“MANAGING A STARTUP IN TURBULENT TIMES”

SUBJECT OF JUNE 6, 2001 BROADCAST

The presentation topic for the Wednesday, June 6, 2001 MIT Enterprise Forum Satellite Broadcast will be Managing A Startup In Turbulent Times. The panel will include successful entrepreneurs, educators, managers, and investors.

To be broadcast from MIT’s Kresge Auditorium beginning at 7:00 PM Eastern Time, the agenda will include an opening overview by the moderator, brief introductory comments by each panelist, and interactive discussion with attendees and satellite downlinked participants from across North America.

According to MIT Enterprise Forum CEO Edmund M. Dunn, "Entrepreneurs face a unique set of issues in turbulent times. Structuring financing, managing, and even exit strategies in an uncertain economy can present challenges that are independent of the company's values and potential. This program is an opportunity to learn from leaders who have managed their way through changing business cycles."

Members of the panel include Ken Morse, Managing Director of the MIT Entrepreneurship Center (Moderator); Jon Hirschтик, CEO and Co-Founder of SolidWorks; Beth Marcus, Founder and President of Glow Dog, Inc.; Fred Middleton, Founder and General Partner, Sandering Ventures; and Burt Rubenstein, Managing Director, YankeeTek Ventures. Program Moderator

As Managing Director of the MIT Entrepreneurship Center, Ken Morse leads the MIT effort to train leaders to bring innovative concepts and technologies to market and build successful high tech startup businesses. Based at the MIT Sloan School of Management, the Entrepreneurship Center has a mandate to teach entrepreneurship and to foster research and collaboration, Institute-wide. The student-run $50K Entrepreneurship Competition, as well as enrollment in the Enterprises and Entrepreneurship Laboratory Courses, are open to students from Engineering, Science, and Management, encouraging multidisciplinary teamwork.

Morse joined MIT in 1996 after 25 years as an entrepreneur helping launch six high-tech ventures. Between 1982 and 1996, Morse held a number of strategic positions in a venture-backed startup, Aspen Technology, Inc., which commercialized process modeling software originally developed at MIT. He initially crafted the company's global strategy and secured early customers in Europe and Asia. As a member of AspenTech's Board of Directors from 1986 until 1995, he focused on Aspen Tech's entry into new global markets, including high value appli-
From the CEO
On Business Plan Consultants

I am sure that there are cases when an entrepreneur receives useful advice from a consultant working on their business plan. After all what could be wrong about being coached by someone who has "done it before"? Everyone can use a reality check or objective feedback from an experienced and objective source. There must be many instances when getting some amount of help from a business plan consultant can be of benefit. But, is that the best way to proceed as a rule?

In most instances, you may be much better served by writing the plan yourself. The business plan is a selling document used as part of a fundraising campaign. It is like your company's resume. If the CEO is not in a position to express what the vision for the company is, that sounds like a considerable problem.

If an entrepreneur approaches a business plan consultant to write their plan for them, what does that say about the company being formed? It may mean that the founder or founding team understands the technology but would have a problem with evaluation of markets and financial projections. What this really means is that the founding management team is incomplete. It would be much better to address this by adding people with the needed skills as early as possible.

Let's suppose that a business plan consultant is approached by an entrepreneur who has an invention serving a niche, highly technical market. In order to speak about the viability of this development as a business, you need to understand the business. How much would the potential customers pay for an improved product? Could you support a company of any appreciable size making and selling it? Or, would you license what you have to an existing producer and move on to other activities? In order to comment on the reasonableness of any projections, you would have to know the business.

I can only assume that our business plan consultant was working on an online grocery company's plan last week and a software company the week before. It is not possible to have detailed knowledge of market sizes, price sensitivity, and customer needs in a wide range of industries. Lacking that kind of knowledge, the plan has no firm foundation. If the entrepreneur thinks that he can sell 10,000 units of something per year at $2000 each, page after page of pro forma financials can be produced. The end result might be nonsense with five significant figures.

What about credibility? Is the entrepreneur's credibility enhanced by walking into the office of a venture capitalist with a plan prepared by a well known, established consulting organization? After all, your basic business concept has been developed into a full business plan by a recognized, respected firm. But, there is a problem with this approach. How can you argue that you have what it takes to execute a business plan after admitting that you couldn't produce the plan.

Experience generally supports the notion that execution is more difficult than coming up with a plan. So the entrepreneur is saying, "I was intimidated from taking on the easy task but I'm asking you for millions of dollars to take on the hard part." That doesn't strike me as the most effective sales pitch I've ever heard.

There are two better options. First, learn how to write a business plan yourself. This is where the MIT Enterprise Forum can help. No matter what your level of experience you can continue to pick up useful information about planning for a new business by listening to the criticism of business plans in a typical case evaluation session.

