The Great CEO Within

(Formerly: *Founder to CEO*)

How to build a category-killing company from the ground up

By Matt Mochary

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Introduction

Who am I? Why am I writing this book?

I coach tech startup CEOs (and tech investors) in Silicon Valley, most of whom are young technical founders. They include the CEOs of Coinbase, OpenDoor, Clearbit, AngelList, Coinlist, TrustToken, etc.

In my coaching, I found several things:

1. Becoming a great CEO requires training.

2. For a founding CEO, there is precious little time to get that training, especially if her company is succeeding.

3. While there are many books out there with excellent and relevant knowledge for the founding CEO, there is no single book that is a compendium of all the things she needs to learn.

4. My mentees and I repeatedly solve the same core issues.

In this book, I have simply written down the solutions that we came up with. And hopefully it will serve as a compendium so that you can become a great CEO in the very little time you have to do so.

This book goes from high-level (an outline of most of the systematic issues that a CEO will face) to the mid-level (a recommended initial process for each of these issues, written in such a way that it can be copy-and-pasted into a company playbook) to the low-level (specific suggestions of phrases to use in specific oft-recurring situations). The book, therefore, has both breadth and depth.

If you are a CEO, new or experienced, this book is meant for you. If you are a first-time CEO, then this book will give you frameworks and answers for your current and future challenges. If you are an experienced CEO, this book will be a good checklist of best practice benchmarks against which you can rate your company's performance as an organization, and your performance individually. In the areas where you discover that you are wanting, the book will give you the target to hit, and tools to implement immediately.

This book is organized into 8 sections:

- The Beginning
- Individual Habits
- Group Habits
- Infrastructure
- Collaboration
- Processes
- Other Departments
- Appendices

The Beginning briefly covers how best to start a company and launch a team.

Individual Habits covers the most crucial habits to be an effective individual in a company, no matter what your position is. This includes organization (GTD, Inbox Zero) and effectiveness (Top Goal, On Time, Write it Down).

Group Habits covers the most crucial habits to be an effective group, no matter what the group's function or size (Writing vs Talking, Decision-Making, Agreements, Transparency, Conscious Leadership, Customer Obsession and Culture).

Infrastructure covers the tools used to facilitate company effectiveness (Wiki, Goal-Tracking, AORs, KPIs, No Single Point of Failure).

Collaboration reviews techniques used to keep an organization working well together (Meetings, Feedback, Org Structure).

Process covers the systems used for each major function of the company (Fundraising, Recruiting, Sales and Marketing).

Other Departments covers the remaining functions in a company (Executive, Product, Engineering, People, Finance and Legal).

And finally, the Appendices cover a variety of things that didn't neatly fit anywhere else (Common Mistakes, Recruitment Process, Sample AOR List, Further Reading).

Part I -- The Beginning

Chapter 1: Getting Started

There are many ways to create a company, but only one good one: To deeply understand real customers (living humans!) and their problem, and then solve that problem.

This is explained clearly and thoroughly in Disciplined Entrepreneurship by Bill Aulet. I won't repeat or even summarize what he wrote. If you haven't yet launched or achieved Product Market Fit (>$1 million of revenue), go read Bill's book first.

Chapter 2: The Team

Co-Founders

Starting a company is hard. Doing it alone is extremely hard. Owning half of something is better than owning 100% of nothing. YCombinator has a strong bias toward accepting co-founder teams (versus solo founders), because solo founders have high rates of burnout. The emotional burden is just too high.

As with any trend, there are exceptions. But the rule generally holds. So, find a co-founder. Give up a large percentage of the company. It's worth it.

The Team

While it is critical to have a partner to share the emotional burden of starting a company, each additional team member (co-founder, partner or employee) adds additional complexity in geometric fashion. Each new member must somehow grock the priorities, vision and actions of the other team members in order to place their efforts in the same direction. The more team members you have, the geometrically harder it is to share what is currently going on with everyone, as well as have everyone be emotionally bought in to the decisions being made. Do not underestimate this cost. It is much larger than most founders think.

YC has another strong belief: Founding teams should never grow beyond six until there is true product-market fit. (Later, I will dive deeper into what Product-Market Fit is, but for now, let's say its greater than $1mm in recurring revenue for an enterprise company.)

Why? Three main reasons:

1. Morale. Until Product-Market Fit is achieved, the company must be able to adapt to negative customer feedback and potentially pivot the company. No matter what you say to them, when someone joins a 10-plus-person company, they expect stability. If, after six months, you launch your first product and customers don't instantly rave about it (which is what will happen), the team will become de-moralized. It doesn't matter how many times you've announced beforehand that you're still a startup and the team should be ready for this. They will hear the words, but not internalize them.

   By contrast, with six or less people, the environment feels like a team in battle. Chaos is expected. So when chaos is actually encountered, the team meets it with glee. People who join small teams crave the challenge of new things. They want things to be hard.

2. Communication and organization. When you are a few people in a room, you all know what each other is working on without having to formally report to each other. This has tremendous value as it allows you all to stay in sync without requiring a formal management system, which would suck up significant time and headspace even if done very efficiently.

   Once your team grows large enough to not be able to sit next to each other in one room (ie- more than ten, or remote workers), then suddenly information-sharing by osmosis disappears. Now you will need a formal management system to succeed. And that requires overhead (usually one full day per week … for everyone!).

3. Efficiency. When you are just a few programmers, then there is no choice but to write "prototype code". This is code that is meant only to create a prototype (and brings along with it a lot of technical debt), as opposed to industrial code which is meant to be easily de-bugged, handle many users, etc.

   The reality is that your first product should always be viewed as a prototype. You are using it to gather customer feedback only. And that feedback will inevitably vastly alter what your product is, usually to the point of it becoming a completely different product. So, all the effort you put into making this initial code beautiful will likely be wasted. If you are small, there will be no temptation to do so.

If you are a startup in Silicon Valley and have discovered a large potential market, then you will be able to raise significant capital early. This will allow you to hire many people. Investors may well pressure you to do so in order to "win the race to market share". Resist this pressure. It is misplaced.

Startups don't usually fail because they grow too late. They usually fail because they grow too early (ie- before they have achieved Product Market Fit).

Scaling

Once you have achieved Product-Market Fit, that is the right time to blitz scale and win the race to market share. To do this, you will need to create massive awareness (Marketing), walk many customers through the sales process (Sales), hold those customers hands as they set up and use your product or service (Customer Success), harden your infrastructure to withstand many users at once (DevOps), get rid of technical debt as well as add all the features promised in your roadmap (Engineering), update the product roadmap to meet the most urgent needs of your customers (Product), and all of the non-technical operations (People [Recruiting, Training and HR], Finance, Legal, Office). All of this requires hiring talented and experienced people to fulfill those functions. First raise the money needed to hire this team, and then begin hiring.

Once you bring on remote workers, and your team scales beyond 15-20 people, most likely things will begin to fall apart. You will hire very talented people and they simply won't perform in the way that you hope or expect. You will end up doing more and more work yourself, working longer and longer hours, just to keep the company afloat. You will extrapolate this trend, and realize that soon you will break.

It is at that moment that you need to implement a formal management system. It will be painful. You will no longer be able to just "work on the product". You and your team will likely have to spend one full day per week preparing for and participating in team and one-on-one meetings. These meetings and this system will feel like pure overhead. They are. And without them, your company will never scale successfully.

The good news is that the same system that allows your company to operate well with 25 people, will also allow it to work well with 25,000. Neither the system nor the amount of overhead will change. It is a one-time hit.

The rest of this book walks through the implementation of such a system.

Part II — Individual Habits

Great companies are made up of great individual performers who work well together as a team. As CEO, you are both the architect of the culture and the central hub in the wheel of information flow that enables the team to function effectively. Your example inspires your team, and your efficiency determines the efficiency of the team. Therefore, the first thing to optimize is yourself.

I have found the following habits and methods to be the most effective for fostering individual productivity.

Chapter 3: Getting Things Done (GTD)

Everyone needs an organizational system to track goals, priorities, and tasks. The majority of successful CEOs that I know use the system outlined in the book *Getting Things Done: The art of stress-free productivity*, by David Allen. While the book is dense, it is definitely worth reading in its entirety. The essence of Allen's system is:

Each day, process every single item in your Inbox (defined broadly as all Inboxes [email, Slack, text] and all to-do's). **If the action takes <2 minutes to complete, do it immediately.** If not, then write down what the required action is, and place it one of the following lists:

1. **Next Actions:** These are the next tasks on your priority list separated into areas of context.
    - Computer (actions where you need access to your computer)
    - Calls (phone calls that can be completed when you don't have access to a computer, eg- riding in a car)
    - Outside (actions that can only be completed outside, such as errands)
    - Home (actions that can only be completed at home).

Tasks should be written as single actions (as opposed to broad goals). The key is to not have to think about what needs to be done again once the Next Action has been written down. The Next Action should be written so clearly that all you need to do is follow its direction when you read it next.

<u>Computer</u>
Write first draft of 10-year Company Vision and 3-month Roadmap
Write first draft of Sales Playbook

<u>Calls</u>
John 650-555-3452 schedule company offsite
Mary 415-555-1234 review draft financing docs, paragraph by paragraph

Outside
Walgreens - pick up prescription

Home
Clean out garage

2. **Waiting For**: This is the list of things that you have asked others to do, and are waiting for them to complete. List the person to whom you have delegated, the requested action, and the date on which you made the request. You can then easily scan your Waiting For list and see which aging requests are still outstanding. Move these aging requests to your Next Action list and ask the person again for the item.

Waiting For
Sarah- feedback on Sales Playbook, 3-18
Jim - Write-up issue for next Leadership Team Meeting, 3-19
Bill- time to meet, 3-19

3. **Someday/Maybe:** This is the list of things that you one day want to do, but don't need to get done now (e.g. read a book).

Someday/Maybe
Schedule a guitar lesson
Order the book Getting Things Done by David Allen

4. **Agenda:** Inefficient leaders waste a lot of time reaching out about, or responding to, one-off issues in real-time. A much more efficient method is to batch your issues and discuss them all at once. This does not apply for urgent issues. Those need to be addressed immediately. But by addressing many issues on a regular basis, soon urgent issues will disappear.

To do this, create and use an Agenda list. This is your list of regular meetings. When you think of something that you want to discuss with someone with whom you meet regularly, write it down on your Agenda list. Then, when you meet with that person, check your Agenda list and review everything accumulated there.

Spouse
What should we do for our winter holiday?
Connect- listen to each other's day for 10 minutes each

Leadership Team
Are we having enough fun?
10-year Company Vision
3-month Company Roadmap

5. **Projects:** This list is for projects that have more than one Next Action that can only be done one after the other (serially). Write out all of the Next Actions required to get to completion. Then simply add them chronologically to your Next Actions list as the previous action is completed.

6. **Review:** This is your pace for reviewing the lists above.

Daily: Next Action and Waiting For
Weekly: Someday/Maybe, Agenda and Projects

And finally, use your calendar to schedule Next Actions that need to happen on a certain day or at a certain time. I recommend that you actually put your reviews (#6 above) in your calendar.

7. **Goals:** This is not part of Allen's GTD, but I use it and find it very helpful. Later in the book, I recommend that you create for your company a 10 Year Visiona and Quarterly OKRs, as well as Department, Team and Individual quarterly OKRs. I keep a copy of this Vision and these OKRs on the Goals list. I refer to it regularly to flesh out my Next Action list.

Chapter 4: Inbox Zero

We all get deluged on a daily basis with Inbox messages from email, text, Slack, CRMs and other online tools. It's critical to have a thoughtful methodology for dealing with them all—otherwise, you'll be buried in communications and you'll risk missing time-sensitive messages.

Think of your combined inboxes as a single triage room at a hospital. Some cases that come in are urgent, others not so much. It is critical to notice the urgent cases immediately, and get them in to a see a doctor now. To do so, you must keep the triage room clear. If you use the triage room as a waiting room as well, then a new patient can enter the room, sit down in a chair, and bleed out from his stab wound before you even realize he is there. For this reason, every well-functioning hospital separates its triage room from its waiting room, and keeps the triage room absolutely clear. To be efficient, you must do the same with your inbox. This means addressing all the urgent cases right away, and maintaining Inbox Zero every day.

If you check your email incessantly, multiple times an hour, you are wasting hours of productivity. Instead, batch your time and clean out your entire inbox at those times. I recommend checking your inbox only twice a day (once in the morning, once in the afternoon). Each time, follow this process:

1. If the email/message takes less than two minutes to address, do it immediately.

2. If it takes more than two minutes, write down a Next Action for it (according to the Getting Things Done methodology) and then place the email in its correct location (Next Action, Waiting For, Someday/Maybe, or Reference).

The best way that I have found to do this when using Gmail is to read and implement Andreas Klinger's iconic blogpost on GTD in Gmail. In it, Andreas explains how to use Gmail's Multiple Inbox feature to create an inbox for Next Action, Waiting For, Someday/Maybe, and Reference. You can set the system up in 15 minutes.

3. Repeat until you get to Inbox Zero. If you are truly fearless, you get can get to Inbox Zero within the hour (yes, even if you have 1,000s of emails in your Inbox right now).

Chapter 5: Top Goal

In startups, fires never cease to burn. One of the most common complaints I hear from CEOs is that on a day-to-day basis they seem to have infinite things to do, yet weeks will go by and they don't feel like they have accomplished anything. This is the result of getting bogged down with the small immediate things and losing track of the important long-term ones.

The Top Goal framework will help you fix this. Greg McKeown, who wrote a phenomenal book on productivity called Essentialism, boils this down to one key concept: **Schedule two hours each day to work on your Top Goal only. And do this every single work day. Period.**

The earlier in the day you schedule this Top Goal time, the better, so as to avoid other issues (and people) from pressing for your attention. There is also strong researched-backed evidence to show that we we have more decision and thought-processing energy early in the day when our brain is freshly rested. Take advantage of this high-quality brain functioning by doing the important stuff first.

During this Top Goal time, do not respond to emails, texts, calls, and messages. Only work on your top priority (your top goal for the current quarter [3 months]) during these two hours. If you follow this pattern each workday, you will achieve amazing things.

If you have never scheduled this kind of focused work time, starting off with two hours a day will likely be too great of a leap. Instead, start by scheduling 30 minutes for tomorrow early in the day. If that goes well, then schedule 30 minutes each weekday morning for a week. If that goes well, increase the daily scheduled time to one hour. Continue increasing each week until you find the right balance, knowing that the recommended target is two hours.

Chapter 6: On Time and Present

It is critical to be on time for every appointment that you have made, or to **let the others involved in the meeting know that you will be late as soon as you realize it.** This is common decency, yes, but it has a greater importance.

There is someone else on the other side of your agreement to start the meeting at a certain time. They have stopped what they are working on to attend the meeting on time. If you do not show up on time, they cannot start the meeting, but they also cannot leave, because they don’t know if you’ll show up the next minute or not.

Each minute that they are away from their work is a minute of productivity that you have stolen from them. This is not only disrespectful but also counterproductive. If they are a customer, investor, or recruit, they will not engage with your company. If they report to you, they will keep quiet but resent you. There is no winning scenario when you waste someone’s time.

But life happens. A previous call or meeting may run late. Traffic doesn’t always cooperate. Even with careful planning, it’s not possible to be on time for every meeting. The good news is that you don’t need to be.

It is only critical to let the other members of the meeting know that you will be late as soon as you realize that you will be. And you must come to this realization (and let the other attendees know) before the meeting starts, through whatever channel will get to them the fastest. Ideally, you’d let them know about the delay before they have to break away from whatever they are doing before the meeting.

In addition to being on time, you must also be present. Being present means that you are composed, prepared, and focused on the subject matter. It can take a few minutes to “get present” -- prepare for the meeting, research the topic and the attendees, go to the bathroom between back-to-back meetings, get a drink/snack, and so on.

Therefore, I recommend that you plan to arrive to an outside meeting fifteen minutes before it is scheduled to begin. For a meeting in your office, wrap up your current project or previous meeting five to ten minutes prior to the scheduled time for the next meeting.

To make this easy, I recommend scheduling 25 and 50 minute meetings only (Google Calendar even has an automated setting for this). This will give you 5 minutes each half-hour and 10 minutes each hour for maintain yourself.

When in the meeting, I often see CEOs making the mistake of constantly checking their messages. They cannot get away from being "on," if even for a second. This is not only disrespectful, but it defeats the purpose of the meeting, which is collaboration with the attendees present. It sends a message that the meeting's content is relatively unimportant. Furthermore, it also breeds a bad habit for the entire company—one that will be hard, if not impossible, to break down the line.

During every meeting, leave your phone in your pocket or face-down. Sticking with the strategies in Chapter 4 ("Inbox Zero") will help you to focus on your meetings and make the most out of your assembled—and expensive—talent. And if the meeting is not efficient, then make it so (see Chapter 21).

Chapter 7: When you say it twice, write it down

Whenever you find yourself saying something for a second time (to a second audience, or in a second situation), it is highly likely that you will end up saying it again and again in the future. To vastly improve the quality of the communication, and reduce the amount of time that you spend communicating it … **write it down**.

Then, the next time you need to communicate that message, you can simply share it in written form. If it is something that all members of the team should know and remember, put it in a company-wide Wiki. If it is truly seminal to the organization, post it on a wall for all to see.

Chapter 8: Gratitude

Confirmation bias is the phenomenon that whatever belief we start out with, we will discover evidence to support it. A corollary to this is that whatever question we ask, we will focus on the answer.

In any situation, we can ask ourselves "What is wrong here?" or "What is right here?" From an early age, our parents, teachers, and employers have taught us to ask the former question. They cannot be faulted. They had the best intentions. In the earliest years of our life, they were trying to keep us alive. Unfortunately, an unintended consequence is that we learned to focus on the negative, and so we continually see the negative. This leads to objectively very successful people being not fully satisfied with their lives, themselves, etc. If that is where it ended, I wouldn't touch it, as this book is about becoming a great CEO, not feeling fulfilled. However, that is not where it ends.

It turns out that we perform our best when we are having fun and feeling good about ourselves.

If you want proof of this, go to any kid sports event where you know the names of the kids. Start cheering positively for the team that is losing, with specific compliments to specific kids: "Great pass Jimmy." "Way to be in position, George." When a kid takes a shot but misses … "Good idea Joey, it was the right thing to do." Within 5-10 minutes, the tide of the game will start to change. (I have done this many times. And it has worked every time.)

So, how do we take advantage of this knowledge to generate a good feeling in ourselves? We ask the right question: "What is good about this situation?" "What is good about this team member?" "What is good about my company?" "What is good about my life?" Or, we simply fill in the overarching statement: **"I am grateful for ________."**

I recommend making this a daily practice. I do it first thing in the morning. To remember to do it, create a trigger for yourself.

A trigger is something that you will see at the time that you want to do the action. Using a trigger allows you to easily create a habit. The easiest trigger, in this case, is a piece of paper with the word "Gratitude" printed on it, taped to your night-table, or wall by your bed, or mirror in your bathroom. When you see it each morning, you say the phrase 5 times with a different ending each time. (You don't have to say it out loud; you can say it in your mind.)

Another way to make this a regular habit is to use a journal like the The Five-Minute Journal. Keeping the book by your bedside is itself the trigger, as you will see it when you wake up, and just before you go to sleep.

If you do this gratitude practice regularly (don't worry if you miss days here and there), your view of your life and yourself will begin to change for the better. And soon afterward you will begin to perform better in life as well, just like the kids on the sports field.

For the cynics out there, being grateful doesn't mean that you will suddenly ignore all of the areas of your life or your company that could use improvement. Just the opposite. It only means that you will bring an attitude of joy, as opposed to desperation, when addressing those areas.

Life (and company-building) doesn't have to be hard. Daily gratitude helps us realize that.

Chapter 9: Appreciation

Appreciation is simply an outward extension of gratitude. In gratitude, you speak to yourself. In appreciation, you speak to others. The content is the same.

When you catch yourself feeling grateful about someone or something that they have done, let them know. When you hear something nice said about someone, let them know.

The benefits of this practice are threefold:

1. The recipient will feel better about themselves. And we now know what happens when people feel better about themselves.

