

Building a Startup You Love (is Hard)

by Gareth Knight

This document is the rough account of a Core Conversation panel at SxSW Interactive 2008, plus a little more. Dustin took some great photos on the day, so you might want to check them out.

<http://sxsw.com/>

<http://www.dustindiaz.com/>

<http://www.flickr.com/photos/polvero/sets/72157604446455326/>

For those who have made mistakes before us, and shared them;
For those who would make mistakes tomorrow, and pick themselves up after...

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A short disclaimer

These are obviously all my own opinions and as such I cannot take responsibility for anything that happens once you've read this document.

Whilst I would say that the following are things that I have learnt through the school of hard knocks, I don't profess to be anything more than someone who is trying to learn and apply what I have learnt. I'm certainly not going to say I'm on top of all of them!

Any feedback welcome, please distribute if you like it, however **please don't rip it off or claim it's your thinking.**

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Some questions to ask yourself before starting:

Are you already a business owner?

Do you want to be a business owner?

What's your age?

Do you mind hard work?

Do you have savings in the bank?

Are you a coder, a business person, an ideas person, or a generalist?

Do you want to create a big business, a global business, or a lifestyle business?

If you have a business:

1. do you have a business partner?
2. is it a product or service business?
3. are you cashflow positive?
4. are you profitable or in debt?

I've tried to keep the content as short and easily digestible as possible, erring on the side of brevity. I've also tried to group things so that chunks digest together better, but they're not in any particular order – the truth is you need to do it ALL.

If you'd like some elaboration then please feel free to ask me.

Without further ado, here's the content:

Set real goals you can achieve

Ask yourself what kind of business you'll love. Then start.

Set SMART goals to make sure you know if you're reaching them.

S = Specific

M = Measurable

A = Attainable

R = Realistic

T = Timely

Use the internet to learn more about SMART goals.

Define what success looks like for you, don't fumble around and be wishy washy.

Everyone has their own ideas and parameters for what success is, so you need to know what yours are before you find your success.

Some good places to start are:

1. What kind of cashflow will you be happy with?
2. What kind of people do you want to work with?
3. Are you looking for industry or regional kudos that will indicate some level of personal and professional achievement?

Embrace your fears. They are only fears.

It's the only way to start and make progress. Jump off the cliff.

There's never a right time to get started, so just do it and work things out as you go.

Don't let other people impose their fears into your thinking, it will only muddle you further.

Become financially smarter

Cashflow is King, always, without exception.

You should always always always have an eye on your cashflow, which literally means how much cash you have in the bank. When you lose sight of this, you **will** come unstuck and have to go to emergency measures. Knowing what cash you have frees you up to focus on bringing it in and to set your goals.

Know what your cashflow needs are at the beginning of the month; then re-assess at around the 10 or 12 of that month. Start collecting or making arrangements for what you need from then.

Learn to leverage debt. Don't let debt ruin your business.

I categorically don't recommend you get into debt if you can avoid it, as it's a big risk. However, if you can bear the risk, and can manage it well, it can serve you without you having to find other less economical sources.

I prefer credit cards as they don't lock you into overly long payment terms, and you can squash the debt when you're able to.

Make sure you make your interest payments every month so you don't affect your credit rating; know where you are within your limit at all time; revolve credit from one provider to another to get better interest rate deals.

Learn to accept "bread and butter" work for what it is.

There will always be work that is less exciting, more repetitive and which generates a lower profit. It's called **bread and butter** 'cos it's likely that although it's not great or ideal work, it puts bread and butter on the table and keeps the wolf from the kitchen door.

More specifically, it's likely to keep your business running, but not generate great returns or much profit. In the web industry it's probably something like doing website updates or maintenance, or is a specific kind of reliable customer you've well got profiled but which doesn't bring you much margin.

Generally it's 60 to 90% of your workload, or userbase. **Caveat:** I'm sure some people do better!

Conversely, if you can find it there will also be more ideal work, or **cream** which makes you happier, presents more of a challenge, is more rewarding both professionally and commercially, and will probably generate more profit.

This might be £1200 a day consulting work, billing out at corporate day rates for technical work, or acquiring a customer whose yearly value is 10x what you paid to acquire them (once you factor out

cost of sales of course).

Generally it's 2 to 10% of your workload, or userbase. **Caveat:** I'm sure some people do better!

You should aim to **reduce the bread and butter** and **increase the cream work**.

Note also how the 80/20 rule applies here...

Save for the rainy days that will come.

You'll need to pay VAT, or Tax, or something, so have some cash available to do that.

Having a few months cash under the mattress is a good way to get around your fears and to help you to focus.

Saving cash to pay the government is a sure way to prevent you from having to dip into profit/loans/credit/salaries/growth funds when you need to pay up.

