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# REPORT ON BUSINESS

↓	↓	↓	↑
<b>S&amp;P/TSX</b> 11,826.44 -39.32 Energy stocks lead first decline in four sessions	<b>DJ Ind.</b> 11,069.06 -46.26 Interest rate worries undermine blue chips	<b>Nasdaq</b> 2,262.96 -19.40 Chip stocks drop as Citigroup cuts recommendation	<b>Dollar</b> 87.18c (U.S.) Unchanged Rate concerns in U.S. and Canada squeeze loonie
			<b>Gold</b> \$556.60 (U.S.) +2.00 Renewed inflation concern underpins bullion gain



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## VENTURE CAPITAL

### The 10 Ways Startups Are Like Marriages



SEAN WISE  
WISE WORDS

Previously in this column, we discussed how the Talmud's guide to picking a life partner can also be used when choosing a business partner. We've spoken extensively about how the metaphor of courtship can be applied to raising private equity and even outlined the first date questions you should be prepared to address when meeting potential investors. Clearly marriage as a metaphor for startups is one that I like however, up until last week, I thought I was alone in my beliefs. Then came a speech by David Lawee and Lorna Borenstein, who were in Toronto to give a keynote address to the Canadian Venture Forum (CVF). Their topic, you ask? The Ten Ways that Startups are like Marriages.

As one of technology's and Canada's greatest power couples, David and Lorna's advice is invaluable, as CVF's brochure trumpeting their arrival elaborated. One of the most powerful couples from Silicon Valley come back home to Canada to share with the CVF what they've learned about making a startup successful and how such relates to marriage, and they should know. David is currently a VP at Google, a former leading Canadian VC, and a multiple exit founder (his latest being Xfire, acquired by Viacom for more than \$100M). Lorna is a top gun formerly with HP, eBay and now senior VP at Yahoo. They have been married for 14 years. This power couple will be discussing how the principles of marriage can be applied to increase the probability of you building a successful startup.

Post keynote, I sat down with the power couple to explore their topic and so without further ado, here are Lorna and David's Ten Ways Startups are like Marriages.

#### 1. Passion Above All Else

David talks about the misconception that a team must be

smarter or aicala technology revolutionary for a startup to succeed. In his experience however, the foundation of both a solid marriage and fast growing startup is built on passion. "The mantra in the VC community has always been to invest in proven entrepreneurs. The problem is if you apply that principle you would not have invested in any of the most successful Internet companies to date. eBay, Google, Yahoo, MySpace, CraigsList, FaceBook and YouTube were all started by first time entrepreneurs, with little to no business experience."

The real question an investor or entrepreneur should be asking is "will this create passion: in our staff, potential funders and most importantly in our end users and customers?" This harkens me back to the often misunderstood 10x rule in venture capital, specifically speaking, only invest in those ventures whose product is 10x better, 10x faster, 10x more secure or 1/10th the cost of others in the market. The reason why 10x is needed and passion is required is simple: changing a market, much like changing the world, is extremely difficult and without a burning passion, you, your staff, investors and customers, will not have the requisite will to persevere and demand success.

#### 2. The Neighbors Gossip

Lorna shared how the days of your business being your business are now long gone, on both a personal and corporate level. In today's transparent blog infatuated world, a company cannot sneeze without their customers saying "bless you." Lorna dubbed this "Word of Mouth 2.0" and discussed extensively how in the new millennium there are no barriers to distribution of communication. According to this former head of eBay Canada:

"Word of mouth is nothing new but the internet has amplified this sphere of influence. Passionate advocates are prolific opinion providers who are twice as likely to share their opinions with others. What's more, these advocates have wider online social circles and are now empowered to share their opinions on FlickrR, Delicious, mybloglog etc., thereby disproportionately growing positive brand awareness and driving revenue."

Long gone are the days when companies were able to use PR firms and the media to spin key messages. According to Borenstein, the user today owns the message. Lorna suggests that entrepreneurs turn this potential threat into a viable opportunity, by engaging their "neighbors" in an open dialogue on material issues. In this way, consumers can be transformed into prosumers and end users into evangelists.

