Three Entrepreneur Fatal Flaws Presentation Notes

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Slide 1	Three Entrepreneur Fatal Flaws	I would like to say, “One of the great things about being an entrepreneur is that you never have to worry about having nothing to worry about!” As the Chief Everything Officer, there are always more A1 tasks to accomplish than there is time to do them. I think an entrepreneur invented the game of WHACK-A-MOE in which the player has to knock down moles with a mallet as they randomly appear. Another analogy that comes to mind is the juggling of chainsaws. It is not for the faint of heart. Keeping multiple balls in the air is always tricky. This series of presentations are quick summaries of some of the “balls” an entrepreneur has to juggle and some hot potato items that must be carefully addressed. When I initially talk with an entrepreneur, I use a simple two-part test to determine if I want to spend time with them. First, I try to determine if they are a good listener and willing to consider what I am saying. They certainly do not have to agree with me, but they do have to listen. I walk away if they play the “yes-but” game with me. Second, if they say: “I know exactly what to do, all I need is the money to do it.” I run away! Like most others, I cannot predict success, but, based on the three items, I am very good at predicting failure – unfortunately! For me, the frustrated thing is that all three of these flaws can easily be avoided. Entrepreneurs need to realize their journey is a marathon, not a sprint. I often tell them “Quick and Easy Seldom Is.”
Slide 2	First Entrepreneur Fatal Flaw	Without a doubt, the inability of an entrepreneur to listen and hear comments from others is the number one reason for failure. It is extremely easy to fall into this trap. Typically, entrepreneurs come up with what they think is a brilliant idea and the basis for a highly successful company. Dopamine takes over! As the idea begins to solidify, it becomes more and more perfect. If anyone questions its brilliance, defensive mechanisms seem to take over. Rational thought and objectivity can quickly be left behind. In the presence of someone with the slightest criticism, responses usually start with a two or three-word prefix: “Yes, but” and “Let me explain” start the defense. After the fact, rationalization takes over. The top six approaches to discredit any objections probably start with a few words.
Slide 3	Three Levels of Discovery	Virtually every coach, mentor, incubator, and seasoned entrepreneur emphasizes the importance of customer discovery. Many entrepreneurs heed that advice. Those that don’t are rarely successful. Unfortunately, their customer discovery activities focus on meeting with prospects to broadcast, not discuss, the applicability of the entrepreneur’s proposed solution. Talking not listening is the result. Often, the audience will simply acquiesce instead

		of "interrupting" the broadcast to express their opinion. The entrepreneur then interprets this silence as agreement.
Slide 4	Second Entrepreneur Fatal Flaw	As the layers of the initial idea "onion" are peeled back, invariably, issues arise. Accepting those issues instead of ignoring them is critical, and adjusting plans accordingly must be done. There is a notion in software design that the "good path" through a process represents only ten percent of the overall effort. Handling exceptions or error conditions represents the remaining ninety percent. Those statistics are probably equally applicable to the initial idea and its vision. The root cause of being unwilling to pivot is often the refusal to listen or respond to new data that makes the original idea suspect or impractical. It is hard for us all to admit we may be wrong. Being willing to change and being flexible is critical. Going down with the ship makes changing course impossible.
Slide 5	Pivot Areas	Pivoting falls into three major categories. The pivot may be small or significant. Making a pivot in one area likely will impact the other areas as well. Changing market focus or revamping the offering are obvious. The impacts on distribution are not so obvious --- placing a product or service with a customer. In fact, changing the method of distribution can dramatically impact the market or the offering itself. Thinking through the methods of distribution is often an after thought that can have dire consequences. It must be considered in the earliest phases of idea implementation.
Slide 6	It is Hard to Let Go	Isaac Newton said it best: "Bodies at rest tend to stay at rest, while bodies in motion tend to stay in motion." For the entrepreneur, changing direction invariably results in abandoning some past efforts. It is hard not to think about those past efforts. However, the focus must only be on the required future efforts. Often, the decision is made to make no decision instead of accepting the fact that some items from the past must be discarded. There are three bitter choices that many entrepreneurs have to face. The first involves the core idea of the business. In many cases, your idea is sound but there simply is not a market or it, customers are not willing to pay for it, or business can't be sustainable. Listen to the market and your CFO and pivot before it is too late. The second involves some of the original team members. Frankly, some of them may not be appropriate for the business as it evolves. Terminating individuals, especially those that have helped you in the early days, is never easy. A thought to keep in mind is: "I have never terminated an employee six months too early, but have often terminated them six months too late." Waiting to make the tough decision is unfair to both the company and the employee. Both need to get on with their lives and future. The hardest decision of all is deciding to "pull the plug" on the idea. Hope is not a strategy. Some ideas, no matter how exciting they were in the early days, may not be worth pursuing as more details appear. The raw statistics

