
Team Evolution

Real-Life Twists & Turns

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My Background

- Currently the CEO of Pamet Systems
- Experience in start-ups or expansion-stage companies
 - MediaMap
 - VideoLogic
 - Learncom
 - Learning Tools
- Master of Science in Organization Development
- Member TCN Program Committee

The Real-Life Example: “Acme Corp”

- Just an example, not an exemplar!
- Names have been changed to protect the guilty
- Your mileage may vary

The Beginnning

- Massachusetts-based founder is a very accomplished consultant in a particular industry
- Tires of living from assignment to assignment
- Notices that to do his consulting effectively, he spends 1/3 of his time keeping up to date on a particular body of constantly changing information
- Notices his competitors are similarly challenged
- Decides to stop consulting and develop a subscription-based, directory of this information that he publishes quarterly for his previous competitors

Bootstrap Phase

- Duration: 2 Years
- Funding: FFF & Customer Funded (i.e., sales!)
- Headcount: Staff grows from 1 to 8
- Management Team: Founder/CEO
- Compensation: Meager
- Recruiting Method: Word of mouth, Boston Globe classifieds
- Of Note: Landed first customers (e.g., Apple Computer), constant innovation, steady growth, getting noticed in market

Seed Money Phase

- Duration: 4 years
- Funding: Angel-\$50,000, Lawsuit- \$20,000, rest from sales
- Headcount: Headcount goes from 8 to 25
- Mgt Team: Founder/CEO, Bus. Partner, 3 “player/coach” mgrs
- Compensation: No one makes market wage
- Recruiting method: Word-of-mouth, Globe
- Of Note: Headcount and Business Partner increasingly unaligned re:future and increasingly unable to work together. Company expands from directory publisher to information service company (i.e., starts developing software to add value to data)

Near-Death Experience

- Duration: 1.5 Years
- Founder and Business Partner have acrimonious falling out
- Partner leaves to form competitor. Takes half of mgt team
- Law suits
- Market concerned. Customer defections.
- Negative growth
- Challenges for those remaining
- Founder needs change of scenery and moves to California. Leaves new second-in-command in Massachusetts who is effectively COO, CFO and CTO. Tries mightily, but obviously can't do all jobs well.

Angel Phase

- Duration: 4 years
- Funding: \$2M angel funding over 3 years
- Headcount: 25 to 60
- Mgt. Team: Founder/CEO, COO, Acct Mgr/Controller, 3 Directors, several managers
- Compensation: Haphazard evolves to a normalized structure
- Recruiting Method: Internal hires, Globe, contingency search
- Of Note: There is an actual management team now and they have to answer to Board of angel investors. VERY interesting new dynamic. The information divide starts to appear.

VC Funding Phase

- Duration: 5 years
- Funding: \$10M from top-tier VC, grows to \$20M before the end
- Headcount: 60 to 175
- Mgt. Team: Founder/Chairman, CEO, President & COO, CTO, CFO, VP Sales, VP Bus.Dev., VP Marketing, VP Research.
- Compensation: People no longer willing to work for start-up money and stock options. Competing with the market.
- Recruiting Method: Internal promotions (VP Sales, VP Bus. Dev.), online recruiting for manager/director, retained search for VP
- Of Note: Pitching VCs very time consuming. As condition of funding, they kick Founder CEO “upstairs” to Board. Replace w/outside CEO.

Contraction Phase

- Duration: 2 Years
- Funding: \$2-3M from VC (1 acquisition (!) + survival money)
- Headcount: 175 to 90
- Mgt. Team: More than half management team leave of their own accord. Replacement call from outside. VC-backed CEO gradually eased out. Founder/Chairman left with almost no real role or authority
- Compensation: Reduced and/or no bonuses
- Of Note: New CEO never clicked with original team, economic/business contraction exacerbated management team disarray enormously. Came to the realization that we basically made a bad decision on the CEO hire. Acquisition kept completely separate.

Liquidity Event

- Company purchased by largest competitor / partner for \$20M+
- Massachusetts operations absorbed by acquiring company. Massachusetts offices quickly shut. 2 people out of 75 move to Midwest to take positions in acquirer's company. Everyone else gone.
- Management Team: Founder had enough founder stock to clear a few million. Rest of management had only (underwater) options and got almost nothing.

Take-Aways

- Growth is an elixir, but it can create problems on the team (and hide them)
- Realize that the founding management team is not likely to last. Don't be afraid to promote and grow from within, but it's critical to bring in outside perspective, experience and talent at the right moments.
- Hire Slow, Fire Fast
- Bringing in outside money means you are accountable to someone. You will be surprised at how much that changes things.
- Company dynamics change at 50, 100 and 200 people. Be prepared.
- Constantly communicate your vision & goals. Keep the team aligned!
- As you bring in people from the outside, make sure you don't just concentrate on what you are missing that you want to bring in to the company. Pay attention also to what you already have that you want to keep.

Other Resources

- American University/NTL MSOD Program (<http://spa.american.edu/auntl/>)
- NTL Institute (www.ntl.org)
- “Team Building”, edited by W. Brendan Reddy with Kaleel Jamison
- “Productive Workplaces” by Marvin Weisbord
- “Management as a Performing Art” by Peter Vaill