expected, and the occasional guests from hell. The grass is always greener, so they say.

The Timmons Model: Where Theory and Practice Collide in the Real World

How can aspiring entrepreneurs—and the investors and associates who join the venture—get the odds of success on their side? What do these talented and successful high potential entrepreneurs, their venture capitalists, and their private backers do differently? What is accounting for their exceptional record? Are there general lessons and principles underlying their successes that can benefit aspiring entrepreneurs, investors, and those who would join a venture? If so, can these lessons be learned?

These are the central questions of our lifetime work. We have been immersed as students, researchers, teachers, and practitioners of the *entrepreneurial process.* As founding shareholders and investors of several high potential ventures (some of which are now public), directors and advisors to ventures and venture capital funds, a charter director and advisor to the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation, and as director of the Arthur M. Blank Center for Entrepreneurship at Babson College, we have each applied, tested, refined, and tempered academic theory as fire tempers iron into steel: in the fire of practice.

Intellectual and Practical Collisions with the Real World

Throughout this period of evolution and revolution, *New Venture Creation* has adhered to one core principle: In every quest for greater knowledge of the entrepreneurial process and more effective learning, there must be intellectual and practical collisions between academic theory and the real world of practice. The standard academic notion of something being all right in practice but not in theory is unacceptable. This integrated, holistic balance is at the heart of what we know about the entrepreneurial process and getting the odds in your favor.

Value Creation: The Driving Forces

A core, fundamental entrepreneurial process accounts for the substantially greater success pattern among higher potential ventures. Despite the great variety of businesses, entrepreneurs, geographies, and technologies, central themes or driving forces dominate this highly dynamic entrepreneurial process.

- It is *opportunity* driven.
- It is driven by a *lead entrepreneur* and an *entrepreneurial team.*
- It is *resource parsimonious and creative.*
- It depends on the *fit and balance* among these.
- It is *integrated and holistic.*
- It is *sustainable.*

These are the controllable components of the entrepreneurial process that can be assessed, influenced, and altered. Founders and investors focus on these forces during their careful due-diligence process to analyze the risks and determine what changes can be made to improve a venture's chances of success.

First, we will elaborate on each of these forces to provide a blueprint and a definition of what each means. Then using the early years of Netscape as an example, we will illustrate how the holistic, balance, and fit concepts pertain to a startup.

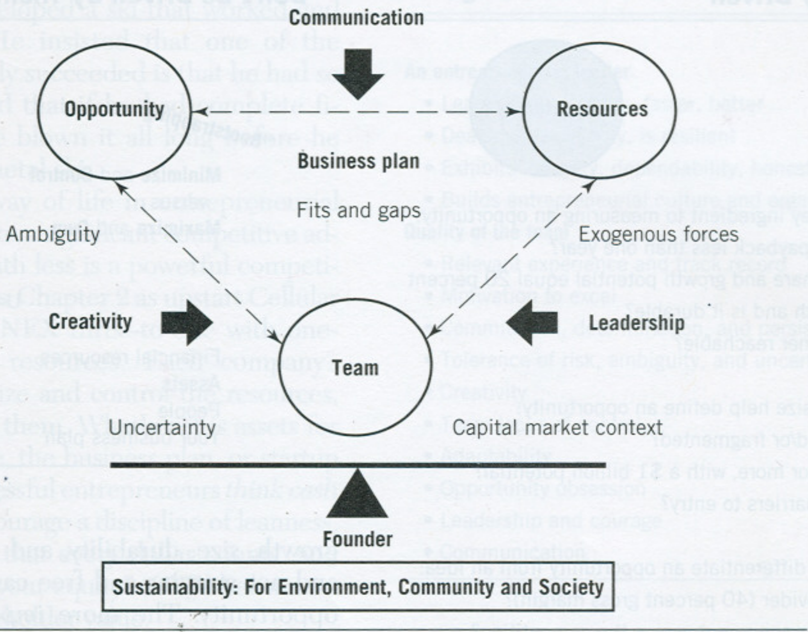
Change the Odds: Fix It, Shape It, Mold It, Make It

