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Key Word Tags	Business Issue Awareness	

## One-Pagers\_2\_The Business

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Quick Summary: Awareness of business details enables preventive actions.

### Abstract:

*The header of each of the articles in the CxO-Atlas's 760-plus articles is "Easy to Start, Hard to Run." The twelve One-Page articles in this section point out a few of the Hard to Run issues. Entrepreneurs, even in their earliest stages, should be aware and ready to address them when required. No immediate action may be required, but forewarned is forearmed.*

Perhaps all of the 110 plus One-Pagers should be in this section. After all, every subject is about "The Business." However, a different approach has been taken. Nine other, more specific, subject areas have been created, each containing One-Pagers that best fit those categories. The twelve One-Pagers in this grouping are intended to introduce subjects to the entrepreneur early on their journey. Hopefully, as their idea and vision crystallize and they begin their journey, they will remember these topics and act accordingly.

### 1 Avocation or Vocation

Some entrepreneurs, based on their work experience or general observations, develop their business idea and the associated vision based on their market knowledge. Others, based on their technical skills will have developed a product and are looking for a market. Finally, in other cases, the idea of starting a company can be more of an evolution, starting with a general interest and then moving to a more concentrated effort. A very common hybrid of these cases is that of a subject matter expert. Through their formal education or work experience, they develop a particular expertise. This expertise, combined with the "bug" to start out on their own, leads them to start a company. Some examples include an attorney, a CPA, a marketing consultant, a banker, or even an HVAC technician. Some individuals are lured into the startup arena after hearing about the "overnight" success of individuals who have moved from being an entrepreneur to a billionaire. Independent of the reason or motivation for becoming an entrepreneur, each entrepreneur should conduct a thoughtful analysis from time to time to ensure they understand their long-term goals and the path to achieving them.

### 2 Seven Business Principles

Over thirty-five years ago, as part of an effort to develop our quality approach and standards, I decided to embrace seven basic business principles. These principles would serve as the foundation of the company, its mission, its values, and its day-to-day operations. The list, in my opinion, has stood the test of time. Over that period, I have observed dozens, perhaps hundreds, of companies and compared their compliance with these principles. Invariably, the successful companies have adhered to all of them.

In most cases, companies that have failed or are struggling have ignored one or more of them. As one example, reflect on Principle Two: “Treat All Individuals with Dignity and Respect.” Then think about your experience with customer service with any number of the companies you deal with. I am confident you can quickly name more companies that fail to follow that principle than those that embrace it. As another example, consider Principle 6: “Promote and Maintain a Positive Response to Change.” Think of the companies that have failed to adhere to that principle; may they rest in peace.

### **3 Three Questions To Answer**

Over the years, working with dozens of startups, I have developed three telltale questions that they need to answer. The first question is fundamental to starting the business and can only be answered by detailed customer discovery. It has eight key elements. I like to think of each of them as switches that must be closed or valves that must be opened to allow the flow of business. If any one of them is not properly addressed, the condition of the rest does not matter; the business cannot be successful. The other two questions have similar consequences if not properly addressed. Answering each question is not a singular event, markets, customers, competition, and technology constantly change. Periodically, re-answering the questions is critical.

### **4 Three Levels of Discovery**

Without a doubt, the most important single item that an entrepreneur needs to understand and resolve is the correct product-market fit of their offering. Without a clear and definitive resolution to this issue, the endeavor is literally doomed to failure. The only question is when it will occur. This harsh statement is not an exaggeration. It occurs quite frequently. The common trap is that an entrepreneur becomes infatuated with their idea and “just knows the market will love it.” The discovery process can be divided into three phases. Problem Discovery that focuses solely on understanding the problem, is the first phase. Prospect Discovery involves validating the problem with prospects, and, once validated, sharing the proposed solution. Finally, Buying-Customer Discover occurs when prospects actually purchase the offering. This proves that resolving the issue and making a purchase decision is more important than other uses of their resources.

