

Business Plans that raised money

W.G. Paseman

Paseman & Associates

bill@paseman.com

Agenda

- General Comments on Starting a Business
- Basic Business Plan Structure and Lessons
- Three Startup Stories (Motivate Lessons)
 - Will fill in structure via Case Study
 - Daisy Systems
 - Atherton Technology
 - Calico Commerce
- Summary: Lessons and “Perfect Pitch”

General Comments on Starting a Business

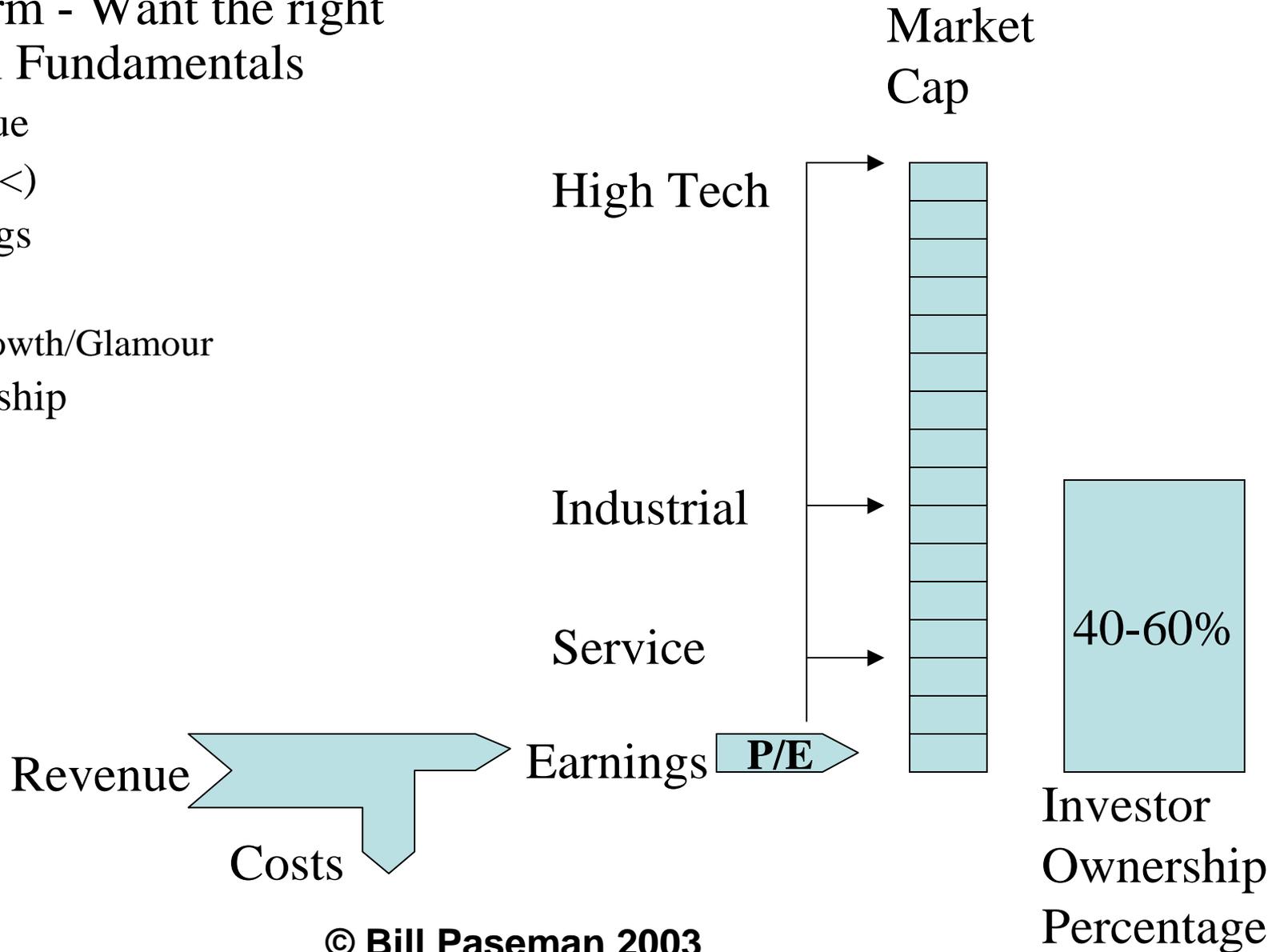
- It helps if you love what you do
 - Steve Wozniak
- 90% of anything is just showing up.
 - Woody Allen
- The other 10% is finishing the job
 - 1978 MIT Graduate Student Speech - What would the presenter say to an audience that consisted of first year graduate students and the people who invented AI, Computational complexity, multi-tasking operating systems among other things?
- Your ability to succeed is in direct proportion to your ability to tolerate embarrassment, correct and quickly move on.
 - Rice University Lesson
- “It’s just another man’s opinion”

