Things I Wish I'd Known

Rod Johnson

My Journey

An Unexpected Career

Music academic

C++/Java developer

J2EE Architect

Author

Spring founder

SpringSource co-founder

VMware exec

Investor/board member
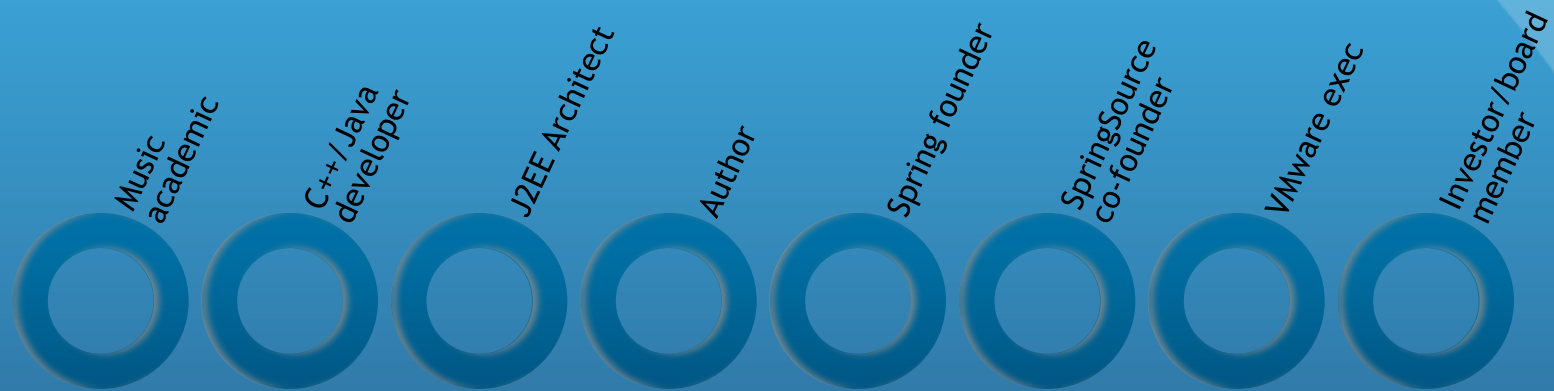
Memorable Highs

- SpringOne 2010
  - Spring community: 1000 attendees
  - Realization that my cofounders had also become good friends

- Changing the world
  - Won the battle of ideas in enterprise Java

- Financial success
  - Important validation
  - Building a business that creates jobs

A Few Intense Lows

- Struggling to make UK payroll in 2006
  - Juergen, Colin and I went months without being paid

- (Related) Realizing I had made some serious mistakes in 2005-06

- Layoffs in late 2008
  - Having to let good people go

- Years of obsessive work
  - Personal toll on myself and cofounders

My Hopes For This Talk

- You know more about what doing a startup means

- If you choose to, you make your own mistakes rather than repeat mine

Your Journey

The Cult of the Entrepreneur vs Reality

- Silicon Valley more obsessed with entrepreneurs than ever
  World obsessed with Silicon Valley

- Usually a sign of a bubble

- Success is highly visible: Failure often invisible

- Entrepreneurs are not necessarily more worthy than other people

- Unique and often painful lifestyle choice

The High Cost of Founding a Startup

- Financial
  - Dramatic, extended salary sacrifice
  - Reduced quality of life

- Personal
  - Prepare to abandon hobbies and get a family therapist

- Probability not your friend
  - Likelihood of failure
  - How would you cope with that?

…And It's Still a Gamble

1. Rise Early
2. Work Hard
3. Strike oil

J Paul Getty

So You *Still* Want To Start a Company...

Be Methodical: Pursue Your Exciting Idea in a Boring Way

Identify Problem → Build Founding Team → Set up Company Structure → Create and Maintain Plan → Choose Funding Strategy
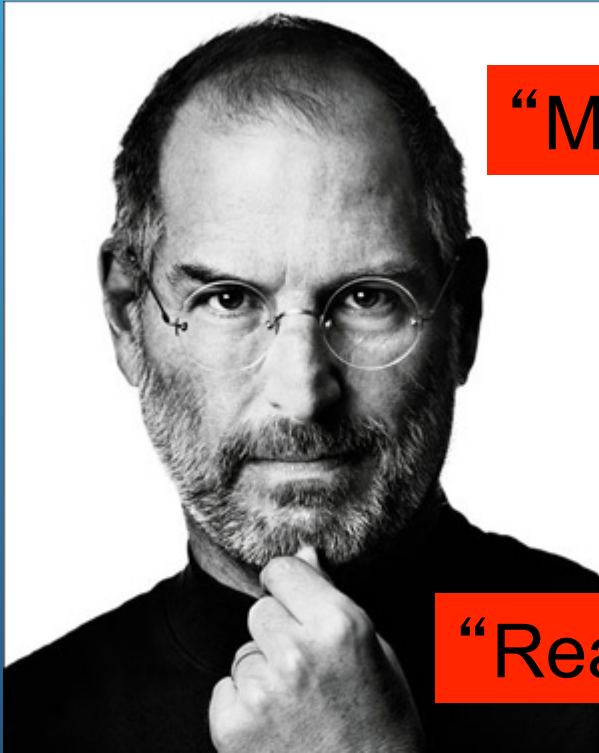
Identify a Real Problem

