

Wednesday, September 20, 2006

5 VC gambits start-ups should watch out for

I wonder if I'm the only person blogging about VC who has never had a VC investment? Over the years I've signed two term sheets:

Term sheet #1) Before easyDNS had its first customer, we had a fully functional platform ready to launch and VC interest. The deal never happened, and the night it fell through I went home to my apartment and cried like a baby murmuring "We're so fucked" over and over to myself.

Why I thought that, I guess comes back to pure naivety. I simply didn't know better than to think the start-up cycle included "funding" as a mandatory component. Besides, it all seemed so ...glamorous and it seemed then that we were going to miss out on all that glamour, fame and fortune.

Times change.

Term sheet #2) I was seeking funding for the buyout of my partners and it seemed the VC's were the last house on the street. I had already been to the vendors, the banks, the BDC and a couple angels and just couldn't quite piece together the funding I needed. On a complete and utter fluke, with all systems go and both sides committed to the deal, it blew up for what can almost be described as "clerical reasons".

When I got the phone call I was surprised at how it felt: it was an enormous release. I felt like I had just dodged a bullet and in retrospect I think that moment is the single, luckiest life-defining moment for me. Not a day goes by I don't thank my lucky stars that that second termsheet fell through. In the end I had to Plan-B it, and that is the single best thing that could possibly have happened in my business career thus far. But that's another story.

It was quite the education that I picked up in both of those funding processes, in no particular order, here's a few "VC Tricks" I had the good fortune not to learn the hard way...

#1) You're in charge (yeah, really): A looming VC investment may make the founders nervous about letting these suits into the company, taking over completely and relegating them to mere employees (which is pretty well what's gonna happen regardless of what they tell you or how it's framed).

So the VC may hand out titles in a way to allay those fears. Nervous about control? Well you're the president! How can you not be in control now? We're just going to appoint one of the fund partners CEO but he won't be micro-managing you. Honest. Or you get to stay CEO, but don't think for a second that the VC's won't control the Board, so either way, it's academic.

#2) Control the Board It is said the key to chess is to control the middle four squares of the board. The VC's will control yours. It may be take some elegant math but either they'll have more seats than you outright, or you will have equal numbers of seats on the Board plus an odd number of "independents". Try nominating any of your associates to the indie seats or especially to that crucial swing seat. Watch that get shot down. Any candidate presented from your side of the table will not be "mutually agreed upon".

The VC's have deeper rolodexes, they will just keep throwing candidates at you until you finally capitulate and "mutually agree" to one of their nominations. Guess which way they'll vote when the matter of firing the founding CEO (read: you) is on the table?

#3) You're the majority shareholder A lot of energy gets wasted by founders trying to retain majority control of the shares in the hopes that it'll keep them in charge. Combo deals like investment split into part equity/part debt but this is all just optics to suck in/lull/mollify the founders into believing they'll still have control after the funding.

But then the term sheet will have all kinds of kookiness. You can bet on having a special share class for the VC's and a whole pile of special conditions that require approval of the pref shares (the ones the VCs own, not the commons, which you own more of). At the end of it, special privileges will be attached to those preferred shares and embedded in the term sheet which make being the majority common shareholder meaningless (never mind liquidation premiums and preferences).

#4) A loyalty test This one is perverse. The VCs will want to make you feel part of their team and that by taking their money you will get to play at a whole new level. Kind of like being called up into the major leagues from that penny ante bush league you were languishing in before they came along.

In my case I was asked to meet with another partner at the firm to give him advice on another industry I have familiarity with, he was about to make an investment in that industry (or already had, can't remember). So after about an hour after we kick some ideas around he offers me the CEO job at this other company. I was floored and for a few days, tempted.

It all seemed so easy, why buy out my partners and forge ahead when I could instead sell, pocket the cash and come run this glamorous, funded, cool start-up instead?

In the end, I declined, another lucky decision. In retrospect it seems the entire exercise was sick mind game designed to test my resolve.