#### 3. Remember What Makes Her Happy

Although the audience humorously expected David to comment on the need to keep his wife happy, it was actually Lorna who pounced on this point by discuss-

ing her colleague, Caterina Fake, another former Canadian resident now living in the Valley and member of a power couple (Caterina founded the photo sharing community Flickr, later acquired by Yahoo, with her husband).

Lorna tells us that Caterina often describes a culture of generosity, as being at the heart of Flickr's meteoric rise in adoption globally. Lorna then shared statistics to support Caterina's belief that mavens (i.e. empowered advocates, as defined in Malcolm Gladwell's *The Tipping Point*) are disproportionately empowered. According to her research, mavens are twice as likely to talk to others and almost always have broader reach. Entrepreneurs should therefore, spend a disproportionate amount of time focusing on keeping these key individuals happy, just as David should spend a disproportionate amount of time keeping his Lorna happy.

#### 4. Put the Toilet Seat Down

Both sides of the power couple felt that it was necessary to remind the audience to be extremely respectful of their end users and to solicit feedback from such whenever possible, preferably before undertaking actions that might affect their experience. Lorna and David encouraged founders to engage with both their customers (those who pay) and their end users (those who use), before going to market. They also spoke of the need to establish a feedback loop or echo chamber, before implementation or product launch.

Lorna even shared a story from her days as the head of eBay's Fashion category, on how her internal team decided to make major changes to the categorization system of jewelry. It was only when they established a dialogue with key users, however that they were able to get the changes right. By listening to their end users, they were able to preclude the disaster that would have struck had they implemented the original changes.

#### 5. Set Life Goals Together Early

Investors and Entrepreneurs when aligned can be a powerful force. However when the collective party interest diverts, problems can emerge. David spoke of the need to see the exit early on and establishing the exit, as a common goal among all stakeholders. Subsequently, he warned of issues that arise when an investor and founder have different definitions of "win."

This issue has become more apparent in venture capital as of late, as capital efficient startups are enjoying offers of \$30M buy outs, which unfortunately fail to satisfy the VCs need for a 10x ROI, but do satisfy the founders' need to be millionaires.

Once again, we find here that it is not hard to draw an analogy with marriage. One need only contemplate retirement to see what would happen if husband and wife were misaligned from

the beginning. Imagine you are about to be married and your wife says, "I can't wait to work for another 10 years and then move to Africa to live off of the land." This might come as a shock to you, if you had not set your life goals early and together. If for example, you wanted to retire in Florida and fish, you can see the potential issue. David suggested that founders, like married couples, jointly set goals and expectations early on to avoid these issues.

#### 6. Be Prepared to be Wrong, A Lot

This point seemed to resonate with most of the male entrepreneurs in the audience, especially those who are married. David relayed how every startup evolves as it goes to market and that a vested interest in the outcome is more critical than one in the process. He comments that founders too often get hung up on the "how?" and neglect the "what?" and the "why?" Instead David suggests "Be ready to be wrong, a lot. But when you are wrong, say sorry, and move on. The ending is more important than how you got there, and definitely more important than whose idea it was."

David shared his experience at Xfire and discussed how in the end they profited most from skunk-work projects and not from their main go-to-market tool. As an additional example, one need only to look at Viagra. A medication that started out as therapy for the heart, ended up being a success elsewhere.

#### 7. Share Your Wealth

Focusing on "What," not "How" was revisited when the couple discussed No. 7. They both emphasized the need for transparency and goal setting, regardless of an organization's size. Lorna instructed how fiscal management can be implemented, by illustrating how she and David grant vacation allowances to their kids.

The parents of three grant each child a per diem while on vacation. The kids can then either spend their money daily or accumulate it for use in the future. Lorna discussed how she uses the same technique at Yahoo, by granting managers budgetary discretions and making them solely responsible for its use. She shared how this led to group savings across the organization, by creating managers who felt personally responsible for their costs.

