

Building a Fundable Team

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Selected Topics

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James L. Woodward

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Jim has been an early team member and CxO of eight* successful startups, each of which returned more than a million dollars to its stakeholders. The eight startups, before and after sale, have had revenues of close to a billion dollars.

He has been active in the MIT Enterprise Forum since 1980, holding a wide variety of positions including Chair. He writes a monthly column on startup issues for the Forum Reporter which is available at the Forum website.

He is a member of the Screening Committee of the Launchpad Angel Group, is Chair of the Audit Committee of the Episcopal Diocese of Massachusetts, and is on the Finance Committee of the Massachusetts Council of Churches. He has an MBA with Distinction from Harvard and a BA from Cornell.

*I'm too supersitious to say "nine", yet.

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People, People, People

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The Team is All that Really Matters

- Inadequate market – team doesn't know enough about the market or what makes a good market.
- Low barriers to entry – team believes it walks on water and doesn't need ramparts
- Poor gross margin or ridiculous figures – team doesn't understand finance
- and so forth

Early Stage

- The ideal early stage team is three or four people who have had CxO level experience in meaningful startups
- Moving up one pay grade is fine.
- Balance previous experience together and new players from outside your sphere

The team must be consistent with its vision.

- If you're going up against Google or going to change the way everyone's medical records are kept, you'd better be Hall of Fame players.
- If you plan on owning a \$50MM market, the standard is much lower, but you'd better have rock solid experience in the market.

The CEO

- Good CEOs hire B+ subordinates; great CEOs recruit A+ colleagues. The quality of the #2 player is the best indicator of the quality of the CEO.
- Must have proven leadership skills.
- Must be in charge – no ambiguity at the top.
- Must be accomplished presenter, as he or she will be selling to investors, customers, employees, and others for the life of the company.

The Supporting Cast

- A CTO, usually not the CEO – both are full time jobs – must be able to manage the tech team as the company grows.
- Marketing skills, to figure out what the world really wants and will pay for.
- Someone who can sell; this might be the CEO
- A CFO if and only if financially complex.
- Manufacturing skills if it's an issue and particularly if it's going to be sourced overseas.
- A hole in the team is not a problem if there's a plan for filling it.

Real World Experience

- Five MIT PhDs don't make a team.
- Neither do three software geeks with a Web 2.0 demo site running.
- While industry experience is not always essential, don't pitch me a health care startup unless you have serious health care experience.

Advisors

- Board of Directors / Board of Advisors
 - CEO and no other insiders, no family on the BoD
 - Advisor-mentors who will take your calls night or day and give you good advice.
 - Industry expertise is helpful, but if it's your first time as CEO, good business savvy is much more important.
 - Super-luminaries don't impress investors because investors know they're not really there for you.
 - You don't have to have a formal relationship, but giving them a little stock is good.

Women on the Team

- Funds specializing in Woman-Run Companies are an opportunity. Goldseeds is the only one I've worked with, but there are certainly other good ones.
- There are useful government set-asides in some areas.
- There's also probably some prejudice, still, against women CEOs.
- On balance, a single sex team, either way, is probably a negative.

What You're up Against

One Angel Group's Annual Numbers

- 600 Plans received– 450 rejected quickly - bad geography or industry
- 150 Reviewed by Screening Committee - 22 chosen for presentation
- 22 Make presentation, twelve turned down for variety of reasons
- 10 Into Due Diligence - five fail, usually too narrow a team
- 5 Acceptable, one wants too high a value or other unacceptable terms
- 4 Funded