needs<sup>13</sup>, and the perceived value of a product or service can be very powerfully influenced by all levels of this hierarchy.

### Maslow's Hierarchy of Needs



Identifying which basic human needs are satisfied by your product or service will give you insight and ideas for how you can differentiate yourself from your competition. For example, before the Apple iPod, no

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<sup>13</sup> Defined by Abraham Maslow in his 1943 paper *A Theory of Human Motivation*. I also recommend reading *Maslow on Management*, which is a great book for an aspiring CEO.

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one knew they needed 1,000 songs in their pocket. Owning the iPod might engender a sense of belonging and self-esteem in some people (the second highest tier in the hierarchy). In others, buying songs in the iTunes store rather than pirating them appeals to their sense of morality (the highest level in the hierarchy). As long as a customer's needs on lower tiers are met, their motivation moves to the higher tiers. The higher the tier, the stronger the motivation.

Make a list of the human needs that your product or service fulfills. Be specific. See if you can identify at least one need potentially fulfilled by your product or service from each level of the hierarchy.

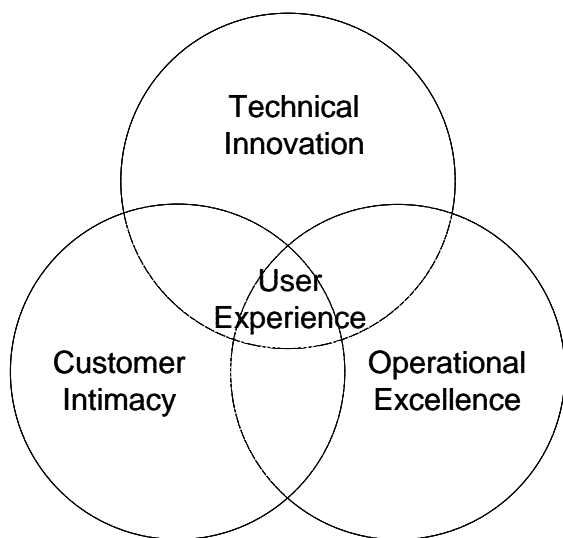
To continue with the example of the iPod, it is obvious that a great deal of attention went into designing the user experience. But the user experience is not just defined by the software and hardware. It is defined by the sum total of all interactions a user has with your company, including your product or service.

There are three possible dimensions across which you can differentiate the user experience your company delivers from that of your competition

- technical innovation,
- operational excellence, or
- customer intimacy.

Together these three dimensions create the complete customer or user experience.

### Differentiation Chart

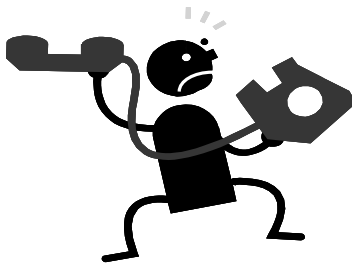


Technical Innovation has to do with features and benefits of your product or service. That is anything you can do better than your competitors by applying your technology. Most tech startups focus exclusively on this dimension, so it shouldn't be hard to list how your product or service is better in this regard. For example, perhaps your product brings high definition video to an online service where your competition only offers standard definition. However, the most powerful

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use of technology is often to make a product simpler and easier to use<sup>14</sup>.

Operational Excellence has to do with the value of how you deliver your product or service. Is it easy to order? Was it delivered efficiently and on time? How reliable is it in operation? Does the product or service perform consistently and predictably or is it a “crap shoot?” How easily can customers get their questions answered and problems resolved? How accurate is your billing? How efficiently does the company resolve any dispute? How important do you think your product or service’s technical innovation is to a customer if you can’t give the right answers to these questions? Even if you get everything else right, a major flaw in your operations can bring down the entire business.



**"Your expected hold time is 63 minutes"**

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<sup>14</sup> Steleus invented an ingeniously simple software product called SMS Welcome which sends a text message like “Welcome to Orange UK” to mobile phone users when they enter a country. This feature increased our customers’ roaming revenues by 22%. Sophisticated features added later didn’t improve this much.

