

Part Three

The Founder and Team

Effective Lead Entrepreneurs are:

Able to build a culture around the

- Business mission
- And the brand
 - By rewarding success
 - Supporting honest failure
 - Sharing the wealth with those who helped to create it
 - Setting high ethical standards of conduct

Chapter

9

The Entrepreneurial Leader and the Team

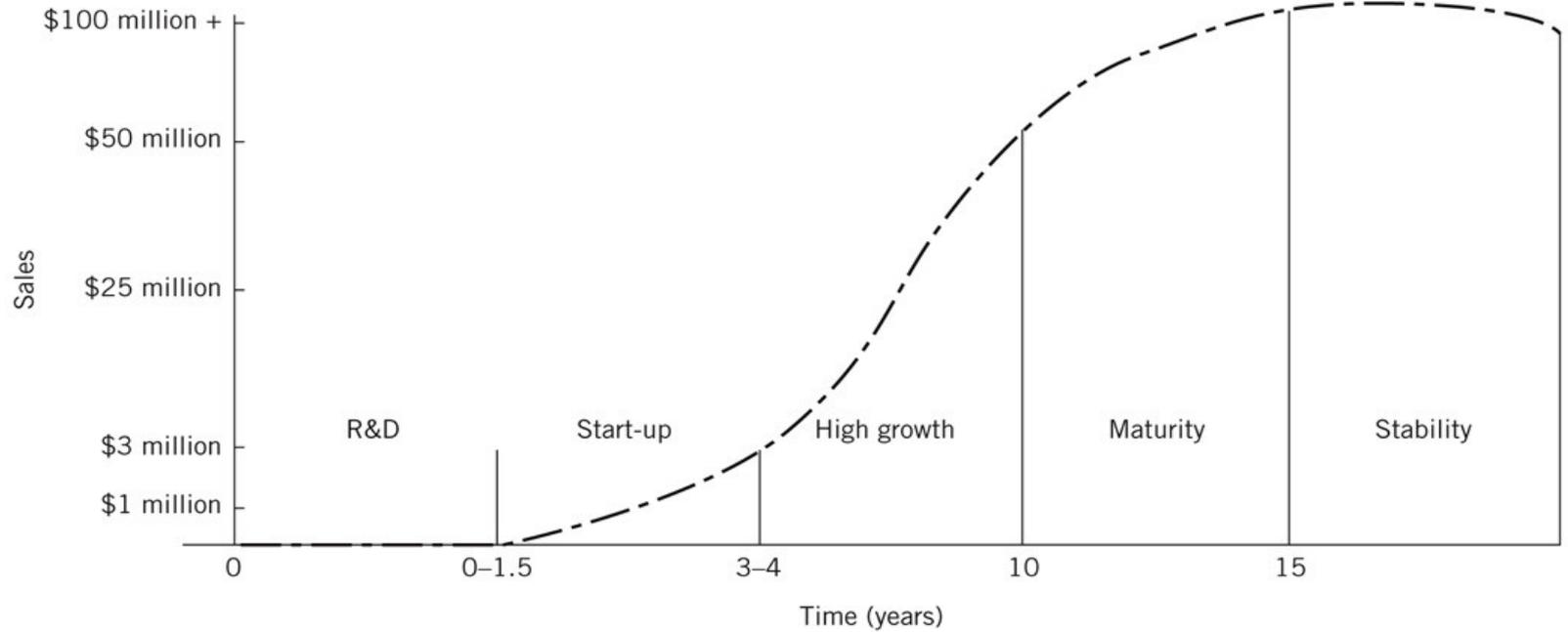
ninth edition
**NEW
VENTURE
CREATION**

Entrepreneurship for the 21st Century

Stephen Spinelli, Jr.
Robert Adams

EXHIBIT 9.1

Stages of Venture Growth, Crucial Transitions, and Core Management Mode



Crucial transitions:

Sales	0-\$5 million	\$5 million-\$15 million	\$10 million-\$25 million+
Employees	0 to 20-25	25-75	75-100+
Core management mode	Doing	Managing	Managing managers

EXHIBIT 9.2

Entrepreneurial Transitions

Modes/Stages	Planning	Doing	Leading	Leading Managers
Sales	\$0	0–\$5 million	\$5 million–\$15 million	\$10 million or more
Employees	0–5	0–30	30–75	75 and up
Transitions	Characteristics: Founder-driven Wrenching changes Highly influential informal advisor Resource desperation Very quick or very slow decision making	Characteristics: Founder-driven creativity Constant change, ambiguity, and uncertainty Time compression Informal communications Counterintuitive decision making and structure Relative inexperience	Probable crises: Erosion of creativity of founders Confusion over ambiguous roles, responsibilities, and goals Desire for delegation versus autonomy and control Need for organization and operating policies	Probable crises: Failure to clone founders Specialization/eroding of collaboration versus practice of power, information, and influence Need for operating controls and mechanisms Conflict among founders