2. The recipient will feel connected and appreciative to you for having brought them this good feeling.

3. You will start to view the recipient more positively, since you are now focusing on a positive aspect about them.

Chris Fralic of First Round Capital in his iconic blogpost on networking says that he reserves one hour each week for follow-ups and outreach, most of which include appreciations. I recommend that you do the same.

Part III — Group Habits

No matter how original and innovative your ideas might be, and no matter how efficient and productive your own habits might be, you won't be able to build a truly exceptional organization alone. Your company's success depends on how well its members work together. Just as individuals develop habits, so do groups. And just as with individuals, it's much easier to start off with good group habits rather than have to change your bad group habits down the line.

Chapter 10: Writing vs Talking

When two people are discussing an issue, the need to be efficient is important. When a team is discussing an issue, the need to be efficient is paramount, because each inefficient minute is multiplied by the number of people in the discussion.

If you want the most effective and efficient decision-making process, **require that anyone who wants to discuss an issue write it up, along with the desired solution, ahead of time.** The goal of this write-up is to be thorough enough that at the time of decision-meeting, there are few or no questions. This can be achieved one of two ways:

1. The hard way: Write an extraordinarily thorough analysis from the get-go.
2. The easy way: Write a draft, circulate it to the meeting participants before the meeting, and invite comments and questions. Then write out responses to all of these comments and questions prior to the meeting.

Jeff Bezos, founder and CEO of Amazon, is famous for using this written method. He requires that anyone who wants to bring up an issue or proposal must write up the item fully prior to the decision meeting (with someone else writing up a counterproposal if necessary). The meeting is then spent reading the write-ups. Once the decision-making team has read them all, a decision is made. If consensus is not reached, an appointed decision-maker makes the call. If there are still open questions, then the decision-maker assigns one or more people to research, and of course write, the needed follow-up. At the end of the next meeting, the decision is made.

This method, though time-consuming for the sponsor, yields extraordinarily thoughtful decisions in a very short amount of time. The extra effort and work by one person creates a net savings in time and energy across the whole group.

Imposing this process on a group is daunting. Here is a way to ease a group into it:

1. Reserve the first 15 minutes of the meeting for all participants to write out their updates and issues. Then use another 10 minutes of the meeting for all participants to read each other's updates and issues. Then discuss and decide. Use this method for 2-3 meetings, then ...

2. Require that all participants write their updates and issues prior to the meeting. Do not allow people to bring up an issue that they have not already written up. Use the first 10 minutes of the meeting for all participants to read each other's updates and issues. Use this method for 1-2 meetings, then …

3. Require that all participants write their updates and issues by a certain time prior to the meeting (eg- 9pm the night before). Require that all participants read and comment on each other's updates and issues prior to the meeting. People prove that they have read the docs by having their comments in the docs themselves. Do not allow people to make comments in the meeting if they haven't already commented on the docs themselves.

Chapter 11: Decision-Making (Getting Buy-in)

One of the core challenges in leadership is how to get your team to buy into a decision. It's often easy to make a decision, but it can be much harder to get your team to invest emotionally in that decision.

You create buy-in when you make people feel they are part of the decision, and that their input contributes to the final outcome. The more influence they feel they have on the outcome, the more they'll be invested in the final result.

Broadly, there are three ways to make a decision. Each has a different time requirement, and creates a different level of buy-in. There are no free lunches here, unfortunately—the method that creates the most buy-in also takes the most time.

The methods are:

1. Manager makes the decision, announces it to the team, and answers questions.
Pro: Takes very little time.
Con: Creates very little buy-in from the team. And gets no benefit from their collective knowledge and experience.

2. Manager creates (or assigns someone to create) a written straw man (a hypothetical answer designed to inspire discussion), shares it with the team, invites team to give feedback (written and verbal), facilitates group discussion, determines final answer.
Pro: Creates more buy-in. Gets some minimal benefit from the collective wisdom of the team.
Con: Takes more time.

3. Manager invites team to a meeting where dilemma is discussed from scratch with no straw man. Manager and team equally share ideas. Final decision is determined by consensus if possible.
Pro: Creates the most buy-in. Gets a lot of benefit from the collective wisdom of the team.
Con: Takes the most time.

Not surprisingly, the greatest benefits require the most work. If you want more buy-in and a better decision, you need to take more time in making the decision.

So, which method should you use? It depends on how significant the decision is, and how important buy-in is. For everyday, low-impact issues (eg- the venue for the holiday party), Method 1 is sufficient. For major, core issues (eg- Company 10-Year Vision), Method 3 is necessary. For everything in between (the vast majority of important decisions), Method 2 is optimal.

Chapter 12: Loudest Voice in the Room

(This chapter was inspired by a conversation with Anthony Ghosn, CEO of Shogun.)

Whenever you choose to use Method 3 to get full buy-in, know that, as CEO, your voice will be the “loudest in the room”. In order to get full buy-in, you will have to elicit people’s truest thoughts. Once people hear your perspective, some % will naturally alter their own views to more closely match yours. This % is much higher than you might imagine. People assume that as CEO you have more information than they do, and therefore your perspective is probably more correct. Later, these same people will not feel fully bought-in to the outcome, because internally they will know that their true thought was not actually heard.

So, in order to get the full benefit of your team's knowledge and to make sure that they get to full buy-in, be careful not to "tip your hand" before all others have shared theirs. The most effective way to do this is to have people write down their vote and/or their thoughts prior to you sharing your perspective.

For an excellent example of this phenomenon and the solution, CJ Reim of Amity Ventures pointed me to *13 Days* by Robert F Kennedy about the Cuban Missile Crisis.

Chapter 13: Impeccable Agreements and Consequences

A very common cause of inefficiency in startups is sloppy agreements. People don't show up to meetings on time, and they don't complete the goals that they declare (or they don't declare goals at all). The result is a spreading virus of unproductiveness and decreasing morale.

The antidote for this is simple: Impeccable Agreements. These are 1) precisely defined, and 2) fully agreed to by all relevant people.

"Precisely defined" means that a successful follow-through of the agreement can be judged by an objective third party. For example, "We'll start back up again after lunch" is not precisely defined. A participant could have lunch, take a two-hour walk, and then come back to the meeting and still have adhered to the "start after lunch" requirement. An Impeccable Agreement would be: "It is 12:04 pm now. We will start the meeting again at 1:00 pm. We all agree to be in our seats and present prior to 1:00 pm." The agreement is now precisely defined, including calibration of time shown on each person's device.

An Impeccable Agreement should be written down in a location that is easily accessible by all participants. The only exception is when the agreement is so small, or so regular, that all participants are sure not to forget what the exact agreement is.

As discussed in Chapter 6, "On Time and Present," there will, of course, be times when you realize you will not be able to keep an agreement you have made. No problem. As soon as you realize you won't be able to keep the agreement, you let the other members of the agreement circle know. You also let them know what you *can* do. This gives them the opportunity to adjust and maintain productivity.

Examples:

1. You agreed to be at the Team Meeting by 10:00. But because of unusual traffic you estimate that you will reach the office at 10:05. You immediately contact your team and let them know that you will be at the meeting by 10:10. The other attendees can begin with agenda items that don't require your input.

Chapter 14: Conflict Resolution

One of the most fun things that I do is help people resolve deep interpersonal conflict. I have been called a “magician”, “wizard”, “master”. All of this praise is misplaced. All I do is follow a script, and you can to.

Stephen Covey shared the technique in his iconic *The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change*. Chris Voss showed it’s effectiveness in his excellent *Never Split the Difference: Negotiating As If Your Life Depended On It*.

Most people “hate” each other, because they feel unheard. For me to respect you, I don’t need for you to agree with me. But I do need for you to hear what I have to say. When I tell you my perspective (which I of course believe to be right) and you aren’t immediately convinced, then I assume that you didn’t really hear or understand what I said. If you start sharing your perspective, I will be uncompelled and unwilling to truly listen, because you haven’t been willing to consider mine. And the cycle spirals downward to hate and acrimony.

There is a simple fix. I only need to prove to you that I have “heard” you. And to do that, I only need to repeat back what you’ve said (summarized, of course) until you say “That’s right!” Then you will feel heard. You will now be open to hearing what I have to say.

(Here is an experiment that proves this principle. The next time you encounter a person who is repeating themselves, stop them and ask if you can state back what they’ve already said. They will say “yes.” When they do, summarize what they’ve said, and ask if you got it right. If they say “yes” again, then watch to see if they continue to repeat themselves. They will not.)

To resolve conflict, you only need to get each person to state their deepest, darkest thoughts, and then prove that each has heard what the other has said.

If you are the facilitator, here’s how it works:

<u>Step 1:</u> Get Person A (the person with less power in the relationship) to state their deepest darkest thoughts about Person B.

You say: “In every major relationship that we have, we have feelings of Anger, Fear, Sadness, Joy and Excitement. When you think about (name of Person B), and you focus on the Anger that you feel, what thoughts come to mind?”

If Person A is reluctant to say anything, which is often the case, you supply the thoughts that you might have if you were in their shoes. Be dramatic. Become an actor. Get into the role. State the thoughts as explicitly as they would appear in your own mind. Use swear words.

Person A will start to guide you. They are likely to say: “That’s close, but not quite it. The thoughts I have are more like …” When they slow down or don’t seem willing to go further, again state the thoughts for them. Each time you do so, it allows them to go further. Do this until Person A has stated their raw, unvarnished thoughts around anger toward Person B.

Ideally, Person A will state their feelings and thoughts in the following way:

1. Observation: “I have noticed that the following occurred: …. “ (This should be a statement of fact, not a judgement.)
    a. Example of fact: “... yesterday when you spoke to me, your voice was loud.”
    b. Example of judgement: “... you’re an asshole.”
2. Feeling: “When I notice that, I feel ….”
3. Request: “I request that you ….”

It is highly unlikely that Person A will actually speak this way. Don’t worry about it. Let them splurge their thoughts and feelings. If they become very judgemental, steer them back to statements of fact.

<u>Step 2:</u> Get Person B to confirm that they have heard what Person A has said.

You say to Person B: “Please repeat back what you heard from (name of Person A). Summarize the key points, and then ask if you got it right.” Person B summarizes what they heard. Person A either says “not quite” or “that’s right.” If it’s not quite, then ask Person A to clarify. Person B than states again, until Person A says “that’s right.” To confirm that Person A feels fully heard, ask: “On this aspect of your thoughts and feelings, do you feel heard? Or is there more?” Allow Person A to say more until their answer is “I feel heard.”

<u>Step 3:</u> Switch roles.

Now its Person B’s turn to share their thoughts when they think about the Anger that they feel. Run through the entire process. Round one is now complete. Both have stated their thoughts around anger with the other, and feel heard.

<u>Step 4:</u> Walk down the line of emotions.

Next, move on to round two, with each stating their thoughts (and being heard) around the fear that they feel with respect to each other.

These two rounds are usually all that are needed. The two will now see each other in a way that they have never seen each other before. If the moment of deep understanding has not yet occurred, continue to move through the emotions. The next rounds are Sadness, then Joy and finally Excitement.

In my experience, when the two people who previously hated each other, have shared their thoughts (and been heard) around all five of the basic emotions they feel toward the other, ending with Joy and Excitement, the two create a deep understanding and respect for each other, if even they still do not agree with the others' positions. (Please let me know if you experience something different.)

Step 5: When the ah-ha moment of understanding occurs, seal it with a physical connection: a hug, a handshake, a high-5.

At some point during Step 4, there will usually be a moment of understanding and compassion for each other. When this moment occurs, seal it with a physical connection. If the two have hugged in the past, ask them to do so again now. If the most they have done in the past is shake hands or high-five, then ask them to do that now. This physical connection symbolizes the new understanding and puts a capstone on the event.

Step 6: Co-create a plan so that misunderstanding and acrimony do not enter the relationship again.

Person A (the one with less power in the relationship) goes first. Person B adds their thoughts. They go back and forth until they have agreed on a plan.

Step 7: Write down the verbally-agreed-upon plan.

Verbal agreements are not impeccable. We all understand words a little bit differently. To make this agreement impeccable, ask Person A to write it down and make it available to both Person B and the facilitator, who write in their comments and edits until the written plan is agreed upon.

The plan should have:

1. Next actions, with a responsible person and due date for each.

2. A check-in time for all to view and ensure that the stated actions have been completed.

Now the agreement is impeccable.

Chapter 15: Conscious Leadership

Conscious Leadership is about being more interested in learning than being right. When our egos make us afraid to be wrong, that fear leads us to defend our ideas at all costs, and to work too hard to convince others that we are right—often with anger. Conscious Leadership is about recognizing when these emotions (fear, anger, sadness) have gripped our thought processes, releasing these emotions, and shifting back to a state of curiosity where we are receptive to all ideas and creativity, even if they seem to contradict our own. It is in a state of playful curiosity that truly elegant solutions are achieved.

Jim Dethmer, Diana Chapman, and Kaley Warner Klemp explain this concept thoroughly in their book *The 15 Commitments of Conscious Leadership.*

The challenge of course is to shift from wanting to be right to wanting to learn. Here are some videos that help with that shift.

[Where am I?](#)
[The Drama Triangle](#)
[100% Responsibility](#)
[Revealing or Concealing](#)

The Drama Triangle

When we discuss challenges or issues as a group, we often suffer from two bad habits:

1. We believe that we know the right answer, and try to convince others to see our point of view.
2. We never truly share our deepest, darkest thoughts and feelings for fear of offending others.

This pattern often leads us down a negative pathway, and causes the following problems:

1. We are not able to fully see other perspectives, so we don't get full information.
2. Others never fully appreciate our perspective, because we haven't fully shared it.

In order to elicit your team's full potential, though, you must create an environment where ideas can flow freely. The following exercise, called The Drama Triangle, will encourage your team members to share fully by allowing them the safety of distancing themselves from their own perspectives. To apply it to a situation or conflict, have each person stand up one at a time and declare a Hero, Victim and Villain by answering the following questions:

- Hero:
  "I temporarily solve the situation by ______."

- Victim:
  "I am negatively affected by this in the following ways:______."
  "I am powerless to permanently solve this situation because: ______."

- Villain:
  "I blame (name of a real person) for creating this situation by doing (real action)."

Each person continues this cycle, blaming a new person each time until there is no one left to blame for that issue. (Remember, you can also blame yourself!) Then everybody answers this question: "Are you willing for this issue to easefully and playfully be resolved in this meeting?" The group then moves to brainstorming solutions.

In my experience, it is easy to come up with elegant and complete solutions once all of the "worst" information is on the table, and nothing remains hidden.

I highly recommend using a knowledgeable outsider to facilitate this meeting, at least for the first time. They will keep your team on script. If anyone goes off-script and gets angry, the results can be very messy.

Empathy

Spiritual teacher and author David Deida goes one step further and teaches that empathy is the key to success. To truly feel the feelings of those around you—customers, investors, and team members alike—you must get very curious about their situations and then really imagine yourself in their shoes. If you do this, people will sense it and immediately trust and like you, because they will feel that you care about them and understand their circumstances. They'll trust you to guide them because they know you'll truly consider their interests in your decisions.

Joy vs Fear

When people start diving into the Conscious Leadership work, they quickly lose their fear. And just as quickly, they realize that fear was their primary motivator. Once fear is gone, their life becomes much better, but their business suffers.

It is important at this point to keep pushing forward with the CLG work (quickly) to get to a place where you are motivated by joy. Then you will have the best of all worlds. Joy is an even better motivator than fear, so your business will thrive. And your life will be amazing!

Chapter 16: Customer Obsession

So what does it mean, for practical purposes, to be conscious, and to have empathy for your customers? Remember that you are not making a product—you are solving a customer problem. It is therefore critical that you continually live that customer problem. Only then can you solve it well. To live the customer problem, you must sit with the customer, ask them about their lives, and observe their daily routine, on a regular and constant basis.

This focus should permeate every part of the company, from sales to engineering. It is particularly important to instill this mindset in your engineering department, because the engineering department tends to sit the farthest away from the customer and only hears about the customer in abstract terms. To change this, insist that engineers regularly join both customer support and sales calls.

Your sales department will already have a customer-centric mindset but it is important for them to not prioritize every customer request. Customers know exactly what pain they are feeling, and they know that they want relief. But they don't know how feasible each solution is. You do.

If you actively listen to your customers' pain, they will trust you to decide which solution will best erase that pain. If you do not listen to your customers' pain, then they will do the thinking and make demands about what the solutions should be, no matter how impractical. Once those demands are voiced, it's hard to walk them back.

Build trust with your customers quickly by actively listening to their pain. Really imagine what it's like to have their needs and frustrations. Voice what you perceive back to the customer. ("It seems that you feel anger when ….") When your customer says "That's right!", trust will be established. Teach this methodology to everyone in your company, and have them practice it regularly using role-play.

Chapter 17: Culture

Culture is the unspoken set of rules that people in a group follow when interacting with each other. You act differently when you're in a bar than when you're at a family dinner. That's because the rules that run the interactions between the different nodes in the networks have changed. Culture is the name for those rules.

Values

Values are a critical element in your company's culture, and your company will function at its most efficient if your employees understand and share them. One way to determine values is by posing the question: "The rest of you can make all the decisions about the company, as long as…"

Whatever answers you as a team come up with are your values, and the basis of your culture. Do this exercise on a regular basis (quarterly if it's your company's first year) to make sure that the entire team understands and buys in to your stated values. Here are some examples of answers I have seen to the question above:

> We are always transparent with each other about what's going on at the company, the good and the bad. No sugarcoating.
>
> We don't take ourselves too seriously. We have fun. We laugh and are playful, even when struggling with big challenges.
>
> We are eager to understand the perspectives of each other, our customers, and our investors.

Once you have agreed upon your values, use them to guide your hiring and firing. Bring in people who want to live by these principles and let go of people who don't. Otherwise, your values will have no meaning.

Fun

When creating company culture, do not underestimate the value of *fun*. If people are having fun, they spend more time, energy, and awareness at the company. This leads to better problem-solving and collaboration, which leads to a stronger company that creates more value.

Host events that you enjoy, and then invite (but don't require) your teammates to join you. Your litmus test is whether your teammates are hanging out with you and each other outside of work. If yes, you are likely creating good culture. If not, increase your efforts to practice Conscious Leadership (Chapter 13) and keep working to create buy-in for your values.

Hours

The question of working hours is inevitable in every company. Should you enforce specific starting and ending times? Total number of hours?

Remember, the key metric is output, not hours. If you impose hours, people often will simply put in the required hours, but without effort or enthusiasm, and you'll make little progress. The key is to inspire and motivate your team so that long, hard-working hours are not an imposition, but a choice.

If you are creating and tracking goals, habits, agreements, and key performance indicators (KPIs), openly receiving and providing feedback (Chapters 19-23) and creating fun, then people will be motivated to work hard. They'll see where the company is going, how it's moving forward, and how their efforts and their team members' efforts are contributing. They'll know that they are heard and they'll be having fun.

Remember to always lead by example. Be the first one to show up each day. Be the last one to leave. Once you have department heads, they should also set this example for their departments. Do not hire department heads who are unwilling to do so.

If you do all of the above, your teammates will likely put in long, productive hours at work. If they don't, however, then set a clear minimum standard.

Whatever your teams' working hours end up being, make sure there is a **core period of the day when everybody shows up in the office so that collaboration can occur**. Set a regular meeting (a short stand-up) in the morning at the beginning of this core set of hours.

Meals

Offering meals is a particularly positive benefit. It allows team members to bond organically and with a wide range of people. Having people go out to get their own food usually causes them to stick with the same small subgroup each day.

Offering lunch thus creates a more bonded overall team. Offering breakfast and dinner allows people to easefully extend their work day. Thus, there are benefits to offering meals beyond simply the pre-tax calculus.

(The pre-tax calculus is that meals are a commodity. If you provide the meals company-wide, then you can deduct the expense as a business expense. If you do not, your teammates must use post-tax dollars to buy those meals. Thus, providing meals is a way of providing benefits to your team on a pre-tax basis.)

Encourage team members to be "present" at meals so that they interact with each other. This means no electronics (phones or laptops) at the meal table.

Politics

In this context, "politics" means lobbying to gain personal benefit. Politics are poison for a company. They direct energy away from customer problem-solving, and once they take hold the result is a quick race to the bottom.

Politics are created when someone successfully lobbies the CEO or their manager for some kind of benefit. Others see this, so they in turn lobby. They then gain benefit, and the virus spreads quickly throughout the organization.