Customer Intimacy is not about how well you know your customers, but rather how well your customers feel you understand their needs. Do they feel as though your company is a trusted advisor or friend? Do you have specific domain expertise that they value? Do you have a relationship with your customers? In specific vertical markets you may be able to defeat a larger competitor by knowing your customers' business better<sup>15</sup>.

Notice that I left out price. Price is not a differentiator. If your products or services are differentiated, you can charge a premium price without any loss of market share. If your product or service is not differentiated, then it is a commodity and the lowest priced competitor will prevail in the market. Since your company is a startup you can not survive for long competing solely on price because you will run out of cash before your competition does.

Most companies tend to focus on one primary dimension of differentiation. Great companies exceed expectations in all three dimensions. For example,

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<sup>15</sup> When I was Chief Marketing Officer at PacketExchange we offered technically superior services at lower prices but could not displace our competitor Sohonet in providing data network services to the film industry. Sohonet understands its customers well and goes out of its way to cater to their needs. Customer intimacy allows Sohonet to maintain a healthy business and win against much larger competitors.

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Apple regularly creates technically innovative new products, their operational excellence is generally superb and they maximize customer intimacy through offering one on one training and problem solving in their retail stores. At the minimum, your startup needs to have a way to beat your competition in one dimension, and you also must be good enough (by the customer's definition) in the other two.

List your differentiators: draw a differentiation chart like the one above. List in each circle the ways in which your company, product or service will bring more value to customers when they compare you to your competition.

## ***Value Proposition***

Your value proposition is a few sentences that summarize the answers to two crucial questions from your customer's point of view, "What's in it for me?" and "Why should I buy from you?" The answer to the first question is your value to the customer. The answer to the second question is your differentiation from your competitors.

As always, don't agonize too long over this, as you'll be adapting your value proposition in response to feedback from customers. Just make sure that you've always got a value proposition, that you can articulate it comfortably and succinctly and that it matches the best

and most current feedback that you've gotten from the market.

### **What's in it for me?**

Customers buy products and services to solve problems that arise during their day-to-day life. So your product or service must match a circumstance that customers find themselves in. How does it make their lives easier? I recommend that you stay away from the three words, “faster, better, cheaper” if at all possible. Rather focus on “simpler” or “easier.” For example, the Apple voice assistant application, Siri, makes it easier (not to mention safer!) to use your iPhone for calls and texts while driving. This is part of the *value* of the iPhone 4s to a *market* (i.e. people who need to stay in contact while driving).

### **Improve or Disrupt?**

“Why should I buy from you?” is another way of asking, “What makes you and your product or service unique?” The kind of differentiation you have from your competitors has a great deal to do with your strategy. Is your product an improvement or a disruption?

Targeting your competitors existing customers with a better product (improvement) encourages your competition to try to beat you. If you do not succeed quickly enough, the competitors in the market will simply destroy you. Entrenched competitors have

### *Start Fast! (free excerpt)*

tremendous advantages over startups once they decide (or you prove) that the market values the improvements you've made. Why? Because they already have the customers and can out-spend you many times over on marketing and development. Your competitors want to retain their current customers and will defend that position against you.

If you start fast and grow fast, you may catch your competitor unaware and win some market share. Your competitor may decide to acquire your company as the most efficient way to recapture the position you occupy. But there is also the risk that your competition will choose to block and/or crush you.

The other approach is to disrupt the market. You can do this by looking for customers that your competition can't serve, or for some reason doesn't want or care about. For example, you can target customers on the low-end of your competitor's market that they are actually happy to lose. Or target non-customers who will welcome a simple product that serves their needs. Since this market is not buying from your competition, there is less likelihood that your competition will fight you for them. Later, as you gain market share, your innovation may end up destroying your competition<sup>16</sup>.