Why Write a Business Plan?

- Get your own thinking straight
 - Create a “checklist” to double check you have all the bases covered
- Communicate with co-workers
- Communicate with Investors (Raise Money)
 - Especially in this last capacity, a Business plan is a Sales document
 - “Why in the world should I invest my money in your company?”

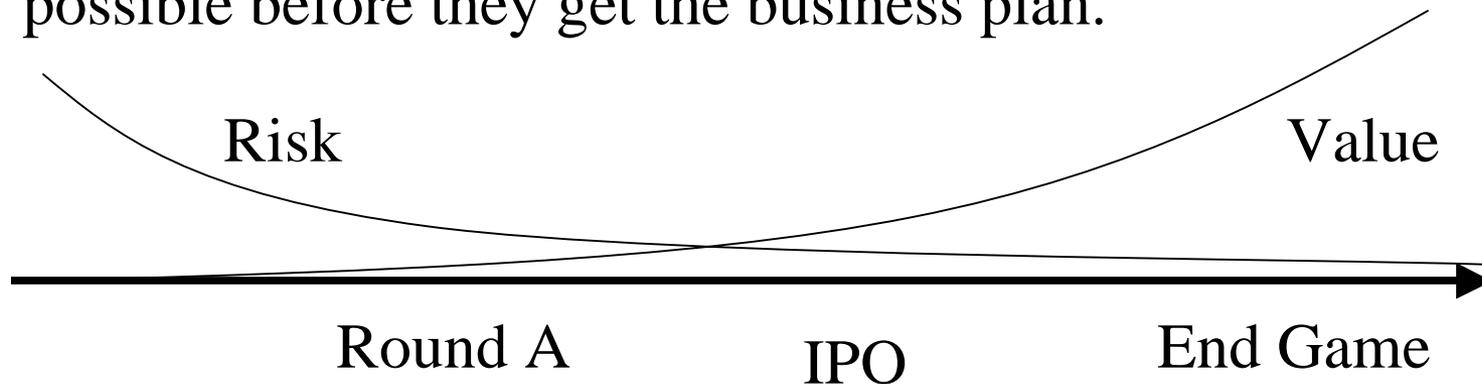
How does an investor view a company?

- Long Term - Want the right Financial Fundamentals
 - Revenue
 - Costs (<)
 - Earnings
 - P/E
 - Growth/Glamour
 - Ownership



How does an investor view a company?

