Creating a Successful Student Business Team

Kit Needham and Bill Courtright
Agenda

• Building a team
  • Finding the right people, founders versus employees

• Guideposts for getting started
  • Ownership, tensions, intellectual property, onboarding employees

• Project Olympus PROBE is a great place to start
  • Dedicated staff, resources, experience, networking, ...
Fly solo or as a co-founder?
Founder responsibilities broad & deep

- Product roadmap and development
- Business development
- Sales and marketing
- HR, company culture
- Raising and managing cash
- Lead extraordinary amounts of change
Consensus: form a founding team

- 60% have 2-3 founders

- Raise more money
  - 30% more investment in early years

- Faster customer growth
  - 3x faster growth vs single founder ventures

- Better odds of success
  - More knowledge

- Better experience
  - Share effort, stress, ...

- Challenges of shared decision making
  - Choose wisely!
Forming your founding team

Founders and early employees (not necessarily the same thing)
Founders vs. Early Employees

- Founders “own” the business
  - Employees earn options (right to purchase, years from now)

- Founders make all the big decisions
  - Early employees observe, but don’t decide

- Early employees get larger options than later employees
  - More risk means more reward potential
Good founders disagree agreeably

• It is OK to have some big/complex disagreements
  • In fact, it is guaranteed that this will happen

• Can you and your partner have productive disagreements?
  • Did these turn nasty/personal?
  • Did you gain respect (or, at least, appreciation) of each other?
  • Do you still hang out afterward?
Key criteria you should consider

Complimentary may be best
• Skills
  • Tech, business, people, etc.
• Networks
  • Distinct networks allow you to draw on wide range of expertise, introductions

Like-minded may be best
• Personal
  • Values/ethics
  • Personal goals
• Company
  • What should the company be?
  • Product vision
  • Criteria for success
Friends, partners or both?

• Do friends make good partners?

• Can you be friends with your partners?
  • Should you be?
Sources of Tension
Individual (internal) and team
Internal tensions

• Wearing many hats, often conflicting
  • Shareholder, director, officer, employee

• Ignorance, erosion of confidence
  • Being a leader can be lonely—few peers in the organization

• Personal distractions
Team tensions

- Relationships
- Roles
- Rewards
Founders Agreement

• Specifies ownership, how to separate, vesting schedule
  • Similar to a prenuptial agreement. Absolutely necessary.

• When would you put an agreement in place?
  • What are the problems with timing of doing this (early or late)?

• Details beyond the scope of this talk (come to Start Smart CONNECTS)
  • Lots of good resources, use experts (attorneys) when executing
A word about ownership

• Divide equity equally or not? Consider:
  • Value added to date
  • Anticipated value add
  • Role/responsibilities
  • Implications include control

• Check out Frank Demmler’s “Founder’s Pie” presentation
  http://www.cmu.edu/swartz-center-for-entrepreneurship/assets/Connect%20Spring%202017/Equity%20Compensation%20Master.pdf
Other equity considerations

• Employees earn equity (options)
  • Employees draw salary, but usually below market
  • Should be in it for stock gains

• Don’t be too quick to hand out equity to consultants, etc.
  • You can’t get it back and you can’t generate more
Intellectual property

• Rule #1: Speak to an attorney
  • Local resources for that
  • Olympus Office Hours

• Refer to CMU policy
  • Sources of support can influence IP ownership

• Can I use/build upon a class project?
  • Generally, yes. Refer to rule #1
  • Your work might be copied by others
Important legal documents

- Founders agreement
  - Discussed earlier

- Non-Disclosure Agreement (NDA)
  - Protects your confidential information (tech, bus plan, etc.)
  - Note: investors generally won’t sign these

- Employee agreement
  - Includes invention assignment agreement
Growing beyond founders

Employees, interns, consultants, service providers, ...
Hiring strategy and speed

• Organizations build bottom up, top down or middle out
  • Be wary of candidates who care too much about titles

• Hiring speed is important
  • Too fast: you lay people off, get a bad reputation, run out of cash
  • Too slow: you burn people out, risk company’s growth

• Company’s needs will change over time
  • Ideally, hire people who can change/grow with the company
Hiring mistakes are very expensive

• Takes a large amount of time to get it right
  • Mistakes take a toll on staff, $, timeline. Be picky!
  • Get rid of bad employees quickly, learn from your mistakes

• Use your network
  • Referrals are often the best candidates

• Understand candidate’s motivation
  • Get rich vs change the world
Onboarding of employees

- Founders: signed agreement in place

- All: NDA and invention assignment agreements in place
  - You’ll need an ESOP, but not necessarily day one

- Visas: think carefully about time/cost/legal entanglements
  - Consult attorney and/or CMU’s Office of Intl Education (OIE)
Service providers

• Accountants, attorneys, etc. are NOT employees
  • And generally should not be board members

• Attorneys formally incorporate the company
  • Also provide boiler-plate docs, patent/IP work
  • Remember: they work for the company, not you
    • You will eventually need a personal attorney

• Payroll is almost always outsourced
Beyond paid employees and services

• Build a network. Now!
  • Cultivate a professional network—this is going to be invaluable.

• Your startup might need an advisory team (not a board)
  • Professionals willing to provide counsel.
  • Domain experts with relevant experience.
  • Not paid—think of them as mentors:
    • They are repaying debts from those who helped them.
    • They are excited about your business opportunity!

Carnegie Mellon University
Swartz Center for Entrepreneurship
Project Olympus
A good place to find partners, mentors and lots of help
Swartz Center/Olympus is for students who...

...have one or more ideas for potential businesses but don’t know whether they are good ones
...want to start a business
...want to work in a startup
...want to get startup experience
...want to find out what it is all about
Getting started with Olympus

• Become a PROBE
  • Complete the Business Concept Template
    • Simple. Answer basic questions in 2-3 sentences
  • Become a full PROBE if
    • Business opportunity is plausible
    • Commitment/perseverance to get the most from being a PROBE

• Work with existing PROBEs
YOUR NAME(S) AND EMAIL:  
Date:  
NAME OF COMPANY: (or working title)  
DESCRIPTION OF THE BUSINESS CONCEPT: Describe in one or two sentences the product/service.  
MARKET DRIVERS: What are the problems, conditions or events that will make this business attractive or successful?  
TARGET MARKET: Who is this being sold to? What are the characteristics of the target market? Size and demographics? (Where will you find this information?)  
VALUE PROPOSITION TO THE CUSTOMER: Why would they buy this product/service? What are the benefits to the customer?  
WHAT IS YOUR ‘UNFAIR’ COMPETITIVE ADVANTAGE? Who are the competitors/alternative solutions? What are customers doing now? What unique characteristics do you have that would give you an advantage? Is your product/service patentable?  
REVENUE MODEL: How will you get paid?  
DISTRIBUTION MODEL: How will this be sold? Who will do it?  
CURRENT STATUS: WHAT STEPS HAVE YOU TAKEN OR PROGRESS MADE TO DATE: Conducted market research? Built a prototype?  
TEAM: List current team members with school affiliation and graduation year where appropriate. What role or function will each play? What additional talent do you need to start the company?  
ADVISORS: List faculty and other advisors if you have them and/or background or expertise of advisors that you would like to find.
Connects: Finding Other Entrepreneurs

• Are you looking for teammates?
• Are you looking for a team to join?
• Do you need any advice or help?
• Any announcements?
• Any successes?

• Connects web page has all this and more

http://www.cmu.edu/swartz-center-for-entrepreneurship/events/connects/
Thank you!