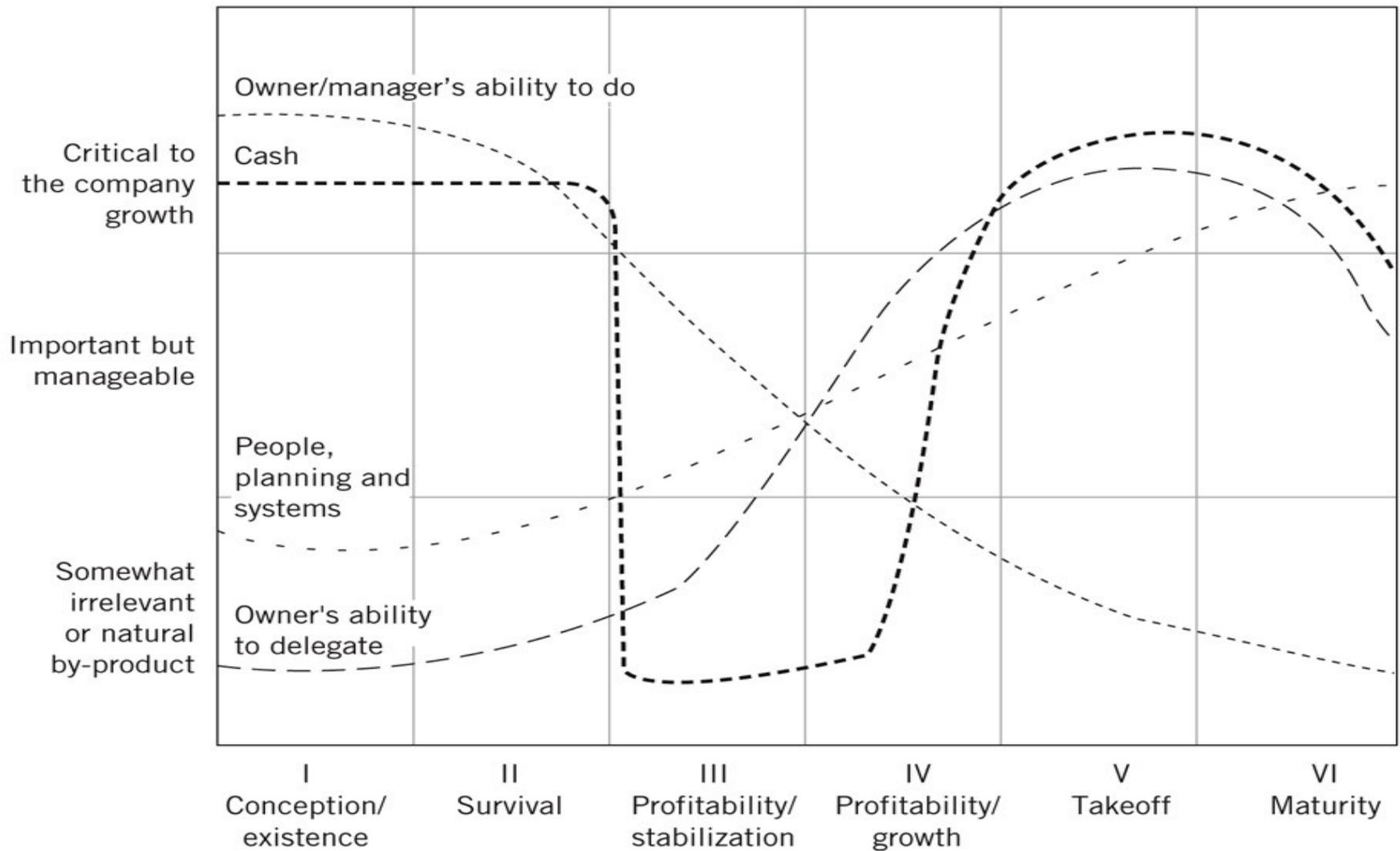
EXHIBIT 9.3
Characteristics of Five Companies, Ranging from Most to Least Entrepreneurial

Companies Studied					
	Chipco	Radco	Medco	Finco	Utico
Percentage of Effective Managers with Entrepreneurial Accomplishments	71%	69%	67%	47%	33%
Economic Trend	Steadily up.	Trend up but now down.	Upward trend.	Mixed.	Downward trend.
Change Issues	Change normal; constant change in product generation; proliferating staff and units.	Change normal in products, technologies; changeover to second management generation with new focus.	Reorganized 2-3 years ago to install matrix; normal product and technology changes.	Change a shock; new top management group from outside reorganizing and trying to add competitive market posture.	Change a shock; undergoing reorganization to install matrix and add competitive market posture and reducing staff.
Organization Structure	Matrix.	Matrix in some areas; product lines act as quasi divisions.	Matrix in some areas.	Divisional; unitary hierarchy within division; some central officers.	Functional organization; currently overlaying matrix of regions and markets.
Information Flow	Decentralized.	Mixed.	Mixed.	Centralized.	Centralized.
Communication Emphasis	Free, horizontal.	Free, horizontal.	Moderately free, horizontal.	Constricted, vertical.	Constricted, vertical.
Culture	Clear, consistent; favors individual initiative.	Clear, though in transition from invention emphasis to routinization and systems.	Clear; pride in company; belief that talent will be rewarded.	Idiosyncratic; depends on boss and area.	Clear but undergoing changes; favors security, maintenance, and protection.
Emotional Climate	Pride in company, team feeling, some burnout.	Uncertainty regarding changes.	Pride in company; team feeling.	Low trust; high uncertainty.	High uncertainty, confusion.
Rewards	Abundant; visibility, chance to do more challenging work in the future, and get bigger budget projects.	Abundant; visibility, chance to do more challenging work in the future, and get bigger budget projects.	Moderately abundant; conventional.	Scarce; primarily monetary.	Scarce; promotion and salary freeze; recognition by peers grudging.