The driving forces underlying successful new venture creation are illustrated in Exhibit 3.5. The process starts with opportunity, not money, strategy, networks, team, or the business plan. Most genuine opportunities are much bigger than either the talent and capacity of the team or the initial resources available to the team. The role of the lead entrepreneur and the team is to juggle all these key elements in a changing environment. Think of a juggler bouncing up and down on a trampoline that is moving on a conveyor belt at unpredictable speeds and directions, while trying to keep all three balls in the air. That is the dynamic nature of an early-stage startup. The business plan provides the language and code for communicating the quality of the three driving forces of the Timmons Model and of their fit and balance.

In the entrepreneurial process depicted in the Timmons Model, the shape, size, and depth of the opportunity establishes the required shape, size, and depth of both the resources and the team. We have found that many people are a bit uncomfortable viewing the opportunity and resources somewhat precariously balanced by the team. It is especially disconcerting to some because we show the three key elements of the entrepreneurial process as circles, and thus the balance appears tenuous. These reactions are justified, accurate, and realistic. The entrepreneurial process is dynamic. Those who recognize the risks better manage the process and garner more return.

often

EXHIBIT 3.5
The Timmons Model of the Entrepreneurial Process



The lead entrepreneur's job is simple enough. He or she must carry the deal by *taking charge of the success equation.* In this dynamic context, ambiguity and risk are actually your friends. Central to the homework, creative problem solving and strategizing, and due diligence that lies ahead is analyzing the fits and gaps that exist in the venture. What is wrong with this opportunity? What is missing? What good news and favorable events can happen, as well as the adverse? What has to happen to make it attractive and a fit for me? What market, technology, competitive, management, and financial risks can be reduced or eliminated? What can be changed to make this happen? Who can change it? What are the least resources necessary to grow the business the farthest? Is this the right team? By implication, if you can determine these answers and make the necessary changes by figuring out how to fill the gaps and improve the fit and attract key players who can add such value, then the odds for success rise significantly. In essence, the entrepreneur's role is to manage and redefine the risk–reward equation—all with an eye towards **sustainability.** Since part of the entrepreneur's legacy is to create positive impact without harming the environment, the community, or society, the concept of sustainability appears as the underlying foundation in the model.

The Opportunity At the heart of the process is the opportunity. Successful entrepreneurs and investors know that a good idea is not necessarily a good opportunity. For every 100 ideas presented to investors in the form of a business plan or proposal, usually fewer than 4 get funded. More than 80 percent of those rejections occur in the first few hours; another 10 to 15 percent are rejected after investors have read the business plan carefully. Less than 10 percent attract enough interest to merit a more due diligence thorough review that can take several weeks or months. These are very slim odds. Countless hours and days have been wasted by would-be entrepreneurs chasing ideas that are going nowhere. An important skill for an entrepreneur or an investor is to be able to quickly evaluate whether serious potential exists, and to decide how much time and effort to invest.

John Doerr is a senior partner at one of the most famous and successful venture capital funds ever, Kleiner, Perkins, Caulfield & Byers, and is considered by some to be the most influential venture capitalist of his generation. During his career, he has been the epitome of the revolutionaries described earlier, who have created new industries as lead investors in such legends as Sun Microsystems, Compaq Computer, Lotus Development Corporation, Intuit, Genentech, Millennium, Netscape, and Amazon.Com. Regardless of these past home runs, Doerr insists, "There's never been a better time than now to start a company. In the past, entrepreneurs started businesses. Today they invent new business models. That's a big difference, and it creates huge opportunities."[30]

[30] "John Doerr's Start-Up Manual," *Fast Company,* February–March 1997, pp. 82–84.