Secondly, there are networking opportunities which may make it possible for you to round out your team with some experienced additions.

As for the value of advice from business plan consultants, it may be just great if it helps to fine tune your concepts or as a reality check.

However, if they are going to write your plan for you, you would be better served to pack your own parachute.
EXPERT PANEL AT SATELLITE BROADCAST

In 1980, Morse was a founding member of 3Com Corporation, and as employee #8, helped raise initial funding and served as the first head of sales, marketing, and planning.

He is a member of the Council on Foreign Relations, the World Affairs Council, the Cercle Royal Gaulois Artistique & Literaire (Brussels), and the Quissett Yacht Club. He is a member of the MIT Enterprise Forum, Inc. Advisory Board of Directors. Mass High Tech named Ken "High Tech All-star" for his contribution to entrepreneurship education.

The Panelists

Jon Hirschtick, CEO and Co-Founder of SolidWorks, Inc., has more than 20 years experience in the mechanical Computer Aided Design industry. Prior to SolidWorks, he was Founder and President of the computer-aided engineering pioneer Premise, Inc., which was acquired by Computervision in 1991.

From 1991 until he founded SolidWorks in 1993, he served as Director of DesignView Group at Computervision. Before he founded Premise, Jon was Manager of the CAD Laboratory at MIT.

He received his bachelor's from MIT's School of Engineering in 1983 and his master's (Mechanical Engineering Major) in 1986.

Beth Marcus is Founder and President of Glow Dog, Inc., a hot new clothing brand making fashion and safety a style statement. Dr. Marcus is also a founder of HBN Shoe, LLC, makers of Standing Ovation™ the first innovation in women's high heels since they were invented. She is also a strategic, technology, and business advisor to early stage companies.

Dr. Marcus was Founder, Chairman of the Board and Chief Technical Officer of EXOS, Inc. In April 1996, EXOS was sold to Microsoft, Inc. a worldwide leader in software for personal computers. The resulting product, SideWinder™ Force Feedback Pro joystick, was the hottest product in the market during Christmas 1997. Microsoft continues to aggressively exploit the EXOS technology through new product introductions.

She has a Ph.D. in biomechanics from the Imperial College in London, where she was supported by a Marshall Scholarship. Her first two degrees were from MIT's School of Engineering Department of Mechanical Engineering - a bachelor's in 1979 and master's in 1980. Dr. Marcus is a member of the MIT council for the arts, and is herself a published poet. She is a member of the MIT Enterprise Forum, Inc. Advisory Board of Directors.

Fred Middleton joined Dr. Robert McNeil in 1987 to found Middleton-McNeil Associates, LP, the General
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JANUARY SATELLITE BROADCAST DISCUSSED THE TOPIC “VALUATION: WHAT’S MY COMPANY REALLY WORTH?”

AT THE BROADCAST: Joe Hadzima, moderator, (above left) opens the 12th Satellite Broadcast in Kresge Auditorium. The panel (above right) listens to a question from one of the downlinked sites. Shown (left to right) are Joe Hadzima ’73, Managing Director, Main Street Partners LLC; John Jarve ’78, General Partner and Managing Director, Menlo Ventures; Marcia Hooper, Partner, Advent International; Alex Laats ’89, President & CEO, Informio, Inc.; and T.L. Stebbins, Managing Director, Adams, Harkness & Hill.

BEFORE THE BROADCAST: At the VIP reception (above, left; left to right) Ameeta Soni, President of Aanza, Inc., and Bob Anderson, President of Omniken, Inc., listen to Marcia Hooper. Panelists (above right; left to right) T.L. Stebbins and John Jarve share presentation points. T.L. Stebbins (left; left to right) meets with Peter Miller ’64, Chairman of the MIT Enterprise Forum, Inc. Board, and Jim Vanecko, President of Eastern Telephone.
LESSONS LEARNED FROM THE WASHINGTON/BALTIMORE CHAPTER

By Roy Morris ’78
Chair, MIT Enterprise Forum of Washington/Baltimore with contributions from Shalom Flank, Scott Shrum and Monika Blau Mueller

Have an idea for a business? How do you plan to get it off the ground? Whether your company is emerging or established, you will inevitably need to present your business model to potential partners or investors. This can either be in a one-on-one setting, or before an assembled audience at one of the many business networking organizations springing up across the US.

The MIT Enterprise Forum of Baltimore-Washington (MITEF) is a nonprofit organization established to nurture the high technology entrepreneurial community. Every month MITEF hosts entrepreneurs who present their business plans to venture capitalists, professional businesspeople, and service providers. MITEF’s board has heard countless numbers of plans and proposals for venture capital backed businesses. Through practical experience, the board has distilled numerous pieces of advice on how companies can communicate their ideas and value propositions to attain their financial goals in a compelling, engaging and (most importantly) successful way.