I've found creating two separate bank accounts for each and putting money in both every month is a great way of KISS.

There are only 3 ways to make more money.

To make more money you can:

1. gain new customers
2. get more money from existing customers
3. raise your prices

Start with the easiest to implement for you, then move onto the next.

Do something in your business to optimise for each as soon as you can.

Spread your bets, scale up if your bets pay off.

Make sure you don't put all your eggs in one basket, to mitigate your risks.

If a bet does pay off, then scale it up quickly to get as much out of it as possible.

Charge more than you think you should.

You're more than likely charging less than you should. Try it, you'll be surprised.

You'll find you'll make more money, and get more satisfaction out of what you do. It's easier to earn more from less projects, than earn more from more projects. The inference is that you charge more, but have less to manage while still earning more. **Start charging more until people stop asking you to do work for them.**

Get a good accountant. No, get a great accountant.

Make sure you educate them about your business and market, so they can give better advice.

I can't overstate the importance of a good, proactive, helpful, accountant, who knows that helping to make you successful will also make them more successful.

Don't be afraid to interview your prospective accountant - I would advise it's always a 2 way relationship that is most productive and leads to best results.

Understand P/L statements & Balance sheets.

You'll make less mistakes, and you won't have the wool pulled over your eyes.

Accountants, bankers and financial people generally think in terms of Profit and Loss (P/L) and Balance sheets. At a high level, they're health indicators for your business, and summaries of the way things are going.

If you can understand them, your ability to communicate with financial people will be better, the benefits of which are pretty obvious.

Grow to become more productive

Roll the snowball uphill, this is not an avalanche.

I've seen very few people succeed without applying consistent effort. In the long run, persistence and continued effort pays off more than luck or brilliance.

Business is won in inches, just like in sports.

Things seldom take as long as you hope they will, mostly twice as long, often three times longer.

Doing small things first wins trust, and leads to bigger things once trust is earned.

A sales cycle will typically take anything from 1 to 6 months to bear fruit, probably with a 10 to 20% success rate.

Prioritise the small things that will help you to close deals now.

Build processes wherever you can.

Give yourself the time to do the things you're good at.

Processes you can generally optimise on or find services for are around invoicing, banking, time sheets, sales cycle documentation, proposals, quotes and your daily routine!

Abstract and automate wherever you can, you're not an ISP.

Use 3rd party service providers to make your life and administration easy.

Don't ever re-invent the wheel unless it makes sense to.

Evaluate cost and cost of time against periodic or once off service costs.

Examples are email, calendar (Google Hosted apps), customer support (eSupport), Project management (Basecamp), invoicing (Freshbooks)

Practise the following principles in your life:

The 80/20 (or Pareto) Principle

http://en.wikipedia.org/wiki/Pareto_principle

Kaizen

<http://en.wikipedia.org/wiki/Kaizen>

KISS

http://en.wikipedia.org/wiki/KISS_principle

Getting Things Done (GTD)

<http://en.wikipedia.org/wiki/GTD>

The 7 Habits of Highly effective people

http://en.wikipedia.org/wiki/The_Seven_Habits_of_Highly_Effective_People

Eat your Own Dogfood

http://en.wikipedia.org/wiki/Eat_your_own_dogfood

Become a Jedi Master at getting things done. Be like Yoda.

Start now. You will never find the right time to start.

Most successful people I know have some sort of system they use to keep the stuff in their head from exploding. I've found that GTD with a few mods (80/20 for context and Kaizen for progress) is a good system for keeping me sane and on top of things.

Know your limits. Push your limits.

Know:

1. how much sleep you need to function effectively?
2. your skills around dealing with people so you can get help when you need it.
3. how good you are at negotiating so you can improve or hire someone better than you at it.
4. what you're good at so you can keep doing it.

Don't make the age old mistake of assuming you're best at everything. When you know what your limits are, you can explore them, to push them back.

If you can at all, implement systems before you start.

This **will** save you time and money.

A system can be:

1. as simple as a checklist of things to do for a specific outcome, like SEO items or setting up a new client on your server;
2. more detailed like creating document templates which will support your business processes (RFP, costing, quotes, spec docs, resourcing, timesheets, invoices, manuals etc etc);
3. or more involved like setting up Salesforce.com specifically to suit your business, to setting up an accounting or banking package that gives you the reports you need to assess financial situation

Of course, in the heat of a start-up you might never get to it in advance, so this may be called wishful thinking. But the week or so doing this will pay off in the long run you'll sleep more, get more real work done, and you'll feel like you're keeping the ship in the right course.

Always err on the side of simplicity; abstract the system so it can be used in as many scenarios as possible; use spreadsheets before buying expensive packages; and do backups!!!