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EXHIBIT 9.4

Management Factors and Stages



Other Leader Competencies

Marketing

- Market research and evaluation
- Marketing planning
- Product pricing
- Sales management
- Direct selling
- Service management
- Distribution management
- Product management
- New product planning

Other Leader Competencies

Operations/Production

- Manufacturing management
- Inventory control
- Cost analysis and control
- Quality control
- Production scheduling and flow
- Purchasing
- Job evaluation

Other Leader Competencies

Finance

- Raising capital
- Managing cash flow
- Credit and collection management
- Short-term financing alternatives
- Public and private offerings
- Bookkeeping, accounting, and control
- Other specific skills

Other Leader Competencies

Entrepreneurial Leadership

- Problem solving
- Communications
- Planning
- Decision-making
- Project management
- Negotiating
- Managing outside professionals
- Personnel administration

Other Leader Competencies

Law and Taxes

- Corporate and securities law
- Contract law
- Law relating to patent and proprietary rights
- Tax law
- Real estate law
- Bankruptcy law

Other Leader Competencies

Information Technology

- Information and management systems tools.
- Business to business, business to consumer, business to government, all via the Internet
- Sales, marketing, manufacturing, and merchandising tools.
- Financial, accounting, and risk analysis and management tools.
- Telecommunications and wireless solutions for corporate information, data, and process management.

Slicing the Founder's Pie

How much stock ownership should go to whom?

- Share the wealth with those who help to create the value and thus the wealth
- Realize a harvest of at least 5 to 10 times the original investment
- Make sure the company prospers and grows thus creating a huge, shared pie

Consideration of Value

- Idea
- Business plan preparation
- Commitment and risk
- Skills, experience, track record, or contacts
- Responsibility