It often begins very innocently: “Excuse me, can I please talk to you about a raise? I have been at this company for a year now, and have shown utter dedication by doing such-and-such, and I believe that I now deserve a raise…”

This sounds compelling, and you, of course, want to reward dedication. But if you give a raise based on this conversation, then the whole company will learn that the way to get a raise is to simply ask you for it.

Suddenly everyone will be trying to curry your favor. Be very careful here. You may enjoy this behavior, but it is toxic for the company.

The only way to prevent politics is to never allow lobbying to be successful, and the only way to do this is to have a written policy about as many situations as possible, particularly around compensation, raises, and promotions. Apply this policy to all team members, all the time.

It is difficult to create objective criteria for compensation, raises, and promotions, but there are models. The most successful method I know of is called Grade Level Planning—at least, that’s what Tesla calls it. It calls for a very detailed definition of every position in the company, and every seniority level, along with specific compensation metrics for each position and level. This is then shared throughout the company. Team members can then clearly see what they need to do to receive the next compensation and title level. Managers must not deviate from this written schema.

When a company is smaller (fewer than fifty employees or so) and growing fast, there is often so much fluidity that it can be difficult to implement Grade Level Planning (GLP). Most companies end up doing GLP at 150+ employees, but that is often too late. The compromise is somewhere in the middle. I recommend starting to think about GLP at twenty-five to fifty employees, and then implementing as soon as is practical after that.

Part IV — Infrastructure

Just as an efficient city requires comprehensive and trustworthy systems to move its traffic, goods, and byproducts, your company requires reliable systems to maintain its data and communications flow. Without a solid infrastructure, your brilliant and talented team members won’t be able to function to their full potential.

Chapter 18: Company Folder system and Wiki

It may seem obvious, but every company should have a structured folder system for storing documents, such as Google Drive, Dropbox, or Quip. Each department should have their own folder, and all team members should have access (at least for viewing, if not editing) to all folders except for the one containing compensation, performance reviews, and performance improvement plans.

You should also create a Wiki page, which need be nothing more complicated than a document containing links to all of the other important company documents. Make sure that reading this Wiki from beginning to end is part of every employee onboarding.

Of the possible choices, my current preferred system is Google Drive. Quip is a close second—it's easier to use, and better for internal collaboration. But Drive allows Microsoft Excel and Word docs to be saved easily, and the external world, for better or worse, still uses these formats.

Chapter 19: Goal-Tracking Tools

In each company, dozens of new challenges arise each week. Some might be critical, but others will be mere distractions, cluttering up your team's time and energy. Commit to a systematic Goal-Tracking System to maintain focus and to prevent the clutter from overwhelming your operation.

Individual

Keep it simple. Evernote or Omnifocus are great tools to track individual goals and tasks. For maximum benefit, use them to implement the GTD system (Chapter 3). They are inexpensive and easy to use.

Group

For small groups, there is no need for a dedicated group system—it's easy enough to track company goals in a Google Doc. But as soon as you grow to more than a handful of people, you will need a dedicated group Goal-Tracking System.

There are many excellent systems. They broadly break down between task-tracking (Asana and Trelio) and goal-tracking (Betterworks, 15Five, Lattice).

Task-tracking systems are excellent at transforming Issues to Next Actions and tracking progress from meeting to meeting.

Goal-tracking systems are much better at showing the team their progress over many weeks and months, and therefore boosting morale.

Whatever system you choose, be careful to use it judiciously, as it is very common for people to become overwhelmed with actions from your tracking system.   When this happens, they'll stop using the system altogether. To avoid this, follow two simple rules:

1. Never assign someone an action without them agreeing to it verbally or in writing.
2. Encourage people to use a separate (and simpler) tool for tracking their individual actions that aren't being tracked by the group. Group-tracking tools simply have more overhead per action than individualized tools, and therefore should only be used sparingly.

Chapter 20: Areas of Responsibility (AORs)

"Tragedy of the commons". When several people share responsibility for an action or process, often that action doesn't get done well, or at all.

To prevent this from happening, group tasks into categories, and assign each category to one—and only one— person. These are your Areas of Responsibility. Apple is famous for having pioneered AORs in Silicon Valley, but now most successful tech companies use this method.

Create a document listing every possible function in the company. Next to each function, list the responsible person. This is the AOR list. It serves as a company directory and ensures that no functions fall through the cracks. Make sure everybody in the company knows how to access the list, and update it as new functions arise or as responsibilities shift.

For an example, see Appendix C for a **sample AOR**.

Chapter 21: No single point of failure

A single point of failure is a function that one person performs, when no one else has full knowledge of how that function works. If that person becomes sick or leaves the company, functionality suffers. A well-run company has no single point of failure. To create a team with no single points of failure, do two things:

1. Write down all processes. As soon as you or your team members find yourselves doing something for the second time (see Chapter 7), you should write down the steps of that process exactly. Place these written processes in a firm-wide Wiki.

2. Cross-train a second person for each role. Map each function in the company (from the AORs) to a backup person. Have the backup person co-work with the primary until the backup

knows how to perform the role. (Of course, having all of the processes already written down will vastly improve this training process. So have your team write down all the processes first.)

Chapter 22: Key Performance Indicators (KPIs)

It is critical to objectively measure the performance of the company. You can only manage what you can measure. Key Performance Indicators (KPIs) allow you to do this. KPIs are the one or two significant metrics for each major function that show the entire team in an instant how the company is doing, and where the issues are. Here are some examples:

Department	Metric
Finance	Monthly Cash Burn; Cash in the Bank
Sales	Monthly Recurring Revenue (MRR)
Engineering	Percentage of tickets closed
Recruiting	Percentage of offers accepted

It is important to determine the company's five or six most significant KPIs, then track them religiously and make them available for the entire company to easily see on a daily basis. Post the metrics on a TV screen in a central place in the office, using a tool such as Geckoboard.

As we learn from Andy Grove, former Intel CEO and author of the book *High Output Management*, it is also important to define and track counter-metrics to provide necessary context, because metrics are sometimes optimized to a fault.

For example, engineering tickets will vary in importance, so if your engineers have closed the critical tickets, they're doing better than if they close most tickets but only the easiest ones. Similarly, if the half of candidates that accept your job offers are less skilled than the half that decline, then you're doing worse than the raw percentage indicates.

Create and measure your metrics carefully and in context to give your team the best possible view of your company's heath.

Part IV — Collaboration

One of the most dangerous transitions that a company makes is going from less than ten team members, to more than twenty. During this time, communication and productivity usually break down. The system of group organization that existed when the company was all sitting in the same room together (no system at all) suddenly no longer works when team members are not all sitting next to each other. Once your company has over 20 team members, you will hire great people, but they won't know what to do, and you will be frustrated by their lack of output.

Luckily, there is an answer. It has a time-cost. But once you implement it, it will allow your company to become productive again, and will continue to be effective as your company scales from 10s of team members to 100s to 1,000s to 10,000s.

Every successful large technology company uses this system. It has no single name—Google, for example, calls theirs "Objectives and Key Results (OKRs)"—but the systems are essentially the same from company to company. They share the following key functions:

1. Setting vision and goals for the company, each department, and each individual on a regular basis (usually quarterly).
2. Communicating that vision and those goals to every team member.
3. Tracking and reporting progress toward those goals on a regular timetable (usually weekly).
4. Eliciting feedback from all team members on what is going right, and (much more importantly) what is not going right and needs to be changed.

The system streamlines and organizes information flow out, so the CEO can inform team members of the company priorities, and flow in, so team members can provide feedback to the CEO about what is and isn't working. This information exchange takes place through a deliberate series of goal-oriented meetings, which comprise the core of the system.

In my experience, it is very easy to copy this system if you see it in operation. But it is very difficult to implement such a system by reading instructions (including these). When you get to this point in your company's life cycle, I recommend doing one of two things:

1. Hire a COO who was a manager at a large, well-managed company (over 200 employees) to implement and run this system for you.

2. Hire an x-CEO to come in as a "1 day a week CEO" to implement this system. She should be able to do so in 6-8 weeks. Have her then watch you run the system for 2 weeks to ensure that you are doing it correctly. Then run it yourself going forward.

The remaining chapters in this Part, give you a blueprint for such a system. But, again, it is impossible for me to convey in writing the detail and nuance. The following chapters serve more as a checklist than a set of instructions.

Chapter 23: Meetings

Efficient information flow requires several types of meetings:

1. Quarterly goals meetings
2. Weekly team meetings
3. Weekly one-on-one meetings
4. Company-wide meetings
5. Office hours

Each manager should plan to devote a full day each week to meetings. The weekly team meeting will be the longest (up to three hours in the beginning, until teams learn the habit of writing down all input prior to the meeting, when it can get down to 30 minutes). The weekly one-on-one meetings and office hours will consume the remainder of the day. This timing determines how many team members a single manager can effectively oversee. If on of your managers can't fit all the necessary meetings into a single day, she's got too many people reporting directly to her, and you need to re-organize or she needs to run more efficient meetings.

The overhead—twenty percent of the standard work week—can feel tremendous to a startup CEO who is accustomed to the organic information flow of a small group working together in the same room. But without this one-day-per-week investment, a larger team will never fully know what to do, nor will the CEO get the needed feedback on her performance or the company's performance.

The following sample agenda can be used as a template for all these meetings. It is critical to time-box all agenda items, so that the meetings don't run on, and all issues get addressed. This is done by putting a number before each agenda item. Five minutes is indicated as [5]. At the end of the allotted time, move on. If there are still items to discuss, add them to "Meetings To Be Scheduled."

[1] On time? Which participants are present at the start of the meeting?
Updates
- [5] Department 1 update
- [5] Department 2 update
- [5] Department 3 update (Etc.)

[10] Roadmap

[5] Roadmap/Goals (from previous week; written and submitted in advance):
Completed? Yes/No.
If no, Why not? What habit will you develop so that you don't encounter that obstacle again?
[5] Roadmap/Goals (for next week): What key actions will keep you on track for making your quarterly goals?

[30] Issues
[5] Meetings to be scheduled (i.e. Where collaboration is required among a subset of the team.)
[10] Feedback. What do you like? What do you wish were different?

It is critical that everyone submit all of their issues, updates, and feedback in writing prior to the meeting, as discussed in Chapter 8 ("Writing vs. Talking"). This allows others to read the submissions, make comments, and ask questions prior to the meeting. This massively increases information flow, and allows for consensus to be reached before the team meeting even begins. Team meetings that take 3 hours when done verbally can take 30 minutes (and be more effective) when done in writing.

Quarterly Goals Meeting

Once a quarter, the leadership team, which consists of all the department heads, should take a day or two to refresh the ten-year vision for the company and set the goals for the quarter. After this, each department should follow suit, determining their own ten-year visions and quarterly goals to support the company's. For the very first such meeting you have, it is also important to tackle issues that plague the company, as the solutions to these issues should be made a part of the company's quarterly goals.

10 Year Vision

To create the ten-year vision, imagine it is ten years from now. You are the dominant company in the industry. Ask yourself:

- What industry do you dominate?
- Who is your customer (this should be a real live human being, not a corporate entity), and what pain do they have that are you solving for them?
- What is unique about your solution that causes the customer to choose you over the competition?
- What asset (human or physical) do you control that makes it difficult for any competitor to copy your solution? In other words, what is your moat?

Goals and Actions

For your quarterly goals (or OKRs), aim to create three for the company and for each individual department. The Objective answers the question: "Where do we want to go?". Key Results answer the question: "How do we know that we're getting there?"

Here are examples:
Objective- Reach $500,000 MRR (Monthly Recurring Revenue)

Key Results-
1. Hire 10 additional SDRs.
2. Hire 5 additional Customer Success agents.
3. Hire Sales Ops person to project manage the sales team.

Finally, use your Quarterly Goals Meeting to establish near-term actions. Ask yourself: "What actions can we take this week to stay on track for each Quarterly OKR?" Assign each Action to one person. At your next weekly meeting, the first thing you will do is ask everyone to declare if they completed their assigned Action.

Weekly Team Meeting

In order to support the company's quarterly goals, each team must meet weekly to hold each other accountable to the Actions they need to perform. During this meeting, each attendee should:

1. Report whether they accomplished their weekly Actions. This should be a simple YES or NO. If NO, they should also write WHY? they didn't do the action. And what HABIT? they can adopt to make sure they never encounter that obstacle again.

   Example:

   Get feedback from Joe. **NO**
   Why? I forgot about it, and therefore didn't ask for feedback when I met with Joe.
   Habit? Create an Agenda list. Look at this list each time I meet with someone.

2. Report their department updates (metrics)
3. Bring up any issues they perceive and propose solutions
4. Set goals for the next week
5. Provide feedback to the team leader and other members

Weekly One-On-One Meetings

To many first-time founders, the idea of One-On-One Meetings seems burdensome and unnecessary. If you feel this way, we recommend that you ask any CEO who has managed a successful company with more than twenty people if he got away without doing one-on-one meetings. We haven't heard of any that have.

To understand the basis for these meetings, we recommend that all team members read *The One Minute Manager*, by Kenneth Blanchard and Spencer Johnson. It's a very short read (30 minutes) and it contains simple, effective advice. Assigning it uniformly will make sure your whole team has a common basis for proceeding.

The first One-On-One Meeting should occur soon after the onboarding process is complete. Have both the manager and the team member come to the meeting with written, measurable OKRs. When the manager and team member reach a consensus on a set of OKRs (ideally three or fewer), merge these into one list.

Run subsequent meetings according to the following template. Remember to continue using written notices in advance to make the most of your face-to-face time.

Team member:

1. Goals:
    a. What successes did you have? What are you proud of?
    b. What setbacks did you encounter? What are you not proud of?
    c. What can you do to make sure the same setbacks won't occur again?
2. Updates:
    a. KPIs
    b. What new information did you gather about the customer? The product?
3. Issues:
    a. What tools do you need to accomplish your Goals that you do not currently have?
4. Feedback:
    a. What did you like about the manager's or the company's actions since the previous meeting?
    b. What do you wish would change?

Manager:

1. Elicit negative feedback about your or the company's actions. Do this any way you can, be very thankful for it, and then act to resolve the stated issues quickly. This is the key to making a team member feel heard and valued.
2. Say what did you like about the team member's actions since the previous meeting? What do you wish would change? (During the week, actively look for actions to compliment.)
3. Update the team member's goals:

a. Ensure that the OKRs are still relevant.
b. Ensure that 1 week Actions are the straightest line to achieving their OKRs.

Schedule these meetings regularly, at a fixed day and time. The schedule is usually weekly, but can be bi-weekly once a team member develops expertise at her tasks if her goals remain consistent over time.

On your day set aside for meetings, schedule One-On-One meetings after the team meeting. Schedule them back-to-back, and allot twenty-five to fifty minutes for each one. If there is a serious issue to discuss, such as serious job dissatisfaction, then use your Office Hours (see below) later that day to fully address the issue.

One-On-One and Team Meetings can be merged if a team is small enough, but be cautious about giving negative feedback in a group setting. Unless your team has agreed to radical transparency and actively wants this public negative feedback, shame is likely to arise. Most companies, therefore, opt to provide negative feedback only during One-On-One meetings.

I recommend moving to a culture of radical transparency. Doing so will allow you to merge all One-On-One meetings into the Team meeting. This can save you 4-6 hours on your day of internal meetings.

But radical transparency first requires explicit buy-in from every team member, and training in how to do it effectively. Conscious Leadership Group runs excellent 1-day trainings in radical transparency. The investment of time may seem large, but usually pays itself back within a few weeks (ie- saving a half-day per week).

Company-Wide Meeting

On a cadence that varies between once a week and once a month, it is important to have a Company-Wide Meeting where the results of the most recent leadership team meeting are shared. Follow the same format. Allow time, as always, for anyone in the company to bring up their own issues or to provide feedback.

Contrarian Office Hour

Each manager should set aside one hour each week for an open office hour, during which anyone can come introduce an issue. This ensures that all employees feel that they can be heard, but limits the amount of time required to a predictable level for the manager.

Meeting Leads

It is important that each meeting have a designated Meeting Lead, who is sometimes, but not necessarily, the group's manager. This person is responsible for making the meeting run well, which also means ensuring that all meeting participants submit their updates and issues in writing in advance and show up on time. The Meeting Lead must be ruthless about sticking to the timeline and, whenever something off-topic comes up, they should note it but schedule the discussion for another time. Without an effective Meeting Lead, meetings quickly become inefficient, and people come to resent them.

Chapter 24: Feedback

Receiving

Frequent, transparent feedback is critical for building a strong culture and a thriving business. Feedback is instrumental for building trust. Without trust, communication breaks down. Building a culture of feedback and transparency starts and ends with the founders.

Critical feedback in particular should be cherished. Your team members are in the trenches every day. They have knowledge about the company that you do not have. Only if you open up the door to negative feedback will your team feel comfortable giving it. Think about it from the other side—it can be quite scary to criticize someone who has power over you. You might feel you're risking your job!

If you are defensive to feedback, gossip about specific team members, and don't say it like it is when you see an issue, you will quickly find the following problems emerge:

- **You will be in the dark about your company's problems**: Ben Horowitz says that "a good culture is like the old RIP routing protocol: bad news travels fast, good news travels slow." If every time your team brings up an issue you react defensively, they will soon stop bringing that valuable information to you, and you will crumble in your ivory tower.

- **Your team will gossip and operations will grind to a halt**: When people aren't able to share things openly, communication breaks down. When communication breaks down, operations slow. This problem only gets worse as your company grows, and as it grows it becomes ever harder to change that culture.

- **Your best talent will leave you**: A-players have no patience for defensiveness and amateurishness. If you aren't mature enough to listen to your people, face your problems, and work on fixing them, your A-players will find the founders who are.

Therefore, if you are to receive real, honest feedback and improve, and keep your team communicating, YOU must make the effort to seek it out. Here are three particularly powerful ways to do so:

1. **Ask for it**: Make sure your team understands that giving you negative feedback will not be punished, but cherished. It is important to explicitly say this to them, preferably in a one-on-one setting. When asking for feedback on the company in general, it is useful to ask, "If you were CEO, what would you change?" You can do this in-person or through an anonymous survey.

2. **Listen to it**. Don't interrupt your team member. Don't give excuses. Your job is to listen and try your utmost to understand. Only once you understand the issue, and you've repeated it back to them, and they know that you've understood their issues, can you initiate a conversation about potential solutions.

3. **Act on it**. Actions speak infinitely louder than words. If you have agreed with someone's negative feedback, work on changing the problem immediately. Do not let it fall through the cracks. Doing so will result in your team losing trust in your word, and therefore losing motivation. Instead, create actual Next Actions (in GTD terminology—see Chapter 1) on the issue. Only then will your team members feel confident that their voices are heard, and safe enough to give you further feedback.

Giving

When giving feedback, it is critical to use a 2-way communication method (in person is best, video call is OK, audio call is least good). This is so that you can see the person's reaction. If they get defensive and angry, you will be able to see that and say: "I didn't intend to make you feel angry. My intent was to be helpful." This will hopefully mollify their anger.

If, on the other hand, you use a 1-way communication method (email, text, voicemail), then the recipient can easily become defensive and angry without you realizing it. And because you don't notice the anger, you won't be able to address it. Unaddressed, that anger will soon turn into resentment towards you. Therefore, **DO NOT use a 1-way communication method (email, text, voicemail) to give feedback, unless it is 100% positive.** There is one exception to this rule: If you already know the person to be open, curious and desirous of critical feedback.

Here is a template for providing good feedback, adapted from the book *Nonviolent Communication*, by Marshall B. Rosenberg.

1. Ask for permission. Give the receiver a little heads-up of what's coming. It can be enough to say "I have something to communicate to you, is now a good time?"

2. State the trigger behavior or event. Try to be factual ("When you are late to meetings…") as opposed to interpretative ("When you disrespect me...").

3. State how that trigger behavior makes you feel. This is perhaps the hardest part for many founders to do. Talking about your feelings might not be something you are used to, so it might be challenging at first. However, doing so is crucial for the other person to truly understand where you are coming from and to take your feedback to heart.

Once all grievances have been aired, aim to find a resolution. Many times, the simple act of having an open conversation makes both parties feel better. However, it is crucial to remember that specific behaviors or events caused the need for feedback, and unless these are changed, frustrations will persist. Therefore, strive for an agreement on a new way to behave or interact.