EXHIBIT 3.6

The Entrepreneurial Process Is Opportunity Driven*

Market demand is a key ingredient to measuring an opportunity:
- Is customer payback less than one year?
- Do market share and growth potential equal 20 percent annual growth and is it durable?
- Is the customer reachable?

Market structure and size help define an opportunity:
- Emerging and/or fragmented?
- $50 million or more, with a $1 billion potential?
- Proprietary barriers to entry?

Margin analysis helps differentiate an opportunity from an idea:
- Low cost provider (40 percent gross margin)?
- Low capital requirement versus the competition?
- Break even in 1–2 years?
- Value added increase of overall corporate P/E ratio?

*Durability of an opportunity is a widely misunderstood concept. In entrepreneurship, durability exists when the investor gets her money back plus a market or better return on investment.

EXHIBIT 3.7

Understand and Marshall Resources, Don't Be Driven by Them

Minimize and **Control**
versus
Maximize and **Own**

Relationships

Unleashing creativity

Financial resources
Assets
People
Your business plan

Think cash last!

Another venture capitalist recently stated, "After the irrational exuberance of the late 90s, it is again a great time to start a business. Venture capital is plentiful, valuations make sense and venture capitalists are anxious for high potential ventures."[31]

Exhibit 3.6 summarizes the most important characteristics of good opportunities. Underlying market demand—because of the value-added properties of the product or service, the market's size and 20-plus percent growth potential, the economics of the business, particularly robust margins (40 percent or more), and free cash flow characteristics—drives the value creation potential.

We build our understanding of opportunity by first focusing on market readiness: the consumer trends and behaviors that seek new products or services. Once these emerging patterns are identified, the aspiring entrepreneur develops a service or product concept and, finally, the service or product delivery system is conceived. We then ask the questions articulated in the exhibit.

These criteria will be described in great detail in Chapter 4 and can be applied to the search and evaluation of any opportunity. In short, the greater the growth, size, durability, and robustness of the gross and net margins and free cash flow, the greater the opportunity. The more *imperfect* the market, the greater the opportunity. The greater the rate of change, the discontinuities, and the chaos, the greater is the opportunity as we saw with Moore's Law and Drucker's Postulate in Chapter 2. The greater the inconsistencies in existing service and quality, in lead times and lag times, and the greater the vacuums and gaps in information and knowledge, the greater is the opportunity.

Resources: Creative and Parsimonious

One of the most common misconceptions among untried entrepreneurs is that you first need to have all the resources in place, especially the money, to succeed with a venture. Thinking money first is a big mistake. Money follows high potential opportunities conceived of and led by a strong management team. Investors have bemoaned for years that there is too much money chasing too few deals. In other words, there is a shortage of quality entrepreneurs and opportunities, not money. Successful entrepreneurs devise ingeniously creative and stingy strategies to marshal and gain control of resources (Exhibit 3.7). Surprising as it may sound, investors and successful entrepreneurs often say one of the worst things that can happen to an entrepreneur is to have *too much money too early*.

Howard Head is a wonderful, classic example of succeeding with few resources. He developed the first metal ski, which became the market leader, and then the oversize Prince tennis racket—developing two totally unrelated technologies is a rare feat. Head

[31] Ernie Parizeau, Partner, Norwest Venture Partners, June 2001.

left his job at a large aircraft manufacturer during World War II and worked in his garage on a shoestring budget to create his metal ski. It took more than 40 versions before he developed a ski that worked and could be marketed. He insisted that one of the biggest reasons he finally succeeded is that he had so little money. He argued that if he had complete financing he would have blown it all long before he evolved the workable metal ski.

Bootstrapping is a way of life in entrepreneurial companies and can create a significant competitive advantage. Doing more with less is a powerful competitive weapon, as we saw in Chapter 2 as upstart Cellular One outperformed NYNEX three-to-one with one-half to one-third the resources. Each company's approach was to minimize and control the resources, but not necessarily own them. Whether it is assets for the business, key people, the business plan, or startup and growth capital, successful entrepreneurs *think cash last.* Such strategies encourage a discipline of leanness, where everyone knows that every dollar counts, and the principle "conserve your equity" (CYE) becomes a way of maximizing shareholder value.

