

The Foundation of Success: Build Value Every Step Along The Way

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STARTING UP: *Practical Advice for Entrepreneurs*

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You have probably received one of those newspaper sales pitch letters- you know, the one that tells the story of two young men just out of college. One becomes CEO of a major corporation and the other never reaches his potential. Why? The successful one subscribed to the Wall Street Journal and the other one didn't. You can chuckle about this simplistic story- but turn it around a little. Take a new industry like the Internet. Netscape goes public with an initial market capitalization of more than \$1 billion. On a smaller scale, one of my Internet clients is being purchased for \$8+ million after only 12 months in existence, while another is selling out for only \$100,000- barely one times revenue.

What accounts for these differences? There are numerous factors which come into play- e.g., being in the right place and the right time, having a well thought out strategy and focus, building a superior product or delivering superior service. The list goes on. However, something I almost always see in one form or another in successful companies is that they have systematically built value. Virtually every step they have taken has been done in a manner designed to enhance value. This may seem obvious, but in my experience it is not done often enough, consistently enough or well enough. Here are some ideas/examples.

Core Competencies. In starting a company there are lots of things that have to be done and there is a tendency for people to become diverted in the process. I had one extremely bright client who received \$500,000 in seed money to finish an advanced prototype. When I asked him how the prototype was going he said, "Fine, great..., but you know I just figured out how this double entry bookkeeping software works". I proceeded to lecture him on how his investors did not put money into his company in order for him to master accounting. His was obviously an extreme case but it illustrates the idea of the need to determine your "core competencies" -something that you can do better than anyone else. His core competency was in advanced computer design, not in accounting. He was not building value.

Consider Outsourcing. Consider "outsourcing" everything except your core competency. Clearly the computer design fellow should have outsourced accounting- either by going with an outside accountant/bookkeeper or, if appropriate, by hiring someone to handle those functions. However, you should rarely, if ever, outsource your true core competency, either because you will educate the outsourcer and perhaps create a competitor or because the outsourcer will not do as good a job. As with most things there can be exceptions, but you had better have an extremely compelling reason for outsourcing your core competency.

Quality People. Surround yourself with quality people because you are known by the company you keep. I have one venture capital backed startup client which has engaged in a sustained and rigorous hiring campaign. They looked at over 1,000 resumes for a VP

Engineering position, interviewed 25 and rejected several very qualified persons because in one way or the other they did not fit the core competency picture or there were some questions about their leadership potential. The fellow they finally hired is really first rate. This effort has paid off in many ways. The process of doing this key hire really focused the company on what it needed. The past accomplishments of the new hire certainly enhanced the value of the company in the next round of financing. And was it just a coincidence that the fellow they hired happened to have lead the engineering effort at a company in which XYZ Partners, the startup's targeted next round venture capital investors, made a handsome return? By the way, XYZ Partners was targeted for several reasons that were unrelated to money. There was a particular partner of XYZ Partners who was perceived as having extremely valuable industry knowledge and contacts. The firm also had racked up a number of investing successes, which itself enhanced the perceived value of the startup- e.g. if the XYZ venture firm is backing them they must be good. Lest I mislead you on this, the startup did not hire the new VP-Engineering solely for these reasons- the fellow is quite good. However, this hire was part of a broader strategy of building a quality team and value.

Leverage Everything. The VP-Engineering story is a good example of building value by leveraging as much as possible. You should look at every task/opportunity to see if it can be leveraged to increase value. Some projects may not be profitable in the short term but have clear leverage potentials while other projects may pay well but do not add any longer term value. Sometimes these differences are hard to calibrate. Assume you are an Internet tools company and have an opportunity to build a Web Site for a Fortune 100 company. The project will be profitable and you will be able to say - "yea, we did the site for them". You also have an opportunity to work on a less profitable Web site for a known, but substantially smaller, company. However, the work you will do on this site will demonstrate your unique tools technology. From a "leverage" perspective the second project may be the better choice.

Publicize. There is really is no such thing as "absolute value"- a true "laws of physics" value of a company. However there clearly is "perceived value". Netscape, rightly or wrongly, was perceived as valuable. Look for opportunities to publicize what you are doing. Most entrepreneurs I encounter equate publicity with trade press. This is important, but don't overlook the importance of visibility in the financial/general business arena. This is a source of financing and potential customers. The CEO of a potential customer is looking at your product and your competitor's and both product offerings are closely matched. Does it matter that your competitor is better known? Consider retaining a good public relations person early on in your company's development. Many have creative fee arrangements that match their creative abilities. You can even arrange for some "free" publicity. I have one client who spent a few weekends looking through both trade and general business publications to find good stories written by "free lance" writers. He then pitched his story to a couple of these writers. One of them liked the idea and put together a great article, which the "free lance" sold to a business magazine. Now my client includes reprints of that and other stories in his new business presentation kit.

The point of all of this is that you should systematically pursue opportunities to build the perceived value of your company.

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