Giving and receiving frequent and transparent feedback may be painful at first. Often when companies start implementing this, it brings up a lot of underlying resentment and repressed issues. However, if you hang in there, you will find the amount and intensity of feedback diminishes substantially, and your team will be noticeably happier and more productive.

Chapter 25: Organizational Structure

In the early stage of a company, before Product Market Fit, when your team is 6 people or less, there is little value in creating a formal organizational structure, or in creating a distinction among co-founders as to who the CEO is. But when Product Market Fit is achieved, it is time to scale rapidly. And this will entail growing the team significantly (Sales, Engineering, Customer Success, etc). Suddenly, a structure is required, because not everyone can fit effectively in one team meeting. Separate teams must be created, and each requires a Manager.

The answer is to both identify the CEO and create a written organizational structure. The org structure should be determined by who attends what team meeting.

The Leadership Team is typically:
1. CEO
2. Head of Product
3. Head of Engineering
4. Head of Sales/Marketing
5. Head of Customer Success
6. Head of Operations (People [Recruiting/HR], Finance, Legal and Office)

Each of these department heads then has a team that they manage. Once you adopt an organizational structure, write it down and make it public to the company. There should be no confusion about who reports to whom, and what team meeting each person attends.

Part V — Processes

Inside your company's walls you've got your key personnel in place and functioning effectively, your data systems up and running, and information is flowing easily from your managers to your team members and vice-versa. The last piece of the puzzle, of course, is your dealings with the outside world—with investors, recruits, and customers. These processes—fundraising, recruiting and sales—are all identical processes. They only differ in the contents of the exchange.

In fundraising, you are selling the company's equity and debt as a high-quality investment, and the investor is compensating you with capital. In recruiting, you are selling the company as a high-quality employment opportunity, and the new employee is giving you their time and effort as payment. In sales, you are selling your product as a high-quality solution, and the customer is giving you money as payment.

In each of these cases, someone is making the decision to invest in you or your company, whether with money or time. As such, you'll need to build trusting relationships with these decision-makers in order to fundraise, recruit, or sell.

Chapter 26: Fundraising

Pick a Partner, not a Firm

When you raise money, you also get an investor. Make sure you get the partner that you believe will add value and be good to work with. Don't allow the choice of partner to be made by the firm. Find out from other founders who at each firm is the good person to work with. Then approach them.

Introductions

The introduction is a key part of the fundraising process, and you only get one chance at it. I recommend using the Triangulation Method

When you want to be introduced to an investor, first find three to five people in your network who know that person. Then ask each to send an email to the target investor, letting her know how great they think you are, and highly recommending that she meet with you. After receiving several such emails, the investor will proactively reach out to. She has received recommendations before, but never three or more for the same person. She concludes that you and your company must be truly great, so she is already inclined in to invest in you before she even meets you.

From your side, stack all of the referrals in a short period of time (within a week). Just as with PR (Chapter 27), you are trying to achieve critical mass and have the referrals rise above the noise of other referrals. Stacking the referrals close together ensures that they rise above the noise.

It's important not to hand each referrer the same potential text to send onward. If they end up sending the same language, then the referrals are revealed to be orchestrated by you. Therefore, either give your referrers different suggested language or no suggestion at all.

Two Methods

There are two ways to raise money: the Traditional Method and the Relationship Method.

The Traditional Method is when you pitch an investment firm with your story, most often with a slide deck, that describes the customer problem, your solution, market size, unit economics, financial projections, competition, team members, traction, go-to-market strategy, and so on. You might run through your presentation dozens of times before you find a spark of interest, in either you or your company.

The Relationship Method is to build a trusting, friendly relationship with an investor before ever discussing what your company does. This takes more time, but it dramatically increases the close rate. This works because no matter how rational we appear, we are most often guided by our emotional responses. We make instinctive, gut choices, and our rational brains do an excellent job of retrofitting logic over those choices.

The very first time you talk about your company, the investor will make a decision about whether or not she wants to invest. If she does not yet like or trust you, then your company had better be optically perfect—and more often than not it isn’t. So, the key is to wait to talk about your company until you are sure that the investor likes and trusts you personally. By then, the investor will have a positive bias toward you, and will be inclined to invest your company, warts and all.

But how do you get the investor to like and trust you?

Build trust and like

Think about the people you like. Do you like people who just talk about themselves and show no interest or curiosity about you and your life? Or do you like people who ask about you, listen attentively, and are genuinely curious about what makes you tick?

When meeting potential investors for the first time, ask them about themselves. Get genuinely curious about their lives, both at work and at home. Ask them lots of questions. Prove to them you're listening by saying, "I think I heard you say…" and then repeating back to them the highlights of what they said to you. When the meeting ends, write down as much information about the person as you remember.

At your next meeting with them, say, "The last time we talked, you said…" and again repeat the highlights. It is heartwarming when we find someone who cares enough about the details of our lives to remember them.

Also, let them know what they have done that you appreciate. If nothing else, you can always appreciate the fact that they took the time to meet with you.

But how do you get a meeting in the first place without the explicit purpose of talking about your company? You can use the Triangulation Method, outlined above, but if you don't have enough mutual acquaintances, you can simply ask for it. Be explicit about your intent to build a relationship. Say something like, "We only want to work with investors with whom we have a good relationship. So let's start with a coffee to get to know each other personally."

After the first meeting, ask for a second. Since the stated purpose is to build a relationship, the investor is likely to say yes. If you have truly allowed them to speak about themselves, they will have enjoyed the meeting and will look forward to another.

These meetings do not need to be long, nor do they need to be in person. A fifteen-minute phone call can be as effective as a one-hour meal if, after time has passed, you demonstrate genuine care and a memory for the details of their life. After two meetings like this, when you listen to them and reflect back what they say, they will trust and like you. Several more and they will love you. You'll know when the moment comes that they like and trust you. They will likely say it. If not, their body language will show it.

You can then proceed to talk about your company with the confidence that they are already inclined to invest. If you aren't good at reading body language, just wait. At some point, they will say something like (and this is an actual quote from an investor): "I really like you. I want to invest in you. Now tell me what your company does."

To summarize, the four keys are:

1. Ask them about their lives.
2. Prove that you heard by saying “I think I heard you say ...:”
3. Prove that you remember by saying at the next meeting “The last time we talked you said …”
4. Let them know what you appreciate about them.

If you do all four of these things, you will have created a bond, and you then have a willing investor.

When most CEOs hear of this method for the first time, they have a strong negative reaction. This method feels unnatural, and goes against their instincts to close quickly. Later, once they have tried the method, and it works like a charm, they become raving fans. My best advice, therefore, is to try it on a few prospective investors, and see if it is more effective than the traditional approach.

Strengthening the Relationship

Once you have met with someone a couple of times and demonstrated your memory and care for their lives, you have created a relationship. This is likely enough for them to like you. But why settle for just enough? To further strengthen the relationship, continue to be curious about them, and show them that you remember what they say. Three to five rounds of contact will solidify the relationship. Not every one needs to be an in-person meeting—it can be enough to send a quick message, as when someone sent me this email:

> Matt,
> Your old house, no??
> Peter
> http://www.sfgate.com/realestate/walkthrough/article/Soothing-style-welcoming-pool-patio-defines-11023844.php#photo-12599447

I felt honored that he remembered where I used to live. And I now feel even more connected to him.

Lest you think this is a tactic that only over-aggressive young CEOs use, know that the person who sent this message is a very wealthy retired CEO/founder who wants nothing. He was just genuinely reminded about me.

Below is another example, a message of appreciation, which comes from a Managing Partner at one of the most successful investment firms in the world.

> *Hey Matt,*

> *Just wanted to drop a note of thanks. I really enjoyed our talk on Tuesday and brief ones since. Also greatly appreciate you treating me to lunch. Talk soon!*
>
> *Bill*

I feel honored that he took the time to appreciate me.

The following comes from Andy Bromberg, Founding CEO of CoinList, who takes it a step further:

> *At the risk of giving up my secrets, I'd suggest handwritten thank you notes. The response I get to my handwritten notes is incredible. People are floored. And often remember me as "the handwritten note guy."*

So make it a practice to regularly go through your contact list and send out messages of appreciation. You will be shocked by the massive goodwill that it generates. Andy suggests making this a formal process—he says, "Every day I review all my interactions and send (or schedule) thank you's as appropriate. It ensures I don't miss anyone and am prompt. And it takes literally a few minutes."

Sell Yourself, Not Your Company

Cliff Weitzman, CEO of Speechify, realized that it was key to sell himself and not his company. If he was able to do so, he would gain investors for life—investors who would follow him through every pivot, and every company. So, when Cliff realized that trust and like had been established, he shared the story of his life—using a method that his brother Tyler had discovered.

Tyler Weitzman, CEO of BlackSMS, is a unique guy. He likes to research social situations. As an undergrad at Stanford, he researched a method for conveying one's achievements (or bragging, if you prefer!) while remaining humble and relatable. Through countless interviews of master storytellers, Tyler determined the ultimate structure for telling one's story in a humble way:

- **Credit**: "It could not have happened without [name the others involved]."
- **Hard Work**: "We had to put in so much to make it happen, for example, [describe the hard work]."
- **Vulnerability**: "It was most difficult for me when…"
- **Duty**: "We were driven by our dream to [noble motive]."
- **Gratitude**: "I am so proud and thankful that…"

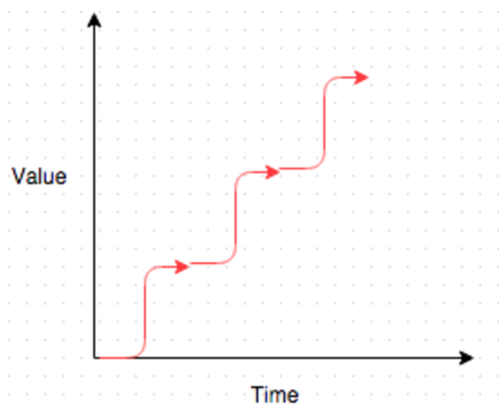
I encourage you to tell your story to a friend using this exact structure. See what comes out. Ask your friend for her reaction. I think you will be amazed.

For an example of this method, see the Acknowledgement section at the end of this book.

Timing

(This section was written by Misha Talavera, Co-founder of NeoReach.)

There are milestones in a startup's life that, once achieved, make it significantly more likely that the company will eventually succeed. Each of these milestones, or inflection points, greatly reduces the company's risk, and makes it much easier to raise money. Your company's value, then, does not rise in a linear fashion, but in a stair-step pattern, as indicated in the chart.



Examples of inflection points include:

- Hiring a capable engineering team
- Signing up your first 3 paying customers
- Exceeding $1M in annual recurring revenue (ARR), which demonstrates Product-Market Fit
- Hiring a capable sales team
- Exceeding $5M in ARR, which demonstrates the effectiveness of your sales team
- Hiring senior managers for all departments

The best time to raise money is just after you've hit an inflection point. This is because your company has just increased in value, but will not increase further until it hits the next milestone, which could be months away.

Simple Agreements for Future Equity (SAFEs) vs. Priced Equity

A SAFE, and its cousin the Convertible Note, are investments that are used when it is impractical to create a priced equity round, either because the amount raised is too small or you do not have a institutional investor to lead the round. Priced equity rounds usually incur large legal costs, often over $100,000, which the company invariably ends up paying for. SAFEs and Notes are much less expensive, with legal fees often less than $10,000. You should therefore only do a priced equity round if the total money raised will exceed $2M, and preferably exceeds $5M.

SAFEs usually convert at a discount to the next priced equity round, and can also have a valuation cap. I recommend always having a SAFE open, even after you do a priced round. Here is an example of what this might look like:

- When you start your company, you would raise your initial money of $2-5M in a SAFE.
- When you hit product-market fit, you raise an additional $2-10M in a Series A priced round and the SAFE converts into this round.
- You then immediately open up a second SAFE, and leave it open until you have raised another $5-10M.
- Once you hit $5M in annual recurring revenue, you raise a Series B priced round of an additional $5-20M and the second SAFE converts into this round.
- You then open a third SAFE. And so on.

Institutional investors prefer to invest in priced equity rounds. But family offices, and even strategic investors, who are not accustomed to leading priced rounds, are often very willing to participate in SAFEs, even as the company matures, as long as they have confidence that there will be another priced equity round. Therefore, there is little downside in always raising the first tranche of a round in a SAFE. This money extends your runway to reach the metrics required to raise the next priced equity round.

Voting Shares

Mark Zuckerberg retains total control of Facebook even though he only owns a minority of its shares. Why? Because he owns a majority of the company's voting shares. Now that this structure has been accepted by investors, there is little reason not to set it up in your own company. And the easiest time to do this is prior to having equity investors.

FF Shares

In addition, FF (Founder Friendly) shares allow founders to get liquidity at each priced round without raising the fair-market valuation of the options granted to other team members. This allows founders to continue to pay themselves low salaries (excellent optics within the

The key is efficiency. And to be efficient, you must **spend as little time as possible with the candidates that you don't hire (quick evaluation) and as much time as possible with the candidates that you want to and do hire (building a relationship, onboarding/training).** Remember that each minute you spend with a candidate that you don't hire is a minute that you aren't spending with the team member that you want to hire.

Of all the recruiting systems that I have seen, the best is described in the *Who,* by Geoff Smart and Randy Street. I have summarized the Recruiting System in Appendix B. If this system resonates with you, I highly recommend reading the book *Who* to understand the details.

Before Recruiting

As the hiring manager, write out a ninety-day roadmap for the position you need to fill. This roadmap includes all the goals that the new team member will be expected to hit within the first ninety days of joining. This is critical for successful onboarding. During the interview process, share this roadmap with the candidate to make sure that she is excited about these goals.

Build a Relationship

Just as in fundraising, recruiting is a sales process, so building a relationship with a recruit will vastly increase the likelihood that she will want to join your company. The best candidates can work anywhere. Make sure that they want to work with you.

Do this by using the same techniques mentioned earlier. Ask the candidate about herself, reflect back what she says, and remember what she said the next time you meet with her. If you have already used this method during your initial fundraising, you will know how effective it is.

Compensation

How much compensation do you offer new team members? How much cash and equity?

My preferred method is to:

1. Discover the market compensation for the position (role and seniority). There are plenty of online compensation studies that show this. Market compensation is whatever a big company (Microsoft, Facebook, Google) is paying for this position.

2. Discover the amount of cash that the new team member would need to live comfortably (housing, food, transportation, child expenses, etc).

It is up to the start-up to match the market compensation level, not in cash as the larger companies do, but rather in a much lesser amount of cash (no less than the amount needed to live comfortably), plus equity to bridge the difference.

Here is an example to show how the equity portion is calculated. Let's say the position is a Level 3 Engineer who is paid $300,000 in total compensation at Google. The team member requires $120,000 in cash to live comfortably, and wants to invest the remainder in startup equity. The amount of equity is calculated by taking the difference between market and cash ($300,000-$120,000=$180,000), and multiplying it by 4 years ($180,000 x 4 = $720,000). This amount is then divided a factor somewhere between 1 and 2, which represents a very conservative estimate of the increase in value of the equity over 4 years. A 1 represents no expected increase in value. A 2 represents a 2x expected increase in value. If 1.5 were used (which is the most common factor used), the final amount would be $720,000 / 1.5 = $480,000. So grant this amount in options, however much equity it purchases at the company's current valuation. The options vest over four years.

I prefer to then make an offer that allows the new team member to choose how much they want to invest in the startup equity, at three different levels. The lowest cash level would be the level needed to live comfortably.

Here's an example in which the company is currently worth $50mm. The company will likely need to do another major round of financing along with optional pool refresh before it gets to maturity, which is an expected 50% dilution to the current cap table. A $1 billion eventual value of the company, would result in a 10x increase in value of the equity. (20x increase in company value x 50% dilution = 10x increase in equity value.)

The three options would be:

	Annual Cash	**Equity Worth**	**Expected Value at $1 billion company valuation**
1	$120,000	$480,000	$4,800,000
2	$140,000	$426,666	$4,266,666
3	$160,000	$361,333	$3,613,333

The hope is that the new team member believes so fully in the company (and the power of the asymmetric bet) that they choose one of the two higher equity offers. This equity is thus an investment that the team member is making in the company. And with a huge advantage: The investment is made with pre-tax dollars, which doubles its purchasing power.

Making the Offer

Before making an offer, it is critical to know that the candidate will accept. Once you have the offer prepared, contact the candidate and ask them to complete the following phrase:

“I will join the company as long as …”

They then should state all of their requirements. If you are willing to provide each of these, then you are going to have a successful hire. If there is one that you cannot provide, discuss it with the candidate to see if there is some alternative that you both can accept.

Once this process is complete, then ask the candidate:

“If we were to make you the following offer (state the offer in full detail, including cash, equity, benefits, etc), would you accept?”

If they say yes, then make them offer. If you skip this step, and simply make them the offer, then it is very common for them to ask for a few more things after-the-fact (signing bonus, moving expenses, etc). You will then be in the awkward position of either having to give these (and thereby allowing a political culture to begin), or starting the relationship on a negative note by saying no. It is far better to get the candidate to pre-agree in full detail before making the offer. Then the relationship begins with a resoundingly positive “Yes! Thank you! I’m so excited!”

The granting and accepting of a job offer is a very emotional moment for a person. Making a big deal out of it is a good thing. We recommend that you make a ceremony out of it. Invite the candidate to receive the offer in person. Create a ritual out of this process. Here are some possibilities:

- Hand the written offer to the candidate with 2 hands and a ceremonial bow.
- Give company schwag.
- Give hugs and high-fives.

Whatever you do, make it fun and memorable.

Onboarding

Most companies spend extraordinary resources of time, money and equity to bring on a new team member, and then almost entirely drop the ball on quickly getting that team member onboarded and up to speed on how the company works so that they can begin making a full contribution. Don’t make this mistake! Give onboarding even more attention, time and energy than you give to recruiting. After all, many of the people that you are spending time with during recruiting will not become team members. Whereas 100% of the people that you spend time with during onboarding are already team members. Focus your energy there!

Write a checklist of all of the information that a team member would need to be fully effective. Write all of this information down and make a video it. Share this checklist, the written/video info, and the 90 day roadmap with each new team member as early as you can, even before they start.

On their first day at the office, have them come in two hours after the normal start of the day, so that there are plenty of people there to greet the new team member. Assign each new team member a buddy with whom they'll check in each day for fifteen minutes for the first two weeks. This fifteen minutes is for the new team member to ask questions that arise, and for the buddy to ensure that the new team member is actually going through the checklist.

Firing

Inevitably, some team members will not perform even with excellent onboarding, roadmap-creation, feedback, etc. When that happens, the chance that they will perform again in the future is very low, and the other team members will know, even more deeply than you do, that this person is not performing. Allowing this non-performance will be a morale-killer for the rest of the team, in addition to a financial drain that the company cannot afford. Therefore, you cannot allow it to continue. For the health of the company, you must let this person go. The expedient thing to do is to let them go immediately. However, if you do not have written documentation of "why" you are firing someone, they can initiate a wrongful termination lawsuit against the company. These lawsuits are rarely successful, but they are distracting to respond to.

If you want to minimize the chance of one of these lawsuits occurring, then create written documentation. A secondary benefit of this documentation is that there is a small chance that the person will begin to perform. Here are the steps:

1. Create a written PIP (Performance Improvement Plan) that states objective milestones and dates over a 7, 30, 60 and 90 day period.
2. Meet weekly to check progress against the written milestones.
3. At 30 days, if he hasn't hit one of the milestones, then you let him go.
4. At 60 days, the same.
5. And at 90 days, the same.

If at any of these stages, the team member does not hit a milestone and you do not fire them, then you have completely invalidated the value of the written document, because you have established a provable pattern that the written document was not meaningful.

Again, know that there is a very low chance that he will perform. If your team is very small (under 10 people), I recommend simply letting the person go without the PIP. The cost of de-motivating the team is far greater than that of the lawsuit.

When you do fire someone, put yourself in their shoes. It is a devastating event emotionally. And it is a real setback financially.

Put real effort into helping the person find their next job, and quickly. Give them a severance package that gives them enough time to realistically find another job and have the pay begin. This is 1 month minimum, but more realistically 2-3 months. And then help them find work within that time-frame.