### **5 The Fourth Level of Discovery**

The Fourth Level of Discovery never ends. It involves the continual investigation and confirmation that the current situation, which resulted in proven product-market fit, is still valid. Markets, customers, competition, technology and a host of other factors, most beyond the control of the entrepreneur, can change. Sometimes, with no notice, that can cause a fundamental change in the business and threaten its very existence. Being continually aware of the overall business environment is crucial.

### **6 Avoid the Misses**

In many cases, negative surprises cause the business to stumble, but they may not be surprises at all. Somebody knows about them or can easily predict them. Measuring Key Performance Indicators (KPIs) they are often carefully tabulated and used in review meetings to track where a company has been. However, they are often not used as tools to predict the future. Further, if someone points out that the future may be dim, they are labeled as “not being a team player” or “focused on the bad, not the good.” Providing an environment where both good and bad metrics can be shared and potential outcomes can be openly discussed is crucial. Taking appropriate action can help to change the future.

## **7 Why Do Startups Fail**

I am often asked this question. Without a moment's hesitation, I respond with "Lack of Focus." Entrepreneurs, by their very nature, are optimistic about their offering. Often, they can see their offering as being universally applicable to every person or business. "If they can fog a mirror, they are a prospect" seems to be their approach. With that mindset, every encounter is viewed as an opportunity. The result is that the entrepreneur is "all over the place," blindly pursuing everything, often resulting in nothing. The best approach to addressing the "affliction" of lack of focus is to conduct deep, objective customer discovery. That is not enough! The entrepreneur must adhere to what they "discovered" and avoid the swansong of a quick-revenue opportunity that deviates from their plan.

## **8 Three Kinds of Boards**

It is an almost universal theme that an entrepreneur "cannot do it alone." They need to surround themselves with people with complementary skill sets. This is great and mandatory advice. Another equally critical area is to seek advice and counsel from outsiders who can offer a different, broader perspective than those involved in the day-to-day tactical operations of the company. Different individuals will have different perspectives based on their experience and role with the company. Successful entrepreneurs take advantage of these willing resources. Knowing when to call on them is important to get the maximum value from each of them.

## **9 Three Types of Boards Comparison**

All three boards identified can provide valuable insights that help the company succeed and, more importantly, avoid costly mistakes. Understanding their role and sharing that understanding with them will help align expectations for each person's benefit. Before forming any of these boards, the entrepreneur must commit to spending sufficient time with them and to carefully listening to their advice. This involvement cannot be delegated.

## **10 Options, Shares, & Warrants**

It is never too early for an entrepreneur to consider and plan equity distribution among individuals and organizations that will be involved with the company. This subject is so important that three separate One-Pagers have been included in this collection. An almost universal trap entrepreneurs fall into is talking about equity in general terms to others as they contemplate or become involved with the company. Entrepreneurs should assume that every comment they make, no matter how general, will be taken as a firm commitment by the other person. What makes this so troublesome is that many of those individuals will be friends (or relatives) who will assume you are making an unwavering, personal commitment to them. Not only can relationships be strained, but legal and tax consequences can affect all parties involved. It is best to follow the adage of "Good fences make good neighbors." Spend the money and time with an experienced attorney to draft appropriate documents. Engaging an attorney upfront may avoid litigation later – with those who used to be your friends!

## **11 Options, Shares, & Warrants Details**

This One-Pager chart is a simplistic summary of the various details associated with different types of equity. Unfortunately, I have heard an entrepreneur say something similar to, "She is such a valuable person to the company that I am going to give her one percent equity." Examine the One-Pager and think about what that "one percent" means and what vehicle will be used to award it. This is not an area that you should rely on Google or an AI query. If you do, you WILL be sorry.

## 12 Determining Options & Share Price

Guess who has a vested interest in the price of shares, options, and warrants in your company. It is you, the recipients, other equity holders, and the Securities and Exchange Commission that is part of the Federal Government! There are strict SEC guidelines for determining the prices of shares and options, which can vary significantly depending on a company's financial position and whether a "material event" occurs. Non-adherence to those guidelines can result in significant tax and penalty liabilities for all involved. Most alarming is that the recipients of the instruments who acted in good faith were unaware of the company's noncompliance, but still had to pay taxes. There is a "legally correct" method for determining the fair market value of each type of security, and a back-of-the-envelope method that may or may not keep you out of trouble. Doing nothing WILL cause trouble now or in the future; it will be a ticking time bomb.