EXHIBIT 1

Classic VC Investing Process

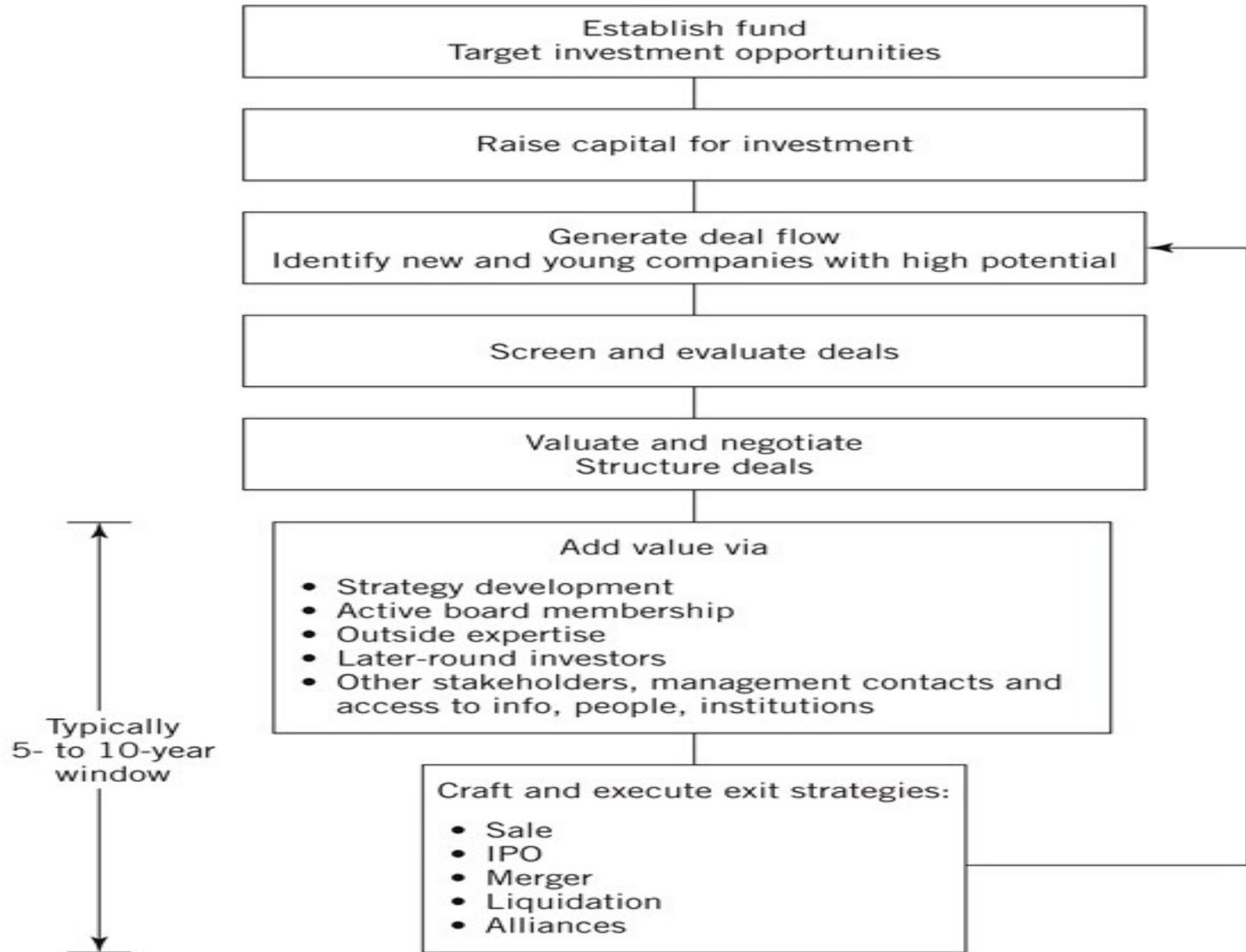
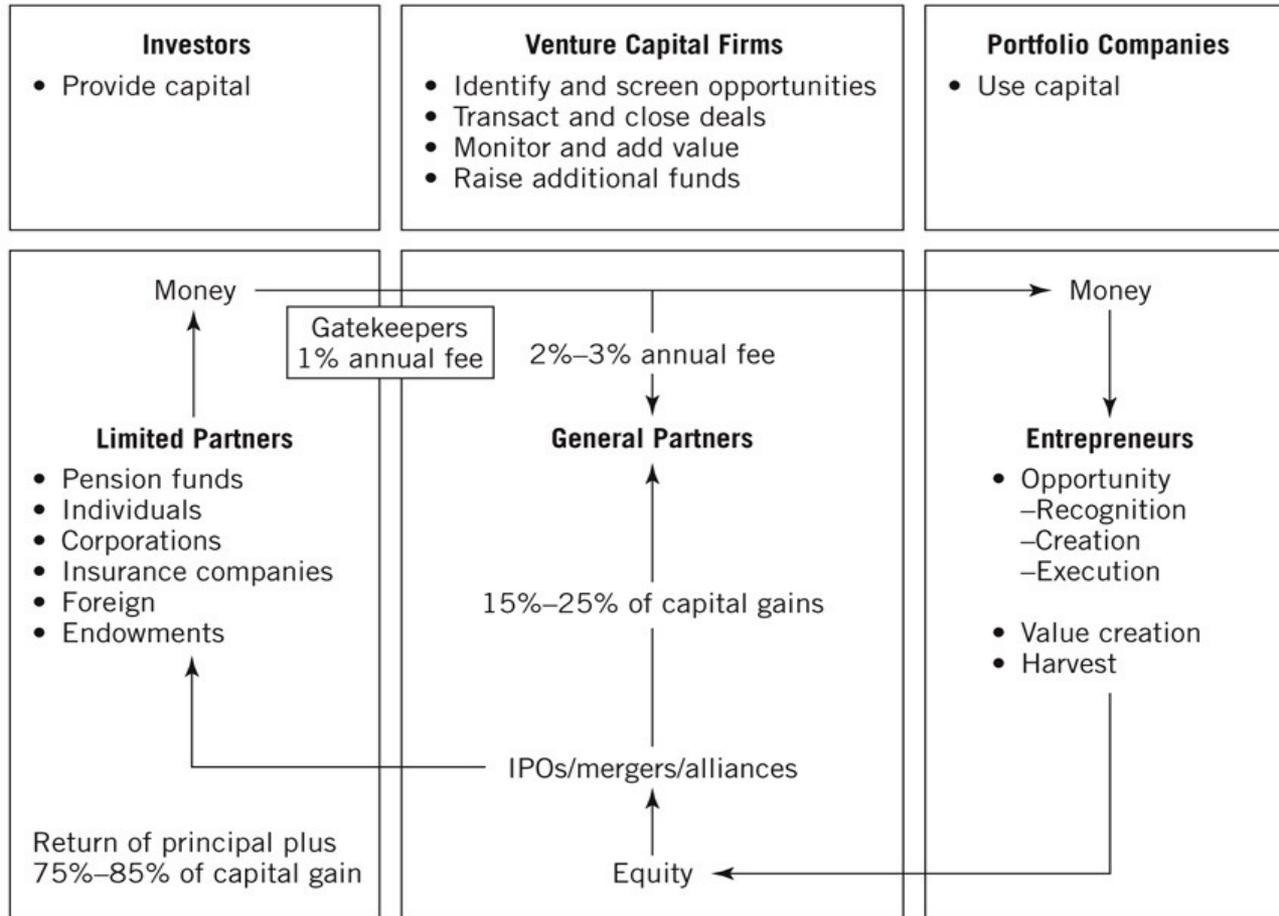


EXHIBIT 2

Flows of VC



Note: These exhibits are discussed further in Chapter 14, Obtaining Venture and Growth Capital.