It is highly likely that you will be feeling anger toward this person. You will clearly value the rest of your team much more highly than this person. You will not want to give them an extra penny beyond what is required by law (2 weeks). You will want to save those resources for the team that remains that is performing.

Feel this anger, and then let it pass. Recognize that you have responsibility here. Your recruiting, training and managing helped to create this situation. It is your responsibility to help the person find a job and a company that is a better fit. If you want to save your company's resources, then help them find that job more quickly. And then turn to your recruiting, training and managing processes, and ask yourself: "What can I do to make sure this doesn't happen again?"

Chapter 28: Sales

(This section was written by Misha Talavera, Co-founder of NeoReach.)

In this section, I assume that you are selling a product and have found an initial version of product market fit. I assume that you have successfully closed your initial paying customers, and these customers are satisfied enough with your product that a significant portion of them will become recurring customers. I divide this section into two parts: the first touches on the best practices for making a sale, the second tackles how to build and manage a sales team and sales pipeline.

Making a sale

In this section, I describe my best practices for making a sale. I leave any tricks or gimmicks out of it and focus on the fundamentals that have held true since the beginning of business. To make a sale effectively, you need to do the following three things:

- Build trust
- Identify the customer's specific pain
- Sell results, not features

Build Trust

As in Fundraising and Recruiting, building trust is the primary goal, and it is achieved in the same way. For the first few meetings, try to only ask the potential customer about them, listen actively, reflect back what they say, and at the next meeting show that you remember what they said in the previous one.

As in Fundraising, you may wonder how to get meetings where you aren't required to talk about your product or service. Here are some ways:

- Be explicit about not talking about your company.
  - "Before we talk about what we do, I'd like to start by getting to know your situation, to know if we're even the right solution for you."

- Ask for a very limited amount of time, so that the burden is low.
  - "Let's have a short introductory call for 10 minutes."
  - "Let's get together for a quick coffee."

- Invite them to a purely social event:
  - "We're hosting drinks at ____ on ____. Please join us."
  - "We've got seats at the US Open. Please join us."

Customer Development

(This section was written by Misha Talavera, Co-founder of NeoReach.)

The second step is to identify the customer's specific challenge. To do so, you must ask the right questions. This can be done this either after you've built initial trust with the customer or can also be done to build trust since it involves listening to the customer. Either way, you need to understand your customer's pain before you present your solution.

By doing so, you will achieve 3 things:

1. You will know what the customer is looking for so you can present your solution in those same terms.
2. The customer will know that your proposed solution is specifically intended to solve her specific challenge.
3. You will weed out customers that aren't a good fit for your product and save time to focus on those who are.

So how do you do this? Through a series of questions, your aim is to understand 3 things:

- What are their goals?
- What are the challenges preventing them from reaching those goals?
- What are their ideal solutions to overcoming those obstacles?

As you will see in the example below, the conversation is not always as linear as you would hope. The pain point that you are solving may not be the only challenge that the customer faces, so it is your job to guide the conversation towards the specific pain you solve. It is also very helpful to ask open-ended questions, such as “please tell me more”. This will give you additional context about how they see the situation. Finally, make sure to repeat the important things they say about their goals, challenges, and ideal solutions back to them to show them that you are listening and build trust. (Yes, this theme is never-ending.)

Here’s a real-life example of a sales call I did for NeoReach, an influencer marketing SaaS platform:

- Me (preface): Hi Stacey! It’s good to have you on the phone. I’m looking forward to giving you a demo of NeoReach. Before I go ahead and do so I would love to learn more about you and [company]. Can I ask you a couple questions?
- Stacey: Sure - that sounds good to me!
- Me (goals): Awesome. So tell me Stacey, what are you responsible for at [company]?
- Stacey: I’m the Director of Social Media, so I oversee our social media strategy across channels. This includes posting on our accounts, buying social ads, and working with social media influencers.
- Me (goals): So you [repeat what she said]. Please tell me more about your influencer marketing.
- Stacey: We mostly work with YouTube influencers and they do product reviews for us. Last year, we worked with over 400 influencers!
- Me (goals): That’s awesome. What are the goals of your influencer marketing and how do you measure success?
- Stacey: The goal of our influencer marketing is to build brand equity. We want to get the right influencers talking about our products to the right audiences. We measure success by measuring engagements.
- Me (challenges): So [repeat what she said]. And what are your biggest obstacles/challenges with influencer marketing?
- Stacey: My biggest obstacle right now is that I can’t keep track of what my team is doing.
- Me (challenges): [repeat what she said]. Please tell me more about that.
- Stacey: My team uses spreadsheets to run the campaigns. As a result, it’s really hard for me to know what each person is doing, how much we are spending, and the results that we’re seeing.
- Me (challenges): [repeat what she said]. Is that right?
- Stacey: yep.
- Me (ideal solution): What would the ideal solution to your problem be?
- Stacey: Ideally, I’d like to be able to easily see my team’s activity, how much we are spending in any given month, and what results we are getting from each campaign and influencer.
- Me (ideal solution): [repeat what she said]. And why is this important to you?
- Stacey: Well I really believe in influencer marketing, but unless I am able to get a clear view on our ROI, I cannot scale our spend.

- Me: Got it! And please tell me Stacey, how would a product like that be vetted and purchased at [company]?
- Stacey: I'm the decision maker, but I would ask for the opinion of my influencer team and of my VP of Marketing before pulling the trigger.
- Me: Great. Well Stacey, thank you so much for your answers. I would love to give you a demo of NeoReach, I think you may like what we've built for you.

Now that Stacey has clarified exactly what her pain point is, I feel confident that she will see value in our product and I feel prepared to present my product in a way that addresses her top pain point.

As you do more of these calls, you will start to see trends. Your target customers will have many different related pain points that your product can solve, and different customers will highlight some over others. Taking notes is fundamental to record and categorize this knowledge.

Over time, you will want to build an inventory of problem and solution statements for the different kinds of customers and different product features your product serves. Here's an example:

Problem:
For *Directors of Social Media that oversee influencer marketing at Fortune 1000 consumer brands* who *need a better way to track their influencer marketing activities, spend, and results*.

Solution:
NeoReach is an *influencer marketing SaaS platform* that *enables marketing managers to scale their influencer marketing by seamlessly tracking their influencer marketing activities, spend, and results.* Unlike *spreadsheets which are disorganized and scattered.*

Sell results, not features

It's a classic founder issue to dive directly into the product functionality. After all, you've spent countless hours slaving over this product, thinking through every feature and technical challenge. The reality, however, is that most people don't care about your product functionality. They don't care about your features. They care only about their business results.

Think about it: you don't buy the new MacBook because of it's new chip. No, you buy the new MacBook because it allows you to achieve more due to its increased speed. It doesn't matter that it is faster because of the new chip. Heck, it could be faster because of some proprietary unicorn sparkle dust, and you would still buy it. What matters is that it helps you achieve more.

The chip is the how, achieving more is the why. Focus on the why. Focus on painting the vision of a world where the customer's desires are fulfilled with the help of your product.

Here's a real-world example. In the early days of DocuSign, the company was struggling to close big enterprise deals. They were selling software that enabled their customers' salespeople to send and sign contracts virtually. The problem was that nobody cared about signing contracts virtually. And why should they? There was no hint that signing contracts virtually had any impact on their bottom line.

When DocuSign realized this, they changed their strategy. They changed their pitch to “we can increase your revenue by getting your customers to sign their contracts in under half the time that they currently take to do so.” What follows is history. In 2015, DocuSign raised $233M at a $3B valuation.

So, what results are you providing to your target customers?

Here’s an exercise: draft this to our needs.

Integrity & The Dangers of Overselling

As a startup founder, it is very tempting to be a “yes” man to potential customers. After all, shouldn’t you be trying to do everything possible to get revenue through the door?

As a result, many founders end up overselling. We do not recommend taking this route. Not only because it is ethically wrong - the customer trusts you to be honest about what you can and cannot do, and you are intentionally breaching that trust - but also because it has several quantifiable consequences on your business:

1. Reputation: Customers talk to each other. There are only so many bridges you can burn before you burn your entire reputation in the market.
2. Development team: Generally, when founders oversell the product, they turn around and apply exorbitant pressure on the development team to meet the customer’s oversold expectations. This can cause a lot of stress on the development team.
3. Culture: Founders think it’s ok to oversell because they are in control of the product. However, if the founders oversell, it is very likely that the sales hires will also oversell since they will adopt the culture from the top. Once you create a culture of overselling, it is very hard to go back.

Overselling is a form of laziness. Instead, take the time to build trust. Then your customer will buy from you even though your product does not yet solve every one of their challenges. They trust that you will soon build in those features.

Building a sales team & pipeline

When should I hire a sales team? This is a common question among founders. Getting revenue in the door seems to be the solution to all of your problems, and hiring salespeople seems to be the solution to getting revenue, so shouldn’t you hire salespeople right now? The answer is no.

In most cases, salespeople will never be able to sell better than the founders and they won’t be able to sell the product if you are not able to. To thrive, salespeople need to have a very clear product offering to sell and very clear direction on who to sell to. Furthermore, hiring salespeople will take up a lot of headspace from you.

You should only hire a sales team when two conditions are met:

- You have found an initial version of product market fit. This means that a significant proportion of your paying customers are renewing their contracts.
- You have figured out what you are selling and who you are selling to.

Keep in mind that as you grow your sales, you also need to grow the infrastructure to meet the need of the sales from the new salespeople. This includes the onboarding process, customer support, etc.

The structure of a sales team

This section is based on Aaron Ross' Predictable Revenue

Aaron Ross was an early hire at Salesforce.com. He is credited for designing the sales engine that grew Salesforce into a $100M sales machine. Nowadays, his breakthroughs are implemented at all of the winning B2B tech companies.

Aaron Ross' most important insight is the following: most executives think that the way to grow revenue is by adding salespeople. However, most often the main obstacle to growth is not growing the team but generating more leads. Only once you can predict your lead generation can you achieve predictable revenue. Only once you achieve predictable revenue can you achieve true scale.

Generating leads and closing deals are distinct functions that must be split. Generating leads is a game of breadth: it requires emailing and talking to a lot of different leads to filter out the non-qualified ones as fast as possible. Closing deals is a game of depth: it requires building deep relationships and understanding with the qualified leads in order to close the deal.

The people that close deals are often much more senior than the people that generate leads. This is because the relationship-building skillset often requires experience to develop.
Senior salespeople are expensive, so their time is best spent focusing on the most high-value activity: closing deals. If your salespeople are also generating leads, they are wasting valuable time and getting unnecessarily stressed by having to fulfill different functions in parallel.

The third function in your sales team are your customer success or account managers. These are the people who will tend to your existing customers, ensure their success, and grow the business coming from those customers. It's important to keep a good balance between generating new customers and tending to existing customers because it is very easy to get too focused on the former at the expense of the latter. Not only will great customer success make your customers happier and more likely to renew and increase their spend, it will also give you an open channel of communication to the customer to receive feedback from them, which is the only way to continually improve your company and lead the market.

Here is the ideal structure of a sales team:

- **Qualifiers (aka Sales Development Reps)**: these people are focused on generating qualified leads and handing these off to the Closers. Qualifiers are usually compensated with a base plus a bonus for each qualified lead they generate. Generally, they are split into 2 groups:
  - Outbound Reps: These are focused on proactively reaching out to leads and qualifying them. The most common channels used are email outreach and LinkedIn mining.
  - Inbound Reps: These are focused on qualifying inbound leads that reach out to you by signing up to your site, signing up to your newsletter, calling you directly.
- **Closers (aka Account Executives)**: these people are focused on closing the qualified leads generated for them by the Qualifiers. Closers are compensated with a base plus a commission.
- **Farmers (aka Customer Success)**: these people are focused on tending to existing customers, ensuring that these customers renew, and getting these customers to increase their spend. Farmers are compensated with a base plus a flat quarterly bonus based on retention rate or with a base plus a commission based on account growth.

Only start hiring AEs once you have a predictable flow of leads being generated and have farmers in place to tend to your customers. This means that you first want to hire a qualifier and a farmer while you act as the closer, and only once this system is running smoothly do you want to invest in an AE.

Common misconceptions about hiring salespeople

Here are some of the common mistakes made when hiring salespeople:

- **Overlooking integrity and culture fit**: Many people believe that the hiring rules that apply to the rest of their team don't apply to their sales team because salespeople are heartless mercenaries. As a result, they end up hiring salespeople who are that way and this becomes a self-fulfilling prophecy. It is true that salespeople are generally more motivated by money than product people. However, that does not diminish the importance of hiring salespeople with integrity, culture fit, and mission alignment. They exist, it's just a matter of looking for them.
- **Not investing in training**: Despite their track record at other companies, if your salespeople don't know about your industry, your product, and your process, they will not be operating at max capacity. The best sales team put their new recruits through an intensive training program, which includes working with the product, customer success, and sales development teams.
- **Must hire senior AEs with a track record**: Many of the best sales team are built from young, previously inexperienced closers. While track record is important, having the sales DNA (relationship-building skills), attention to process, and commitment to the company vision often have more impact on salespeople's performance.
- **Solo contributor (AE) vs. manager (VP Sales)**: Contrary to popular belief, the best closers are most often not the best managers. This is because there is practically no overlap

between the skillset required to run a team and manage a sales pipeline and those required for closing individual deals. When hiring a VP of Sales, don't fall into the trap of hiring the best solo performer. Rather, the best way is to hire a sales manager with a proven track record of management.

Lead generation

Generating predictable leads is the first step to achieving predictable revenue. Not all leads are generated in the same way, so not all leads have the same needs. Specifically, there are 3 kinds of leads:

1. **Seeds**: Seeds are generated from word-of-mouth, usually from customer referrals or prior relationships. Pros: they tend to close fast, have high win rates, and grow into your best customers. Cons: it is really hard to proactively grow them, the best thing you can do is build an awesome product and Customer Success team.
2. **Nets**: Nets are generated from your marketing, such as events, SEO, white papers, and ad campaigns. They are called Nets because you are going for "quantity over quality". Your Inbound Reps will then qualify the leads. Pros: if done well, they can be very scalable and cost effective. Cons: there are serious costs and time associated with building, optimizing, and maintaining this channel.
3. **Spears**: Spears are generated from direct outbound outreach by your Outbound Reps, usually through email outreach or LinkedIn mining. They are called Spears because they are hyper-targeted and you are going for "quality over quantity". Pros: predictable, hyper-targeted, and delivers immediate results. Cons: requires having full-time Outbound reps and may not be profitable if your average annual deal size is under $10,000.

Unless your deal sizes are very small (in which case Spears may be unprofitable for you), the three strategies are very complementary and should be given attention. For instance, some of the leads you generate may not be ready to buy, so your email marketing (a Net strategy) can nurture that lead until they are ready.

Generally, startups get their first customers from Seeds: referrals from friends, investors, and other customers. As you start to scale, it is recommended to next focus on Spears. This is because Spears generate hyper-targeted leads and immediate results, while Nets generate a broader set of leads and take time to set up. That being said, each industry, target customer, and product has different needs. It is your job to figure out what channels deliver the best results and narrow in on those.

If you are scaling up your Spears strategy, we recommend that you use an outsourced third party to identify lead emails for you based on your target customer profile. Your Outbound Reps can then use a platform like Reply.io to send drip email campaigns and generate leads more effectively.

Qualifying leads & handoff

It can still be very hard to do all 24 steps even when done quickly and only with existing or easily accessible data. Scheduling the time necessary with someone who's done it, someone who's willing to learn it, or simply with yourself, is a good solution to this problem.

Having all 24 steps written out can create a feeling of empowerment, and these steps can always (and should) be revised and strengthened as time goes on. Better to leave minor details incomplete and calculations rough the first time around than not to get through it at least once. I think of this as the Scrum, agile-development, approach to Disciplined Entrepreneurship, as opposed to a Waterfall method of spending months drowned in data to finish only four or five of the steps.

STP (Segment, Target, Promote)

(This section was written by Misha Talavera, Co-founder of NeoReach.)

For the full version with 24 steps, read *Disciplined Entrepreneurship.*

The outcome of the STP exercise is to:

- Segment the market into customer types
- Target one of these segments (ie- the Target Beachhead)
- Promote awareness of your product/service to this segment by finding out where the decision makers' eyeballs are (ie- what things they read and see), and then placing content about your product/service in those locations

Segment:
The first and the most important step in the STP methodology is to Segment the market into customer types. Segmenting the market involves 3 phases:

- Brainstorm all the potential addressable markets
- Narrow the list down to your top 5-10
- Perform primary research on your top 5-10, with the intention of picking just a single primary market to start with.

The sole necessary condition of a business is to have paying customers. You may have an incredible 10 year vision or a groundbreaking technology, but unless you figure out how to market these, you will have no business. To figure out how to market your vision or tech, you must put yourself in your customer's shoes and see the world through their eyes.

The goal of this section is to brainstorm all the potential market applications of your vision or your technology. To do so, ask yourself "who would benefit from my vision/technology and would pay to have access to it?" Your product may require some updates for customers to pay for it, that is OK. What we are trying to identify here is an unmet need among customers strong enough that they are eager to buy your product.

Give yourself the freedom to brainstorm and flow. The key is to think of all the *possible* markets, we're not trying to find the *right* one just yet.

Now that you've brainstormed a list of potential markets, we will work on picking out the top 5-10. The ideal market is one that you will dominate and win big from. To do so, find a market where the cost of acquiring a new customer is low, the lifetime value of the customer is high, and the total number of addressable customers is large. We like to ask the following questions of each market segment:

- What is the estimated cost of acquiring a customer from this market (CAC)? Take into account the competition, both direct and indirect, and how difficult these people are to reach (F500s are harder to sell than SMBs, offline is harder than people who are online).
- How much do you estimate a customer in this market would pay for your product over time, their lifetime value (LTV)? This is generally a factor of the customer's total spending power and how much they feel the pain that your product solves.
- What is the TAM (Total Addressable Market) of this segment?
- Are they aligned with your values? Signing up a customer is very similar to hiring an employee. You will have to interface with them regularly, and they will represent you to the greater market. Choose customers and markets that you and your co-founders are personally aligned with.

The ideal market is one where the LTV of each customer is higher than the CAC, and where you estimate that the TAM is enough that you can reach $10M-$100M in ARR. Based on this initial secondary research-based exercise, pick 5-10 markets that seem the most promising. Now, we will perform primary research on these markets.

Primary market research is key because it will provide you the critical information that you cannot get from online research. As a matter of fact, if there is already a whole library of research on the exact market and application you are trying to go after, it is probably too late.

When talking to customers from primary research, your goal is to gain context on your target customers and to uncover the problems they regularly face. It is not to sell a solution and neither is it to hope that your customer will generate a solution for you. The more open you can encourage the flow of ideas, the more data you will be given to work with. If you try to sell a pre-existing idea, you will cause the customer to shut off and limit their responses. It is imperative to split the research phase from the testing/selling phase.

One of our favorite resources for performing market research is The Mom's Test, by Rob Fitzpatrick. Think about it this way: let's say you have an idea for a new cooking recipe app. You're super excited about it so you bring it up at the dinner table. After pitching the idea, you ask "Mom, do you like the app?" Do you think that she will ever say "no"? The problem is that even if she says yes, because of the way you asked your question, that yes is unreliable.

The problem is that you asked for her opinion rather than about her usage patterns from the past. People may love the idea of your app, but that does not mean that they will use it. How can you predict if they will use it then?

Instead of asking about their opinion, ask them about their past behavior. For instance, instead of asking: “what do you think about this app?” ask: “when was the last time you faced this problem? And what did you do about it?”. Instead of asking: “how much would you pay for this app?” ask: “how much does this problem cost you?”.

Make sure to document all this market research meticulously, as it will serve you well in the future.

Now that you’ve completed your market segmentation, you must pick your beachhead market. Generally it’s best to stay away from the largest TAM at first. This is because you will learn while doing and the largest market is generally the one with the strongest competition.

Also, you may find that the markets you originally segmented can be segmented further - do that. The definition of a market is one where all the customers in it buy similar products, they have similar needs and sales cycles, and there is word-of-mouth among them.

While paying customers are the foundation of a business, be careful not to be led astray by them. There are 3 common pitfalls that founders regularly fall into.