- Problem is more important than solution

- **Be skeptical**: Validate, validate, validate
  - Don't be secretive
  - Don't code without questioning
  - Avoid any tendency to hide from questions

Validation: Be On the Right Side of History

- Be wary of betting against a big trend

- Have a thesis explaining why you will succeed

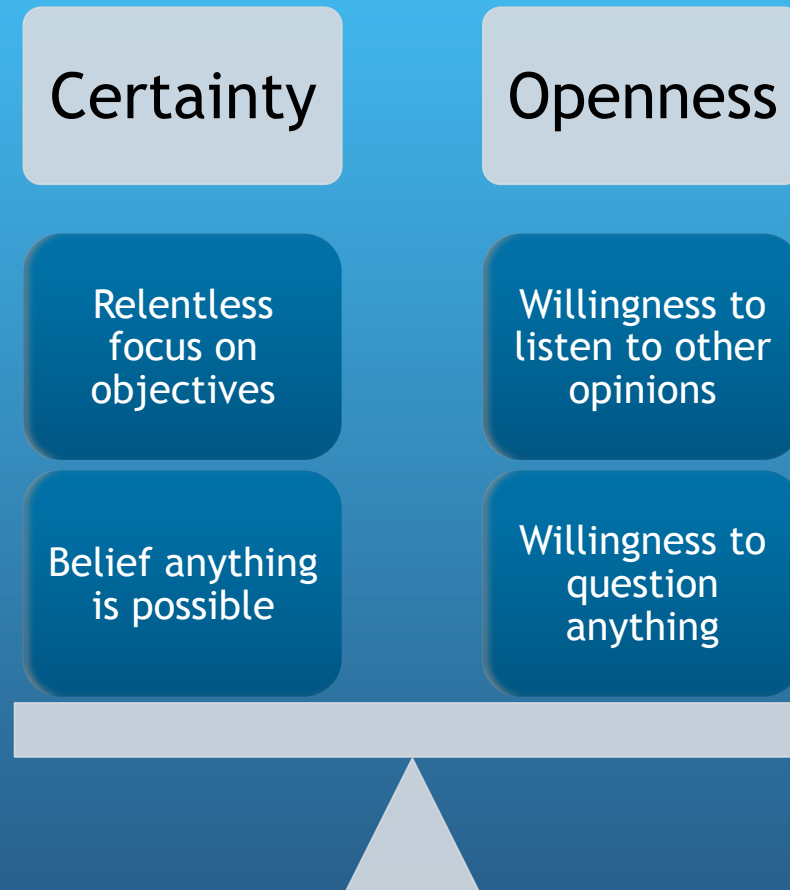# Once You've Validated: Believe!

- Not rational

"Messianic sense of purpose"

"Reality distortion field"

A Balancing Act: Commitment

Certainty	Openness
Relentless focus on objectives	Willingness to listen to other opinions
Belief anything is possible	Willingness to question anything

Be 150% committed to objectives,
but be ready to change them given new data

Belief + Idealism = Lasting Drive, Having Fun

- Need another dimension beyond money

Reducing complexity

Making something more open

Increasing competition

Empowering end users

...