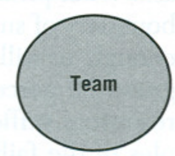
The Entrepreneurial Team There is little dispute today that the entrepreneurial team is a key ingredient in the higher potential venture. Investors are captivated "by the creative brilliance of a company's head entrepreneur: A Mitch Kapor, a Steve Jobs, a Fred Smith . . . and bet on the superb track records of the management team working as a group."[32] Venture capitalist John Doerr reaffirms General George Doriot's dictum: I prefer a Grade A entrepreneur and team with a Grade B idea, over a Grade B team with a Grade A idea. Doerr stated, "In the world today, there's plenty of technology, plenty of entrepreneurs, plenty of money, plenty of venture capital. What's in short supply is great teams. Your biggest challenge will be building a great team."[33]

Famous investor Arthur Rock articulated the importance of the team more than a decade ago. He put it this way: "If you can find good people, they can always change the product. Nearly every mistake I've made has been I picked the wrong people, not the wrong idea."[34] Finally, as we saw earlier, the ventures with more than 20 employees and $2 million to $3 million in sales were much more likely to survive and prosper than smaller ventures. In the vast majority of cases, it is very difficult to grow beyond this without a team of two or more key contributors.

Clearly, a new venture requires a lead entrepreneur that has personal characteristics described in

EXHIBIT 3.8

An Entrepreneurial Team Is a Critical Ingredient for Success



An entrepreneurial leader
- Learns and teaches—faster, better
- Deals with adversity, is resilient
- Exhibits integrity, dependability, honesty
- Builds entrepreneurial culture and organization

Quality of the team
- Relevant experience and track record
- Motivation to excel
- Commitment, determination, and persistence
- Tolerance of risk, ambiguity, and uncertainty
- Creativity
- Team locus of control
- Adaptability
- Opportunity obsession
- Leadership and courage
- Communication

"Passion"

Exhibit 3.8. But the high potential venture also requires interpersonal skills to foster communications and, therefore, team building.

Exhibit 3.8 summarizes the important aspects of the team. These teams invariably are formed and led by a very capable entrepreneurial leader whose track record exhibits both accomplishments and several qualities that the team must possess. A pacesetter and culture creator, the lead entrepreneur is central to the team as both a player and a coach. The ability and skill in attracting other key management members and then building the team is one of the most valued capabilities investors look for. The founder who becomes the leader does so by building heroes in the team. A leader adapts a philosophy that rewards success and supports honest failure, shares the wealth with those who help create it, and sets high standards for both performance and conduct. We will examine in detail the entrepreneurial leader and the new venture team in Chapters 7 and 8.

Importance of Fit and Balance Rounding out the model of the three driving forces is the concept of fit and balance between and among these forces. Note that the team is positioned at the bottom of the triangle in the Timmons Model (Exhibit 3.5). Imagine the founder, the entrepreneurial leader of the venture, standing on a large ball, balancing the triangle over her head. This imagery is helpful in

[32] William D. Bygrave and Jeffry A. Timmons, *Venture Capital at the Crossroads* (Boston: Harvard Business School Press, 1992), p. 8.
[33] *Fast Company*, February–March 1997, p. 84.
[34] Arthur Rock, "Strategy vs. Tactics from a Venture Capitalist," *Harvard Business Review*, November–December 1987, pp. 63–67.

appreciating the constant balancing act since opportunity, team, and resources rarely match. When envisioning a company's future, the entrepreneur can ask: What pitfalls will I encounter to get to the next boundary of success? Will my current team be large enough, or will we be over our heads if the company grows 30 percent over the next two years? Are my resources sufficient (or too abundant)? Vivid examples of the failure to maintain a balance are everywhere, such as when large companies throw too many resources at a weak, poorly defined opportunity. For example, Lucent Technologies' misplaced assumption slowness to react to bandwidth demand resulted in an almost 90 percent reduction in market capitalization.