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<sup>16</sup> When Google was founded in 1998, they had a better web search engine than Alta Vista. Within a year they decided that their

## Prove it!

Last but not least, your value proposition should have proof points. How do I know what you say is true? Give me examples. Real customer stories and feedback are much more compelling than your opinion. As a rule of thumb, have at least two proof points for every claim you make in your value proposition.

**Write down your Value Proposition:** Include differentiation and proof points. For example hypothetical company, YoYoTech might say, “YoYoTech solves the problem of video review and approval for advertising agencies. Unlike Vimeo, YouTube, or other online video platforms, YoYoTech keeps the data private and secure without sacrificing ease of use. The BIG agency found that using YoYoTech saved them an average of \$1,000 per campaign over their old method of shipping DVDs to clients. Their clients are also delighted to be able to give direct feedback online.”

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business model was to attract pay-per-click advertising dollars based on what the user was searching for. At the time, most advertising was done in conventional media (print, TV, radio). Major media outlets and advertising companies weren't very interested in online advertising. Today Google's revenues are 90% from advertising and they take billions of dollars a year from their conventional competition, in the process forcing them to adapt or be destroyed.

## ***Elevator Pitch***

You've no doubt heard the story that engendered the term Elevator Pitch. You find yourself in an elevator with your ideal customer or investor and you have just 30 seconds to make the pitch that will change your life. It's not just elevators that come into play here. It turns out that it's human nature to take a first impression from each person you meet. Everyone is overworked and on information overload so how do you make yourself relevant to them in that crucial first 30 seconds? How do you avoid the future regret of having missed (or blown) that opportunity? By preparing thoroughly for that event ahead of time.

**Craft an Elevator Pitch:** Translate your value proposition into a story that illustrates what you do for people. Someone faces tragedy if they don't solve their problem. Then say very simply, with no jargon or technical words, how your product or service solves that problem. Use strong verbs and images to make your story memorable. Come up with a couple of variations for different audiences.

Your goal is to get the listener interested. Don't ask for the order or referral during the elevator pitch. Just ask for more time, either an appointment or a call and try to get the person's contact information. If they are truly interested, they'll give it to you. If not, you've saved them and yourself wasted time by being brief. Either

way, give them your card. They might think of someone to refer to you later.

Write down your elevator pitch down. Pitch to yourself in the mirror. Practice using the voice memo recorder on your iPhone or Droid. Listen to yourself. Time it; make sure it's under 30 seconds. Practice on your mentors, friends and family. Ask for feedback. What did they take away from the pitch?

Continually improve both the wording and your delivery. You will use this compact form of your value proposition at trade shows, at Meetups, on social media, in bars, at family gatherings, and yes, in elevators!

## **Cash Flow**

*"If I had eight hours to chop down a tree, I'd spend six sharpening my axe."*

*- Abraham Lincoln*

You don't need an MBA degree to start a company because a startup isn't a smaller version of a large company – it's completely different. Nonetheless a startup is a business and there are things you simply must manage. If you've managed a business before or attended business school, chances are that you already know the basics. If you're a technical co-founder, you may not. Either way, knowing which tools you need is

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not enough. You have to use them regularly and diligently to avoid fatal mistakes and keep focused on what's important to survive as a business.

The quickest and surest way to kill a business is to run out of cash. Sometimes it's inevitable, but when it can be avoided and isn't, it's a tragedy<sup>17</sup>. Maintaining a clear understanding of cash flow at all times is necessary and a cash flow forecast is a basic prerequisite for the job.

I recommend that all startups have a monthly cash flow forecast (as in the example diagram). By constantly updating the cash flow forecast you will know when in the future you're likely to run low so you will be able to make plans to avoid running out. Cash flow forecasting is all about timing and contingency planning. You need to understand where your cash is coming from and what might delay its arrival. This becomes more complex and more critical as the business grows because as the numbers grow larger, unpredicted swings have a greater potential impact. Cash comes in as customers or partners pay you, as you borrow money, as investors write you checks and as vendors credit you

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<sup>17</sup> You'd be surprised how often a startup CEO surprises his investors with the news, "If you don't put more money into the company right away, we will be out of cash and won't make payroll next month." Understandably this often leads to the CEO being replaced, especially if it appears to have been avoidable. Even if you don't have investors yet, get in the habit of always knowing your cash position.

for returns. If you invoice a customer how soon will they pay you? You need each contract to specify clear payment terms<sup>18</sup>. What if your customer *ages your invoice*<sup>19</sup>? Predicting correctly the date cash will come in is one of the subtle arts of running a business.