This article looks at general principles and practical tips on developing a presentation for investors. Taken together, these tactics are an indispensable tool kit for capital growth, and will maximize the effectiveness of your business presentations overall.

VCs and technology don't mix

Technology by itself doesn't explain why you're better than your competition. It is always an ephemeral advantage that needs to be converted into a sustainable one. Anytime you say that one of your competitors does not have a given capability, say to yourself, "Or at least not yet."

Often, early stage technology companies begin with a scientist or engineer who has an idea. Maybe it's a group of techies. They stayed up for a month testing the technology before making the commitment to start a new company around it. This is reflected in the proportion of the time that is often mistakenly spent on the technology section of their business plan or presentation.

Venture capitalists start from a different perspective. Their paramount concern isn't really about whether or not this is a better technology. The Beta video format, for example, was technically better than VHS. Both technologies were good, but we all know in hindsight which one we would rather have invested in. The venture capitalist will always prefer a good idea executed by a great team than a great idea with a good team.

Venture capitalists see lots of plans. Consequently, they need to see in the first five minutes of a presentation - in the executive summary, preferably -- how much it will cost to implement the plan, how much money it will make, and when.

A good example of this is a company that got rave reviews at a venture capital fair a few years ago. The President got on stage and introduced himself, his company, and mentioned his industry. He held up one of his widgets and explained what it went into and why that was important, then passed it out to the audience to circulate. This took about a minute. From there, he went on to explain concisely the nuts and bolts of how he planned to make money with these same widgets. He had a technical appendix to his business plan, in case anyone asked.

The point is, even technology that really is generic, with more potential applications than you can dream of, can't be sold that way. You need to start off with concrete markets, customers, and applications. If your answer to "What is it good for" is still "Everything," you've got more thinking to do.

Investors aren't convinced by great technology. Not only don't they understand it, not only can't they tell if it's really better than what everyone else has, they know it's only a small piece of what it takes to succeed. Let them assume you have great technology, then sell them on your business model, your management team, your partnerships, and your ability to execute.

Technical details are very much like having good references when looking for a job. These are important. But the resume and a strong first interview have to come first.

Think big

No investor is interested in hearing about how you can build a strong Number Two player in the marketplace. Take a look at the rapid evolution of some new industries, and witness how the leader is increasingly pulling away from the second and third tier players. Yahoo! versus Lycos, Amazon versus CDNow...

If your proposition is, "There's plenty of room for another player in this market," you can assume two things: Half a dozen other players are thinking the same way, and you'll always be doomed to be a distant second. This doesn't just apply to the Internet.

Having said that, the idea of first-mover advantage is overrated. The spoils don't go to the first mover; they go to the "first to scale." The business that first gains a critical mass of cus-
NEW MIT ENTERPRISE FORUM
CHAPTER SERVES GREATER DETROIT

By Dave Weaver
MIT Enterprise Forum of Greater Detroit

The MIT Enterprise Forum of Greater Detroit is off to a strong start in the Detroit area since it’s founding in 1999, with the chapter officially organized this spring. The organization’s mission is to serve as a catalyst between entrepreneurs and the resources they need to form a successful enterprise.

A number of educational events are planned around themes of educating entrepreneurs about what they need to know to obtain funding, and educating investors about emerging new technologies in Michigan and the Great Lakes region.

This region has over 1,000 software companies and just recently launched a $1 billion biotech initiative.

A typical chapter event was held on March 28, 2001 entitled, How Technology Startups Find Their First Customers And Build On Each Success.

The event featured a panel of local experts from start-up companies and venture capitalists to share their views on finding and creating those first strategic customers that are crucial to verifying the business proposition with investors and founders.

The chapter cooperates with other entrepreneurial organizations in the Detroit area to sponsor and promote outstanding educational programs jointly. They also support local business plan competitions, critical mass technology business events, and early stage investor organizations.

Chapter founders are: Dennis Nash - Chairman, President, Market Results; Brian Lasher, Vice President, Taubman Asset Group; Milton Roye, VP Sales, Newcor; Fred Reinhart, Director, Technology Transfer Office WSU; Tom Woodman, Producer, metrotimes.com; Phil Yu, Finance Manager, Ford Motor Company; David Weaver - Vice Chairman, President, Aimattech Consulting; and Bill Wischman, Senior Consultant, Aimattech Consulting.

Corporate sponsors that helped launch the chapter are: Aimattech Consulting (http://www.aimattech.com), M Group (http://www.mgroupinc.com), Safford & Baker (www.saffordbaker.com) and Wayne State University (http://www.wayne.edu).

The chairman and chapter steering committee are focused on supporting new technology startups. In addition, they will concentrate on successful technology growth by building resource collaboration locally, nationally, and internationally.
BUSINESS PRESENTATIONS THAT GET AN INVESTOR’S ATTENTION

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tomers, partners, and resources is the one that will succeed. Don’t evaluate an idea based only on whether your team can simply be the first to create a brochure or put up a Web site.

