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## Money

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*In this chapter the role of the money in the entrepreneurship process is analyzed under the point of view of the author. We can also find the conclusions that the parsimony and patience seem to feature strongly. Finally it is stressed the role of the entrepreneur familiar life—one that is extremely important and all too easily put to the bottom of the list.*

### 3.1 Introduction

Money. This may seem a strange topic for a chief technical officer (CTO) to address, particularly one so unversed in financial jargon! However, as CTO you will probably be the one most responsible for blowing the company's cash, particularly in the early stages when you are proving all those technological ideas (sold eloquently to venture capitalists) and subsequently engineering them into a qualified product suitable for your chosen market.

First, let me put in a word of support for the much-maligned venture capitalist (VC). We should not forget that these people are looking after someone else's money, more often than not large chunks of money from "super investors" such as insurance companies. But down at the bottom of this food chain are individuals: you, me, your grandparents. VCs have fiscal responsibilities and most discharge these very well. Returns from this source out-perform the stock market by at least one percentage point over the long run. I get pretty enraged when I hear them called "vulture capitalists." Typically, they aren't, and the best work hardest and most conscientiously when they are trying to save a struggling company. The individuals making these observations seem to be the people who are too afraid to leave the safe surroundings of bigger companies or those that leaped in when the start-up industry was apparently printing money.

Perhaps the only generic criticism I have of VCs is their inflated claims about added value. A few years ago, they claimed to have all the skills under the sun: recruitment, patents, and so on. Don't believe it. If you have plenty of miles on the clock—as both I and surprisingly many start-up entrepreneurs have—then you probably have much more real experience in these areas. Happily, this fashion appears to be dying a quick death and VCs are getting back to doing what they are best at—providing equity to start-ups.

### **3.2 A Few Words about Getting Hold of the Money in the First Place**

First, there seem to be two predominant models. European VCs tend to look at technology as the pivotal component of a start-up. Many European VCs actively work with university business groups to get in early! This means that technology plays are more typical in Europe both in telecommunications and life sciences, with relatively few (compared with North America) in Europe bucking this trend. A further consequence of this is that chip sizes are lower. Exit valuations scale accordingly. So European VC's appear to be happier building a business out from a piece of technology. This may be a self-reinforcing cycle or simply due to the fact that Europe is a generation behind the US. Interestingly and paradoxically, US VCs appear to come at it from a different perspective. Yes, there are lots of good ideas coming out of Stanford, MIT, Purdue... but the US model, which is notably more seasoned, tends to look at teams, arguing (again fairly reasonably) that a good team will find (or has found) the right technology and has the skills to execute. From this position they seem more comfortable taking bigger bets, for instance, big-box plays such as Juniper or Cisco. These would find it harder to get going in Europe as the land lies presently. Furthermore, US VCs are much more tolerant of failure, understanding the odds (one in ten is a stellar success, two do OK, and seven bomb). Whether this difference between US and Europe is a timing question or cultural issue will only be resolved over the next couple of decades as the European market matures.

### **3.3 And...**

I make no claim to understanding the intricacies of accountancy, subscribing to Mickawber's approach to happiness from a startup, rather than domestic perspective. However, the financial model is fundamental to the whole thing getting off the ground. You will be pitching to financially savvy VCs. What they don't know, they will fill in during subsequent due diligence. If you don't understand the terminology, find someone who does.

What are the fundamentals? First, carefully scope what it costs to develop the product to the point of sales. It's amazing how many technology start-ups think they need millions for their pet science project and fractions of that to engineer it into a product. Of course, I am an engineer and would say that, but I do have the scar tissue, too. Be prepared to be in it for the long run. Milton Chang—one of the best, having built two successful businesses—believes that it takes 10+ years to build a successful company. I believe it should take less, but not a lot less. It takes time, and there is a cost associated with this. Don't get rolled over on this because it conflicts with the model used by the VC, who will want to be in and out in seven years max to satisfy the investors; hence the dilemma. If you do get rolled over, you could end getting thrown out or washed out by VCs as you continually miss financial milestones later in the company's life.