		bare with out: 50% of all companies do not make it to their fifth anniversary and 80% fail before their tenth.
Slide 7	Third Entrepreneur Fatal Flaw	Getting entrepreneurs to accept the fact that they should delay seeking financial investors is equally frustrating and, once again, is caused by the entrepreneur's failure to listen. The mantra of: "I know exactly what to do, all I need is the money to do it" is persuasive. It is reenforced by the pitch competitions promoted in virtually every major metropolitan area and the constant barrage of internet stories of success. Until a company has revenue, it is almost a huge waste of time and resources. The numbers do not lie. Working on investor pitches and focusing on pitch competitions robs entrepreneurs of their most precious resource; their time. That time is much better spent on build the business and securing customers.
Slide 8	Financial Investor Point of View	This slide is redundant – on purpose. Prospects' actions in placing an order is the most important proof that the company is offering something of value. It is all about external validation. No amount of chartware, studies, interviews, or forecasts come close to generating confidence as the receipt of payment from customers. That action indicates that the customer: Perceives value in the offering, has a sense of urgency to make the decision now, and has prioritized its purchase above other alternative uses of funds.
Slide 9	Financial Investor Risk and Reward	As shown on the chart, the notion that risk and reward are inversely proportional is obvious. For a financial investor totally focused on obtaining a superior return, the attractiveness of an opportunity increases as the risk diminishes. The perceived risk is the first filter that a financial investor will use. If the risk is too high, they are unlikely to consider the potential reward or their relationship with the entrepreneur. As previously discussed, until prospects have purchased the offering, its potential is only a matter of opinions. Entrepreneurs will have strong positive opinions; investors aware of the startup failure rate will most likely have very different opinions. Today, investors have far more opportunities to invest than they have time to sort them out and find the "winners." So, they naturally quickly eliminate opportunities with the highest risk. No customers is probably the highest risk indicator of all.
Slide 10	Likely Investor Funding Timing	The activities listed on this chart show the progressive steps toward external validation and eventually high-volume, profitable revenue. Interest and action from potential investors increase along the way. Note that the continual funding source is the entrepreneur themselves. Bankers will also participate at all steps as well – as long as the entrepreneur is willing to pledge their assets. Bankers finally, when they feel and the numbers show that the business is an ongoing, profitable concern, they may lift funding restrictions and covenants and lend money for expansion or to fund receivables and inventory. Other investors will choose to join the entrepreneur in their journey as the business matures. Especially for seasoned, experienced entrepreneurs,

		strategic investors, Angels, and VCs may choose to become involved earlier as shown on the chart. Only for the sake of completeness have private equity and public offerings been shown on the chart. Except for some over-hyped consumer-targeted offerings., these investors will require a significant track record of performance from the company before they are taken seriously.
Slide 11	The Magic Words to an Investor	Perhaps this is the universal magic statement to secure investment from financial investors. The repeated orders from satisfied customers will provide testimonials demonstrating their perceived value in the offering. Receiving those orders in the face of competition speaks to the longer-term high probability of success. The use of capital to only accelerate growth implies that the company can succeed independently. Addressing the needs of a large and growing market implies that the revenue trajectory is significant. With an experienced team in place, investors will have confidence that the team can respond to adverse events that will surely occur. Investors focus on getting their money OUT of an investment. Being able to discuss likely acquirers and why they would be interested further de-risks the investor returns concerns. Think of the bullet points as hurdles that all must crossed to get an investor's attention. Missing or stumbling over any hurdles is enough to drive investors to look elsewhere.
Slide 12	Three Entrepreneur Fatal Flaws that <u>Can be Avoided</u>	I hope you see how easy it is to avoid these three pitfalls. It is not rocket science, nor does it take much effort to avoid them. To put these flaws into a more positive perspective, place a copy of the next slide in a conspicuous place on your desk and look at it every day.
Slide 13	Entrepreneur Fatal Flaws that <u>Can be Avoided by…</u>	It is simple, here is what you should do. These three things will not guarantee your success, but failing to do them, almost guarantees failure.
Slide 14	Presentation Can Be Accessed…	These slides notes, in PDF form, and the entire PowerPoint™ presentation are available on the website as indicated. The CxO-Atlas website content is free. Anyone can view any of the article abstracts. To view or download the articles in PDF form or to access presentations (such as this) or tools, the user must register on the site. Registered user's information will not be shared with anyone or any organization.
Slide 15	Related Articles	Volume 3 currently contains 108 articles covering many aspects associated with starting a company. These articles might be a good place to start as you think about the three items covered in this presentation.
Slide 16	CxO-Atlas Website Article Organization	The CxO-Atlas website content is free to browse and read each Article's Abstract. Members can browse, read and download any of the articles, tools, or presentations on the site. Members can also interact with a private AI chatbot by asking questions and then interacting with the responses. The chatbot's responses are based on the site's uploaded content.

Slide 17	Related Material	
Slide 18	Three Levels of Discovery	Virtually every coach, mentor, incubator, and seasoned entrepreneur emphasizes the importance of customer discovery. Most entrepreneurs heed that advice. Those that don't are rarely successful. Unfortunately, most customer discovery activities focus on meeting with prospects to discuss the applicability of the entrepreneur's proposed solution. Although those discussions are important, they often are misleading. Instead, it is important to dig very deeply into the current problem or the issue that prospects are interested in addressing and have a genuine need and can ascribe value to its solution. The problem is that the apparent problem or situation may not be true root cause that needs to be addressed. During Problem Discover, it is critical to look well-beyond the obvious issue. Following, the Five Why's Principle, developed by Sakichi Toyoda, the Founder of the Toyota Motor Company, is an excellent technique to discover underlying issues. The last discovery level is the most important. The first two levels involve opinions, first the entrepreneur's, and second, the prospect's opinion. The third phase is not based on opinion. It is based on actions -- did the customer actually buy the offering? This is the acid test of the other two phases.
Slide 19	The Three Questions	I give entire presentations of each of the three questions. What makes them so important and profound are the implications of each of the keywords in each question. Without a doubt, the three questions and their issues included in this presentation can make the most seasoned entrepreneur's head spin. It would be easy to become overwhelmed and simply throw in the towel and give up. Some do. However, others think of these three questions, their answers, and their implications as warnings of things that could derail their plans. Like thunder in the distance, heeding these warnings early can give an entrepreneur adequate time to prepare or make alternative plans. Hoping that they will go away is not a strategy.