In both her business and family lives, Lorna evangelizes one more key point on this topic, NO ADVANCES says this mother of three. According to this senior VP from Yahoo, once kids or staff see that more funds can be accessed, their sense of "make do with what you have" vanishes: "At home and at work, I have found that when resources are finite, resourcefulness is infinite."

#### 8. Do Not Ignore Estate Planning

Early on in a marriage a couple often feels invulnerable. They feel like they do not have a care in the world and that anything is

possible. Then comes children and parents begin to focus on mitigating potential negative outcomes. This is often when wills are drawn up and estate planning ultimately rears its ugly head.

This too can be an issue for founders at seed stage ventures, says David:

"It's a real challenge to decide when to let go. Its not obvious that the person you bring in, while typically more experienced is actually going to do a better job. I can't imagine what Google would have become if Larry or Sergey had given up the reigns. Having said that, there are very few Larry and Sergey's. Most founders early on are often unable to imagine not leading the company they founded. The truth is however, that it is the exception more than the rule when CEO founders are able to take a company through the entire life cycle to a successful exit."

In fact, Founderitis, the disease that clouds a founder's mind into believing that only they can lead their venture to success, is often cited as one of the leading causes of startup failure.

According to Lawee, now head of Google's global marketing team, the key to ensuring that you do not get bogged down by founderitis, is to charge the founders themselves with finding their replacements, which will ensure a buy in and increase the likelihood of a smooth transition. Lorna agrees with her husband (at least on this point), piping in that "Losing the General shouldn't cost you the war."

#### 9. Hurry Up!

David's last point, (footnote: he thought that there would be only 9), was that startups need to focus on going fast over getting it right. The analogy, although strained, loosely translates to marriage if one has ever had to wait patiently while your partner gets ready to go out to the theatre. One only has to ask if the evening would really be ruined if you wore the blue dress instead of the black one more than if as a result of indecision you both were simply too late to make the curtain call?

David reminds us that in the current rapid economic cycle, it is more important to build your product in a constant state of revision and flux, than to build it behind closed doors and then release it. Excessive time spent on thinking must be revised so that more time is spent executing. After all, you cannot enjoy a night out with the wife, if she is still at home getting ready.

#### 10. Discipline Early On Carries Forward Later On

While David was content finishing with No. 9, Lorna was determined to have the last word. She reminded the entrepreneurs in the audience of the need to set the tone and culture early on. "What happens in the early stages carries forward throughout" explained this Top 40 under 40 former Montréal resident.

Lorna illustrated this point by revisiting the issue of kids and vacations. She shared how the values and discipline she and

David instilled in the children early on had a positive impact on their behavior years later:

"When the children were small the first words out of my mouth each time we stepped foot into a beautiful hotel on vacation were, 'Kids, how many days would you have to work to be able to afford to stay here?' The kids would work through the math with me and equate hours of labour to the privilege of the stay. Now that they are older, it is a big family joke, and each time we enter a hotel lobby they say to me, 'Mom, do you realize how many days work it takes to afford this place?' Clearly the lesson stuck and our family culture is one that appreciates beautiful things and what they cost."

David, not content to let his wife have the last word, shared his own experiences on this point and spoke of the need to hire smart early on and focus on creating a team with a shared culture from the get go. He suggested that the first 10 employees set the tone and culture from there on out. Borenstein, not content to let her husband have the last word piped in with a final pithy and insightful quote "A fish smells from the head down."

#### The Bottom Line

What started out, as a charming metaphor for investment, also seems to ring true for startups and marriage. The commonalities are manifest, as both require hard work, dedication, wisdom, vision, understanding, open communication and most importantly passion. My mother, Beverly Wise, a leading entrepreneur in her own right, has always said the hardest job you will ever have is being a spouse and parent. I've always said, being an entrepreneur is the hardest job (possibility because I've yet to be parent or spouse). However after listening to David and Lorna discuss parenting, marriage AND entrepreneurship, I'm now thinking that my mother and I may both be correct which serves as proof for one last truism, mother still knows best!

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