From Steve Woit, Xconomy:

1. **Under-valuing the importance of your management team** (i.e., staffing with friends or neighbors; delaying personnel decisions; devoting too much time to your technology or your product and too little to developing your team).

2. **Attempting to build your business around rocket science** (zealously pursuing your technology but overlooking the business opportunity; failing to address how the technology solves a real problem in a cost-effective manner; failing to focus on the needs of potential customers; failing to achieve balance between your technology's primary function and advancing the broader value proposition of your business).

3. **Assembling the wrong ownership group** (choosing among potential investors based on highest bid; failing to understand investor needs in advance; choosing investors whose styles are dysfunctional or who do not bring added value).

4. **Over-valuing the business at critical junctures** (over-valuing when fundraising or selling; As a corollary, we noted that another related mistake was not fully evaluating term sheet provisions that affect the valuation).

5. **Failing to communicate with important constituencies** (over-promising and under-delivering; overlooking or not addressing the evolving needs of your investors, of those who regulate your technology, or of your customers, of the rest of your team).

6. **Failing to tap knowledgeable advice** (not seeking tax advice, accounting advice, or IP advice at the appropriate time; failing to properly utilize the Board; listening to the wrong people; selecting an entity structure not well-suited for the business or an unnecessarily complicated capital structure).

7. **Fear of dilution or loss of control** (raising too little capital; investing too many personal assets in the business).

8. **Spending too much for too little** (spending too much of what little you have on items that provide too little benefit).

9. **Partnering too early** (losing control of a business opportunity or your brand to a customer or strategic partner).

10. **Failing to understand the changing roles of founders** (recognizing the appropriate time to transition).

From James Geshwiler (CommonAngels):

# Three Ways (Times Three) for Entrepreneurs to Blow It

**James Geshwiler** **8/11/08**

Nobody likes to fail. No entrepreneur or venture capitalist thinks a particular venture is going to be the one to fail. As veteran venture capitalist Bob Crowley at the Massachusetts Technology Development Corporation says, "we've never made a bad investment; just investments that have gone bad." If we as investors or entrepreneurs thought the odds were stacked against us at the outset, we wouldn't pursue new ventures.

In reality, however, they are. And, rather than just accept that the risks are high and failure happens, there are many things we can do to better the odds of success.

**1) Three ways to blow your precious venture capital round.** Only about 1 in 100 companies that pursue venture capital money get it. Probably the worst thing you can do right after the financing is then to blow this precious resource. Yet, there is tremendous pressure to scale the company for a large market quickly. Here are the top three catastrophes I have seen first hand and heard from veteran venture capitalists time and time again over the years.

—**Hiring the right CEO at the wrong time**: Investors put money in the company to make money, and you do that by making a big company—fast. As soon as the round is closed, the new board of directors and the founders interview lots of candidates and hire someone who just amazes them with their vision and ability to grow a company quickly. That "professional" CEO starts hiring three to six VPs, they in turn hire three or four managers each; they then hire more staff. Headcount after a Series A grows two to five fold in a few months. That's great if there is a rock solid foundation underneath the company, and it has equally strong ties to the market. It is a disaster otherwise, creating chaos, frustration, anger and tons of finger pointing. The new CEO takes a lot of the blame, but so should the founders and the investors. The CEO was probably the right person; the company should have spent three, six or more months refining the business model, sales process, marketing strategy, and product development process, as well as assimilating the people so they worked as a team, before hitting the gas.

—**Scaling the sales force prematurely**: This mistake is similar and often related to #1, but it's enough of a stand-alone error that I put it in its own category. Venture investors look at initial sales traction and think the rest of the market buys the same way or has the same needs. It takes a lot of market research to make sure you are ready to scale. "How many times do I have to learn this lesson," one general partner recently said to me.

—**Building the product ad nauseum**: If one is going for a big market, you don't want to ship one that has bugs, right? That didn't stop Microsoft—or many other successful software companies, for that matter. The trick is understanding what bugs will be tolerated by which portions of the market and limiting your sales to that segment until you're ready for others. Lots of engineers absolutely hate that approach. With a lot of money in the bank, an engineeringheavy venture can be prone to come back to the board time and time again, saying, "we just need another quarter or two of development, then we will be ready for market."

**2) Three ways to blow your exit.** After years of blood, sweat, and tears as well as much personal sacrifice, reward is in sight for your entrepreneurial venture. Large public companies not only want to partner and benefit from your work; they want to buy you! Suddenly, this lonely startup seems important, and pressure builds to make perhaps more of what you have than is possible. Here are three ways to grab defeat from the jaws of start-up victory.

—**Get greedy**: The forces of nature have formed a rare convergence around your company, and you think "well, if we're this valuable now, we'll be worth a LOT more in a year or two." Lightning almost never strikes twice.

—**Allow one party with a different agenda to control the deal**: This mistake may have been made years earlier by bringing in an investor or strategic partner whose interests were not in alignment with the interests of others. Alternatively, one party's interests might have changed because of some external factor. Head this off by having discussions with and among the investors about the pressures everyone is facing, as well as everyone's goals and objectives.

—**Try to save money by doing it yourself**: A lot of entrepreneurs (and venture investors) bristle at paying an investment banker's fee, citing other experiences where they or others felt they didn't get any value. That's a problem of hiring the wrong banker. Good ones earn every penny they make by creating an auction—or auction-like environment—that increases the value of the company substantially. It's very hard for the CEO simultaneously to play good cop and bad cop with a potential acquirer—especially one they are likely to be an employee of in perhaps only a few days—or have a good feel for the rhythm of a deal because these are infrequent events for them.

**3) Three ways to blow your company.** There are better perspectives about company failure than I could provide, so here are links to three let-the-hair-down stories that tell it like it is.

—**Roger Ehrenberg's post-mortem about the demise of Monitor111**. He lists more than seven major mistakes that killed the company, an information platform for institutional investors on Wall Street, and that are all too common. These include: lack of a single "buck-stops-here" leader, too much PR too early, and too much money.

—**Chris Herot's reflections on Convoq and Zing**. Chris has some of the same points as Roger—particularly developing a product without enough customer input—but adds important points about the overall context and ecosystem around a company.

—**Dan Weinreb's analysis of Symbolics' failure**. Symbolics had great technology and a great team, but the complementary technologies changed. This is a great case study of the ensuing gyrations and apoplexy that many companies suffer in these situations.

If you have your own stories or know of similar posts, please feel free to comment and add them below.

*James Geshwiler is managing director of CommonAngels, one of the first formal venture capital investing networks and the largest angel group in the Northeast. CommonAngels is the lead investor in Xconomy.*