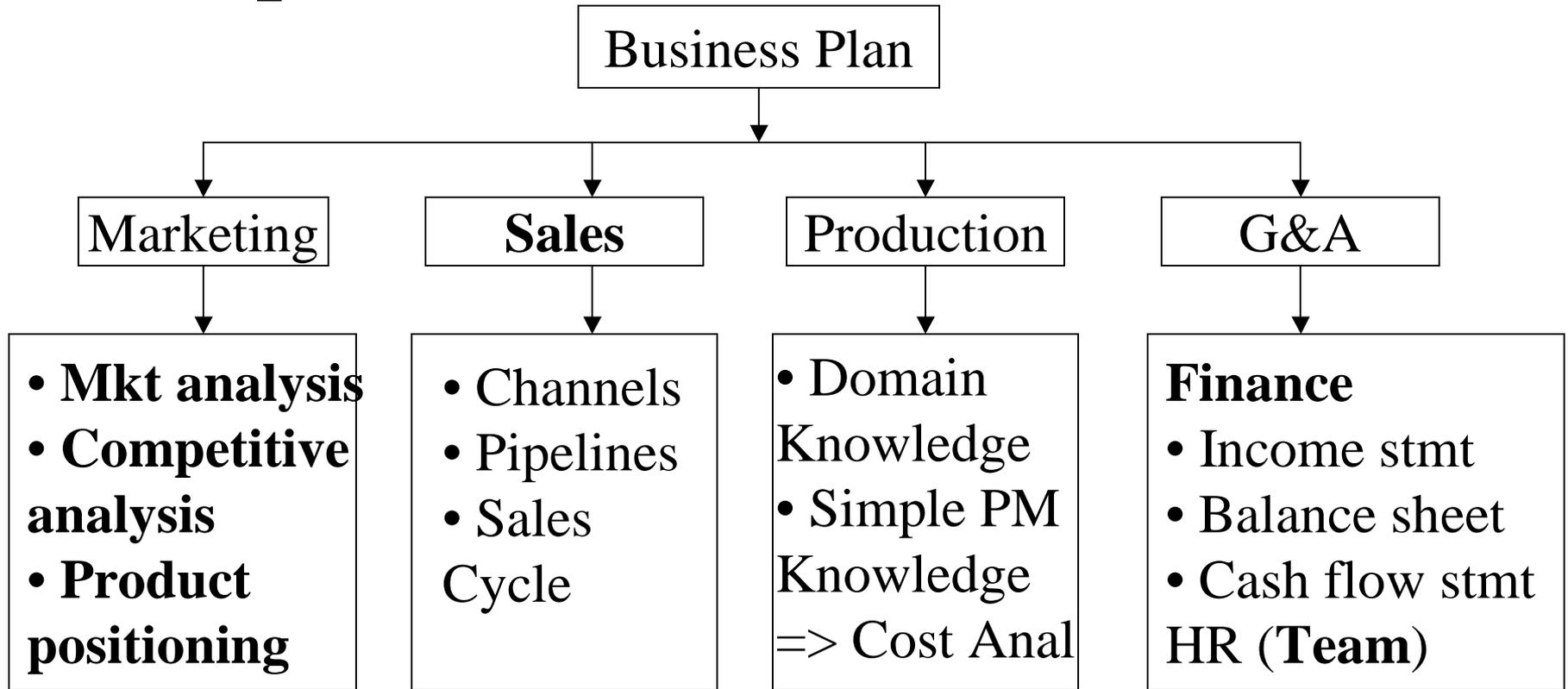
- Short Term - **Risk**
 - Market - KPCB Perspective
 - Team - Mayfield Perspective
 - Technical
 - Financial
- An early investor's goal is to remove as much risk from the investment as early as possible.
- Your goal then, is to identify and retire as much risk as possible before they get the business plan.



Time

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Business Plan structure mirrors Corporate Structure and concerns



- Business Plan let's readers create different “simulations” of your business, from different perspectives.

The “Pitch” is a subset of Business Plan that identifies and retires the key risks

- Six Component Outline was from VCs via Jim Hammock.
 - G&A - **Finance, Team**
 - Marketing - **Market Analysis, Competition**
 - Production - **Product (and Product Positioning)**
 - Sales - **Distribution - (Often hired after Product Developed)**
- Reorganized
 - Product
 - Market
 - Competition
 - Distribution
 - Finance
 - Team
- Levels of Funding Presentation
 - Elevator Pitch (Also used in Customer Presentation)
 - 6 slide pitch (Shares Team, Market, Product and Competition w. CP)
 - Business Plan

General Observations - Summary

- **Product**
 - Design with continual customer feedback .
 - Product Platforms help prevent thrashing.
 - Immovable Deadlines are good
- **Market**
 - Identify growth or glamour markets with customer feedback.
 - You have a market when they have a problem, you have a solution and they have money - Vinod Khosla
 - Understand the problem you are solving
 - Porting old idea to new platform seems to work.
- **Competition**
 - Engage the enemy and see what happens - Napoleon
 - Having no competition means there is no Market, and you must build it
 - Focus is tough.
 - Stiffest competition comes from below.