EXHIBIT 3**Funds, Fund Commitments, and Average Fund Size**

Year/Qtr	Venture Capital				Buyout and Mezzanine			
	First-Time Funds	Total Funds	Average Fund Size (\$mil)	Total Raised (\$billions)	First-Time Funds	Total Funds	Average Fund Size (\$mil)	Total Raised (\$billions)
1994	25	138	56.5	7.8	31	103	202.9	20.9
1995	36	155	63.9	9.9	32	105	253.3	26.6
1996	54	163	74.2	12.1	38	112	300.9	33.7
1997	79	232	76.3	17.7	39	140	355.7	49.8
1998	82	277	109.7	30.4	42	166	386.1	64.1
1999	146	424	139.5	59.2	44	157	410.8	64.5
Q1 2000	45	165	132.1	21.8	9	42	300	12.6
Q2 2000	51	183	168.3	30.8	10	50	212	10.6

Source: National Venture Capital Association (http://www.nvca.org/nvca2_11_02.html).

EXHIBIT 4

Due Diligence on New Funds

The Business

What is the overall strategy?

Is there a market opportunity, and can it be executed in the current market environment and during the expected commitment period?

Has the team articulated a strategic and operating business strategy for portfolio companies?

Do they have a viable exit plan?

Probably most crucial: How has the general partner group demonstrated that they will be able to add investment value to their portfolio companies?

The Team

Do the general partner and the team have the requisite private equity investing experience and resources to execute the strategy?

Will the team have access to deal flow within the stated strategy?

Is the team stable?

Has the team worked together before?

Do they have a common view as to how they will run the businesses?

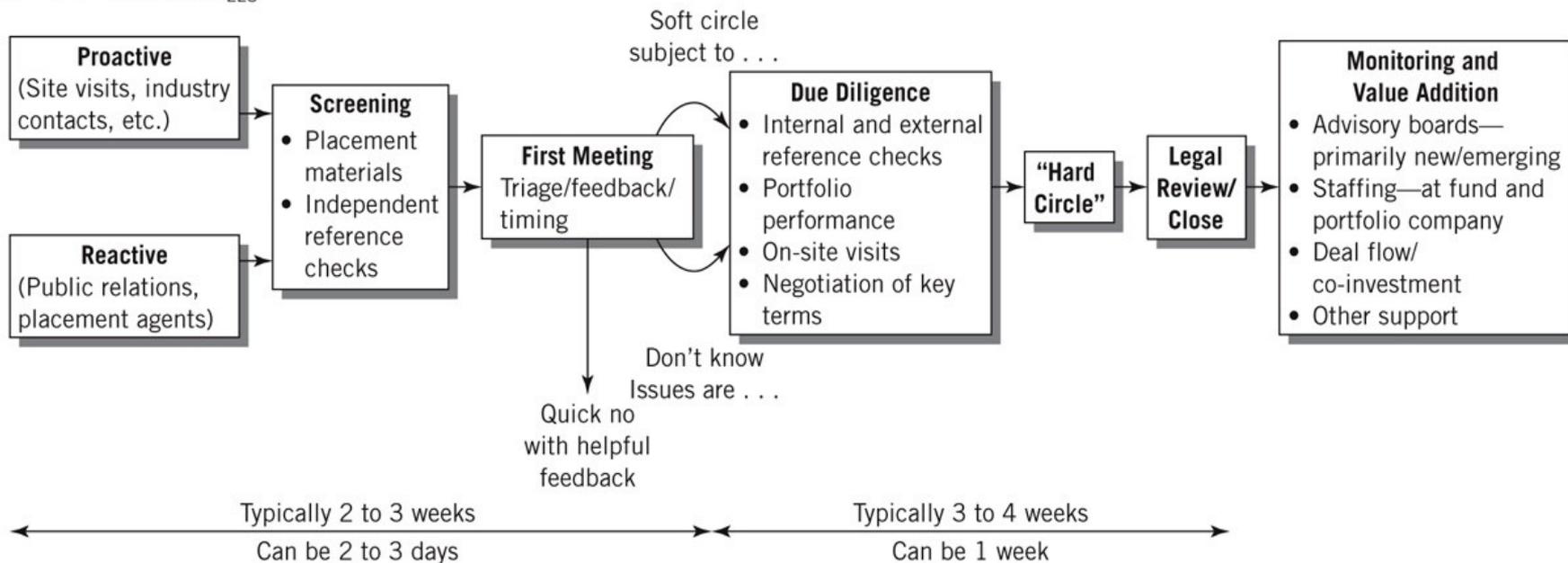
Do they have a meaningful track record in the stated strategy?

