

1. Develop a Plan

THE FIRST 100 DAYS: MAKING THE GOOD, TOUGH DECISIONS INCREASES YOUR PROBABILITY OF SUCCESS

When Randy Eager and Jonathan Cagan spun DesignAdvance (formerly Desantage Corporation) out of Carnegie Mellon University in November 2003, it took them only about nine months to attract a \$1.25 million round of venture financing led by Spencer Trask Software and Information Technology Group.

In these days of cautious VCs, DesignAdvance's success on the financing trail was a major coup but no accident. DesignAdvance boasted an important asset — a licensing agreement with CMU, vital dollars from Innovation Works and the Enterprize Competition and a key partner. Most importantly, the founders made the right decisions early on, choices that set the stage for their financing score.

Many key decision points are familiar to tech entrepreneurs, yet the first two in DesignAdvance's journey were more subtle. The initial fork in the road involved the very philosophy of DesignAdvance, which is developing computer-aided design (CAD) and electronic design automation (EDA) software tools to shorten the design time of industrial and consumer products.

"There are two very different approaches," says Eager, DesignAdvance President and CEO. "You can identify the problem and find the technology to solve it. In our case, we found the technology and then searched for the right problem to solve with it. Because the technology exists, you have a huge head start in development."

That ready technology was a key

asset when DesignAdvance discovered that the preferred target for its products — the automotive industry — wasn't its likeliest customer.

"We were making a lot of phone calls and visits to Detroit, and things weren't going well," Eager recalls. "The Pittsburgh Digital Greenhouse introduced us to one of their members, Compunetix Inc. (a locally based producer of telecommunications equipment). We spent a few weeks converting the technology from an automotive application to a circuit board application."

The second delicate decision involved the professional and personal compatibility of the founding group. Eager, who served a stint in CMU's Innovation Transfer Center, said in-fighting was a fatal flaw in many of the start-ups he saw.

"There were political problems and personality issues. I was adamant that this wouldn't happen to us. I had a mental list of the right priorities, topped by a professor/cofounder with whom I would have a great working relationship. The people around you must share the same goals and desires for the business."

Those weren't the only key decisions Eager and Cagan, a mechanical engineering professor at CMU and DesignAdvance's Chief Technologist, faced in those pivotal early months. Here's advice from Eager for your first 100 days:

Surround yourself with good advice.

First priority, Eager says, is a top attorney experienced in the growth of tech

businesses. Eager addressed this challenge by engaging Eric Kline of Morgan, Lewis & Bockius LLP. He also established a kitchen cabinet of tech sector veterans.

"It's important to be able to network into seasoned CEOs for good advice," Eager says. "Maybe they're second- or third-time CEOs whom you use as sounding boards." Don't hire staff or formalize your board too soon. As valuable as his counselors were, Eager didn't invite them on the board immediately. That saved slots on the board for Porfeli and Michael Korybalski, the Founder and former Chairman and CEO of Mechanical Dynamics, Inc.

"You have only three or four people who will end up on your board," he says. "If you make those decisions before you're sure of the company's direction, you may fill your board before you identify the best candidates. We just added two fantastic people to our board, and we wouldn't have had them if we'd made our decisions too early."

The same prudence should inform your hiring which, if done prematurely, could burn your precious cash. Says Eager:

"If you make early staffing decisions that you don't have the money to support, you're under the gun to raise money. Then you make poor decisions, such as taking money on bad terms. We didn't do that. We found people to give us accounting or public relations help as we needed it. We spent as little money as we could to get the best out-

side services."

When the timing was right, DesignAdvance engaged its first two employees, scientists Jay McCormack and Chandan Aladahalli, who had worked with Cagan in developing the company's foundation technology. It was a short, productive search, indeed.

"I feel so strongly about this," Eager says, "that I've told other entrepreneurs, 'If you can't hire the people who developed the technology, look for another technology.'" Select an appropriate business structure. DesignAdvance is a Delaware C corporation, a term that might be alien to entrepreneurs with an exclusively technical background. Kline's input here was crucial.

"It's important to be able to network into seasoned CEOs for good advice," Eager says. "Maybe they're second- or third-time CEOs whom you use as sounding boards."

"Structure affects the team and the funding," Kline says. "If you want to incent people with stock options or using restricted stock, the easiest vehicle is a C corporation. It's also a structure that is compatible with venture funding. All that goes into the mix."

Find a strategic partner.

DesignAdvance faced this challenge and knocked it out of the park when Compunetix signed on as an investor and partnered with the company to develop specifications critical for the development of the prototype of the product. They helped DesignAdvance understand the real opportunity in the printed circuit board tool market estimated at \$300 million.

"That was the seal of approval necessary for larger investment," Kline confirms. "Shortly after that, we got some money from Innovation Works, which looked to the Compunetix partnership and said, 'That's the validation we were looking for.' Then the fund-raising kicked into high gear."

Know what you want from your investors.

DesignAdvance found itself in the enviable position of considering two competing proposals. One potential investor offered a higher valuation for the business but wanted significant control over business decisions. The rival bid offered intangible benefits and cash.

It was here that DesignAdvance's carefully crafted development decisions came into play. The engagement of Kline led to the fruitful contact with Spencer Trask as well as the crafting of

a business structure that facilitated venture investment. Eager's identification of inexpensive space and refusal to hire rashly minimized the company's immediate cash needs. That solid foundation enabled DesignAdvance to shun the money with too many strings attached and accept the "smart money" which Porfeli's group represented.

Don't forget space.

Many startups scrape by in cheap, obscure space. Cheap, says Eager, is good. Obscure is another matter. After leaving its initial headquarters — Eager's home — DesignAdvance located on South Craig Street in Oakland, the local software mecca. DesignAdvance secured the space at no charge for a year through the Digital Greenhouse's JumpStart program; Eager would have scrimped and saved to get to South Craig in any case.

"A location that people want to go to is a good thing when you're asking them to sacrifice. Being in an environment that's pleasant is important. You need a real address to attract investment. You have to come out of the garage without spending much money."

It was a heady 100 days — about 270 days if you want to get technical.

"It's all about increasing your probability of success," says Kline. "You start with this really low probability. Randy keeps improving DesignAdvance's odds by making the right choices." ●