General Observations - Summary

• Distribution

- Partners: Large Partners didn't work for me.
- Selling Direct worked for me.
 - Probably because it fit well with Marketing approach.
 - Got immediate feedback early, un-garbled through 3rd parties.
 - CEOs need to sell (“convincer”) - Good practice for VC pitch

• Finance

- Build the Business, then raise the money
- Bootstrapping helps prevent acceleration in wrong direction.
 - Cash Flow is more important than Profit at the early stages
 - But you need Profit to get a “P/E”
- VCs are “customers” like everyone else.
 - Understand their needs before you sell to them.
- Contacts help in getting noticed by the VCs.

• Team

- Forming with wrong people is expensive
- Expanding with the wrong people is expensive.
- Input is crucial, but ultimately, somebody needs to be in charge.
- Offshore Talent works well if you can manage it.

“Three Startup Stories” Agenda

Company->	Daisy			Atherton			Calico		
Lifecycle Phase->	Round A	IPO	End Game	Round A	IPO	End Game	Round A	IPO	End Game
Product									
Market									
Competition									
Distribution									
Finance									
Team									
	1980	1983	1987	1986		1989	1995	1999	2002

- We will examine 3 companies at 3 points in their Lifecycle using the above Business Plan outline.
- Present Information as Stories
 - Causality is easier to understand in Stories than in “Data”
- Separate Events from Analysis
 - The stories are fact. The analysis is opinion.

Daisy 1980: Round A “Pitch”

- **Market**

- (Need) CAE (Symbol) editor vs. CAD (Rectangle) editor
- (Growth) Projected 25% Growth Rate to \$2 Billion in 1984

- **Product**

- Domain Experts: Dave Stamm/Areyeh Finegold (Ex-Intel)

- **Distribution**

- Harvey Jones (MIT MBA) Calma (CAD) -> Daisy (CAE)

- **Finance**

- \$1.5/5? M Financing; Cash Flow Positive and Profitable in Y2
- Areyeh - “When I arrived in the US, all I had was \$800 and a pregnant wife” (and the biggest VC in Israel as a Father-in-law).
- Vinod Khosla - Intel Negotiations

- **Competition**

- Altera -> Mentor/Valid



Team

Daisy 1983: IPO

- The company went public (1983) 3 years after inception, weathering the steepest downturn that the Valley had seen to that date.
- **Finance:** Areyeh got the money
 - Fred Adler (Max's Palevsky's Friend)
- **Product:** The Product worked, New Demo at every DAC
 - (Hardware - Dave Stamm, Software - Ram Banin)
- **Marketing/Sales:** Guys sold the Concept(HJ, VK, AF)
- **Team:** Areyeh maintained a sense of urgency
 - Former Israeli Soldiers: Eventually formed “Daisy Israel”
 - Worked 6 days a week
 - Harvey Jones: “I didn't want to get here this fast. Areyeh made it happen.”
 - “Pat on the Back” was an ice cream cone at midnight
 - R&D Turned on a dime (Will discuss why later).

Daisy 1987: End Game

- **Team**

- Areyeh Finegold -> Norm Friedmann

- **Product/Market**

- DAZY was confused about what it was selling. CAE Software (low margin) or Engineering Workstations (high margin)?
 - PC hardware + software sold for \$100K (vs. \$5K IBM PC cost)
 - Engineering Workstations were dominated by Apollo then Sun

- **Finance**

- DAZY -> INGR after failed Cadnetix Acquisition
 - Daisy went from +\$70M to -\$70M and couldn't service debt

- **Competition (What did work?)**

- Mentor/Valid -> Cadence
- Cadence moved from #7 to #1 via Mergers & Acquisitions
 - Jury is still out on whether Joe Costello can do this in CAD (Think3)
 - Clausewicz - “There is no recipe, there is no standard”

Daisy '81 Xmas Party - Who were these Guys?



