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GOOD INTENTIONS BUT BAD ADVICE

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Quick Summary: Listen to the advice from individuals with applicable experience, then decide to follow it or not.

Abstract:

Entrepreneurs and new CEOs will receive lots of "help" from well-meaning people who "know" exactly what they should do. Often, it is good advice, but, unfortunately, it is often bad advice! Only in hindsight will it be obvious which was correct. It is important to seek help from individuals that have first-hand experience in your similar situation. Although the success equation has the same components for every organization, what to emphasize and when to do it varies widely.

We have all heard the old proverb that: "The road to hell is paved with good intentions." For an entrepreneur or new CEO, an equally applicable saying might be: "The path to failure is listening to bad advice from people with good intentions." With the exception of competitors, virtually everyone you meet will want to help you become successful. They will give you advice and make suggestions that they truly believe are in your best interest. Unfortunately, they cannot know your business as well as you do, and their experience may not at all be applicable to you or your situation. A good example of this is a high-level executive in a large corporation who has never been involved in a startup, which may steer you in exactly the wrong direction. It is easy for you to be totally impressed with their success and respect their opinions, but only to move down the wrong path. A common personal example is the advice given to you by someone who has had a similar physical alignment– they will tell you exactly what to do based on their personal experience. It is probably off-base from what is right for you. Finally, "Google" may not be right! I use the line, "Everything that ever was or will be is Googleable!" Just look at most search results; often you will receive diametrically authoritative, opposite "facts."

At the risk of offending the vast majority of businesspeople, below is a list of very smart, experienced people who have your best interest at heart but may lead you astray. Think about the last three or four people that made a suggestion to you. Do they fall into these categories?

- Fortune 500 executives with no startup experience.
- VC Partners that only have experience as a "worker-bee" in companies before getting their MBA.
- Entrepreneurs that had one very early stage but huge exit.
- Day traders.
- Bankers.

- College professors who have been there all their life.
- Large company-only retirees (in any field).
- Anyone on Wall Street.
- Private equity firm general partners.
- Corporate, real estate, personal injury, and criminal attorneys.
- Relatives.
- Best friends.
- People sitting next to you on airplanes.
- Doctor, lawyer, and Indian Chief Angel investors (people with money but limited experience).
- Avid watchers of the show Shark Tank.
- Consultants from major consulting firms.
- New VC firm Associates especially with “straight thru” MBAs (and no real-world experience).

After reviewing the list, the obvious question is: “Who is left?” The qualifying criteria are easy: “Anyone with first-hand relevant experience.” The most likely individuals in this category are serial entrepreneurs who have started and run companies in your space. Coming in a close second are professionals who have worked with several companies at your stage. Finance professionals are a good example of attorneys focusing their practice on startup clients. These professionals are more likely to be able to help you by alerting you to things that you should avoid and then help you develop grounded, not blue-sky plans. Marketing professionals can also fall into the helpful category, but many will fall back to their specialty and recommend more and more marketing!

It is fairly easy to map the professionals listed above to the list below. That list of “advice” is what I have heard over the years that was given to startups. Again, most of it came from learned, experienced people with good intentions. To be fair, I am sure that many of those individuals would comment that my advice about their advice is wrong! A word of caution I give to all individuals I coach is: “Please listen to everything I say, but certainly do not do everything I tell you to do.” Keep that thought in mind as you review my comments about the “bad” advice you might receive.

Even if the advice from others is not appropriate, thank them for it. Their goal is to help and be thankful that they care.

Business Related Issues

“Bad Advice”	“Why”
Granting exclusivity to partners is OK; it is all about getting them to sign-on with you now.	Always a bad idea! They will ask for it. What if they do not perform or another “better” partner comes along? Keep your options open.
Informal partnerships are OK, document them later. Build the relationship on trust.	“Good fences make good neighbors.” Plan ahead "just in case" things go wrong. Develop documents that protect both parties equally. Being fair is critical.
Sign long-term leases for better rates. Invest for success.	The reality is that most startups don't make it; be careful of personal, long-term liabilities.
Give warrants and options without vesting to early employees. Reward their loyalty.	Unfortunately, many early supporters fall by the wayside, keep your Cap Table as clean as possible. One-year “cliff” vesting should be the norm. Then, the remainder should vest monthly over three or four years.

“Bad Advice”	“Why”
Socialize your plan with people who you know and trust.	Most likely, those people will not discourage you or provide any negative feedback that might hurt your feelings. You need objective, independent advice to determine if your plan really makes sense.
Be all-in; mortgage everything, cash in your 401K and 529 investments, max out your credit cards, sell your children. Show how committed you are.	Cute, but terrible advice. When you are truly "all-in," you cannot afford to quit -- even though it may be the right thing to do. Emotions, not passion, take over and cloud your judgment. (Those that say to be all-in probably never were and walked 5 miles uphill to and from school.)
Hire friends who you can trust and believe in you.	Hire individuals for the skills required. Breakups can be painful, especially at Thanksgiving dinner and parties.
Surround yourself with senior advisors.	Good advice IF the advisors have run a startup and remember it. Your issues are far different than those of a Fortune 500 company.
Never accept "good enough," strive for perfection in everything that you do.	This is a noble goal, but impractical for a cash-starved new company. Invest heavily in your core competence and find “adequate” approaches for everything else.
Outsource customer service to save money.	Outsider organizations will never care about your customers the way you do. You need their direct, candid feedback. It will be filtered by others.
Pursue patents to protect your idea.	Cash for operations is always in short supply. Patents are valuable only after you have defended them and won -- it takes years and mega-bucks. Only rarely will a company purchase a company for their one or two issued but not court-validated patents.
Get to market fast, fix it later.	Quality, even in your MVP, is non-negotiable. It is table stakes to be taken seriously. People never forget poor quality. Read this one over and over. The reality is that you seldom have time or resources to “fix it later.”
Developers give the best advice if you should build or buy.	They always believe that they can do it better, faster, and cheaper than others. Sometimes they can, but only sometimes. They will not be objective. Only develop products that are directly related to your core competence.