### Reference Articles

Page Number in the Collection												Article No.	Articles Title	
1	2	3	4	5	6	7	8	9	10	11	12			
X													3.010203	Are You the Right Person
	X												1.040201	Summary Seven Principles for all Businesses
		X											8.040302	Three Questions to Answer Overview
			X	X									8.040313	Three Levels of Discovery
					X								8.040408	Tiny Goals for Maximum Results Presentation
						X							2.020103	Someone Will Put You Out of Business
							X	X					7.010101	With a Little Help From My Friends
									X	X	X		8.020111	Valuation of Early-Stage Companies Tool Overview

## Avocation or Vocation?

Bus Type	Pass Time	Hobby	Lifestyle	Growth
Example	Bird Watching Sports Watching Museum Visits	Woodworking Collecting Sewing	Retail Sales Online Marketing Personal Services	Products or services to a large and growing market
Focus	Yourself	Yourself, friends, family	Local customers	Mass or large market
Time Required	Occasional	As desired	40 +++ Hours	Literally 7 x 24
Cost	Almost free	Discretionary	Medium to High \$	High to Very High \$
Income Stream	No	No	Modest to Good	None to High
Pressure	None	None	High	Very High

- Set your goals and expectations carefully.
- Understand the time and \$ investment required.



- |                                 |   |
|---------------------------------|---|
| • Following your passion        | • Following an opportunity                |
| • Live well now                 | • Live very well later                    |
| • Work/Life Balance Focus       | • Focused on the future                   |
| • Focus on short-term           | • Company will “outlive” your involvement |
| • Personal succession plan      | • Company succession plan                 |
| • Finance thru profits and debt | • Financing primarily through others      |
| • Total control                 | • No longer in total control              |

## Seven Business Principles

There are Seven Business Principles that apply to all organizations, public or private, new or mature, for-profit or non-profit. They will be the foundation for the organization’s Mission, Vision, and Values. Adherence to them by everyone, all the time will establish a winning culture.

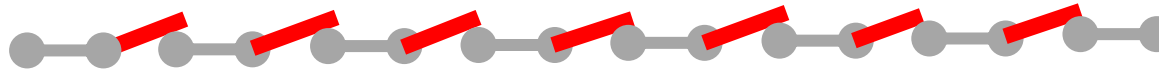
1. Stay in Business	Someone will put you out of business. It will be you or someone else. Adapt or Die.
2. Treat All Individuals with Dignity and Respect	It is easy to do with your friends, but you must also do it with people you disagree with – always, every time.
3. Provide an Acceptable Return to All Investors	They are (in rank order): 1. Employees, 2. Business Partners, 3. Customers, and 4. Financial Investors. Each will define their “acceptable return” differently.
4. Continuously Delight Each Customer	All four words are important. To establish or gain market share, satisfying customers is not enough, they must be delighted initially and on an ongoing basis.
5. Demonstrate Sustained, Measurable Improvements in All Aspects of the Business	Metrics is the key. By measuring, awareness is increased, and goals and milestones can be set, monitored, and met.
6. Promote and Maintain a Positive Response to Change	Change is constant – especially in the highly competitive business environment. Listen to customers and be ready to pivot.
7. Be a Responsible and Active Corporate Citizen	Both the company and employees must make efforts to be a positive contributor to the outside environment.

## Three Questions to Answer

Simple but not easy to answer, but they are most important ones to answer for your business today and tomorrow.

*All "switches" must be closed for revenue to continuously flow.*

Company Offering



**#1** Are you solving a problem that prospects agree needs to be solved now and are willing to pay you for it?

**#2** Who is the customer (buyer and user) and what is their single most compelling reason to buy from you, now?

**#3** Will the market and your share be large enough to sustain profitable operations as competitors appear?

# Three Levels of Discovery

**Problem Discovery** Fully define the problem, the pain points, the urgency to address it from both the buyer's and user's perspectives.