Do one thing at a time and do it well. Focus like a laser.

Ready to revolutionise your productivity?

Learn to tell the difference between distractions, actions, projects and priority.

Learn to focus on one thing at a time and to do it well.

Once I became comfortable with saying no politely, this one simple thing freed up mental energy, focus, time and ultimately enabled me to get more done. Took me 10 years to allow myself to do it though. Learn to say no.

You'll need to work insane hours sometimes. Deal with it.

I've not yet met a business owner who did not work until the wee hours either regularly or often enough for it to show physically.

So, like the soldier, practice and be strict about getting regular sleep when you can because at some stage you're going to need to dip into your sleep bank account and use it to help you get through stressful and sleepless nights.

Tequila isn't good for Mondays. But Fridays are fine.

This is really just a nice way of saying that you need to be able to let your hair down and have fun from time to time; but that shouldn't come at the expense of your ability to perform the next week.

So hit the tequila (or better put, your poison of choice) on a Friday, rest up on the weekend, then hit the ground running on Monday.

Exercise. You'll handle stress better.

What is important is that you exercise regularly, not what exercise you do.

Make sure you sweat and do it often enough to make you sleep well at night.

You can also use exercise to break up work periods, so you come back fresh.

Aim for 3 x weekly, build up to 5 x weekly.

Model your time, productivity and billing. Graphs will help spot trends.

Your job as a business owner is to reduce inefficiency and optimise efficiency. If you're able to model accurately what your time is worth with respect to your business and cashflow, then model that against productivity and your billing, and you'll be able to spot and rationalise weak spots much faster than if you let them hit you in the face. Promise.

The simplest thing you can do is ask yourself the following questions, then answer them as honestly as possible:

1. How much time do I spend working on average per day?
2. How much of that time do I spend doing something that will benefit my business?
3. How much of that time can I directly attribute to revenue? [service business]
4. How much of that time is making an effect on my product? [product business]

Use spreadsheets to model resources against billing as far in advance as possible, so that you can predict cashflow and resource fluctuations in advance, and plan to mitigate them.

Find your balance

Your life won't be normal, accept it.

Dont use your normal friends as your benchmark, they're generally not working under the same conditions you'll be.

Find other people like yourself where you live, to give yourself a balance.

Start or join a business group to discuss the stuff you're going through.

Strive to find a work/life balance.

Everyone will find balance in different ways.

Clearly define what your balance is; check-in weekly or monthly (or what makes sense for you) to make sure you're getting there.

Often your most important or rewarding work comes when you're subconsciously working on it in your off time.

A good example is the coder that finds the solution to his problem while in the shower.

* Note: buy Crayola shower pens!

Learn to push. Learn to relax.

Despite thinking that a work/life balance is necessary, I also believe that there are times when it's just not going to happen for you for whatever reason.

Learn to recognise these times and make sure you come out of them.

Similarly, when you're not in push mode, make sure you wind down and re-charge so that you don't run your internal personal battery down.

Get a life and / or business coach. Get advisors. Find a mentor you respect.

The best thing you can do for yourself is to acknowledge that you're not perfect. Everyone can improve in some way.

With that comes the realisation that other people who are perhaps older and more experienced than you, might also be willing to share their knowledge with you.

Having trusted people on the outside of your situation might also help you to see things clearer.

Most local successful businessmen will happily give up a lunch every month to 6 weeks or so, to help someone who is proactive and willing to learn. Find those people!

Reward yourself. You deserve it.

One of my deepest regrets is that I haven't given myself permission to reward myself for all the work I've put in. I've lived for a long time in a state of delayed gratification - I'll go on that holiday to Greece when X happens ; I'll buy that camera I've had my eye on for two years when I have no debt ; I'll buy myself that TV for Christmas next year - sound familiar?

So, my recent learning is to let go and reward myself sometimes. I'm happier and more content, even though I may have spent more money this month than I wanted to.

In the short term, being happier and content affects your life in so many other ways it's worth it.

Learn fundamental business skills

Ideas are cheap. Execution is everything.

If I had a pound for every idea I've either dreamed up myself, listened to someone talk about, or watched unfold into some sort of project or business, I would have more money in the bank than I do now!

My key learning in this is that it's not really about the idea that you have, or how great it potentially could be. We all have potential. We can all be great. We can all make money. Very, very, very few ideas are unique, and with most ideas there is someone somewhere else in the world already doing it..

What's more important is how you execute on the idea, and how much value you create with your executed idea.

Execution involves people, product, often money, persistence, a market to attack and it seems the best ideas have a combination of buzz and marketing better than the competition. Value means you solve a problem enough for people to want to engage with you or your product.

Learn to network. Become great at it.