#5) Join us, become one of us Having passed the loyalty-to-the-plan test, I was then invited to sit on the advisory board of the above start-up. "Sure" I thought. I'm in the club now. These guys will fund me and I get to sit on advisory boards and join the startup jet set. A decade in the business avoiding minefields and I'm still susceptible to having ego stroked.

After the deal fell through, I rarely heard from the start-up upon who's advisory board I supposedly sit. Occasional email exchanges, "so how's XYZ Corp" going? "Oh great, thx", no mention of "We need to fly you out to California to meet the CEO" (plenty of talk like that when we had a signed termsheet though)

Finally after that VC emailed me the other day on an unrelated matter I asked him point blank "Am I still on your advisory board or were you just blowing smoke up my ass to help your firm get into my pants?"

No reply.

I guess there's my answer.

Posted by Mark Jeftovic in Venture Capital at 15:32

Monday, September 18, 2006

CIRA Board Elections On Now, Please Vote

During my 3-year tenure on the CIRA Board, I got the opportunity to travel across the country. Whenever we held a public forum anywhere in Canada, the turnout was usually quite high and the participants informed and enthusiastic. Then near the end of every open forum I made it a habit to ask the attendees the following question: "How many people here voted in the last election?" and the silence was usually deafening. Less than 10 hands would go up every time, guaranteed.

So why the disconnect between getting live bodies out to an actual event and getting stakeholders to click a few buttons through their web browser?

Given the discontent I've seen among netizens over some gTLD issues with .COM (remember sitefinder?) and ICANN oversight, CIRA has set the standard for accessibility and stakeholder guidance for .CA. People should be seizing these opportunities and making their views known and voting.

Running country code top level domain registries carry unique challenges and require industry experience balanced with a sense of stewardship. .CA is after all a "key public resource" and the kind of people I want on the Board are those that take that stewardship capacity seriously.

This year I'm voting for the following member nominees: Paul Andersen

[https://elections.cira.ca/2006/finalsplate/show/44/enClyde Beattie](https://elections.cira.ca/2006/finalsplate/show/44/enClyde%20Beattie) [https://elections.cira.ca/2006/finalsplate/show/22/enRoss Rader](https://elections.cira.ca/2006/finalsplate/show/22/enRoss%20Rader) <https://elections.cira.ca/2006/finalsplate/show/35/en>

And from nomination committee I'm voting for: Raymond Benoit [https://elections.cira.ca/2006/finalsplate/show/13/enBill Reid](https://elections.cira.ca/2006/finalsplate/show/13/enBill%20Reid) [https://elections.cira.ca/2006/finalsplate/show/12/enJeff Ryback](https://elections.cira.ca/2006/finalsplate/show/12/enJeff%20Ryback) <https://elections.cira.ca/2006/finalsplate/show/10/en>

I encourage all .CA domain holders who are CIRA members to vote now.

Posted by easyDNS: of Interest in via easyDNS blog at 16:11

Friday, September 1, 2006

5 things your customers want from you

After a long absence from blogging (again), I've compiled a short list of the 5 things your customers want from you and they have nothing to do with web2.0, social bookmarking, widgets, marklets, CSS, RSS, Ajax or search engine optimization. In fact this post formed in my mind over the course of buying a new house, moving into it, and selling the old condo.

In other words, these 5 factors became evident to me offline, in the bricks and mortar world, and in keeping with my tired old view that "there is no such thing as The New Economy", it all translates back into things I can take back to the online world I live in.

The five things:

1. Customers want to be heard and have their communications with you acknowledged.

Sounds pretty self-explanatory, who in their right mind wouldn't do this? Well, all sorts of people. In the offline world it's the contractors who kept leaving the front door to my new house open after I told them not to do that. It's the painter who walks into the place with his boots on and upon being told "please remove your boots until you get a drop sheet down" and being told in response "oh, well these boots aren't dirty". That's not listening to your customer.

Meanwhile, back on the web, I've been emailing a private US agency about an immigration issue. It's been proceeding as planned, but they never even acknowledge receiving email. I sent them a short "here's my new address, and btw, how's this stuff going?" and not getting any cursory response until a form letter (the next step in the process) showed up at our new address.