When You Have a Bad Day, Remember: Big Companies Are Vulnerable

Resources
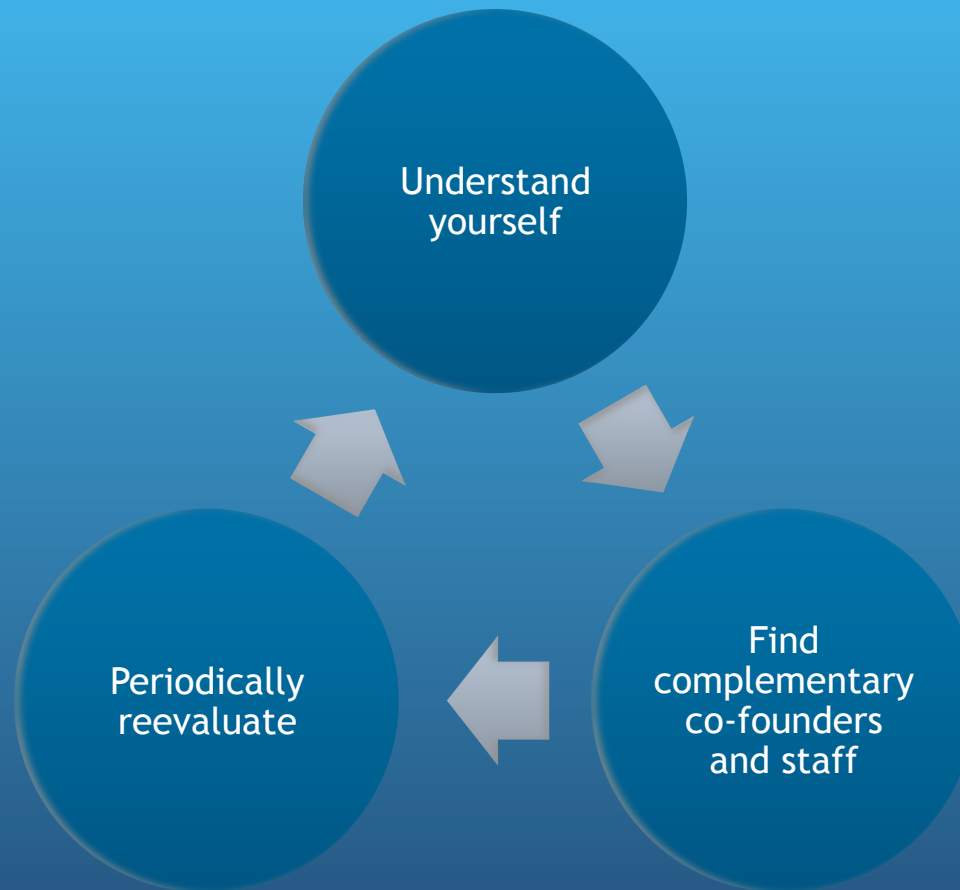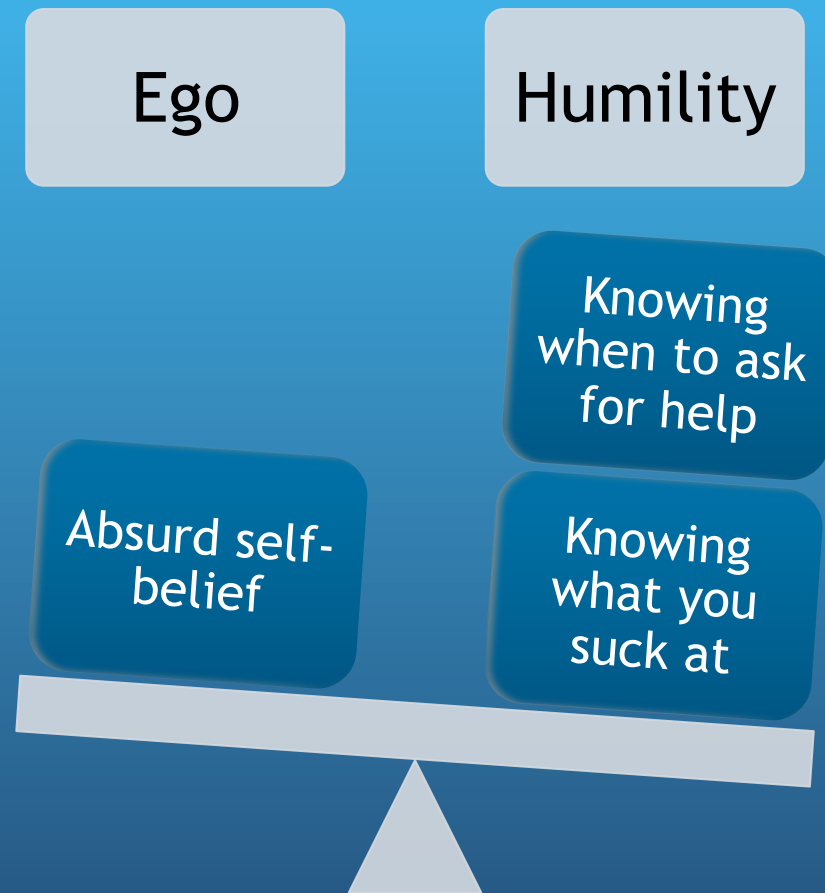
- Cash
- People

Dysfunction

- Bureaucracy
- In-fighting
- Useless people
- Conflicts between groups & goals

Building Core Team

...Building Core Team

- Share...
  - Passion
  - Aspirations
  - Commitment to company

- Agreement on a meaningful culture
  - Companies reflect characters of their founders