Exhibit 3.9 shows how this balancing act evolved for Netscape from inception through the initial public offering to just before its merger with AOL Time Warner. While the drawings oversimplify these incredibly complex events, they help us to think conceptually—an important entrepreneurial talent—about the company building process, including the strategic and management implications of striving to achieve balance and the inevitable fragility of the process.

The Internet was a huge, rapidly growing, but elusive opportunity. Mark Andressen had no significant capital or other resources to speak of. There was no team. Such a mismatch of ideas, resources, and talent could quickly topple out of the founder's control and fall into the hands of someone who could turn it into a real opportunity. Visually, the process can be appreciated as a constant balancing act, requiring continual assessment, revised strategies and tactics, an experimental approach. By addressing the types of questions necessary to shape the opportunity, the resources, and the team, the founder begins to mold the idea into an opportunity, and the opportunity into a business, just as you would mold clay from a shapeless form into a piece of artwork.

At the outset, founder Marc Andressen would have seen something like the first figure, Exhibit 3.9(a), with the huge Internet opportunity far outweighing the team and resources. The gaps were major. Enter venture capitalist John Doerr, the first venture capitalist to vividly see the size and potential of the opportunity. He had great faith in Andressen and knew he could fill the resource gaps and help build the team, both with inside management and outside directors and professional advisors. This new balance in Exhibit 3.9(b) creates a justifiable investment. The opportunity is still huge and growing, and competitors are inevitable (see Exhibit 3.9(c)). To fully exploit this opportunity, attract a large and highly talented group of managers and professionals, and create even greater financial strength than competitors, the company must complete an initial public stock offering (IPO). Strategic investors can greatly enhance the balance of the driving forces. Strategic investors, or partners, are defined as

EXHIBIT 3.9(a)

Netscape—Journey through the Entrepreneurial Process: At Startup, a Huge Imbalance

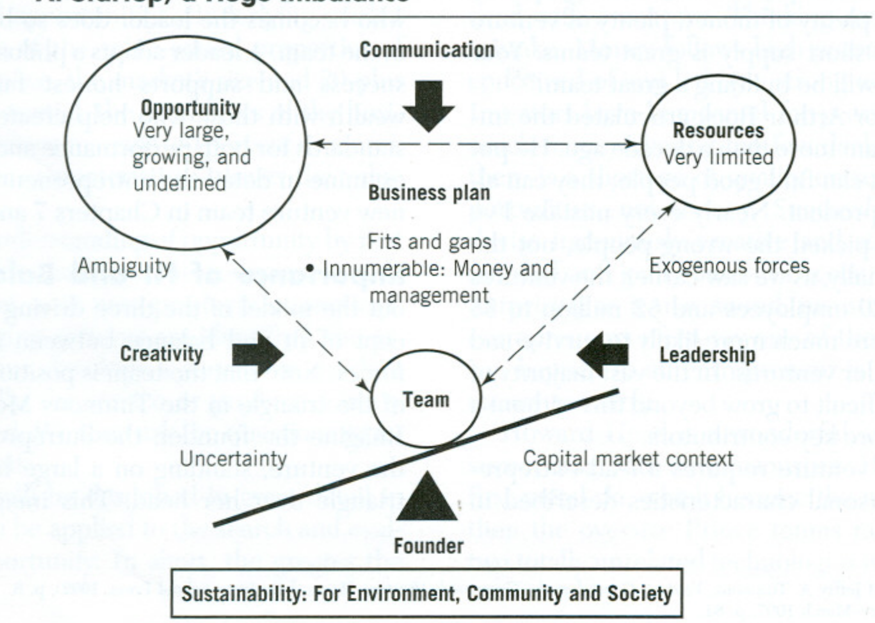


EXHIBIT 3.9(b)