1. Sell to everyone that comes through the door. We discuss the costs of this in the previous section on Crossing The Chasm.
2. Be blinded by TAM without giving enough weight to the difficulty of acquiring new customers or the value from each individual customer. This mistake is often known as the “China Syndrome” and goes like this: “The Internet says China has over 1.3 billion people. If they all have teeth, the market size of building a toothbrush company is 1.3 billion customers. If we just get 0.1% market share and each person buys 3 toothbrushes a year, we could sell 3.9 million toothbrushes per year. At $1 each, we could be making $3.9 million!”
3. Customize your product for every individual customer because they offer to pay you more. While this strategy would seem like it would generate more revenue, very soon you will find your resources, particularly your engineers, stretched thin, and your customer request insurmountable. Your growth rate will slow.

The Segment framework is just as useful if you haven’t started a company. You can simply pick an emerging technology and outline the major markets that will find value from that. For example, you can pick “solar energy” and outline all the major stakeholders involved who would be potential customers of emerging solar energy technology.

What to do if you are building a two-sided marketplace or have multiple customers in your business? Do the analysis for both sides of the marketplace and you will over time find out that one side is more crucial than the other. For instance, while guests (demand-side) are crucial for Airbnb to work, in the early days the hosts (supply-side) were the key to their growth.

Target:

In this section, we will explore the following:

- Customer buying unit.
- User Persona
- User Life Cycle/User Journey

Now that you've picked your beachhead market, it's time to flesh out your target end user within that target market. The result of this section is that you will have a crisp understanding of the real people that you are targeting.

Your customer consists of an *end-user* and *decision-making unit*. Sometimes (generally in B2C) this is the same person, at other times they may be distinct individuals (generally in B2B).

- **End-user**: The person that actually *uses* your product.
- **Decision Making Unit**: This is the group of people who decide whether to *purchase* your product.
    - **Champion**: This is your greatest ally within the group. They are the person championing you. Usually they are the end-user.
    - **Primary Economic Buyer:** This is the person who has the economic power to purchase your product. Can be your end user, their manager, or their parent.
    - **Influencers, Veto, and others**: These are the other people involved who can sway the primary economic buyer.

While all the individual roles above play an important role in the purchasing decision, the End-User should be your primary interest. They are the person who have the most to win from your product, they are the ones that will go out looking for your product, they are the ones that will champion your product.

In order to gain a crisper understanding of exactly who this End-User is, we use a *Persona*. A Persona is a write-up about a person that best represents your primary customer for your Beachhead market. To create a good Persona, the Persona must be tangible and definite: you are describing the individual that best represents your customer in all of his/her living detail. The goal is for you and your team to start empathizing with this Persona, as it will guide your marketing and sales efforts. That being said, don't focus on making it perfect the first time around, make your best bets and you can re-assess moving forward.

Fill out the fact-sheet below to complete your Persona. Then, pick out a picture and a name to make the Persona feel tangible. It is good practice to print out and display your persona in your offices so that everyone is reminded of the customer.

Facilities Manager, IBM NE Data Center, in Littleton, MA	
Environment	• Now has just over 20K Blade servers today growing at 15 percent per quarter for the past two years and for the foreseeable future.
Personal Information	• He is second-generation American (parents from Ireland). • Born in Medford, Massachusetts. • Medford High to Middlesex Community College. • Moved to Winchester. • Family with 2 kids (12, 15). • Just turned 40 this year.
Career Context	• Mid-career, 18 years at IBM and not looking to leave. • He is technical in the technician sense, not the engineering development sense. • He is maintenance-focused and his vocational degree is relevant. • Has been in current job for five years and has had three different managers already but hopes to keep this job for next five years at least. • Promotion path forward is to manage more facilities. • Makes $65K per year and has the potential for a 5 percent bonus at the end of the year, based on the unit's overall performance and his contribution as determined by his boss, the data center manager. • Eligible for salary increase each year, based on his appraisal (can be between 0 and 12 percent). • He has been consistently ranked a 1 or 2 (on a scale of 1–5 where 1 is the best) in his yearly performance review, with reliability and supporting the business unit's growth as two key metrics upon which he is rated.
Information Sources	• He prefers people to websites when he looks for information and answers to questions. • Belongs to AFCOM (association for data center management professionals) and gets a lot of information from them, and especially likes to go to the Data Center World conference in early October each year in Las Vegas. • Second-biggest influence is the Uptime Institute. • Has started to look at Green Grid but not impressed. • Also starting to get forwarded e-mail about a blog (Hamilton and Manos) that other influential facilities managers are starting to read, and he has recently bookmarked it himself
Purchasing Criteria in Prioritized Order	1. Reliability (highest priority) 2. Growth (high priority) 3. Costs (medium priority) 4. "Greenness" (low priority—extra credit)
Other Noteworthy Items	• Drives a Ford F-150 pickup truck and always buys American • He wears a beeper that is always on • Listens to country music • He used to be a volunteer fireman and is proud of it. He makes level-headed decisions when there is a crisis, calling in his training to act fast and put out fires

To gather information for this fact-sheet, you must talk to actual or potential users. If you already have customers/users, pick those that are the best representatives of your overall customer group. If you don't have customers/users, make sure you talk to people who will actually purchase/use your product, not just those who are verbally interested.

While some companies, like 2-sided marketplaces, need 2 Personas (one for the customer on each side of the marketplace), most startups are recommended to start with only 1 Persona. This is because as a startup what you need most is focus. The Persona will guide all of your sales, marketing, and product efforts, and you want your whole team to be aiming for the same goal.

Now that you've defined you Persona, it's time to describe the Full Life Cycle of your product. This is a step-by-step recount of how your Persona finds your product, buys your product, uses your product, buys more of it, and spreads the word. Having a Full Life Cycle is crucial to understand your users/customers and properly address their needs.

You Full Life Cycle, like your Persona, must be based off of Primary Research. You must talk to either existing customers/users or potential customers/users. It's important to not do this from your own imagination because entrepreneurs always "stack the cards in their favor", for instance by overestimating how excited the customer/user is about their product. Usually, Full Life Cycles are formatted as flow charts.

The major questions to address during your Full Life Cycle are:

1. How the persona determines if they have a problem/need?
2. How they find out about your product?
3. How they vet your product?
4. How they purchase your product?
5. How they get set up on your product?
6. How they use your product?

7. How they determine the value they get from your product?
8. How they pay for your product?
9. How they get support for your product?
10. How they buy more/spread the word about your product?

For each step, you must gain an understanding for the persona's key motivators, requirements, and concerns, as well as the other people involved.

Promote

It is a rampant mistake to focus on growth before product market fit. "Fake it until you make it" may have seemed to work in some past instances, but the reality is that if you don't have product market fit, your marketing will land on deaf ears. Therefore, before you launch into the Promote phase of the STP, make sure that you've achieved product market fit, and have designed and tested your Segment and Target hypothesis.

The crucial pieces in the Promote section are twofold:

1. All of your promote decisions should be based on your Segment and Target analysis. Whenever anyone comes up with a new marketing idea, the first question is: does this target our Persona? Customer focus is key.
2. Tie all your marketing spend back to quantitative results. The ROI of some initiatives is more easy to track than others. For instance, you can track conversions with Google Adwords, but can't with speaking at conferences. Yet, even in the case of conferences, you can use quantitative benchmarks (e.g. number of qualified leads resulting from the speaking opp).

As far as specific marketing channels to leverage, that will really depend on your target customer. Facebook and Google Adwords are very popular among startups because they are easy to get going and marry incredibly broad reach with hyper-targeting abilities. But you may also want to branch out beyond that. For instance, if you are targeting car salesmen in California, you may want to attend industry conferences in LA. If you're targeting stay at home moms in their 30s and 40s, you may want to consider influencer marketing via mommy vloggers on YouTube.

In any case, build your marketing strategy with your target customer in mind and measure your results obsessively.

Competitive Analysis

One of the big mistakes we made at NeoReach in the early days was to dismiss competitors. It's all too common for founders to think that your idea is better because it's… yours. When put this way, however, the irrationality quickly becomes apparent. Your competitors have a lot to teach you. They, like you, are spending every breathing hour trying to crack the code to takeover your market. Respect them and learn everything you can from them.

We recommend setting aside an entire week, every quarter, to analyze your competitors. Here's a high-level of what you need to do:

- Use their product. Note down everything that they do better than you and add those things to your product roadmap.
- Talk to their customers. Understand what they like and what they wish the product had. Add that to your product roadmap and to your sales documentation.
- Understand their pricing model. If they're a bigger company, they chose it for a reason, find that reason.

Use these findings to improve your product and to arm your salespeople.

Product Market Fit

The second stage of marketing is designing a significantly better solution to your target customer's problem than exists in the marketplace. It is important to not waste resources on trying to sell more and more until you have proof that customers believe your solution is indeed better. When that moment arrives, it is called Product Market Fit.

But how do you know when you have achieved Product Market Fit? Ask your customers. They will tell you. They will also vote with their wallets by renewing their subscriptions, buying more product, etc.

If you are selling to businesses, don't think that initial contracts indicate PM Fit. They don't. Businesses have significant budgets set aside for testing new products. But that's all this initial contract is: a test. The only time you will know that that customer actually wants to buy your product is when they sign the full long-term contract.

If you are selling to consumers, similarly, you will know that you have PM Fit when customers order a second time, renew their subscription, give you a high NPS score, tell their friends about your product on social media.

One of the bigger mistakes that young companies make is thinking that they have PM Fit before they really do. They then raise a lot money, hire a big team (both sales and engineering), and spend big dollars on promotion. Once they later realize that they don't actually have PM Fit, it is then much more difficult to iterate on the product (larger teams are less nimble than smaller teams), and morale drops precipitously (people who join companies with perceived product-market fit do not want the uncertainty of a pre-PM Fit experience).

The key is to keep the team small until PM Fit is achieved. A good number to think of is 3-6. If 3 it would look like: a CEO who is engaged with potential customers, and 2 engineers. If 6 it would look like: a CEO who is engaged with potential customers, 3 engineers, a designer, and an operations person. We STRONGLY RECOMMEND not going beyond 6 team members before you have PM Fit. You will only burn money, destroy morale and slow yourself down.

PR

(This section was written by Misha Talavera, Co-founder of NeoReach.)

Getting press as a startup can be very powerful. It gets your name out there and creates legitimacy. However, press can also be a time sink. Here below we'll go into a few best practices for startup PR.

1. **Don't hire a PR agency**. They're expensive and you'll do a better job than them. They'll tell you that they have deep relationships and expertise that you will take years to build. What they won't tell you is that any journalist would rather talk to you, the founder, and that most of what the PR agency spends their time doing is emailing journalists - cold! Journalists care about good stories. If you're building a company you better have a good story. Relationships are a dime a dozen. Furthermore, as one of their smaller accounts, you'll get the least attention. That being said, as your company grows, you will have no other option than to hire someone to do PR instead of you. At that point we recommend you get an in-house person rather than an agency.
2. **Think like the journalist**. Journalists care about good stories. What makes up a good story? One that will get their audience excited. It's really that simple. To win at the PR game, you need to craft good stories and share them with the relevant journalists. The story doesn't always have to center around you directly, think outside the box. For example, NeoReach was featured in a WSJ report about YouTuber PewDiePie because we are able to estimate how much PewDiePie earns a year based on our proprietary data. Data is another key to crafting a good story. If you have proprietary (or just interesting) data, journalists will love that.
3. **Get 3 articles in 1 week** rather than 1 article per month for 10 months. The point here is that it is better to condense your press in a short period of time rather than having it drag out. This is because of 2 reasons: (i) the momentum you'll build from your press blitz will get a bunch of smaller publications and blogs to re-post your articles, creating virality and (ii) your target customers will be more likely to look into you when they see you multiple times within a short period (your company's name will rise above the noise).
    a. Almost all PR firms will instead encourage you to do one article per month, and that is because they want predictable recurring revenue.
4. **Use this PR hack**. This is the most powerful tool I've used to get press. The gist is to create a massive list of relevant journalists using Google News, find their emails using UpWork, and send them a personal email at scale using Reply.io.
5. **Become a contributor at relevant publications.** Online publications are craving revenue. The way they make revenue is by publishing content that gets eyeballs. The more content they publish, the more likely they are to increase revenue. This is why they allow people to become contributors on their site. As a contributor, you can publish content to the site at will (as long as it is approved by the editor). Publications like Forbes, Adweek, and HuffPo take contributors. To become a contributor, we recommend that you build out your own blog, get a few pieces of press, guest contribute a few articles, and then apply.

Advertising

If PR is getting information about your company and product in front of customer eyeballs for free, then advertising is doing the same thing just on a paid basis. The key in advertising is to discover where your target customers eyeballs are. If you know who is your actual buyer (the decision-maker) and you understand their life, then you will know what content they consume (ie- do they watch golf tournaments or cooking shows?). You then create advertising content that both touches on their personal interests, and appears in the content that they consume.

Departments

Executive

The office of the CEO in a startup usually only has one person: the CEO. However, if you find that you are simply not completing the goals you set for yourself each week, or you do so but some or many of the tasks are energy-draining, then it is time to hire a Chief of Staff (COS). This is very smart, organized, machine-like (in the good sense of simply getting things done without considering how fun they are), non-technical person. They are at least 2 years out of college (so that they have learned the habits of corporate culture) and often have been trained at a top-tier consulting firm (McKinsey, BCG, etc) or investment bank (Goldman Sachs, Morgan Stanley, etc.).

This person's role is to literally sit next to the CEO and see what she sees. The COS will do this until he understands how the CEO operates, and then will slowly start to take tasks off of the CEO's Next Action list. The COS continues to take tasks off of the CEO's plate until the CEO is only doing those things for which she has a unique talent for and which she loves to do (her Zone of Genius).

If the COS has or obtains management skills, then they can eventually transition into being COO.

Product

In a technology company, Product Manager is arguably the most important position in the company. For this reason, in the past decade, most unicorns have been started by technical founders where at least one has the ability to play the role of Product Manager.

A Product Manager is someone who both has the social skills to sit with customers and is (or can learn to be) technical enough to know what can and cannot be done technically. Whether the product manager has to have a background as an engineer is a hot point of contention. Some say that there is no other way, others say that it doesn't really matter. From our experience, technical knowledge is very helpful, however it is not a deal breaker, especially if the product manager has a good relationship with the technical lead and they can solve problems honestly and efficiently.

The role of the Product Manager is to:

1. Sit with real-life potential and actual customers and deeply get to know the customer's life and problems. Because the Product Manager is technical, she knows what features are possible (and how hard or easy they are to create), and can then list a set of features that will solve a customer's deepest problems. The Product Manager then gives an initial order

to that list of features according to the value they bring to the customer, and the difficulty for the Engineering team to create them.

2. Lead the Product meeting that brings together Engineering (who have to build it) and Sales and Marketing (who have to sell it) to determine the final order of the feature list to be built. High-value low-cost features clearly come first. High-cost low-value features clearly come last. The debate is in the middle. And here the right answer is most often high-value high-cost before low-value low-cost.

3. Map out wire-frames (which are illustrations of what the feature will physically look like when completed) and specifications (of how the feature functions) for each feature so that Engineering has a visual and functional picture of what they need to build. Engineers do best when given a very specific end point. Allow them the room to figure out how to get to that endpoint, but be very clear about what the endpoint is.

#3 requires a lot of time spent with Engineering to get their feedback as to whether the wire-frames and specs are complete enough to give the direction needed. Engineering is the customer in this exercise. For this reason, there is often a tendency to think that Product should report to Engineering. This would be a mistake.

Product must have the final authority in the discussion around feature prioritization. If either Engineering or Sales/Marketing has the authority, the decision will get skewed. Ideally, therefore Product is its own department and reports directly to the CEO.

If, for some strange reason, Product cannot report directly to the CEO, then better to have it report to Sales and Marketing. It is critical that the “voice of the customer” remain strong within the company. This voice almost always gets lost if Product reports to Engineering.

Best of breed: The best Product Managers also paint a picture for engineers of why this feature is actually needed by a customer. Engineers are smart. They want to know that what they are building has actual value. To do this, complete the End User Profile described in Disciplined Entrepreneurship. Clearly show (in writing) how this feature will solve a significant problem for the customer.

Engineering

For most startups, the biggest challenge in Engineering is managing the team once it grows beyond 3-4 engineers. A good engineer is often not a good engineering manager.

There are 3 functions within Engineering. Architect, Project Manager and Individual Contributor. Project management is the essential of the Engineering Manager.

Good engineering management is a rare skill. And most often can only be learned by observing others who do it well. Therefore, hire an Engineering Manager with experience at a company with a reputation for excellent engineering management (Google, Facebook, Apple, etc). Engineering managers with this pedigree will be hard to convince and expensive to win. Make the effort and pay the price. It's worth it!

Another common problem is that adding engineers often adds significant coordination challenges. These challenges often create a net drag on productivity. Unless you have a superior manager, a team of 3-4 excellent engineers is often more productive than that same team with an additional 3-4 average engineers.

In order to manage an engineering team effectively, a good tracking tool must be used (just as in sales tracking). The industry standard is JIRA by Atlassian. Once you get to 10-25 engineers, this tool is a must. But it requires knowledge and time to use properly. When the team is smaller, I recommend using a lighter-weight tool.

Sales

Outlined in the Process section.

Marketing

Outlined in the Process section.

People

Human Resources

On the HR side, there are specific laws that must be adhered to when hiring and firing. One can take the time to learn these laws (not recommended), or you can simply outsource the process. There are two ways to outsource the HR process:

1. Use an online broker like Zenefits to manage the documentation and purchase benefits (medical, dental, disability and life insurance).

2. Use a PEO (professional employer organization) like [Sequoia One] (or TriNet). If you use a PEO, members of your team become employees of the PEO firm.

We recommend using a PEO firm the beginning until the company reaches 100-150 people in size.

A PEO firm has thousands of “employees” and therefore can get far better pricing on benefits (insurance) than a small company with less than 100 employees. Additionally, a PEO firm takes on all of the employee liability risk. If an employee is let go, and sues his employer, he sues the PEO.

Your company is not involved at all. The PEO ensures that they will not lose such a lawsuit by adhering 100% to HR law. The PEO is expert in this compliance.

Between Sequoia One (the second largest PEO) and TriNet (the largest), we far prefer Sequoia One. TriNet is the dominant provider and uses its market power in manipulative ways. If you sign up with TriNet, and later want to move off of their service (when you get to 100-150 employees), they make it very difficult for you to do so by not sharing their historical records with you. Sequoia One has the “we are nicer” approach, and allows you to easily leave their platform when you want to.

Once a company has reached 100-150 employees, it can achieve similar prices for benefits, and it can afford to hire an HR specialist. Then it is time to switch back to the company being the employer and providing the benefits directly (using Zenefits or something similar as the information platform). This allows team members to direct their questions to an HR Specialist that is onsite rather than offsite.

What benefits to offer? This depends on the types of team members being recruited.

From the team member’s perspective, benefits are paid with pre-tax dollars, effectively doubling their purchase power. Discover what your team members truly value (medical insurance, meals, retirement plan, gym membership, commuting allowance, etc) and then give them those benefits. Of course, the cost of the benefit should be taken out of the overall compensation number.   Thus, startup cash plus equity plus benefits should equal market compensation (which also should include benefits).

If PEOs are so great, why aren’t they used more often in startups? Good question. We think that most founders just don’t know about them. Also, simple online tools like Gusto and Zenefits make the process of hiring and paying employees so easy, that most founders stop there. The thought of lowering HR liability and reducing benefit costs comes later. And by that time, the CEO is focused on other more pressing issues, like Product. It usually takes a full-time CFO to make the change to a PEO, but the CFO often only arrives once the company has 50+ employees, and then the benefit of a PEO is not nearly as great.

Instead, I recommend starting with a PEO when the benefit is highest: the beginning.

Finance

A company needs to track its revenue and expenses (income statement) as well as its assets and liabilities (balance sheet). This task is easy enough in the early days that a full-time person is not needed. So it is best to outsource this function.   There are SaaS accounting tools (QuickBooks Online is the current default) that make this process seamless. There are many outsourced accounting shops that will do this work offsite for a reasonable fee (less than $2,000 per month). However, just like with Legal, the work product improves significantly if the work is done onsite because of better communication and oversight. So. choose an outsourced CFO or accounting firm that is willing to send a person to your office (once per month, or week) to do the accounting work.