EXHIBIT 5

GSA Evaluation Process



GSA EVALUATION PROCESS



In style and substance similar to that of a first-class private equity firm

- Over 85% of GSA's relationships initiated proactively
- Most due diligence via GSA's proprietary contacts
- Virtually all meetings conducted by GSA's partners
- Usually a quick answer with clear helpful feedback

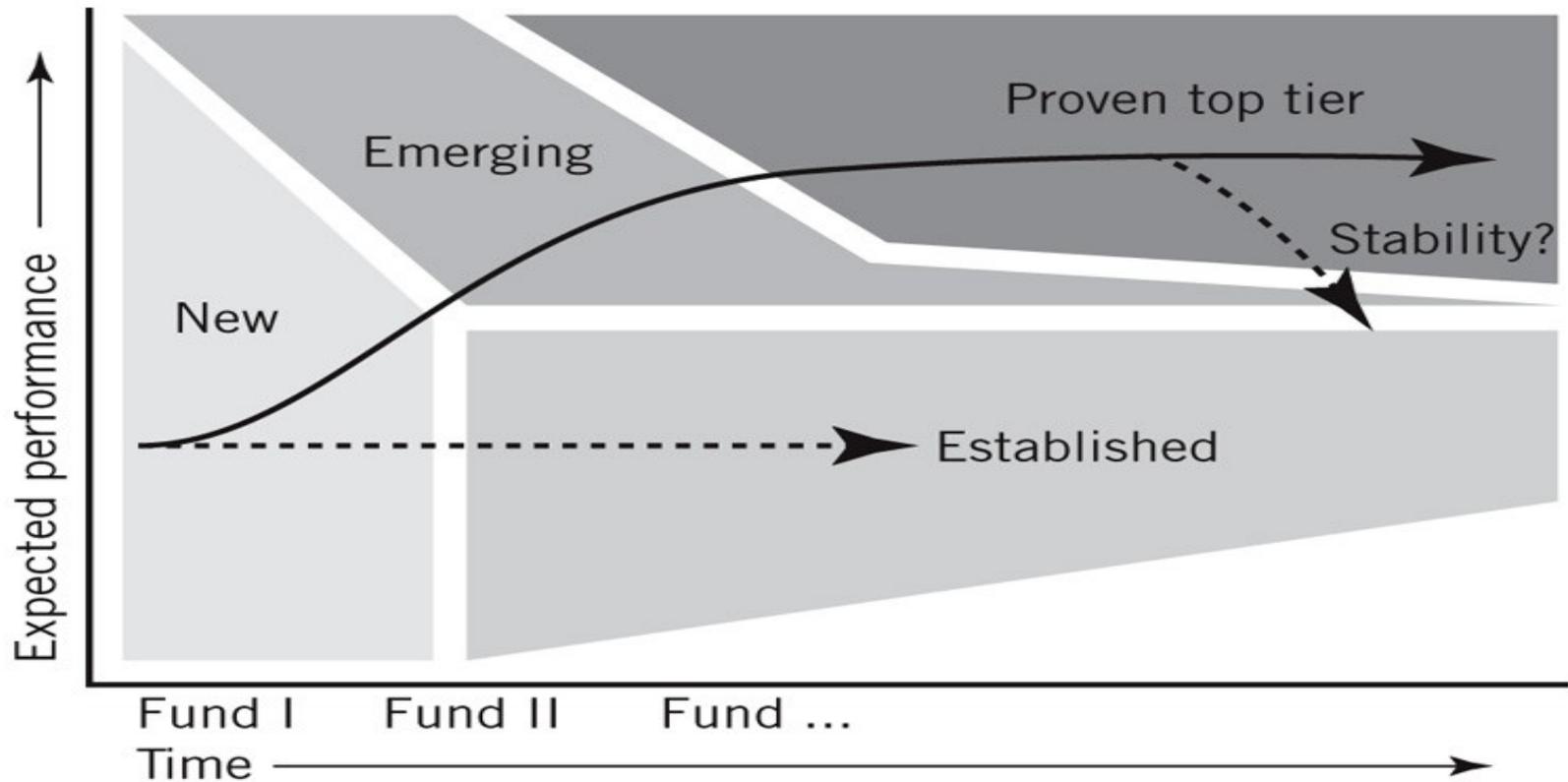
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EXHIBIT 6

