



Everything You Learned About Managing A Company You Learned In Math Class

Shomit Ghose
ONSET Ventures
shomit@onset.com

ONSET Ventures

- Founded 1984; 4 funds, ~\$500MM
- Six investment partners; extensive operating experience
- Seed & Early Stage
- Invest in Software/Internet, Comms/Networking, Medical Devices
- Architect companies with entrepreneurs

My Bio

- Onset “venture coach” since 4/01
- SVP Operations, Tumbleweed Communications
 - IPO 1999 (NASDAQ: TMWD)
- Board member, Alier Inc.
 - Acquired by WebMethods (NASDAQ: WEBM) 2000
- VP Worldwide Services, BroadVision, Inc.
 - IPO 1996 (NASDAQ: BVSN)
- Director Asia/Pacific, nCUBE
- Software engineer
 - Sun Microsystems - IPO 1986 (NASDAQ: SUNW)
 - Metaphor Computer Systems - acquired by IBM
- CS degree, UC Berkeley 1982

My Thesis

- You've already heard or read all there is to say about VC and entrepreneurship
- My goal is to offer some simple advice about a simple mechanism that's worked for me: measuring productivity
 - Using measurement as a management tool

Measurement Counts!

- Vast majority of software companies don't measure operational productivity
- Early-stage companies don't measure at all
- Without measures you can't...
 - set goals
 - gauge improvement
 - reward
- Without reward you can't motivate
- Without demonstrated improvement over time your Board will have your head

Do the Math

- Measure everything that's practical
- Compensate accordingly
- Start as early in your company's history as possible
 - Processes can grow organically
 - Retrofitting later is hard (e.g., compensation policies)

Numbers Are Your Friend

- Measurement gives rise to prediction models
 - Future revenue
 - Future budgets
- Helps identify systemic problems before they become a crisis
 - E.g., sales trends, marketing efficiency, software quality
- Critical for managing down (employees) and managing up (Board)
 - An objective way for your superiors to see you're doing a good job

Some Basic Tools

- Process automation tool (e.g., Siebel) to facilitate measurement and tracking
 - Failing that, even the humble spreadsheet is quite powerful
- Defined set of metrics for your business
 - E.g., \$ revenue/head, \$ burn/head, # F1000 customers
- Following is not an exhaustive set of measures, just an exemplary set to give you some food for thought for improving operational efficiency

Measuring Sales

- Generally, companies track sales numbers tactically (reactively) and without much semantic analysis. E.g.:
 - Name of customer
 - Size of deal
 - Probability of “closing” (% , 1-5 ratings, etc.)
- But your strategic goal is to hit your numbers reliably, which implies being very proactive
 - Ideally, revenue is a deterministic function of your sales and marketing expenditure
- Want to be able to predict sales numbers, not just track them

Measuring Sales

- So how do you strategically (proactively) manage your sales organization?
- Much data is already being collected, but need to collect a bit more and need to do more detailed analysis of what the numbers mean
 - Won't guarantee that you'll hit your number but will allow you to improve the odds and make well-informed decisions

Measuring Sales

Metric	Meaning
% recognized revenue target achieved over time	Will we make our number this quarter?
Size of pipeline categorized by probability (1-5) of closing (must converge by end of quarter)	Will we make our number this quarter?
Sales force confidence (1-5 rating of whether each sales rep. thinks they'll hit their quota)	Will we make our number this quarter?

Measuring Sales

Average selling price (ASP) week-over-week, quarter-over-quarter	Are we selling the value of our product?
Average sales cycle (ASC) length	Is our message getting through?
# of Fortune 1000 customers	Are we winning acceptance?
ASP/ASC by market sector or application	Which markets are price sensitive and which are not? Where can we sell most efficiently/quickly?

Measuring Sales

Size of pipeline by market sector or application	Are we focused on a small number of lucrative markets?
Revenue/salesperson/quarter (sales force productivity)	Given a certain revenue target, how many sales people do I need?
Batting average (closing percentage: % of deals that enter pipeline that close)	Is our message getting through?

Measuring Sales

Per salesperson (weekly): pipeline/head, batting average to date, % quota achieved	Whose success do we replicate? Which sales people need help?
Median percentage of quarterly quota achievements	Are quotas too high or too low?
Deal composition (license, services, support)	Are we converging on the right margin targets?