The second fundamental is the product itself. What are you selling? The technology itself, or products emanating from the technology? Whatever, you need to understand the marketplace. Market size, £1M per annum; cost of development, £10M; result, misery. You will have to have sales to get the company away, unless you were one of the lucky ones who sold the company on a bunch of PowerPoint slides in the late '90s.

If you have this deluded impression, think again. Companies won't be that stupid this time around (or at least don't plan for it). Know your market. If necessary, pay for a market analysis, even though the VCs will discount it. It is better than nothing, which is what you will get. As with the engineering element, don't forget there is a cost to sales. Good salespeople cost and will want a slice of the action.

If you have scoped these things, you are well on the way to crafting the business model and nearly ready to pitch for the "wonga." Once you have this, talk to as many people as you can. "Freeish" advice is surprisingly easy to come by. There are at long last some serial entrepreneurs in Europe. Run your ideas past them. Be brave. Also, VCs will more often than not throw away presentations from "unknowns." Try to get the advisor to sponsor the idea. Perhaps the best source of advice is from the VCs themselves. They may not like your idea when you are pitching, but they often give feedback. Listen and take notes. This will sharpen you up for future presentations. It's very easy to become discouraged when you know your pitch hasn't hit the spot—and it doesn't, often. Don't be afraid of rejection. There are lots of hidden reasons other than that they think the idea stinks (which, of course, they might). The fund may be fully allocated, there may be a similar company in their portfolio (which becomes evident during the presentation), the chemistry doesn't work, or any number of other reasons. Use the presentation time and ensuing feedback to improve the next presentation.

Finally, don't even start if you think this is easy street. That, it ain't, so why put yourself through the wringer?

### 3.4 Hanging on

Getting the money is hard enough. Hanging on to it is a different thing. It's amazing what effects suddenly getting a large amount of money can do to once-rational people. Seasoned professionals from big organizations, accustomed to brutal annual budgeting regimes, suddenly lose their marbles. Academics previously used to "paper and string" research suddenly have more money in an accessible account than they saw in decades previous. I knew of some US academics who, having once been used to economy class and budget hotels, suddenly deemed that they could only travel first class and stay in the swankiest hotels at several hundred dollars a night. The vanity of it all.

Right from the get-go you should be in firm control of the finances. There are a range of professional bloodsuckers out there that can sniff out that heady mixture of cash and inflated ego. And if this is not sufficient to make you careful, bear in mind this is not your cash to spend at will. There is a vulnerable pensioner somewhere at the end of the chain who deserves your financial prudence. It may even be one of your loved ones. There are lots of "professionals" out there willing to take their share of your hard-won cash. It starts at day one with the legal profession. Lawyers are a necessary evil and add value, but make sure that you have a budget and shop around. Don't forget that out-of-town rates may be 25% of London rates.

Then there are patents, which are becoming even more expensive. Find a good attorney and identify a low-cost process that suits you. National filings give you a rough-and-ready search and a filing date, followed by a patent cooperation treaty (PCT) and then, as late as possible, the various specific country filings. This allows maximum time

to determine whether the patent is viable or not. Don't be too proud to admit that it isn't such a good idea. Hanging on can cost you greater than \$10K per patent.

Where to locate is the next issue. If you are lucky enough to be in a designated regional development area, take advantage of it. If not, take time to shop around and find suitable premises. Negotiate hard. If you don't ask, you don't get; and this is a recurring cost and influences your shut-down costs. Get it wrong and you pay yesterday, today, and tomorrow.

Funnily enough, I've also found VCs strangely equivocal about this. It may be that from their palaces in Mayfair they cannot see the harsh reality of this element of building a business. Fitting out the facility is another honey trap. Shop around; buy benches and furniture at auction if possible.

In the technical sector it's hard to do without substantial amounts of test equipment, but be careful. It's hard to not succumb to fearmongering tactics such as "If you don't buy this, there won't be another available for months...." When you are up against time pressures, it's easy to leap in. Stay cool, at the moment the supply/demand balance is in the purchaser's favor. Negotiate hard on price, and bear in mind that lease-purchase deals may be more favorable from a cash-burn perspective. Don't be afraid of the second-hand market and auctions, including the online versions. . You can get an extra sense of pleasure if you have purchased lots from competitors!