In addition, a company should be creating a projection of both its finances and its operations (# and type of employees, amount of office space), as well as tracking the metrics of the team. This is considered CFO-level work. And any good CFO can also do the accounting work. So, we recommend hiring an outsourced CFO firm, rather than an outsourced accounting firm.

Potential investors take great comfort in seeing that a company has created real projections, which is a signal that the company won't be blindsided by unforeseen occurrences in the future.

So, just like with Legal, we recommend finding a good outsourced CFO early on who will agree to come work at the company for 1 day per month. In that amount of time, we find that she can do both the accounting work, as well as the CFO work, and still charge no more than an outsourced accounting firm. ($200/hr for 10 hours = $2,000).

Our current favorite outsourced CFO shop in San Francisco is Burkland and Associates.

Legal

There are several actions within a company that require the help of a lawyer: negotiating and documenting investments (whether SAFE or preferred equity), establishing hiring and firing procedures (to comply with HR law), negotiating and signing customer contracts (Non-Disclosure Agreements and commercial contracts), obtaining visas for foreign team members, etc.

There are many large multi-discipline law firms that are very familiar to investors (Wilson; Cooley; Orrick; Fenwick; etc), and with whom investors feel comfortable. Therefore, it is a good idea to use such a law firm to document the preferred equity documents. The additional cost for this law firm is more than paid for by the benefit in making the investor feel comfortable.

However, that is where the utility of using the big law firm ends. While the big law firm has the resources to do every kind of legal work the company has, the amount that they will charge for this work is (in our experience) about 10x what could be achieved by working with specialist boutiques and solo practitioners. And the specialists usually do better work.

So, the key is to find a solo practitioner to be your outsourced General Counsel early on in the company's life cycle. I prefer to find a lawyer who lives and works close to the company and then require that they come into the office to do their work (and only bill for their time physically at the company). If there is a need to do work outside of the company, I recommend that you only pay for it if the lawyer has gotten specific written permission (email) in advance for both the work and the hours to be billed.

If you don't follow this strict procedure, then the lawyer can bill for whatever amount of hours they claim the work took. You will have no way of successfully disputing their claim. And you will be on the hook for the bill, even if it is outrageous (which it almost certainly will be).

Solo practitioners are happy to follow these guidelines. Large law firms never agree to them. And because lawyers from large law firms do not come onsite, the amount of time they spend on an issue (or at least claim that they spend on an issue) goes up by 5x over someone who is onsite. Add on top of that that large law firm billing rates are about 2x those for solo practitioners, and you get a bill that is 10x larger, and a work product that is often inferior.

Once you have an outsourced General Counsel who comes to your office to do all of your legal work, if a different specialty is needed (immigration, employment, etc), they can find and manage that specialist for you.

There is a moment when you will have to use a large law firm. When you do your first priced round with institutional investors. Then you call up Cooley or Wilson. But even then there is a technique to manage costs and time. If you let them bill however they want to, the end result could easily be over $100,000 for a Series A investment. If you manage them aggressively, however, you can get that bill down to $15,000 or less. This is important because the company is often required to pay for both their own counsel, as well as that of the investor if the bill exceeds a certain amount (usually $25,000).

A typical investment happens like this:

1. Lawyers call each other to discuss the terms. They disagree on a point.
2. Company lawyer calls Company Decision-maker for guidance. (For every email written or voicemail left, the lawyer charges for 15 minutes minimum, but usually 1 hour.)
3. Company Decision-maker responds to Company lawyer. (Another billable hour.)
4. Company lawyer reaches out to Investor lawyer. (Another billable 1-2 hours.)
5. Investor lawyer then reaches out to Investor Decision-Maker on this same issue. (Another billable 1-2 hours.)
6. Investor lawyer responds to Decision-maker lawyer. (Another billable 1-2 hours.)

This continues back and forth, racking up billable hours, until every detail is agreed upon. The process takes 45-60 days to get final documents, and the legal bill is often over $100,000 from each side.

But there is another way. It results in final documents in less than 1 week, and legal bills of less than $15,000 from each side.

Investors must pay for legal bills out of their management fee income. This income would otherwise go into their individual pockets, so investors do not like to pay for legal fees (even their own). They would much prefer to give the company more money (which comes out of the fund's investment capital) and have the company pay for the investor's lawyers. Make this accommodation for investors. Require only that the investor support you in enforcing rules of behavior on their lawyers. And those rules are:

1. Once the basic terms of investment are agreed upon (in a Term Sheet), then a 4- to 8- hour meeting (or call) is scheduled. (This meeting may only last 2-3 hours, but it is very important

that enough time be blocked off to allow it to run longer if necessary.) Required attendees are:

   a. Decision-maker from the Company
   b. Decision-maker from the Lead Investor
   c. Lawyer for the Company
   d. Lawyer for the Lead Investor

If any of these 4 people cannot make the meeting (or call), then the meeting is rescheduled.

2. The lawyer for one side prepares the first draft of the investment documents. The lawyer for the other side responds with written comments prior to the meeting / call. There is no other contact between the lawyers.

3. At the meeting, everyone reviews the documents from beginning to end, paragraph by paragraph, and addresses all of the written comments. Lawyers are not allowed to speak except to advise their client on the meaning of the paragraph being reviewed. The negotiation is between Decision-makers at the Company (CEO) and Lead Investor (investor) directly. The Decision-Makers go through every point until they have reached agreement on all of them. As each point is agreed upon, the lawyers then in real-time agree upon the wording that best reflects the business agreement that was just made.

4. The lawyer who wrote the base document then writes up the final language. The other lawyer confirms that this language is exactly what they had agreed upon during the call. The documents are then final.

In this process, the Lawyer for the company can bill no more than:

4 hours	Write up base documents
1 hour	Read comments prior to the big meeting
8 hours	Attend the big meeting
<u>4 hours</u>	<u>Write up final language</u>
17 hours	@ $800 per hour = $13,600

In this process, the Lawyer for the investor can bill no more than:

4 hours	Write comments on the base documents
8 hours	Attend the big meeting
<u>2 hours</u>	<u>Read the final language</u>
14 hours	@ $800 per hour = $11,200

Part VIII -- Appendices

Appendix A: Common Mistakes

(This section was written by Misha Talavera, Co-founder of NeoReach.)

- **Underinvesting in hiring and training**. The people you hire will make or break your company. Don't expect them to be productive if you just throw them into the heat with no training.

- **Not delegating**. Most founders complain that they're so busy and hence can't focus on the real important problems. This is self-imposed busy-ness. If Elon Musk can run SpaceX and Tesla in parallel, you should be able to run your startup and take trips to the Philippines once a month. The busy-ness is often the result of a fear founders have of losing control. They think they can do everything better than anyone else, and they very well may be right. But in a startup there are infinite problems to solve. You need to be focused on the biggest hairiest ones. The only way you can do this is by ceding control and empowering your team to make decisions autonomously, while creating the systems to keep everyone aligned and on-track.
    - Danny An, Founder and CEO of TrustToken, shared with me the following:
        - This is a difficult to for younger, lower socio-economic founders (like myself) to grasp. The keys are to understand the fungibility of money and smart people for solving problems.
        - A training course for learning delegation could look something like listing a bunch of problems and budgeting a week, $1k, and a smart person and seeing how much of the list they get done in that week for $1k. The list could include office fix-up, FB ads experimentation, select outsourced PEO firm, etc. The only things that you don't want to delegate are: Product Marketing (you must know your customers), Fundraising (you must know your investors), and Team Management (you must know your team).
        - Ask yourself at the end of the week-long experiment: "If I had done it all by myself, what would have been the number and quality of projects completed?" Founders will quickly learn which projects can be "good enough."
        - A large turning point is when a founder brings on a fantastic hire who can take vague intentions and wants ("Can you please do _ / Our goal is to increase _ by X%"), and can consistently do more than you expect. It'll be less about delegating and more about setting goals and getting out of their way.

Appendix B: Recommended Recruitment Process

Recruiting at _____

Mission

To hire only A players.

These are the right superstars who can do the job we need done, while fitting in with the culture of _____.

Methodology

Scorecard. The Hiring Manager creates a document in Drive that describes exactly what he/she wants the person to accomplish in the role. This is a set of outcomes and competencies that define a job. They must be both measurable and have an accomplish-by date.
Source. All Hiring Managers systematically source before we have slots to fill.
Select. We conduct structured interviews that rate candidates against the scorecard that we've created.
Sell. Finally, we persuade the best candidates to join our team.

Scorecard

Mission
What is the mission for the position?

The Mission describes the business problem and its solution.

Example: "The Operations Lead will create and manage a world-class department that will support every _____er by providing the environment, information, tools, training and habits they need to succeed in their role and make _____ a massive success."

Outcomes

What are the outcomes that must be accomplished, by when?

This is ***what*** the person must get done. These outcomes should be measurable, have a due date, and there should be 3 to 8 of them (target is 5) ranked by order of importance.

Example: "Turn every _____er into a ninja user of our internal tools (Asana, SalesIQ, Drive) and methodologies (GTD, Inbox Zero, Management by Objectives, Active Listening) by Oct 31"

Competencies

What traits/habits are required to:

1) succeed in the role?
2) fit in at _____?

This is *how* the person must do it. These are the behaviors that someone must exhibit in order to achieve the outcomes above.

Examples:

We genuinely want to hang out with them. Interesting and Interested. Has interesting stories. Is interested in getting to know the stories of others.

Organized. Personally organized. Follows the GTD method or something like it, and therefore stays well aware of all to-dos and events. Focuses on key priorities.

Sense of Urgency. Fights against an organization's natural state: inertia. Knows that to build something great we all need to move mountains, now!

Innovative. Seeks to make process improvements to make their role and _____ more efficient going forward.

Collaborative. Reaches out to peers and cooperates with managers to establish an overall collaborative environment.

Persuasive. Able to convince others to pursue a course of action.

Coachable. Wants to improve; open to feedback; acts on that feedback.

Alignment

We pressure-test the scorecard by comparing it with the Company and Department Roadmaps and the scorecards of other _____ers that the person will interface with. We ensure that there is alignment, and then share the scorecard with relevant _____ers, including peers and recruiters.

A good scorecard process translates the objectives of the strategy into clear outcomes for the Exec Team, which then translates their outcomes into clear outcomes for those who report to them, etc. Every _____er ends up with a set of outcomes that support the strategy, and competencies that support the outcomes and culture. First we look for the ability to do the job that is needed today. Second we look for flexibility and adaptability for what the role may become tomorrow.

Source

We are always sourcing, identifying the *who* before a new hire is really needed.

There are three sources of candidates:
1. Referrals from our network.
2. Recruiters
3. Researchers

Referrals. *Of these, referrals from our personal and professional networks is by far the most effective.*

We need to ask ourselves: "Who are the most talented people I know that _____ should hire?" And then ask all the talented people in our network, and every talented person that we meet "Who are the most talented people that you know that _____ should hire?" Ask our advisors, customers, partners, suppliers. Join a professional organization; ask there.

An objective that will go on each of our individual scorecards is: "Source 1 candidate who passes the _____ phone screen per quarter."

Recruiters. *They can only be effective to the extent that they know and understand _____. It is pointless to engage recruiters unless we bring them inside the kimono and fully expose them to _____. We do so by sharing the scorecard with them, as well as every detail of our reaction to candidates they propose. We occasionally use recruiters.*

Researchers. *These are people who research networks and generate names, but do not reach out directly to candidates. We rarely use researchers.*

Here is our Process for Sourcing:
1. Referrals from our professional and personal network. Create a list of the 10 most talented people you know and commit to speaking to at least one of them each week for the next 10 weeks, asking them "Who are the 3 most talented people that you know?" Continue to build your list and continue to talk with at least one person per week. Document everything in RelateIQ.
2. Referrals from _____ers. Sourcing is an outcome on every _____ers list of Outcomes.
3. Deputizing friends of _____. We offer a referral bonus, and regularly ask friends of _____ for referrals.
4. Hiring recruiters. When we hire recruiters, we give them full access to our scorecards and our reaction to candidates.
5. Hiring researchers.
6. Sourcing system. We are relentless about entering all relevant information into RelateIQ. This is everyone's responsibility. While there will be one owner of this list who checks it weekly for "not filled out information", we will pester each other to enter this information whenever we see holes. Recruiting Angel will not allow process to continue unless all needed information is in RIQ, Asana, Drive.

Select

We have a set of 4 interviews that allow us to rate a person against our scorecard. To be great interviewers, we must get out of the habit of passively witnessing how somebody acts *during* an interview. And instead, use the 4 interviews to collect *facts and data about how they have performed over decades.*

Screening Interview
Topgrading Interview
Focused Interview
Reference Interview

Phone Screen Interview

The goal is to eliminate people who are inappropriate for the position as soon as possible. This screen is conducted by phone, and should not last more than 30 minutes. Preview that it will last 15 minutes, then extend to 30 during the call if the candidate appears good.

Hiring Manager will assign the first screener. If the candidate passes the first screen, Hiring Manager will do the second screen.

Read the Scorecard just before the call.

Set expectations:
"Thanks for taking the time to talk to me. I'd like to spend the first 10 minutes of our call getting to know you. After that, I'm happy to answer any questions you have about us. Sound good?" (It is important to get their information first, so that what you get isn't simply a parroting back of what _____ is looking for.)

The script:
1. What are your career goals?
(If his/her goals sound like an echo of the _____ website or they don't have any, screen them out.)

2. What are you really good at professionally?
(Push them to give you 8-12 positives, with examples, so that you can build a complete picture of their capabilities. You are listening for strengths that match the Scorecard.)

3. What are you not good at or not interested in doing professionally?
(Push them for real weaknesses, 5-8 of them. If they don't respond thoroughly enough, call them on it. If they still don't, then say the following: "If you advance to the next step in our process, we will ask for your help in setting up reference calls with your bosses, peers and

subordinates. What do you think they will say are some things that you are not good at, or not interested in?")

4. Who were your last 3 bosses, and how will they each rate your performance on a 0-10 scale when we talk to them?
(Press for details of why each person would give them such a rating. We are looking for consistent 8-10s. A 6 is actually a 2. But ask why it's a 6.)

1. What are your career goals?
2. What are you really good at professionally?
3. What are you not good at or not interested in doing professionally?
4. Who were your last 3 bosses, and how will they each rate your performance on a 0-10 scale when we talk to them?

And then it is important to go deeper. Throughout the interview, get curious. Ask follow-up questions that start with "What", "How" or "Tell me more."

Examples:
• "What do you mean?"
• "What is an example of that?"
• "How did you do that?"
• "How did that feel?"

Developer hires will have an extra screening step of performing a programming test. Once again, the goal of this screen is to weed out candidates quickly. If you can't definitively say: "This is an A candidate", then hit the gong. It is better for us to miss out on an A player, then to waste many precious hours on a borderline case that turns out to be a B or C player. If we weed harshly, we will be able to spend more time with candidates who are known A players.

Once we have a narrowed list of 2-5 great candidates, then go to the next step: the heavy artillery.

By asking the same original set of questions each time, we will get consistency, and more quickly be able to discern differences between candidates.

Once again, the goal of this screen is to weed out candidates quickly. If you can't definitively say: "This is an A candidate", then hit the gong. It is better for us to miss out on an A player, than to waste many precious hours on a borderline case that turns out to be a B or C player. If we weed harshly, we will be able to spend more time with candidates who are known A players.

If you think this is an A player, jump into Competencies and Selling.

Competencies:

1. Startup hours- work hard, play hard.
2. Using the tools
3. Giving and getting feedback
4. Intellectually curious- studying their craft

Selling:
Fit, Family, Freedom, Fun, Fortune.

Fit. Share the Company Roadmap, Department Roadmap and their Individual Roadmap. Show how where they want to go is a match for where _____ is going.

Family. “What can we do to make this change as easy as possible for your family?” Ask about their family. Get to know their names, ages, etc. Ask what concerns and needs they have. Meet those needs. (Ideally, meet their family in person, discover their needs directly, and meet those needs.)

Freedom. “The Individual Roadmap allows you freedom to make decisions. I will not micromanage you.” Encourage the candidate to do reference checks on you to see what you are like to work with.

Fortune. “If you accomplish your objectives, and we as a company accomplish ours, you will likely make x over the next 5-10 years.”

Fun. Here is what we do for fun at _____ …

Once we have a narrowed list of 2-5 great candidates, then go to the next step: the heavy artillery.

Topgrading Interview

The goal is to understand the candidate’s story and patterns. They are predictive of their future performance. Start from the beginning and move forward chronologically. Create chapters of a job or group of jobs that last 3-5 years. This interview should take about 2 hours (3 hours for a CEO, 1 hour for entry-level). It is worth the time. For every hour we spend Topgrading a candidate, we’ll save 100s of hours not dealing with B or C players.

The Hiring Manager should conduct the Topgrading Interview, along with a colleague who wants to learn the method by observing.

In the interview, set expectations:

“Thank you for visiting us today. We are going to do a chronological interview and walk through each job you’ve had. For each job, I am going to ask you 5 core questions. What were you hired to do? What accomplishments are you most proud of? What were some low points during that job? Who were the people you worked with? Why did you leave that job?

At the end of the interview we will discuss your career goals and aspirations, and you can ask me questions about us.

80 percent of the process will take place in this room, but if we mutually decide to move forward, we will conduct reference calls to complete the process.

Finally, while this sounds lengthy, it will go remarkably fast. It is my job to guide the pace of the discussion. Sometimes I will ask you to go into more depth, other times I will ask that we move on to the next topic. I'll try to make sure that we leave plenty of time to cover your most recent and therefore most relevant jobs.

Any questions before we begin?"

The script:
For each job or group of jobs (lasting 3-5 years).

1. What were you hired to do?

You are trying to create a picture of what their scorecard was, if they had one. What were their mission and key outcomes?

2. What accomplishments are you most proud of?

Hopefully these accomplishments will match the outcomes described in the first question.

3. What were some low points during that job?

Do not let the candidate off the hook. Reframe the question over and over again until you get real answers.

4. Who were the people you worked with? Specifically:

i. What was your boss' name, and how do you spell that? What was it like working with him/her? What will he/she tell me were your biggest strengths and areas for improvement?

Follow the script exactly. By letting the candidate know that we <u>will</u> be contacting these references, the candidate will become much more truthful.

ii. How would you rate the team you inherited on an A, B and C scale? What changes did you make? Did you hire anybody? Fire anybody? How would you rate the team when you left it on an A, B and C scale?

Does the candidate accept the hand they have been dealt, or do they make changes to get a better hand? You can also use the reference check method to get more information: "When we speak with members of your team, what will they say are your biggest strengths and weaknesses as a manager?"

5. Why did you leave that job?

Was the candidate promoted, recruited or fired? Get very curious about why?

To conduct this interview well, you will have to:

1. **Interrupt.** Do so tactfully. But do not let a candidate ramble. Doing so will only hurt their chances of success, because it will chew up valuable time without conveying important information. Expect to interrupt the candidate once every 3-4 minutes.
The proper way to interrupt someone is to be positive and use reflective listening: "Wow! It sounds like that pig farm next to the corporate office smelled horrible!" The candidate says: "Yes." Then you immediately say: "You were telling me earlier about launching that email campaign. I'd love to hear what that was like? How well did it go?"
2. **Three Ps.** Use the 3 Ps to clarify how valuable an accomplishment was in context.
    i. How did your performance compare to the previous year's <u>performance</u>?
    ii. How did your performance compare to the <u>plan</u>?
    iii. How did your performance compare to that of your <u>peers</u>?
3. **Push versus Pull.** People who perform well are generally pulled to greater opportunities.

    For each job change, determine if it was a push or a pull.

    Push. "It was mutual." "It was time for me to leave."

    Pull. "My biggest client hired me." "My old boss recruited me to a bigger job."
4. **Painting a Picture.** You'll know that you understand what a candidate is saying when you can literally see a picture of it in your mind. Put yourself in their shoes.
5. **Stopping at the Stop Signs.** If you see or hear inconsistencies, the candidate may be telling an untruth. If this happens, get curious, and dig deeper. Think of yourself as a biographer (positive), not an investigative journalist (negative).