Netscape—Journey through the Entrepreneurial Process: At Venture Capital Funding, toward New Balance

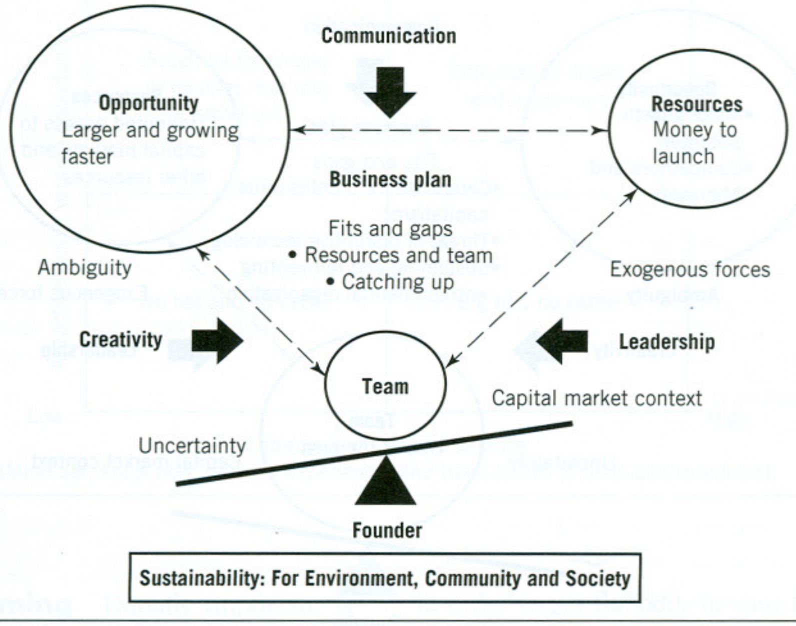


EXHIBIT 3.9(c)

Netscape—Journey through the Entrepreneurial Process: At IPO, a New Balance

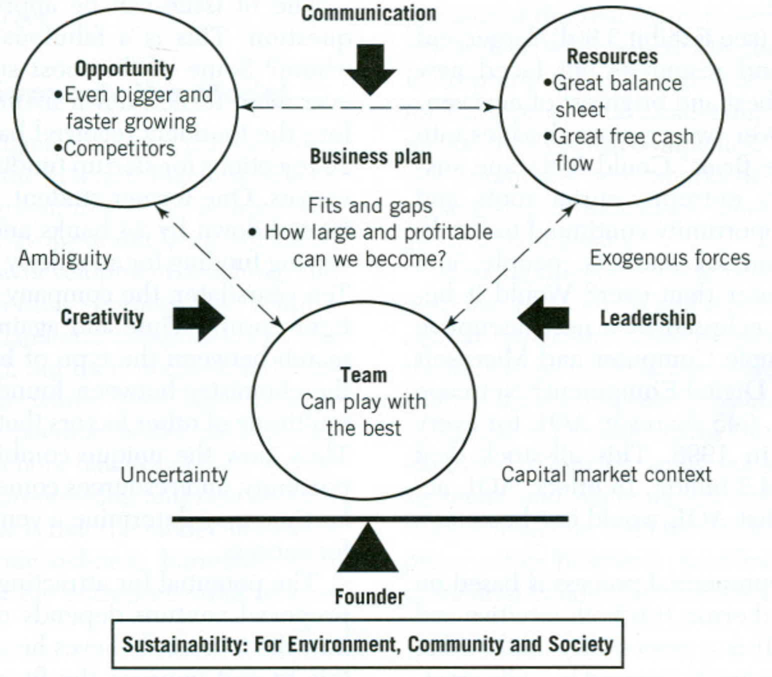
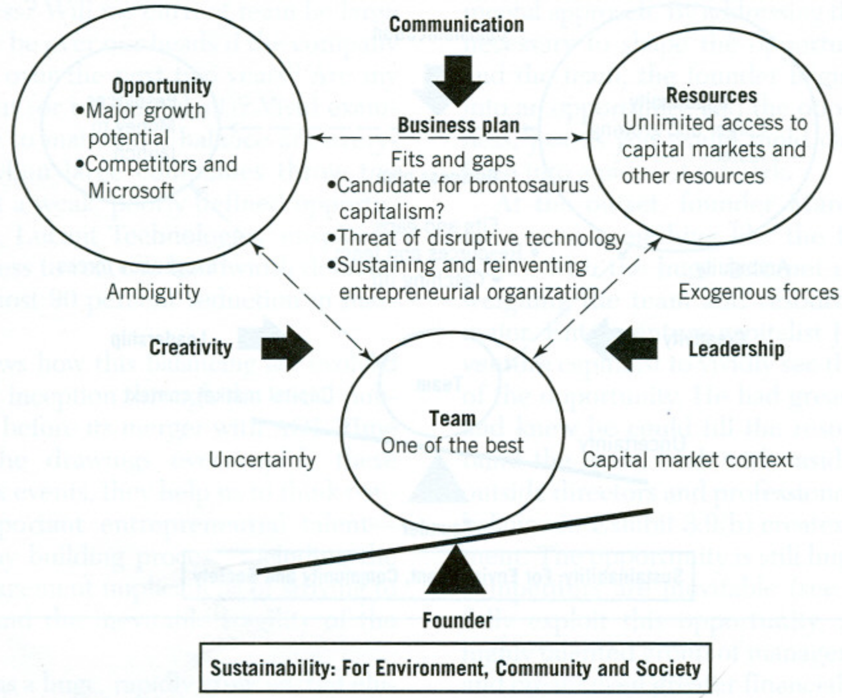