Life Cycle of Private Equity Managers



LIFE CYCLE OF PRIVATE EQUITY MANAGERS



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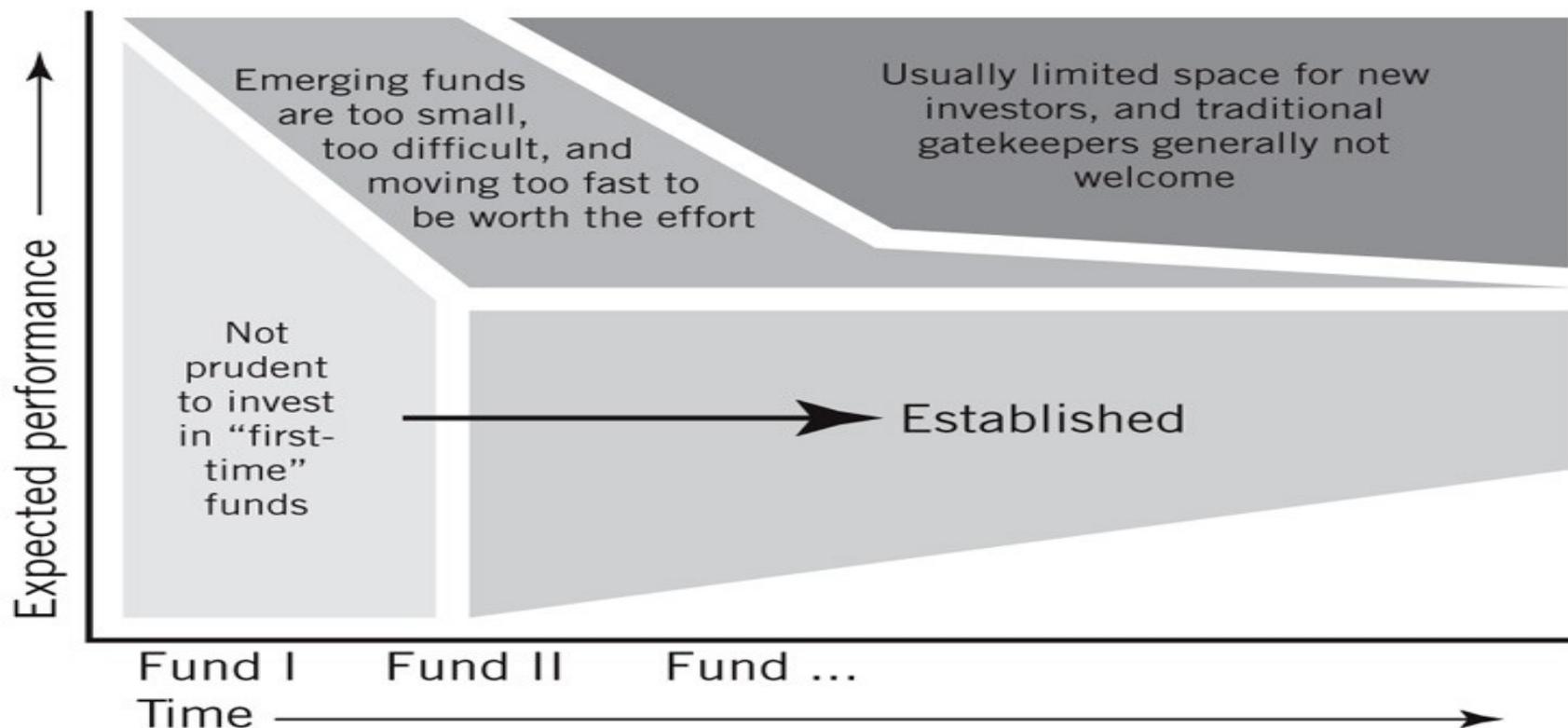
EXHIBIT 7