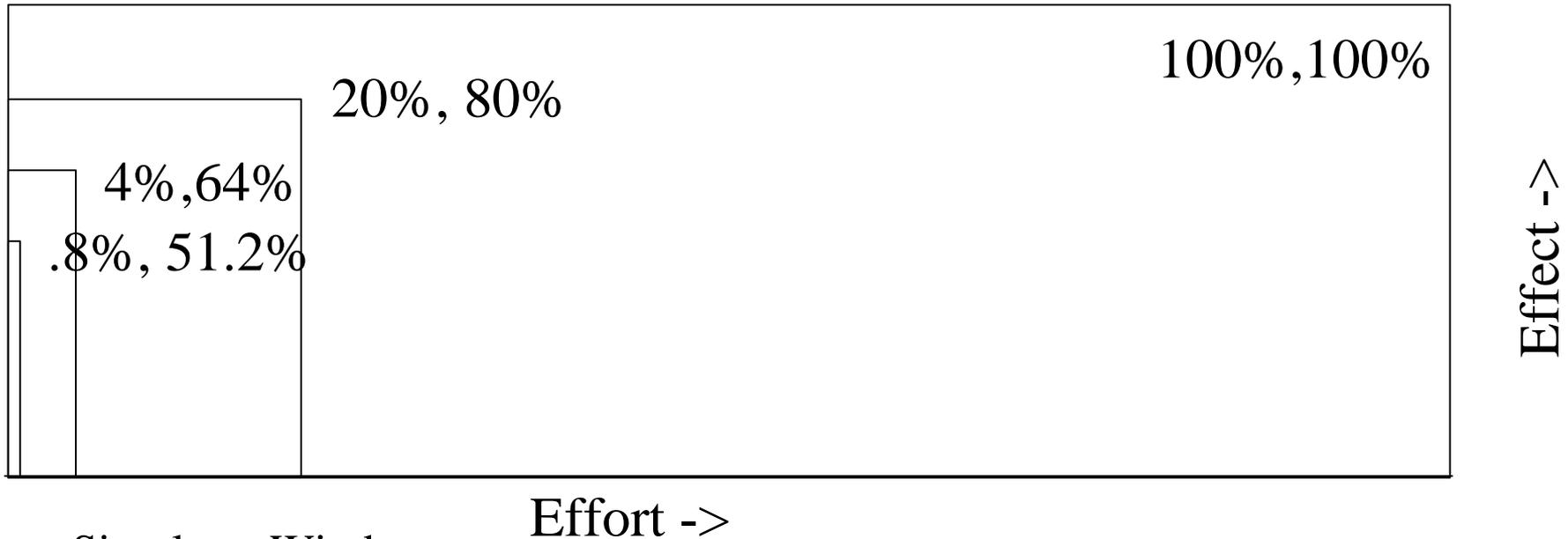
- Areyeh hired well (6/16 Founders had subsequent IPOs)
 - Bill Paseman - Atherton -> Calico (CLIC) -> PSFT
 - Mike D'Amour - Quickturn (QTRN) -> CDN
 - Areyeh Finegold - Ready -> Mercury Interactive (MERQ)
 - Dave Stamm - Clarify (CLFY) -> NT
 - Harvey Jones - Calma (CAD) -> Daisy (CAE) -> Synopsys (SNPS)
 - Vinod Khosla - Sun Microsystems (SUNW) -> KPCB
- Bob Miller (Rice U.) got me in (“Buddy Tree” hiring)

What can you tell from a Resume? (Vinod)

- So, what did the resume of one of 2000's most powerful men in Silicon Valley look like in 1980?
- Education
 - MBA Stanford Graduate School of Business, 1980
 - M.S. Engineering, Carnegie-Mellon University, 1977.
 - B.S. Electrical Engineering, Indian Institute of Technology, 1976
- Experience
 - 1979-1980 Arcata Associates, System Manager
 - Contract management, directing the design and implementation of a \$100,000 management control system to administer the company's explosive growth.
 - 1977 - 1978 Westmoreland Hospital, Project Director
 - Design and implementation of a computerized hospital maintenance system with a \$80,000 budget.