EXHIBIT 3.9(d)

Netscape—Journey through the Entrepreneurial Process: Today, toward a New Imbalance



people who can fill gaps left by other members of the team. They create balance where imbalance exists. The role of the strategic investor differs according to the needs of a venture.

Netscape emerged (see Exhibit 3.9(d)) larger and stronger in people and resources but faced new challenges. Even the best and brightest of new ventures tend to erode over two or more decades into slow-moving, reactive firms. Could Netscape sustain and reinvent its entrepreneurial roots and organization as the opportunity continued to mushroom and competition for markets, people, and technology were greater than ever? Would it become blindsided and eclipsed by a new disruptive technology, just as Apple Computer and Microsoft bludgeoned IBM and Digital Equipment? Netscape was acquired by AOL (.45 shares in AOL for every share of Netscape) in 1998. This all-stock deal valued Netscape at $4.2 billion. In effect, AOL acquired Netscape so that AOL would *not* become a brontosaurus!

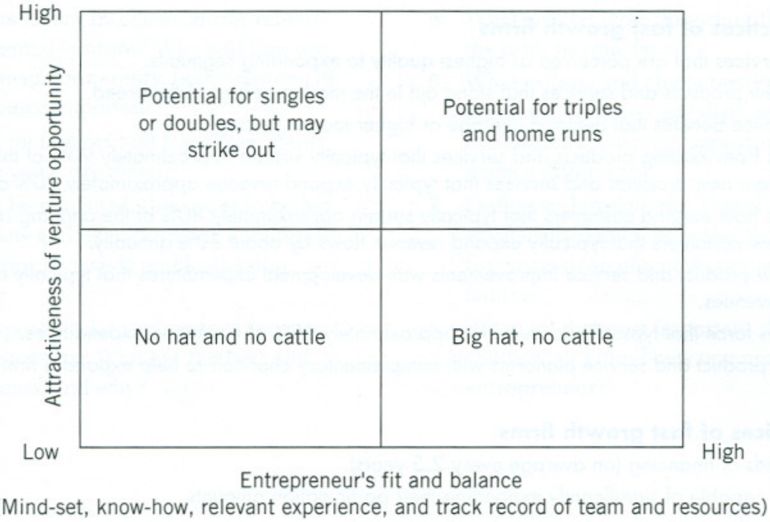
This iterative entrepreneurial process is based on both logic and trial and error. It is both intuitive and consciously planned. It is a process not unlike what the Wright brothers originally engaged in while creating the first self-propelled airplane. They conducted more than 1,000 glider flights before succeeding. These trial-and-error experiments led to the new knowledge, skills, and insights needed to actually fly. Entrepreneurs have similar learning curves.