*Do not fall into the trap of thinking about how you will solve the problem. Focus on problem and its root cause.*

**Prospect Discovery** Meet with prospects one-on-one, understand what they are doing now and how important the issue is to resolve.

*First and foremost, ask prospects to validate your finding about THEIR problems. Then and only then begin talking about your solution.*

**Buying Customer Discovery** Did they buy from you! (The only discovery phase that matters.)

*Problem and Prospect Discover involve your and your prospect's options. Buying involves actions. Did they choses to buy vis-à-vis so many other options.*

# A Fourth Level of Discovery (that never ends)

Continual Discovery

Change is Constant. The ideal Product-Market fit today may not be correct tomorrow.

Your more-of-the-same may not yield more-of-the-same!

- Markets Change
- The Economy Changes
- Customer Requirements Change
- Competitors Get More Aggressive
- New Competitors Appear
- Black Swan Events Occur

Perform a Risk Analysis  
“What if...”  
What is the Likelihood?  
What is the Impact?  
What should we do now?



Example: Think about how AI is or will change your business. Was it on your radar one year ago?

## Avoid the Misses

Metrics creates awareness of where you are and should be primarily used to forecast performance in meeting goals.

A simple exercise to create awareness and ownership.

Let's sit around the table and answer these questions...

1. How do we define success and what are the goals we will establish to judge our performance?
2. How can we regularly monitor our performance in meeting our goals?
3. If we miss our goals, what are the most likely reasons?
4. What are the likely impediments that will lead to missing our goals?
5. When will we be able to determine if those impediments may be occurring?
6. Who is in the best position to monitor those impediments and tell the rest of us?
7. What can we do now to prevent or minimize those impediments from impacting our goals?
8. Who will lead the efforts to prevent or minimize those goal-impacting impediments?

## Why Do Startups Fail

20% failed in the first year, 50% within five years (USBLS)

### WHAT!

1. Poor customer discovery
2. Not enough money to get to the MVP stage
3. Lack of market focus
4. Unwilling to pivot
5. Not addressing required elements to build a business
6. Unable to scale operations
7. Unrealistic \$ model (costs, distribution, sales cycle, etc.)
8. Running out of money
9. Focused on raising money, not building the business
10. Cannot overcome the power of incumbency

### WHY?

1. Rely on their opinions instead of prospect's
2. Unrealistic time estimate to develop an MVP
3. Failed the "could vs should" test
4. Ignored what the market told them
5. No focus on all elements
6. Built on their personal expertise (SME)
7. Did not think thru all cost categories
8. Unrealistic revenue plans
9. Believed "expert" hype about funding
10. Solution not good enough to warrant a change

**Knowing these now, you can take action and change the future.**

## Three Types of Boards

The entrepreneur/CEO must start and own the relationships

The common goal of all three Boards is to insist of accountability.

Who	What	When
Board of Advisors	A group of individuals with different domain expertise that are willing to offer free candid advice when asked. Meet with them separately.	Incrementally add advisors as soon as you can. Your best allies.
Board of Customers	A group of representative customers who are willing to commit time to help you continue to meet their requirements as they and the market change. Your best source of external validation and prospect leads.	Incrementally add when the offering is stable, and customers are representative of you current and ultimate markets.
Board of Directors	Required when you have an Operating Agreement, generally with outside financial investors. Their goal is to make the company, not necessarily the CEO, successful. Their experience and objectivity will help the company remain accountable to the shareholders/investors.	Add when outside money has been raised or company is profitable and growing and could benefit from outside professionals.

