



START-UP HICCUPS

Key management challenges for technology start-ups

By Professors Ralf Seifert and Benoît Leleux (October, 2007)

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Technology start-ups are tough going. Yet while often hugely demanding as to capital and time, the rewards and ROI can be equally impressive. In their forthcoming book on *Nurturing Science-Based Ventures: An International Case Perspective* (ISBN: 978-1-84628-873-9) Professors Leleux and Seifert summarize their research on the management challenges of early stage, technology-based companies.

Containing over 30 original case studies, the book addresses the dos and don'ts of developing new ventures, offering in-depth analyses of common problems, how to anticipate them and potentially how to capitalize on them. Target groups include, among others, future entrepreneurs, those looking to source from start-up companies and larger companies seeking to improve on their open innovation. Below an extract from a recent IMD webcast with a synthesis of key learning points.

Seifert and Leleux: "Start-ups are tricky. Yet there are a number of issues that can be anticipated. Knowing your way around the early days can save vast amounts of headaches later.

Incorporate late(r)

To start with, it is important to know that there is much work to be done before considering incorporating the company. A good guideline is to expect some three to six months investment before thinking about the administrative side of the business, i.e. the formal structuring of the business. Spend more upfront time in the networking phase: networking with partners and networking with potential clients to ensure you have fully understood your future market.

Know your customers

Spend time with customers. Prospect for your ideas, shop around, and be careful not to confuse a preliminary interest with a customer ready to sign an order form. Start building up awareness, try to gauge the interest that is out there, to better understand the true needs of your target customers. But beware: everyone will be willing to listen to you, if only for market intelligence!

Enthuse don't confuse

Once you have generated interest and enthusiasm, distinguish between genuine potential customers, and “technology window shoppers”. Be conscious about charging for your time and effort from the outset. It sends a good signal that you are serious and a company to be reckoned with.

Once you have a good grip of your markets, bridging the gap between your technology expertise and taking it out of research into development and commercialization requires a certain mindset. Entrepreneurs should develop commercial expertise while at the same time be credible on the technical side.

While speed is of the essence in technology start-ups, don't jump steps on the belief that your opportunities are relatively short-lived. In the prototyping phase, you will actually learn a lot from your customers, which ultimately could speed up market entry.

Give a strong commercial approach to your venture. You will have to build some in-house sales competencies; it will also be a great source of learning. Ultimately, you will need seasoned sales experts. But be conscious about the timing of when you bring these people in, how you integrate them, and what is required to deploy them successfully.

Prepare for the hard knocks

Working capital tends to generate major problems. While many start-ups understand what their normal working capital needs will be, they often overlook the fact that the beginnings of a venture are anything but normal. Be prepared for people to abuse you as a start-up. Understand how you are going to be perceived by your customers and how they will treat you.

Don't misunderstand the adoption cycle time either. Your solution is most likely only part of a larger solution for the customer. For them, the cost of failure can be a hundred times greater than the cost of adopting your technology. So don't expect them to be in a hurry; They are not.

Resources are always a critical issue in moving technology start-ups forwards. Set up development contracts where you get milestone payments, even upfront payments if you really bring value to the customer. Hold on to your licenses until you have properly calibrated them. They will rarely earn you a proper return in your early days.

Find ways to paint a better picture of yourself in front of your customers – to be more credible. That can be achieved by the type of commercial partners you have, the investors you have brought in, the composition of your board of directors and their involvement. This speaks volumes about your professionalism. Make sure clients know that you are sustainable.

Relationship blues

Managing relationships is critical. A first common mistake is to believe that established companies cannot wait to adopt your technology because it is new. Nothing could not be further from reality: “newness” is a liability, not an asset, in adoption.

Look after your client relationship carefully. If you cannot demonstrate to a company that you will still be there in three years to service the product, they have absolutely no reason to want to deal with you.

Treat your co-founders with that same respect. One common problem is referred to as the “equality syndrome”; i.e. all founders of a new venture sharing equally the equity. Equal does not mean fair: where equity is divided equally and efforts turn out to differ, friction will arise. This internal relationship issue has to be tackled straight away.

Finally, devote some thought to the work/life balance. Start-ups consume their champions, literally. Keeping perspective may be more important than another night-shift.

Growth may be the solution, not the problem Growth, scaling up and the required effort may be path to greater cost effectiveness or efficiency. Be ready to change as and when the market maybe changes with you. And be ambitious, because, again, growth and size may be a key component of your competitiveness.

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