Gatekeeper Dilemma



TRADITIONAL GATEKEEPERS

ARE ALMOST FORCED BY POLICY TO INVEST WITH LOWER-POTENTIAL TEAMS



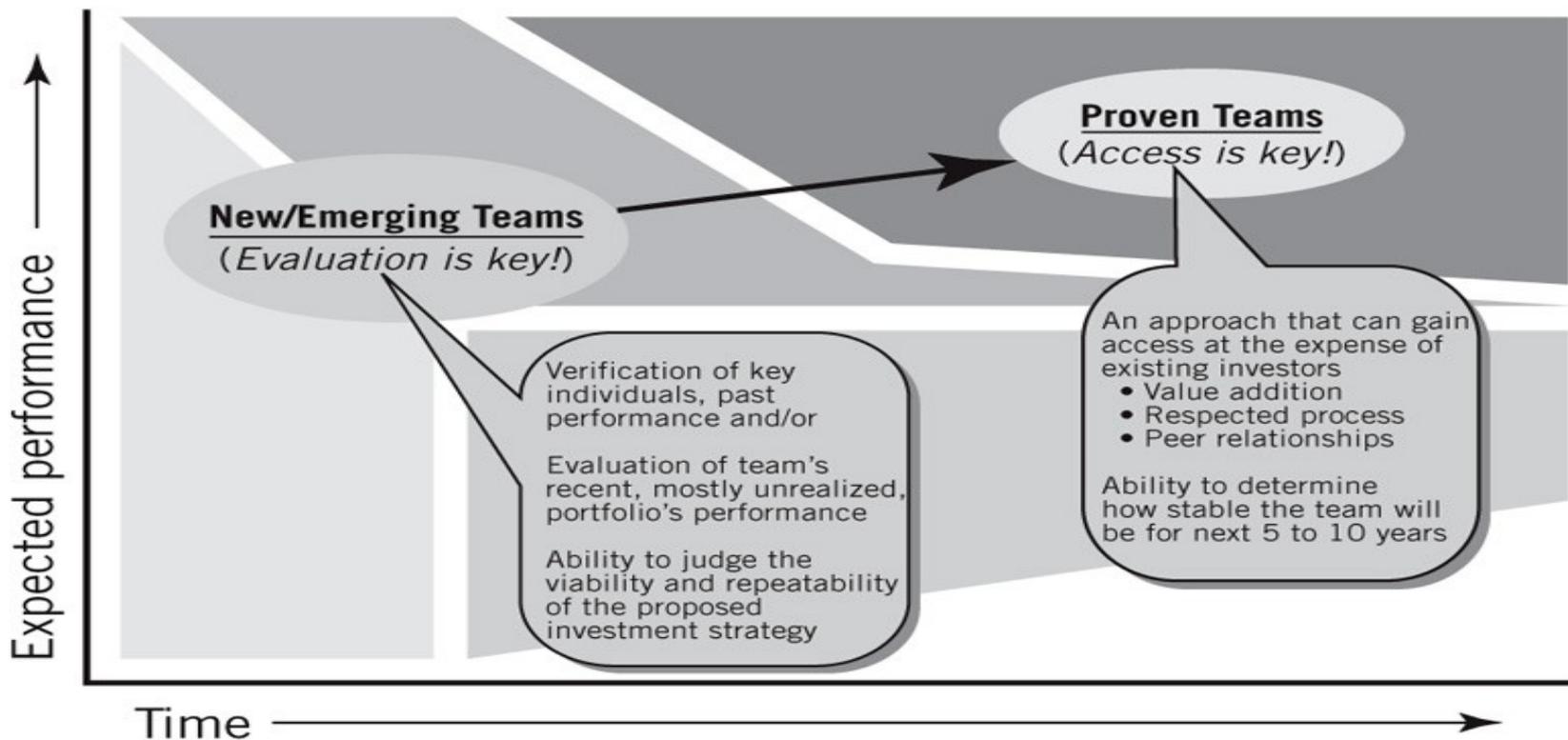
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EXHIBIT 8

Critical Issues and Development Stage



THE CRITICAL ISSUES VARY BY STAGE OF DEVELOPMENT



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Agenda—Introduction and Strategy Session

All connected to the same rope

Date: July 21, 2000

Vincent Martinez - Roy's Contract

9:00 a.m.

Introduction

- Progress to date - Team / Research / LPs /
- Team introductions - Detailed / Worst trouble...

10:30 a.m.

Discussion of fund strategy

- Brandon MKT → Service, buying, located / Basket for General other Deals
- Fund size - \$150M (→ \$200M 1/16/00)
- Deal stages - Growth Equity → Buyouts
- Industries - Focus on int. of strong & prospects
- Geography - Midwest presence - access to deal flow
- Deal flow - Growth equity → Buyouts
- Portfolio company management - style / 2 per BOB
- Side fund - Charles Tribbett / top of executives / operating affiliates → Second side fund

11:30 a.m.

Firm operating philosophy

- End product → View of the firm and internal culture
- Management philosophy - Open / all-hands, all-eyes / veto / No. any partner
- Roles - 1-2 Admin / AM - LP, EMS, banks, etc / All. PR resp.
- Decision making - consensus
- Due diligence - set parameters / evolve over time
- Partner meetings - format
- Portfolio management - 1 lead, 1 backup

12:30 p.m.

Review draft budget - startup

Timing

12:45 p.m.

Discussion of fund-raising strategy

- First close goals -
- LP targets and amount for first close - who / if amounts
- Placement agent? - see notes from Wanda

1:30 p.m.

Open issues for the team

- How do we get to a decision on whether to do this - timing / concerns / additional info needed

2:00 p.m.

Next steps

Strategic Partner

- Decision on doing it with or without Wind Point = Financial - startup capital = continuity and timing of close = how? why for what we don't see
- Timing for other decisions
- PPM draft—need team resumes and track record info
- Side fund—executive recruitment
- Pick counsel—for mgmt company, GP&LP documents
- Negotiate economics - offer w/ each individual and come back w/ proposal to the 3 of us
- Start-up logistics - who / when / location / steps
- Firm name? - input...

EXHIBIT 10

Start-Up Estimates

October 2000 to October 2001

Variable Expenses

Salaries	90,000 ¹
Legal	44,000
Travel	20,000
Rent	62,500 ²
Phone	10,000
Postage and printing	14,000
Meals	10,000
Entertainment	20,000
	<u>\$270,500</u>

Fixed Expenses

Computers/networking/printers	40,000
Phone system	20,000
Office supplies	5,000
Office furniture	50,000
	<u>\$115,000</u>

Total start-up expenses \$385,500

¹ Salaries: Three partners @ \$40,000 each. Half salary for six months.

² Rent: 2,500 square feet @ \$25/sf.