I can't stress enough how important this is. Learning to do this well is a lifelong skill that will always benefit you in business.

Always be genuine, start relationships you aim to maintain, never abuse people's trust, and always remember that you have two ears and one mouth which means you should use them in equal proportion!

Good people are your most important asset, absolutely.

They're generally the largest cost to business, but more important than pretty much everything else.

1. Will you invite them to lunch with your team?
2. Would you introduce them to your Mom and Dad?
3. Would you go into battle with them?

Know what your role in the business is. Play to your strengths.

Know what your strengths are. Then recruit around that first.

This seems obvious but many people end up doing stuff they didn't intend to from the start. It's natural to try to retain control by doing everything, but you'll soon reach a point where you just can't do it all. The best thing you can do is to find people that compliment you in other areas.

Focus on your important relationships. Who are they?

I'll wager the relationships that are not important in your life are not going to be for a while, so don't focus on them.

Make sure you keep in touch with your family, good friends, accountant, bank manager, and partners.

Understand why you're good at what you do.

Once you've done that, learn to communicate it to your parents, then your grandparents.

If you don't understand what you're good at, and why, then how are you going to get someone to see it for themselves?

Buyers buy for themselves, mitigating against their fears — they don't buy for a skillset or go for acronyms. If you can explain this to someone so it's easily digestible and easy to remember, then you're onto something.

For example:

I specialise in building CMS solutions that are well structured, portable on most any server, properly documented, easily maintainable and futureproof ; is better than I'm a php coder that does CMS solutions .

I've worked on large scale LAMP community sites, building out code and infrastructure to manage Alexa 5000 ranking traffic , is better than I've worked on some cool stuff for community sites .

Find, create, develop an outstanding elevator pitch.

Practice this until it's second nature.

You should be able to explain to someone what you do in about 20 seconds, and it should be interesting and unique enough for them to remember you and it. If it doesn't do that, go back to the drawing board.

Practise on people who do not work in technology.

Keep learning. Keep moving.

I believe that individual stagnation is the killer of personal progress. Continually learning is one way to stay sharp, and IMO no one has nothing to learn. Staying in one place too long breeds comfort zones and complacency.

If you're in a comfort zone, ask yourself how long you've been there for, and why? If you're complacent, then you need to ask yourself where that will get you?

Shave more. Be more aware of the image your project.

Also, invest in good shirts and shoes. Wear those shirts to meetings. It works.

I'm the last one to do the above willingly. I'm far happier barefoot and in the bush, wearing shorts and a t-shirt. Problem is I'm now in London.

In my experience, people give you more respect and credibility if you look the part relative to them, so learning how to clean up and present yourself is a lifelong skill that will help you more than you estimate.

Get your bank manager to send you wine once a year.

My father once said that you should know two people really well in your life; your wife, and your bank manager... If he's sending you wine, it means he values you and your business.

My experience of this is that if you have a good relationship with your bank manager you're more likely to be able to get out of cashflow scrapes if you need to, as well as get access to other banking facilities that you wouldn't if your bank manager wasn't your fan.

Make sure it's good wine, not cheap rubbish!!

Backup regularly. You've been warned.

I once lost 2 years of work and emails when a hard drive crashed on me. I've also had to piece together files and data the hard way, after not doing regular backups then doing something stupid like deleting the wrong files when tired. We all have our horror stories...

Disks are so cheap now, and USB 2.0 and Firewire transfer speeds are fast enough to move pretty much any data at acceptable transfer rates, so there really isn't an excuse to have backups of any data you don't want to lose.

1. I recommend 2 or 3 backups (I have one disk at home, and two at work), plus a working disk (your current hard drive). Some might say 3 is overkill, but I sleep better at night.
2. If you have source control, make sure you back that up too.
3. Run daily cron jobs to backup your databases online or in the office.
4. Backup important stuff daily, especially if it changes often.
5. Do a complete backup before travelling.
6. Put stuff you want to archive onto DVD's so they're always there.
7. I've used Second copy and Syncback on Windows for years now. They're great.
8. I'm now using Rsync on Linux without a problem. I've also created bash scripts that automate everything for me which is free and works well.

Useful or relevant links:

I'll be updating this as often as stuff comes into my head, and as time permits. So, in no particular order:

The Art of the Start, by Guy Kawasaki: <http://www.guykawasaki.com/>

Getting Real, by 37Signals: <http://gettingreal.37signals.com/>

http://www.readwriteweb.com/archives/13_seed_funding_options_for_entrepreneurs.php

Delicious links that will always be updated as I find stuff:

<http://del.icio.us/oneafrikan/business>

<http://del.icio.us/oneafrikan/startup>

<http://del.icio.us/oneafrikan/entrepreneurship>