Also, don’t count out an industry for entry simply because a first mover already "owns" that space. If you think you can acquire key customers or partners that your potential competitor has not, their first-mover advantage is possible to overcome.

Start-ups sometimes need to think bigger than they are. That may mean giving up control and eventually letting someone else run the company.

One example was a company that was started by two twenty-something lawyers. They would have evaporated quickly, had they not let an advisor join the company with a significant equity stake. A few years later, the founders were Vice Presidents in an extremely promising company. They moved headquarters twice to accommodate other partners.

A less successful example of the same principle is a company that didn't see beyond the United States. One venture capitalist mentioned to a colleague of his he might have an interesting investment. He was impressed by the business plan, but less so by the response the founders had to manufacturing electronic components in Asia. They had a brief chat after the event, which sealed their fate. The venture capitalist decided these former government contractors were great technologists with a great idea, but that it would be too much effort to convince them to do this on the scale required to be successful.

The way a company comes back from criticism says a lot about its viability. Companies that are defensive about criticism really hurt their credibility. Companies that take criticism constructively and come back credibly with a thoughtful response and are willing to capitalize on the advice tend to be the same companies that do well in the long run.

Practical tips

So now you understand a bit more about the psychology of presenting your business idea to investors or prospective business partners. Let's make this less abstract, and look at a few ways to make your presentation as effective as possible.

1) Get to the point. Your investment presentation should have no more than 10 to 12 slides, with each slide having a singular purpose. Here's an overview of what to cover, in a succinct fashion:
   - the nature and focus of the company;
   - the product;
   - the strengths of the company's product and its position in the market;
   - the advantages of the company's product over those of its competitors;
   - the overall business plan of the company (i.e., its projected summary financials);
   - why the company is best suited for executing the business plan;
   - how much money the company needs and why it needs it;
   - the principles of the company and how much they have invested in the company (either through cash or sweat equity);
   - the general investment terms;
   - the prospects for exiting the investment (i.e., the time frame for exit and when exit might occur); and
   - prior investors and/or board of advisors.

2) Don't be Pinocchio. Contrary to popular practice, candor is an excellent strategy for convincing investors to invest. From an investor's perspective, being unable to trust the management to tell it like it is and to have good insight into the future can be deal-breakers. Imagine what it would be like if you could not trust a bank to tell you the truth about your deposits... would you deposit your money there?

The same is true for firms seeking outside investment. There must be mutual trust between the investor and the investment's management. It is also true that an investor who does not display candor will create trouble for the investment later on down the road.

3) Be convincing. Typical investor presentations and business plans are filled with statements that draw conclusions. Those kinds of statements, however, will not convince a good investor that the company management knows what it is talking about. Instead of making these generally conclusive-sounding statements, make a cogent argument to support each of the fundamental premises of any investment. That's important as you go from one round of investment to the next. After all, if you can't convince your first investors, that same investor knows you won't be very convincing to the next round of investors, either. You're done before you've even started.

4) Show some charisma. Don't put the investor to sleep. Be alive and entertaining. They not only want to make money, they want to have fun doing it. They want to be excited about the company, its products, and management. So, get them excited.

MITEF learned these lessons through years of listening to and critiquing business presentations. Some were successful; some were not. You have the advantage of learning them all at once. Put them to work, and get the best possible start at turning your great idea into a thriving business.
He received his B.S. in Chemistry from MIT in 1971, and his MBA with Distinction from Harvard Business School in 1973.

Burt Rubenstein -- Managing Director, YankeeTek Ventures -- is a senior technology executive with more than 25 years experience applying information technology to solve business problems.

He was a founding partner and Chief Technology Officer of Internet Business Advantages (since acquired by ServiceSoft/Broadbase Software), a professional services company that employs Internet technology to create strategic business advantages.

He was Chief Technology Officer at Cambridge Technology Partners, a systems integration firm heavily involved with the emerging client-server market. He helped lead the growth of CTP from a 120-person niche shop to a 1200-person industry powerhouse.

In 1983, he co-founded Index Technology Corporation, an early leader in the Computer Aided Software Engineering (CASE) field. As Vice President of Research and Technology, he led Index Technology in introducing major new software products as well as growing the company to a 350-person $35 million dollar corporation. He also held executive positions at Groupe Bull, a leader in CASE technology.

He received his SB degree in Management from the MIT Sloan School of Management in 1976.

Satellite Broadcast Series
The MIT Enterprise Forum Satellite Broadcast Series includes three programs each year for entrepreneurs and investors.

The Satellite Broadcast Series for 2001-2002 academic year will include broadcasts on Tuesday, September 11, 2001; Thursday, January 24, 2002; and Wednesday, June 5, 2002.

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