Daisy Product: Risk Reduction Note 1

The 50 to 1 Rule (aka “Design to Cost”)

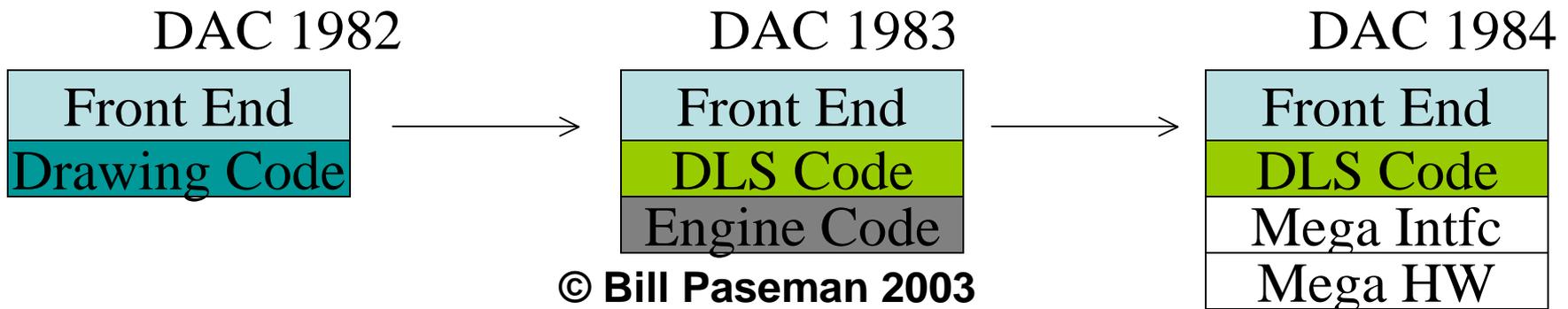


- Simulator Windows
 - 3 days -> 3 weeks -> 3 months
- The 80/20 rule applied 3x is the 51.2/0.8 rule
 - You can show half the results with 1% of the effort.
 - Let's you do early concept testing.
 - You can't show all the results with 2% of the effort!
 - Can't sell it yet!

Daisy Product: Risk Reduction Note 2

Modular Design enabled Reuse

- DED - Daisy Drawing Editor
 - 3 Guys (Ram, Rami, Bill)
 - My first task was to “Clean Up” and modularize DED Code
 - Separated Drawing specific stuff from UI “shell” (Platform 1)
- DLS - Daisy Logic Simulator
 - 3 Guys, 3 months (Moshe, Wes, Bill)
 - The Value of Product Platforms - Reused DED “Shell” Demo 1 in 3 days
 - Dave, what will we do next year? Ans: “Hardware Simulator”
- Megalogician - Daisy Hardware Logic Simulator
 - 3 Guys, 3 months (Gary, Ben, Bill)
 - The Value of Product Platforms - Reused DLS “Front End”



Atherton Tech 1986: Round A “Pitch”

- **Market**
 - (need)CAE ->CASD(IPSE) “Same idea as Daisy, just in Software”
 - Total available market in excess of \$1.5B
- **Product**
 - Program Editor for Programmers (+ VM/CM) “Like Daisy”
- **Team**
 - Ram and Bill - Helped Daisy build its most important products.
- **Distribution**
 - Greg - Helped Daisy sell its most important products.
- **Finance**
 - Kleiner Perkins, Menlo, Mayfield knew Ram, Bill and Greg
 - \$3.6/6.6 M Financing; Cash Flow Positive and Profitable in Year 3
- **Competition**
 - No Competition!

Atherton Technology 1989: End Game

- **Market/Distribution**

- Problem A: SW tools were bought differently from CAE tools. DOD primes (guys with money) wanted Tool integration
- Problem B: But tools were not instrumented to work with each other. (CORBA came after AT.)
- Problem C - Peace was declared.