Focused Interview

This is a chance to involve other team members, and get more specific information about the candidate. This interview is focused on the outcomes and competencies of the scorecard. Get curious after every answer by using the "What? How? Tell me more" framework. 3 _____ers (not the Hiring Manager) will be asked to conduct 3 Focused Interviews, each 50 minutes. We split the Outcomes and Competencies in the scorecard up into 3 sections, allowing each interviewer to focus on one section (⅓ of the Outcomes, and ⅓ of the Competencies).

Set the stage:
1. The purpose of this interview is to talk about ____________(fill in the blank with the Outcomes and Competencies in the Scorecard that you are going to review).

The script:
1. Now we are going to talk about ___________ (fill in the blank with the next Outcome or Competency to be reviewed).
2. What are your biggest accomplishments in this area during your career?
3. What are your insights into your biggest mistakes and lessons learned in this area?

Schedule:
Typical interview day.

800-830am Recruiting Review meeting. Feedback from last week.
830-900am Interviewers meeting. Here's what's going to happen today. Review scorecard, candidate's resume, notes from screening interviews, and roles/responsibilities for the day.
845-900am A team member greets the candidate and orients them to the day ahead.
900-1100am Topgrading Interview. (1-2 hours)
1100-noon Focused Interview.
Noon-100pm Lunch with _____.
100-400pm Focused Interviews (if needed)
(If we are flying the candidate in, we will have Focused Interviews on the same day. If the candidate is local, we will instead have them return the following week for Focused Interviews if the Topgrading Interview was successful. However, if the local candidate is a super-star, we can schedule a one-day process and close them that same day, pending reference calls.)
400-415pm Host thanks candidate and explains next steps.
415-500pm Post-Mortem. Interview team meets to rate the scorecard. Hiring Manager makes a Go/No-Go decision to conduct reference calls or terminate the process.

Reference Interview

We do not skip the reference checks!
1. We pick the right references. Bosses, peers and subordinates (sometimes 2-3 levels down). We do not use the reference list that the candidate gives us.
2. We ask the candidate to contact the references and set up the calls.
3. The Hiring Manager conducts at least 2 (but preferably 4) reference interviews, and other team members do at least 1 (but preferably 3) more for a total of 3 (but preferably 7).

The script:
1. In what context did you work with the person?
2. What were the person's biggest strengths?
Get curious by using the "What? How? Tell me more" framework.
3. What were the person's biggest areas for improvement <u>back then</u>?
It is very important to say "back then." This liberates people to talk about real weaknesses, assuming that the candidate has improved them by now. (In reality, past performance is an indicator of future performance.)
4. How would you rate his/her overall performance in that job on a scale of 0-10? What about his/her performance causes you to give that rating?
5. The person mentioned that he/she struggled with ________ in that job. Can you please tell me more about that?

People do not like to give negative references, so listen for cues. Faint or qualified praise is damning, as is hesitation.

From Danny An, Founder:
When asking for weaknesses or areas of improvements during interviews and reference calls,

people answer more freely, if you say, "People shouldn't do the majority of things and should focus on where they can excel in their strengths. Understanding weaknesses demonstrates self-awareness."

The rating:

Skill-Will Bull's Eye. We only choose candidates whose skill (what they can do) and will (what they want to do) matches our scorecard. This is their skill-will profile. For each item on the scorecard, rate the candidate's skill-will. Only rate people an A in whom you have a greater than 90% confidence that they can and will meet all outcomes and competencies.

Red Flags:
Here are the things to watch out for during the interview process that signal problems:

- Candidate does not mention past failures.
- Candidate exaggerates his or her answers.
- Candidate takes credit for the work of others.
- Candidate speaks poorly of past bosses.
- Candidate cannot explain job moves.
- Their family doesn't want them to take this job.
- For managerial hires, candidate has never had to hire or fire anybody.
- Candidate is more interested in compensation and title than in the job itself and _____.
- Candidate tries too hard to look like an expert.
- Candidate is not curious about us, or others. (Candidate is self-absorbed.)

The selection:

1. Update all the Scorecards.
2. Rate each candidate.
3. If we have no A's, restart the process to step 2: Source.
4. If we have one A, we hire them.
5. If we have several A's, we rank them and decide to hire the best A from among them.

Sell

The key is to put yourself in the candidate's shoes. Find out what they care about. And then care about it yourself. Most people tend to care about …

Fit. Share the Company Roadmap, Department Roadmap and their Individual Roadmap. Show how where they want to go is a match for where _____ is going.
Family. "What can we do to make this change as easy as possible for your family?" Ask about their family. Get to know their names, ages, etc. Ask what concerns and needs they have. Meet those needs. (Ideally, meet their family in person, discover their needs directly, and meet those needs.)

Freedom. "The Individual Roadmap allows you freedom to make decisions. I will not micromanage you." Encourage the candidate to do reference checks on you to see what you are like to work with.
Fortune. "If you accomplish your objectives, and we as a company accomplish ours, you will likely make x over the next 5-10 years."
Fun. Here is what we do for fun at _____ …

Selling happens throughout the recruiting process. Here are key moments to put yourself in a candidates shoes and address the issues above:
1. When you source
2. When you interview
3. The time between your offer and the candidate's acceptance (reach out to them repeatedly during this time!)
4. The time between the candidate's acceptance and his/her first day (yes, they still aren't really here yet; keep reaching out to them!)
5. The new hire's first 100 days on the job (yes, they are still evaluating; keep addressing the things that they care about!)

Be persistent. Too many candidates are lost because they feel abandoned once they are given an offer or arrive at the company. Think: lots of touches!

Implementing this system:
1. Announce
2. Train
3. Implement
4. Put "Source 1 great candidate" on everyone's quarterly scorecard.

Legal traps to avoid

Don't discriminate. We hire people on one criteria only: whether they are likely to be able to perform the job or not. Keep in mind the following:
1. Relevance. Defining the outcomes and competencies will insure that we are judging on relevant criteria.
2. Standardization. Having a standard process ensures fairness across all groups.
3. Non-discriminatory language. We always use he/she or they. No derogatory language toward anyone ever.
4. **Do not ask illegal questions: Anything related to marital status, intention to have children, pregnancy, date or place of birth, medical condition, race or ethnicity, sexual orientation, physical or mental handicaps.**

For more detail, please read:

Appendix C: Sample Area of Responsibility (AOR) List

Department	**AoR**	**Person**
Executive	Schedule and set agenda for weekly biz dev + team meetings	John
	Approve large spends over $1000	John
	With conversation from People Ops, final approval on hires, compensation, and offer	John
	Assess company resources and accurately model growth and capital allocation in financial plan	John
	Attend Fundraising & VC Meetings	John
	Finalizing Companies 3 month goals	John
	Monthly Investor Call	John
	Investor Update Emails	John
	Maintain AORs	John
Development	Assigning tasks to the team from the features on the Product Roadmap	Alan
	Set and hit development deadlines	Alan

	Front-end development	Susie
	Back-end development	Matthew
	Manage Databases	Matthew
	Manage servers	Matthew
	Set up and oversee bug reporting process (for dev team, all team, and customers)	Alan
	Create API documentation	Matthew
	Create and maintain automated API tests	Matthew
	Development recruiting	Alan
	Train all new team members with department-specific onboarding	Alan
	With help from People Ops, conduct all off-boarding meetings for department members	Alan
Product	Develop Product Roadmap	John
	Build feature list from customer and team feedback	John
	Create wireframes/comps for Product Roadmap	Susie
	Review and approve comps	John
	Product Pricing	John
	Schedule and run bi-weekly Product-Development feedback meeting	John
	Create product how-to guides and product documentation	Zack
	Train all new team members with department-specific onboarding	John
	With help from People Ops, conduct all off-boarding meetings for department members	John
Sales	Ensure that all sales people are entering all information into CRM	Mark
	Present sales pipeline update at team meeting	Mark
	Manage external consultants (Jen, Ryan Faber, and Alicia)	Mark
	Sell Managed Services to customers, from proposal to close.	Aaron
	Field and vet inbound leads.	Aaron
	SaaS sales	John
	Generate outbound leads - SDR	Michael
	Ensure sales quotas	John
	Develop sales collateral, case studies, FAQs, and other assets to accellerate the sales process	Mark
	Document the NeoReach sales process	Mark

Appendix D: Further Reading

The problems encountered in starting, growing and running a company have been encountered by 1,000s of CEOs before. And luckily dozens of successful CEOs and business leaders have written down their lessons learned in book form. These books teach us almost every important aspect of running a business. While there are 100s of such books, the following are our favorites, and we consider required reading for any CEO or Manager.

Individual Productivity:
Getting Things Done Summary **David Allen** **10h** (the # of hours required to read the book)

Personal productivity; describes using pen/paper, simply translate that to Evernote or another electronic tool. Using this system will make you sleep better. It takes several days to fully implement the system, but is very much worth that investment.

Organizational Productivity:
One Minute Manager Summary **Ken Blanchard** **.5h**
Simple reporting structure that works. Simple enough that you can have all your team members read it. I recommend that you do.

High Output Management Summary **Andy Grove** **10h**
The classic tech management book. A lot more detail than 1-Minute Manager, but essentially the same structure.

The Hard Thing About Hard Things Summary **Ben Horowitz** **6h**
Says how great **High Output Management** is, and then talks about what to do in some very specific and ugly situations that no other books discuss.

Sales & Marketing:
Disciplined Entrepreneurship Summary **Bill Aulet** **12h**
Painful, but very necessary step-by-step guide to determining who your real customer is, what solution they want, and how to market and sell to them. If you only read and apply one of these books, make it this one.

Never Split the Difference Summary **Chris Voss** **6h**

Ostensibly about negotiation, but really about how to create deep connection and trust quickly, which is the key to an excellent relationship with your three key constituents: customers (sales), employees (management) and investors (fundraising). This is the best book on sales that I have found.

Recruiting:
Who **Geoff Smart** **6h**
Excellent recruiting process that maximizes the likelihood of hiring A players only, and then ensuring their success at the company.

Culture: Summary
The 15 Commitments of Conscious Leadership **Diana Chapman** **10h**
Companies can become good using the hard skills outlined in the books above. To become great, a company must become curious and open to learning. This books shows how to do that.

The summaries are poor representations of the books themselves, as the summaries give the basic steps recommended, but not the details of why. And it is those details that are critical. Please force yourself to read all of the books above in their entirety. You won't regret it.

Appendix E: Personal

To become the best CEO that you can be, your life must be in balance with your personal life optimized as well. There are several personal issues which regularly crop up in the lives of the CEOs that I coach. Here the issues and their solutions.

Sleep

Many CEOs that I coach find that they sleep far less now than they did before they were running a company. For some, that means waking up in the middle of the night thinking about an issue or a to-do. For others, that means going to sleep late (to finish emails, etc) and then being woken up by the alarm clock to make it to their first meeting. Either way, the elusive "full night of sleep" becomes a distant memory. These CEOs feel that their bodies are wearing down, and soon they will break in some way.

First, it is important to realize that the human body is very resilient. It will not break so easily.

Second, the body goes through a sleep cycle of light sleep, deep REM sleep and lighter sleep again. These cycles usually last 1.5 hours each. What makes us feel tired and groggy is being suddenly woken from deep sleep, and this almost only happens from an alarm clock. Curiously, we feel better rested with 7.5 hours of sleep (waking while we are ending a sleep cycle) than we do sleeping for 8.5 hours and having an alarm wake us out of REM sleep. (For this reason, I have gone for months with 3 or 4.5 hours of sleep per night and felt just fine.) To test this phenomenon, download a SleepCycle app and use it to both track your sleep patterns and wake during light sleep. If nothing else, you will realize that what you are experiencing is common and not abnormal.

Third, if you are waking with a thought about an issue or a to-do, it is because your mind is desperately trying not to forget this urgent task. To easily quiet your mind, use the GTD method faithfully and write it down. Your mind will then not need to remember it (knowing that you have recorded it in your GTD system), and will allow you to sleep longer.

Liquidity

If your company truly succeeds, you will likely find yourself equity rich but still cash poor. It is important to create liquidity and diversify out of your company's stock. The general rule of thumb is that you should have no more than 25% of your net worth in "alternative assets" (illiquid assets). Because your company's equity is likely the majority of your net worth, your net worth is likely >95% alternative assets. It will be close to impossible to sell 75% of your stake in your company. Instead know that there are two absolute numbers that are significant. $10 million and $100 million.

Most people at $10 million of liquid net worth have the feeling of safety. They breathe a sigh of relief. They are no longer at risk. However, once they sit with that number for a while (and start to raise a family), their mind begins to play through disaster scenarios of how that net worth could disappear completely. Once their liquid net worth grows past $100 million, the catastrophe scenarios dry up, and sense of abundance follows. This is what you are driving for.

Reality is that $10 million is more than enough to live a wonderful life. But give the mind what it wants. After $100 million, each additional dollar will likely not add in any way to your life, but may well create a burden (if you buy assets that need to be maintained and supervised).

Therefore, as soon as your company's equity begins to have significant value begin to sell to secondary share buyers until you have sold $10-100 million.

Bank versus Brokerage

The next question becomes: Where do I put the $10-100 million?

You have 3 choices:

1. Commercial Bank (ie- Citibank)
2. Investment Bank (ie- Goldman Sachs)
3. Brokerage (ie- Schwab)

Commercial banks will hold your money and then lend it out to others. The bank gets all of the upside of these loans and your bear all of the risk. If the economy tanks and the loans go bad en masse, then the bank fails and (barring a federal intervention) all of your assets go to pay off the creditors of the bank itself. Holding your money in commercial bank is a terrible idea.

Investment banks are similar to commercial banks in that they will use your money to generate profits on their own account. The only difference is that investment banks are not restricted to loans. They can make any kind of bet or investment with your assets. The bank receives all of the upside, while you bear all of the risk. Again, a terrible idea to hold your money at an investment bank.

Finally, there are brokerage firms (ie- Schwab, Fidelity). These firms do not make loans or investments on their own account. Whatever assets you place at a brokerage firm remain in your name, are only invested in the way that you direct, and you remain the sole beneficiary. That being said, a brokerage firm is still a business and can go bankrupt if its expenses exceed its revenues for a long period of time (though this is much less likely than at a bank that is almost sure to go bankrupt in a sharp economic downturn). In that case, your assets do get tied up in bankruptcy court, with one exception: US Treasuries. US Treasuries are never held in custody. They are always held for the beneficial owner. If the brokerage firm were to go bankrupt, your US Treasury certificates would be sent directly to you, and not held by the bankruptcy court.

So, start by placing your liquid assets in a brokerage firm. Then invest all of the cash into US Treasuries while you decide on your investment strategy.

Investing

Now that the money is in a safe place, how do I invest it?

David Swensen is the Chief Investment Officer for the Yale University Endowment. He is considered the grandfather of portfolio management. He wrote a book specifically for the individual investor entitled Unconventional Success. I consider it the bible for individual asset management. In it, he convincingly describes how professional money managers' ability to create alpha is exceedingly rare, and if they exist, you likely will never meet them. The money managers you do encounter will likely never create for you positive net returns (after they siphon off their fees and carried interest) when compared to the public equity markets. Therefore, the best approach is for you to simply invest in low-cost index funds (ie- Vanguard) according to a specific allocation (he recommends about 30% US Equities, 30% non-US Equities, 5% Real Estate and 25% US Treasuries) and then re-balance as often as possible.

Unfortunately, re-balancing means putting in lots of trades, and that is painful. Luckily, someone built a tool to solve that problem. Wealthfront is the leading auto-rebalancing investment engine. Many others have copied it, but as of 2018, it is still my preferred vehicle.

Acknowledgement

This book could not have happened without all the people that I have coached, and who coach me, including Chris Barber, Misha Talavera, Ryan Breslow, Alex MacCaw, Karissa Paddie, Naval Ravikant, Brian Armstrong, Tatiana Dorow, Alexander Kasser and Stephen and Mary Mochary.

We each had to put in so much to make this book happen. Chris Barber “found” me, and invited me to coach his roommates at Stanford, which launched my coaching career. Misha, Ryan and Alex, all of whom I coached, forced me to get these writings into the world; Misha by writing the sections that I wasn’t motivated to, Ryan by connecting me to Karissa, and Alex by finally just tweeting it out (after asking my permission, of course). Karissa sat with me on a weekly basis for hours at a time to finalize the words and organize my social media presence. Naval read an early draft and said it was the best business book he’d seen (whether true or not, that’s what he told me), further encouraging me to get it out into the world. Brian also read an early draft and, based on that, asked me to coach him. My wife, Tatiana, well, she just makes my life great by making me laugh each and every day. Alexander, my grandfather, made me feel that I could never fail, no matter how hard I swung the bat. Stephen and Mary, my parents, have always been my biggest fans.

Writing this book was most difficult for me when it was almost done. I very much enjoyed writing the content. But the final stages of editing and formatting felt like “work”. Luckily, Karissa pushed me through those tasks.

As a group, we were driven by our vision of sharing this information with the world, so that CEOs and companies could be more efficient and effective.

I am so proud and thankful that I got a chance to work with this amazing group of people. All of the people that I coach will likely say that I have added significant value to their lives. I hope they realize that they have fundamentally transformed mine into one of never-ending joy. (Yes, I appreciate them often, so I’m pretty sure that they know.)

My wish for you is that one day you too get the chance to experience the joy of coaching others. It is the most deeply satisfying activity that I have yet found in life. If you know of anything more satisfying, please tell me!!

Matt’s Background (optional reading)

I went to Yale undergrad and Kellogg business school in the 90s, and then joined a private equity firm in Menlo Park (Spectrum Equity). The internet was going nuts, so I chose to start my own company in 1999 called Totality that maintained private clouds for customers. My co-founders and I raised $130mm and hired 280 people within the first 18 months. We eventually sold the company to Verizon and it is now called Verizon Business.

While I made enough money that I never needed to work again, I realized that Totality was an operational mess. To put it simply, learning how to run a company while running a company is extremely hard. It always seemed like there was just no time.

After the exit, I chose to play (made 2 movies) and do good (started a foundation to help ex-convicts get and keep a legitimate job). But I always wondered how I could have improved my performance as a founder. So, when I moved back to Silicon Valley to raise my family in 2011, I began studying what I should have done to build a great company. I used the basic three learning methods: reading, talking to subject matter experts, and practicing. And by practicing, I mean, the ultimate learning vehicle: teaching.

I started coaching young tech CEOs to see if I could apply the answers in the books to the real world. Amazingly, the solutions worked beautifully.

I noticed that if I described something verbally, CEOs had a hard time creating what I was describing. But if I showed them an example of something, those same CEOs could repeat that example almost perfectly.

So, in 2015 I became the “1 day a week CEO” at a company called NeoReach. During that one day each week, I held all of the company’s internal meetings (Leadership Team, individual Departments, etc). I ran those meetings, and was able to show the founding CEO my method. After only a few months, the knowledge transfer was complete and the founding CEO was able to run the meetings (and the system) as well as I could, and so took back over.

I have since done this same “1 day a week CEO” at two other companies: Bolt and AngelList, and will likely continue to do so at others. (It’s a lot of fun!)

I now coach both tech CEOs and investors. This is also great fun because I can debunk many of the myths that they believe about each other.

An Important Problem

Thank you for reading this book.

If you're looking for an important problem to address, here is one: Millions of formerly incarcerated Americans struggle to get jobs, because every employer can easily do a background check, and the vast majority of employers will not hire someone with a criminal record if there is another candidate available. That leaves formerly incarcerated people with almost no way of making legitimate money. But they still need to eat. So, they do whatever they have to in order to eat. And this often leads them right back to prison.

The solution, in my opinion, is a short vocational training program for high-skill jobs for which there is a shortage of qualified candidates. I have personally seen this work on a small scale. At the Mochary Foundation, I train x-convicts to get their Commercial Driver's License. Within days of getting their license, they are usually driving a truck for over $50,000/year, and suddenly their future seems stable and tenable. Trucking companies are so desperate for drivers that they are willing to pay recruiter fees that more than pay for the cost of training the driver. Thus, this operation can easily be self-funding.

While this vocational program works, I have only done it on a very small scale. I do not want to build and run a large, nationwide organization. I am looking for the person who does.

If you believe your purpose is to create a path for any American with a work ethic to be trained in a vocation and placed in a job, with the possibility of building a healthy business at the same time due to placement fees, I would love to hear from you.