Measuring Sales

- Goal is to manage:
 - Sales cycle → 0
 - Batting average → 1.00 (100%)
 - ASP → infinity
 - \$/head → infinity
- Rigorous measurement coupled with rigorous management can help drive convergence on these goals

Measuring Marketing

- True goal of Marketing is the generation of leads of ever-higher quality in ever-greater quantity
 - Ideally, 1/3 of your leads come from sales cold-calls, 1/3 from partners, 1/3 from Marketing
- 10-20% of Marketing's compensation should be based on number of A and B leads generated

Measuring Marketing

- Classify the quality of lead being processed
 - A: customer budget and application identified
 - B: application identified but unbudgeted
 - C: customer wants follow-up contact
 - D: tire-kicker
- Track effectiveness of various events, programs and initiatives for number of A and B leads generated and \$ per lead
- Goal is to drive down \$/lead (focus on highest-yield activities) and generate future spending models for Marketing programs

Measuring Marketing

- Is Product Management/Marketing doing a good job?
Track...
 - Decrease in ASC from previous quarter
 - Increase in ASP from previous quarter
 - Increase in sales force productivity over previous quarter
- Compensate accordingly

Measuring Services

- Gross margin of operations
- Services productivity: percentage of customers deployed (ratio of deployed customers to total customers)
- Billability ratio for Consulting organization
 - # hours billed / total # of billable hours available (should be between 0.7 and 1.0)
- Billability ratio for individual consultants
- Revenue production per (consulting) task type
- Revenue production per individual consultant
- Support: mean time to close priority 1 bugs

Measuring Engineering

- Schedule adherence
- Bug density (# bugs per lines of code)
- # priority 1 bugs
- Ratio of deployments done by company vs. by customer or partner
 - Is your software product allowing you to build a scalable business?
 - Compensate accordingly

Measuring HR

- Defection ratio (percentage of voluntary outflow of employees)
 - Drive this to 0 year-over-year
- Average years of experience per employee per department
- \$/head

Measuring HR

- “Mean time to hire” for open job reqs.
 - Needs to decrease from pervious quarter: are we recruiting properly?
- Recruitment sources: recruiters, employee referrals, advertising/self-referral
 - What’s working and what’s not
 - Recruiters: number of resumes submitted, number of candidates hired, successful placements per resumes submitted

Managing Your Board Through Math

- Define a set of metrics that characterize your business
- Track and report these on a quarterly basis
- Provides objective measure to Board of your progress
 - Neutralizes subjective assessments
- Do this for the company as a whole, and by department

Summary

- Measurement allows you to refine your operational practices
- It's easy to do
 - Helps decision-making process
 - Helps focus your organization
 - Helps motivate your team
- Yields good results without costing much

Finding the Right Venture Partner

- Each venture firm is unique
 - Different focuses
 - Different criteria
 - Different hot buttons
- Do your research!
 - Web site, article search, directory
 - Referrals from entrepreneurs
 - Attend VC talks
 - Choose carefully -- this is a marriage!

Questions to Ask VCs

- What stage do you usually target?
- What is your typical investment over the company life?
- What is your typical amount per round at this stage?
- How much time will you spend with the company?
- What are your prior deals in this area/industry?

Value Added from VCs

- Recruiting
 - Access to best recruiters
 - Access to experienced management and industry players
- Strategy
 - Knowledge of industry trends
 - Alliance assistance
 - Deal experience; help building business model
- Growth
 - Company growth phases
 - Key warning signs
 - Recovery aids

Our Investment Criteria: Market

- Substantial market opportunity (>> \$500M)
- Immediate, near-term opportunity
- Long-term market growth potential
- Need for a new company
 - Market players
 - Competitive landscape

Our Investment Criteria: Product

- Real market demand and cost justification
- Response to customer need
- Defined customer group and accessibility
- Proprietary technology, reasonable implementation
- Technology risk level, way to prove feasibility before large investment
- Reasonable adoption curve

Our Investment Criteria: Team

- Team quality
 - “The best” at what they do
 - Realistic roles relative to experience
 - Experience as operators of profitable business
- Team completeness
 - Positions filled/unfilled
 - Ability to recruit
- Team chemistry
 - Among players
 - With investors

Our Investment Criteria: Business Model

- How do they make money?
- Pricing and revenue model
- Sales cycle and distribution model
- Cost to build, maintain, extend
- Unfair advantage?

Our Investment Focus

- Seed/early stage projects (and follow-ons)
 - Medical devices
 - Enterprise software
 - Communications and networking
- Technology-based companies
 - Change the way things are done
 - Economic advantage in significant market
- Partners directly add value

Thank You

- ONSET invests at the earliest stage
- In search of good entrepreneurs to work with...
 - Looking for the next BIG winners!