## Three Kinds of Boards Comparison

	<b>Board of Advisors</b>	<b>Board of Customers</b>	<b>Board of Directors</b>
<b>Role</b>	Advise the company on operational issue (aka: "Mentors")	Objective opinion on company performance, competition, & changing needs and direction	Represent the best interests of the share holders, fiduciary responsibility
<b>Desired Outcome</b>	Help company grow and avoid traps along the journey	Candid feedback on the company's offering	Guidance and objective perspective (no matter how painful)
<b>When</b>	As early as possible	When you have "anonymous" customers in your target market	When you have (or ready for) outside investors
<b>Who</b>	Experts in different business areas	Represent different departments/functions	Odd number, representing company, investors, outsiders
<b>Minimum Size</b>	5 to 7 (different disciplines)	7 to 10 (mix of size and focus)	2 Company, 2 Investor, 1 Outsider
<b>Meetings</b>	Meet with individuals as needed for advice on direction and issues	Quarterly or during planning of new offering releases or new competitive threat	Quarterly or more often as investors request, bi-weekly updates
<b>Format</b>	Informal sessions covering areas of expertise of the individual advisor	Company update and roadmap discussion with round table dialogue	Primarily company presentations on progress and plans with candid member feedback
<b>Compensation to Members</b>	None or minor options (warrants vesting over time)	None	Options to outsiders (warrants vesting over time)

## Options, Shares, and Warrants

Instrument	Generalized Details
Founder Shares	Founders, Common Stock, very low price \$0.01 or PAR value
Common Shares	Given to employees & others, \$ @FMV, taxes due when granted
Preferred Shares	Equity Investors, \$ set with deal terms
Warrants	Typically given to financial investors, others too, any price
Qualified Stock Options (ISO)	Given to employees, "Strike Price" based on FMV discounted due to risks
Non-Qualified Stock Options	Given to employees and others involved with the company, same pricing as ISOs
Restricted Stock Awards	Given to employees, ownership at grant, \$ @FMV or discounted when issued
Restricted Stock Units	Given to employees, \$ @FMV or PAR, when ownership & taxed at vesting
Advisory Shares	Given to advisors, could be RSAs or NSO Options, shorter vesting

**Move Away from % Ownership to Shares ASAP!**

**Tax issues are very confusing! Grant only after working with a finance professional and based on a written plan!**

Avoid misunderstandings & entanglements!

## Options, Shares, and Warrants Details

	Given to...	Cost	Vesting Required	Ownership	Taxed	Notes
<b>Founders Shares</b>	Founders & Early Employees	\$0.001 (PAR)	No	When Issued	When Sold	
<b>Preferred Shares</b>	Equity Investors	At priced round	No	When Issued	When Sold	
<b>Common Shares</b>	Anyone	Based on valuation when granted	No	When Issued	When Sold or when issued if below FMV	Possible early employee discount
<b>Qualified Stock Options</b>	Employees	Discounted FMV when exercised	Yes	When Exercised	Taxed When Sold	Typically, 1 year cliff, 4 years vesting
<b>Non-Qualified Stock Options</b>	Associated w/Company	Discounted FMV when granted	Yes	When Exercised	When Exercised	Typically, 1 year cliff, 4 years vesting
<b>Warrants</b>	Investors, Others	Any price	No, Could Be	When Exercised	When Exercised	
<b>Restricted Stock Awards</b>	Employees, Others	Discounted FMV when granted	Yes	When Issued	When Vested or At Grant if 83(b) Filed	Used for early-stage companies
<b>Restricted Stock Units</b>	Employees, Others	FMV when vested	Yes	When Vested	When Vested	Used for early-later companies
<b>Advisory Shares</b>	Outside Advisors	Discounted FMV when granted	Yes	For RSAs: Issued for NSOs: Vested	RSAs: Issued NSOs: Vested	Typical 2 year vesting

## Determining Options and Shares Price

***Do one or the other before awarding options or giving out stock.***

### The “Legal” Method

Obtain an IRS 409A Fair Market Valuation  
From an Independent Source

Provides:

- Company Valuation
- Share Price
- Options Price
- IRS “Proof”

- ✓ IRS “Safe Harbor”
- ✓ Avoid Tax Penalties

### A Shortcut “Non-Legal” Method

“Do it Yourself Calculation”  
Based on Your Assumptions

- Use your own Valuation
  - Apply “Internet Suggested” Discount Factors
    - Lack of Marketability
    - Lack of Control
    - Disadvantage Relative to Preferred Shares
- ✗ Severe Tax Penalties to Company and Grantee
- ✗ Red Flag to Investors

Recalculate (and reprice) whenever there is a “material event” such as closing a funding round, launch of a significant product, etc.