It doesn't matter if you're doing what your customer wants you to do, you have to tell them you are doing it or they are going to feel like they aren't being acknowledged or listened to.

2. Customers want the organization to respond to them as a unified whole.

You read a lot of things about why small companies have advantages over the behemoths, most of them centering around agility, but this is also a contributing factor. It's easier for a smaller company to respond to the customer as a single unit than it is for the 800 pound gorillas. So when an 800 pound gorilla pulls it off, it impresses me.

Example: ADT. When I booked a test on the alarm system at the new house, the technician told me:

"we're getting a fault on zone 14, which is your basement motion detector, probably a battery needs replacing, 3 Volt lithium. We can't proceed until you replace that battery, but I'll be here until 10pm tonight, my direct extension is...."

Several hours later, I call back and navigate the voice mail labyrinth precisely as she told me, but got some other guy on the line...

"she's doing another test right now, and has another booked afterwards. I'll find somebody else to test your circuits and we'll get you activated tonight like you wanted, by the way, did you get that battery replaced?"

I had never told this guy that I wanted to get the system activated before I left for the night, and hadn't mentioned the battery, but once one tech knew this information, it seemed the entire company did. It made me feel like I was dealing with a benevolent, competent Borg collective.

Too many companies bat their customers around like a tennis ball. "You want to pay an invoice? Ha! I just generate them, go to hell (extension 123)" with marked disinterest in their customer's situation and an ingrained "not my department" mentality.

3. Customers want explanations, not excuses.

Yeah but, yeah but, yeah but, who cares. Customers don't care. Whatever it is you're about to say to a customer that

basically distills down to "it's not my fault", your customer doesn't care. It is your fault.

Doesn't matter what went wrong and how far removed that was from your direct involvement, if it happened on your watch, it's your problem.

The movers we hired were great. They explained everything that was going to happen ahead of time, offered to send somebody out in advance to review our stuff (we declined) and then went over and above the call of duty on every aspect of the move.

So even after it took more than twice as long as their phone estimate, and took over two hours to arrive at the new place ("we went one way, hit traffic, tried another way and hit more traffic, then we stopped for dinner, then we got lost, we'll knock all that time off the bill"), we still sent them on their way that night with a tip and instructions to go get themselves some cold beer after working their butts off in the unbearable heat all day.

4. Customers want their concerns addressed

Professionals and experts take note of this: you may know more about your field than your customer can ever hope to understand, but your customer knows exactly what will and won't work for them, your expert knowledge aside. So listen to your customers concerns. They probably have little to do with the subject matter and everything to do with what will and will not work for themselves.

Most people sell their house and then buy another one before the first sale closes. Some particularly masochistic people will have both deals close and have their move booked all on the same day. So we decided we would look for and buy our house, MOVE, and then sell our condo.

This resulted in huge pushback from our real estate agent. Her expertise in the field: "empty condos don't show well, the market is hot now, it won't be too difficult for you to have the condo ready while you're still living there", completely clouded out the needs of her customer: "we have a baby in the house and it's very difficult to keep the place ready for showings while we're still living here, let alone get ready for the move at the same time".

So experts remember: you may know it all, but only your customer can tell you what they really need and what works for them.

5. Customers like it when their expectations are exceeded

Numbers 4 and 5 follow from #1, because you can't do either of these if you haven't listened to your customer and acknowledged their input. Once you have done this though, it is your opportunity to shine.

Going back to the movers again. They told us everything they were going to do, and then they showed up (on time) and did more. They wrapped every stick of furniture in a tarp and taped them up. They wrapped the sofas and the mattresses in cellophane. They brought in portable wardrobes with the expectation that they (not us) would load all the clothes from the closets into them. In short, they blew us away.

Promise less, deliver more is an old adage, but it still rocks the customer's boat.

I like to think my own business does these five things already. As I thought about these factors, once again it becomes apparent to me that there is no magic pixie dust to doing business on the net, and that it is really no different that doing business anywhere else. That is because doing business is not about clicks or conversions, retention, churn rates or burn rates, it's about the fair exchange of value.

Posted by Mark Jeftovic in Living off the net at 14:24