### Cash Flow Forecast Spreadsheet

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Starting Cash												
Sources												
Total												
Uses												
Total												
Ending Cash												

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<sup>18</sup> For example, Net 30 terms means that they have 30 days from receiving your invoice to pay you.

<sup>19</sup> Some customers wire payment as soon as I invoice them. Others send a check after months of delay. Guess which customers I value more highly. Companies that manage their cash flow by “aging accounts payable” are borrowing money from you without your permission. You should talk with slow-paying customers and consider letting them go if they don’t abide by contracted payment terms.

**Create a Cashflow Forecast:** Make a spreadsheet in Numbers, Excel, or Google Docs to match the one pictured above.

- Start with the current month and next to *Starting Cash*, put your company's bank balance.
- Put in line by line everything you know about future payments to be made under *Uses* of cash. Total these under each month.
- List every payment that you expect to receive in the appropriate month under *Sources* of cash. Total these under each month.
- *Ending Cash* is calculated by adding each month's total under *Sources* to each month's *Starting Cash* and subtracting that month's total under *Uses*.
- Copy each month's *Ending Cash* into the place for *Starting Cash* for the following month.
- Keep this forecast up to date, modifying it every time you receive or make a payment and every time you learn something new about the timing of receipts or payments.

I like to set up the row called Ending Cash so that any negative number will show up in red. Once you've populated your forecast with everything you know, you can quickly scan the columns and figure out how much runway you have. The first time that Ending Cash turns red, you're out of cash (and unless you do something about it, you're out of business).

If Ending Cash is in the red, your choices are simple: find more or accelerate payments from sources of cash, delay some uses of cash or raise money from investors.

The cash flow forecast tells you when, how much and for what the investment money will be used. Keep your cashflow forecast up to date. This tool will not only help you plan, it will actually help you sleep better at night because instead of worrying unnecessarily you'll know exactly what's going on.

So now you have a startup company with a team, a product or service, a business model and a value proposition. You know where your cash is coming from and where it's going. Now what? On to the next stage, Prototype!

To get the rest of the book  
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and follow the link.

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I became aware of TechStars this year by meeting its co-founder, mentor and investor Brad Feld. I read Brad's book, *Do More Faster* and agreed with just about everything in it. I'd been mentoring and investing in tech startups for almost a quarter of a century, but I was blown away by the potential of the TechStars accelerator network. Here was a proven model to help entrepreneurs through a process I understood well and knew in my gut would work.

A year later, the StartFast Venture Accelerator (member of the TechStars Network) is up and running. We are running a 3-month TechStars-style program for about 10 software, internet, or mobile app startups each summer for the next four years. StartFast is funded entirely by private investors and has the support of amazing Mentors. To learn more visit [www.startfast.net](http://www.startfast.net).

## **Notes**

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## **Notes**

## ABOUT THE AUTHOR

Chuck Stormon is a father of two and a serial entrepreneur with a master's degree in computer engineering. He has co-founded a chip manufacturer, a few software companies, an internet/cloud service provider and is collaborating on the StartFast Venture Accelerator.

Along the way Mr. Stormon has raised a lot of venture capital, been involved in significant exits, mentored a score of startups and invested in about a dozen. He frequently acts as a consultant to public and private companies on strategy, M&A and technology.

Mr. Stormon lives with his wife and two cats in Upstate New York, enjoying good friends and the abundant clean air and water, farm fresh food, trees, lakes and waterfalls.