- **Product**

- Hired (a lot of) people to do Programming Editors. Then changed direction to “Change Control for DOD Prime Contractors”.
- The Product Guy (Bill1) started as Domain Expert. AT hired another expert when changing to the new Domain (Bill2).

- **Competition**

- No Competition! (Not a good thing)

- **Finance**

- Atherton ended up in receivership after burning \$18m.

Calico's Game Plan

- **Product/Competition:** Don't Invent New Ideas, Validate Old Ones
 - Marketing: Running Play vs. Forward Pass
 - Trilogy's Joe Liemandt - "What's the model"
 - Business/Technology: Not finding your idea in the literature usually means that the idea is so bad, no one could even get a paper out of it.
- **Operations:** Reuse Teknekron's "Bootstrapping method".
 - Establish a Consulting practice that pays the bills.
 - Find a problem that's so bad, that people will pay you to solve it, and let you keep the software.
 - Talk and listen to lots and lots of people about it.
 - Analyze data and modify approach.
 - "Ice Dancing" versus "Snap the Whip"
- **Finance:** Go slow. VC Investment after direction is solid
 - Venture Capital is Like Rocket Fuel: You'd better be within 2° of true before you launch, because changing direction in mid-flight is very expensive.
- **Team**
 - Start with 1 guy
 - Share Stock, Control

Calico (1990)1994-1997

• Phase	Dates	dur	Headcount	
• Start Consulting	10/90-1/92	0.75	1	
• Market Search	6/91-5/92	1.0	1	
• Initial Success	5/92-11/92	0.5	2	Get S/M Guy
• Development	11/92-1/94	1.25	3+-3	Get Dev Env
– lost: Siemens-Rolm, HAL, Synoptics, 3Com, UB, Deere, WTI, Freightliner, Centigram				
• Initial References	2/94-3/95	1.0	7	
– Incorporated, then Cabletron, FLEXcon, TechData				
• Funded Operations	4/95-3/96	1.0	35	
• Scaled Organization	4/96-5/97	1.0	75	

Calico 1995: Round A “Pitch”

- **Market**

- Sales Configuration Systems
 - Ensure Correct and Complete Orders
 - Make complicated product accessible to the untrained
 - Extend ERP to your customer’s desktop
- Electronic Commerce - Cisco Interest

- **Product**

- Already developed and in use
- Small, component-based, easy to use, easy to customize

- **Distribution**

- Direct and Indirect (Partners didn’t work)
- 2 reference accounts (Cabletron, FLEXcon)
- Add on Order from Cabletron
- TechData

Calico 1995: Round A “Pitch”

- **Competition (continued)**
 - One startup who got to \$35M in 4 years and is screwing up.
 - Consulting Firms
- **People**
 - Bill: One winner (Daisy), One loser (Atherton).
 - Known personally and will help hire CEO (no risk)
 - Bart: RSA Sales Experience
 - Rob - Atherton, Trond - Fresh Norwegian PhD
 - Offshore Programmers to keep down costs
- **Financials**
 - Booked \$1M in business after 1st 9 months of incorporation
 - Realized \$.5M in 1st year
 - Cash flow positive since inception
 - \$4/10M investment (\$1.1M to Bill)

Calico 1999: IPO

- **Team**

- President Alan Naumann, VP Dave Barrett

- **Product**

- Sold Product configuration systems, distributed Order Entry applications and electronic marketplaces

- **Market**

- Cisco's 1996 "Supplier of the Year", Upside, Computerworld, etc.
- Dell, Gateway, Cisco, Nortel, Starhub, Zurn, ...