Funding Related Issues

“Bad Advice”	“Why”
Give the right of first refusal to close the deal.	If you offer this, a potential newcomer won't waste their time doing due diligence since the person with it always has the upper hand. They will use the newcomer as validation of their terms and position.
It's a numbers game, meet with as many investors as you can.	Focus only on investors that have invested in your space and in companies at your stage. Otherwise, you are wasting your most precious resource -- your time.
Raise more money than you need.	If you raise it, you will spend it! It will also be more dilutive than if you raise more later when you offer less risk and more reward.
Raise just enough money as what your business model shows that you need.	Remember: “Revenue is always delayed, but expenses occur right on time.” Accept the fact that your model is optimistic. Raising money when you are in desperate need results in Draconian terms, if you can find someone. It also takes much longer to raise money when you are desperate – it may not be in time.

“Bad Advice”	“Why”
You and your financial investor’s goals are aligned.	Nope. Financial investors invest to make money. Long-term company success is nice but not a driving force for them. It’s all about the money.
Send your investor slide deck to generate interest.	Without your narrative to go with the slides, others will invariably miss points or reach the wrong conclusion. Once they say “no,” it is hard to get them to even listen.
Push for the highest valuation you can get.	The terms of the deal, not the valuation, determine your future. Too high a valuation will put undue pressure on future rounds. Later, “down rounds” spell doom and will alienate your previous investors.
You can negotiate the term sheet yourself.	Investors do this for a living -- you may end up losing your company based upon one "little" phrase in the term sheet. Retain an attorney that does term sheets for a living – not real estate.
Non-dilution provisions are ok to close a deal quickly.	Future investors will be totally turned off if previous investors have this provision. They will want equal pain for everyone.
Only use ten words per slide in an investor slide deck.	This advice only makes sense if the slide deck is never used without you presenting it, which never happens. Readers won't have a clue about your business. You also have to rely on others to tell new people what your slides mean – that may get it right – sometimes.

Sales Related Issues

“Bad Advice”	“Why”
Hire a world-class sales VP as soon as you can afford to (after funding).	World-class Sales VPs join world-class companies or those that have all of the success tools already in place. Is that you?
Go after big customers first; swing for the fences.	What if you land one? Can you meet their expectations -- strikeouts are far more common than home runs. Fight in your own weight class. Remember, there is a reason for the pre-season. Will you be able to recover if you fail with a big customer?
Start with high prices; you can't raise them later.	Your initial goal is to attract customers --- at any cost. You need reference customers. Everyone understands this, you can raise prices later. Position your initial offering at “Introductory” prices for early adopters.
Project a big image, people want to work with market leaders.	False big images may get you attention, but once prospects look under the covers (and they will), they will not appreciate being deceived. Are you truly the intergalactic leader? Rein in P/R and Marketing.
Most favored nations pricing is ok.	No one knows what the future will hold, granting most favored nation pricing most probably will be an issue in the future. Be very careful of GSA and other government contracts that may include this provision in the fine print.
Ask prospects to sign NDAs.	Asking prospects to sign NDAs is offensive, it implies no trust. It is like asking someone to sign a prenup agreement on the first or blind date. Have you ever heard of someone that actually enforced an NDA? Only share information that will be OK to be in a competitor’s hands within 24 hours of sharing it.
Hire them for their Rolodex.	New employees may help you jump-start the business with their current contacts, but what is their value after the initial introductions?

"Bad Advice"	"Why"
Do whatever it takes to satisfy every customer, no matter what.	Being committed is very important but being realistically committed is more important. Sometimes you have to fire a customer. Remember: "There is only one thing worse than losing a prospect; it is getting a customer that you should have never gone after."
Hire only from market leaders that know your space.	Individuals from market leaders are used to having lots of support behind them and rely on their company reputation -- How do you stack up? Hire "scrappy" people who are resourceful on their own. It will be a long time before you can duplicate a market leader's capabilities.
Do special products to entice customers.	Special products often require long-term support commitments; are you ready to do it? Will these special products be a non-supportable ticking time bomb that will alienate the customer later?
First to market is a major competitive edge.	Being first requires you to educate the market, and you may make costly mistakes. Others following your lead will learn quickly what not to do and how to attack your vulnerabilities. Any advantage will be very short-lived.
Sell from the top-down.	Senior executives rarely make decisions without the support of their subordinates. Build that support before asking the CxO for the order.

The above comments should be reviewed with Mark Twain's quote: "All generalizations are false, including this one." in mind. There will be many instances that will support the "bad" advice given by others. And my "good" advice may turn out to be bad! It is up the reviewer to decide which is best for their circumstances. Only with hindsight will the answer be obvious.