The fit issue can be appreciated in terms of a question: This is a fabulous opportunity, but for whom? Some of the most successful investments ever were turned down by numerous investors before the founders received backing. Intuit received 20 rejections for startup funding by sophisticated investors. One former student, Ann Southworth, was turned down by 24 banks and investors before receiving funding for an elderly extended-care facility. Ten years later, the company was sold for an eight-figure profit. Time and again, there can be a mismatch between the type of business and investors, the chemistry between founders and backers, or a multitude of other factors that can cause a rejection. Thus, how the unique combination of people, opportunity, and resources come together at a particular time may determine a venture's ultimate chance for success.

The potential for attracting outside funding for a proposed venture depends on this overall fit and how the investor believes he or she can add value to this fit and improve the fit, risk–reward ratio, and odds for success. Exhibit 3.10 shows the possible outcomes.

EXHIBIT 3.10

Fit of Entrepreneur and Venture Capital



Importance of Timing Equally important is the timing of the entrepreneurial process. Each of these unique combinations occurs in real time, where the hourglass drains continually and may be friend, foe, or both. Decisiveness in recognizing and seizing the opportunity can make all the difference. Don't wait for the perfect time to take advantage of an opportunity; there is no perfect time. Most new businesses run out of money before they can find enough customers and the right team for their great idea. Opportunity is a moving target.

Recent Research Supports the Model

The Timmons Model originally evolved from doctoral dissertation research at the Harvard Business School, about new and growing ventures. Over nearly three decades, the model has evolved and been enhanced by ongoing research, case development, teaching, and experience in high potential ventures and venture capital funds. The fundamental components of the model have not changed, but their richness and relationships of each to the whole have been steadily enhanced as they have become better understood. Numerous other researchers have examined a wide range of topics in entrepreneurship and new venture creation. The bottom line is that the model, in its simple elegance and dynamic richness, harnesses what you need to know about the entrepreneurial process in order to get the odds in your favor. As each of the chapters and accompanying cases, exercises, and issues expand on the process, addressing individual dimensions, a detailed framework with explicit criteria will emerge. If you engage this material fully, you cannot help but improve your chances of success.

The 2001 INC. 500 companies had on average a five-year growth rate of 1,933 percent, 2000 sales of $25 million, and 160 employees.[35] Similar to the INC. 500 companies, the Ernst & Young LLP Entrepreneur of the Year winners were the basis of a major research effort conducted by the National Center for Entrepreneurship Research at the Kauffman Center for Entrepreneurial Leadership, with a specific focus on 906 high growth companies.[36] These findings provide important benchmarks of the practices in a diverse group of industries, among a high performing group of companies.

Most significantly, these results reconfirm the importance of the model and its principles: the team, the market opportunity, the resource strategies, most of the individual criteria, the concept of fit and balance, and the holistic approach to entrepreneurship.

Exhibit 3.11 summarizes the 26 leading practices identified in four key areas: marketing, finances, management, and planning. (A complete version of the study is available from the National Center for Entrepreneurship Research, Kauffman Center for Entrepreneurial Leadership, Kansas City, MO 64112.)

[35] Susan Greco, "INC. 500 Almanac," *INC.*, October 2001, pp. 74–84.
[36] Donald L. Sexton and Forrest I. Seale, *Leading Practices of Fast Growth Entrepreneurs: Pathways to High Performance* (Kansas City, MO: Kauffman Center for Entrepreneurial Leadership, 1997).