- **Distribution**

- Direct

- **Finance**

- 14th in Deloitte and Touche's "Fast 50" which measures revenue growth over a 5 year period
- 300 employees © **Bill Paseman 2003**

Calico 2002: End Game

- Chairman (Bill) retired in August 2000, so this is observation from outside, not inside.
- **Competition**
 - Startup came after CLIC, raised \$250M and bought configuration market
- **Product**
 - Did not manage Platform shift to Java well
- **Market**
 - CLIC flushed pipeline in the process of diversifying from Configuration (Hard to Sell) to Exchanges (Easy to sell)
 - Bottom dropped out of the Business SW Market
- **Finance**
 - Kept burn rate up as sales dropped
 - Sold out to PSFT in 2002

General Observations: Market

- Identify growth or glamour markets with customer feedback.
 - Get them to pay! (e.g. Calico Early Stage Consulting helped)
- You have a market when they have a problem, you have a solution and they have money - Vinod Khosla
- Understand the problem you are solving
 - Customer or “In house” Domain Expert (e.g. Dave Stamm)
- Porting old idea to new platform seems to work.
 - DBs, Spreadsheets, CAE, Configurators
 - Calma -> Daisy -> Synopsys (Daisy’s Harvey Jones)

General Observations: Product

- Design with continual customer feedback .
 - The 50 to 1 rule helps here (Daisy)
- Product Platforms help prevent thrashing.
 - (Daisy)
- Immovable Deadlines are good
 - Daisy at DAC

General Observations: Distribution

- Partners: Large Partners didn't work for me.
 - Atherton - DEC
 - CLIC - Siebel, CWC
 - I have seen Small Partners work for others.
- Selling Direct worked for me. (CLIC)
 - Probably because it fit well with Marketing approach.
 - Got immediate feedback early, un-garbled through 3rd parties.
 - CEOs need to sell (“convincer”) - Good practice for VC pitch

General Observations: Finance

- Build the Business, then raise the money
- Bootstrapping helps prevent acceleration in wrong direction. (AT, CLIC)
 - Cash Flow is more important than Profit at the early stages
 - Profit is Opinion, Cash is Fact
 - But you need Profit to get a “P/E”
 - Must establish “Public Company” discipline before IPO
- VCs are “customers” like everyone else.
 - Understand their needs before you sell to them. (CLIC)
- Contacts help in getting noticed by the VCs.
 - Aryeh’s Father in Law was Israeli VC
 - Work with Vinod Khosla early in your career!
 - (Networking is important)

General Observations: **Team**

- Forming with wrong people is expensive
 - Areyeh hired well: Everyone at Daisy did their job.
 - CLIC - Stock bucks allowed me to “Just say No”.
- Expanding with the wrong people is expensive.
 - Hired a lot of People then changed Market at Atherton
 - Apparent tradeoff between Experience and Will
- Input is crucial, but ultimately, somebody needs to be in charge.
 - Even the Roman Army (plagued by many issues) conquered the world by guaranteeing just one thing: Competent Leadership.
- Offshore Talent works well if you can manage it.

General Observations: **Competition**

- Engage the enemy and see what happens - Napoleon
- Having no competition means there is no Market, and
 - At the very least, you must build it (Atherton)
- Focus is tough. DAZY, CLIC got off track.
 - Japan reminded that Detroit they were in the Auto business.
- Stiffest competition comes from below.
 - DEC/Apollo focused on IBM, not Sun
 - Cadence #7 -> #1
 - Fast follower overtook Calico (Trade off share for profit) and is failing

Summary: “Perfect Pitch”

- I know the Market. It is big. We can get a big Piece. Here’s why.
 - (Market Risk)
- I have developed the Product. I know what to develop next.
 - (Technical Risk)
- I am selling the Product. I have repeat orders. Customers love it. Call them.
 - (Financial Risk)
- I beat the Competition. I will continue to do so. Here’s why.
 - (Market Risk)
- I am Cash Flow Positive. My margins are great. I can be profitable soon.
 - (Financial Risk)
 - Revenue is Opinion. Cash is Fact.
- You know, respect and trust the Team. Help me hire more great people.
 - (Team Risk)
- Finally: Determine Order you want to visit the VCs.
 - Let each presentation refine your pitch (Watch Seinfeld’s “Comedian”)
 - Most VCs won’t give you a second meeting if you screw up the first one.

Current Enterprise Startup Environment (Winter 2002)

- Some clear winning models are emerging
- Staying Small is good if no one is buying
- Staying small minimizes costly mistakes
- Competition is “on the run”
- Environment will probably heat up in the second half of 2003.