Similar pressures can also be applied by raw material and component suppliers. At ilotron, my previous start-up, we were more or less pressured into buying a million dollars' worth of a particular component because it was that or nothing—even if we needed no more than \$50K worth! It was a time when component suppliers were practically printing money, so why drive a potential long-term customer to the wire? Who knows? We have experienced similar situations with Azea, interestingly again from a West Coast player, so cultural issues are probably a factor here. My instinct now is to look east, where we have encountered nothing but reputable suppliers. One further tip: Negotiate hard on that first price. This is the benchmark for the future. Better still, ask for samples and avoid setting that initial price.

I've saved the worst for last. Headhunters, who in my opinion are below estate agents in the food chain. There are a few good ones out there, but down at the bottom of the barrel it's pretty grubby. In a previous life, one particular headhunter got his hooks into a young engineer of mine, tapping him mercilessly for information, which he traded vigorously inside and outside the company. When the lad lost his job, did this guy ride in to find him a job? You guessed it—he'd got his poisonous barbs into someone else and was not around to help his erstwhile "friend."

Finally, stay on agenda. Cash really is king. Don't let it slip away. Once it is gone, none of the above will help you get it back. Don't forget, it is not your money; you are investing it for someone else and if you are successful you will get a healthy dividend. Don't fritter it away.

### **3.5 And Forget...**

Money from the Department of Trade and Industry (DTI) and European Economic Community (EEC). Though I'm sure these bodies have noble intentions, they are so

riddled by bureaucracy that by the time they make a decision you could be at the end of your funding cycle, or worse still, finished!

These organizations and I'm sure I'll get howls of protests here, are much better geared to helping out bigger corporations, where bureaucracy meets bureaucracy. From my perspective, I'd be much happier to see the money go straight to universities and forget "speed dating" and the rest of the rubbish. Then, eliminate the full economic tariffs on small companies who find academic partners. Then, let market forces work the oracle.

### **3.6 A Nonfinancial Footnote**

I make no apologies for concentrating on money matters as this is the nub of making your dreams reality. However, as this is supposed to be a personal impression, I'd like to offer these extra words of wisdom, which, bearing in mind that I have not succeeded to date, you may choose to disregard!

First, make sure a start-up is the thing for you. You have to have a passion for either the technology or the environment. Don't go for it if you think you are going to get rich quick: One in ten start-ups is a blinding success, two in ten do OK, seven fail. Not all these failures have been bad ideas or badly executed. For many, it's just been bad timing or bad luck. Many of the blinding successes are also simply good luck!

Second, a comment on the speed factor: As mentioned earlier, Milton Chang, one of the most respected gurus in our industry believes that it takes 10+ years to build a business and he has successfully built two. This may be a little too long for most of us—including the VCs—but it is a salutary message for all those looking to get rich quick. Don't plunge in with the first VC who waves a term sheet at you. If one thinks it's a good idea, others generally will, too, and this will enable you to clear away the term sheet "gotchas" such as liquidation preferences. Be skeptical about VCs who claim added value such as human resources, patent services, and all sorts of frills. These are the legacy of the late '90s stampede and, frankly, VCs are better at the money thing.

Nor is a start-up necessarily a job for life. The maximum life expectancy may be a year or less. But then, jobs in big companies are seldom for life, either! If you are part of senior management, don't mislead recruits on this point, either.

Be your own person. It is your business, so act responsibly. Experience and knowledge is invaluable when it comes to avoiding the traps (see above). If you don't have a particular facet of experience, don't fake it; find it. There's a lot of free(ish) help out there if you are prepared to network for it, and a variety of opportunities. Don't be shy to ask other entrepreneurs. Most are only too willing to help. Most VCs have their own networking events; these are a great opportunity to meet a whole variety of useful people. Companies such as Library House are acting as facilitators. And hey, if it doesn't help, someone has to drink the champagne!

And finally, finally...DON'T FORGET YOU HAVE A LIFE. YOU ONLY HAVE ONE SHOT AT IT. THE START-UP IS VERY IMPORTANT, BUT SO IS YOUR FAMILY!