Setting up Company Structure

- Pay for professional advice
    - Don't cut corners
    - Mistakes cost more to fix later

- Structure for where you're going, not where you are now

- Don't optimize for tax in a software company

Think about where to locate HQ

- Pros and cons of Silicon Valley

Create a Plan

- Not about bureaucracy

- Can be informal
  - No perfect format

- Revise: Must be living document
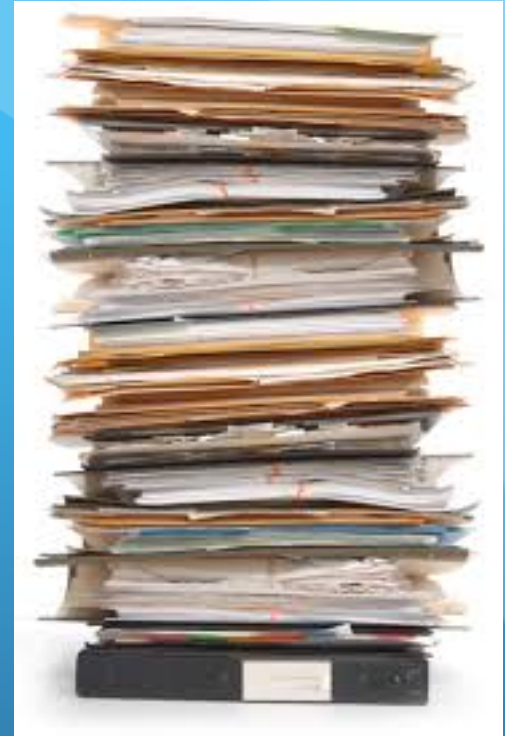
There's magic in writing things down

Choose a Funding Strategy

- Consider nature of the business and your plan
  - VCs look for—and demand--rapid growth

- Biggest mistakes
  - Founders too concerned with dilution
  - Belief investors are evil
  - Misalignment of goals

- Successful entrepreneurs raise venture money for new companies

You Need More Money than You Think

- Engineering estimation is hard!

- Want ability to make a course correction or weather a bad quarter or two

- Spending *will* go up when you raise money
  - Try to control it but it's inevitable

Funding Options

- Educate yourself thoroughly
  - Classes of investors
    - Friends and family
    - Angel
    - VC
    - Growth
  - Structures
    - Convertible Notes
    - Equity financing
    - …

- Get a mentor you can trust

- Investor location matters

Understanding the Investment Game

- Aim to achieve an objective with each round

- Understand valuation inflection points

Series A: Prove the technology	→	Series B: Prove the market	→	Series C: Scale the business

You Will Be Married to Your Investors – Choose Wisely

- Investors not all equal

- A great investor will lift you to another level

- A poor investor won't help and may exploit you

- Must share expectations

- If you have any conflict before signing, don't sign

- Silicon Valley investors are generally less valuation sensitive and think bigger
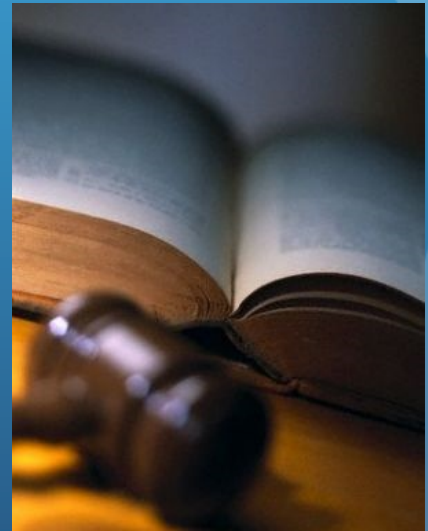
You *Can* Afford to Get Things Wrong

- …So long as you are ready to change tack

- Agile approaches work in business, too

- But must bring everyone along with you when you change

Just Avoid These Mistakes…

- People mistakes

- Legal mistakes

For guaranteed failure, combine the two

Legal Details Matter

- Ronald Wayne: "Third founder" of Apple
  - Sold 10% of Apple for $2300 because of concern over a legal risk that could easily have been resolved
  - Now sells stamps from his home

- Prior to SpringSource, one of our founders had lost $1m in options due to a legal error at another company

Some Lessons from SpringSource

The Big Things We Got Right

Technology and Vision

- Our vision of simplifying enterprise Java remained true as our strategy evolved

Team

- Very stable
- Highly committed
- Relatively little conflict

Things That Worked For Us

- Maintaining product quality
  - Juergen: Founders drive culture, by example

- Raising money
  - Great valuations in each round
  - High quality investors

- Bringing in new skills and learning from new people
  - Sales
  - Marketing
  - Finance

# Avoid Extinction: Expand Your Company's Gene Pool
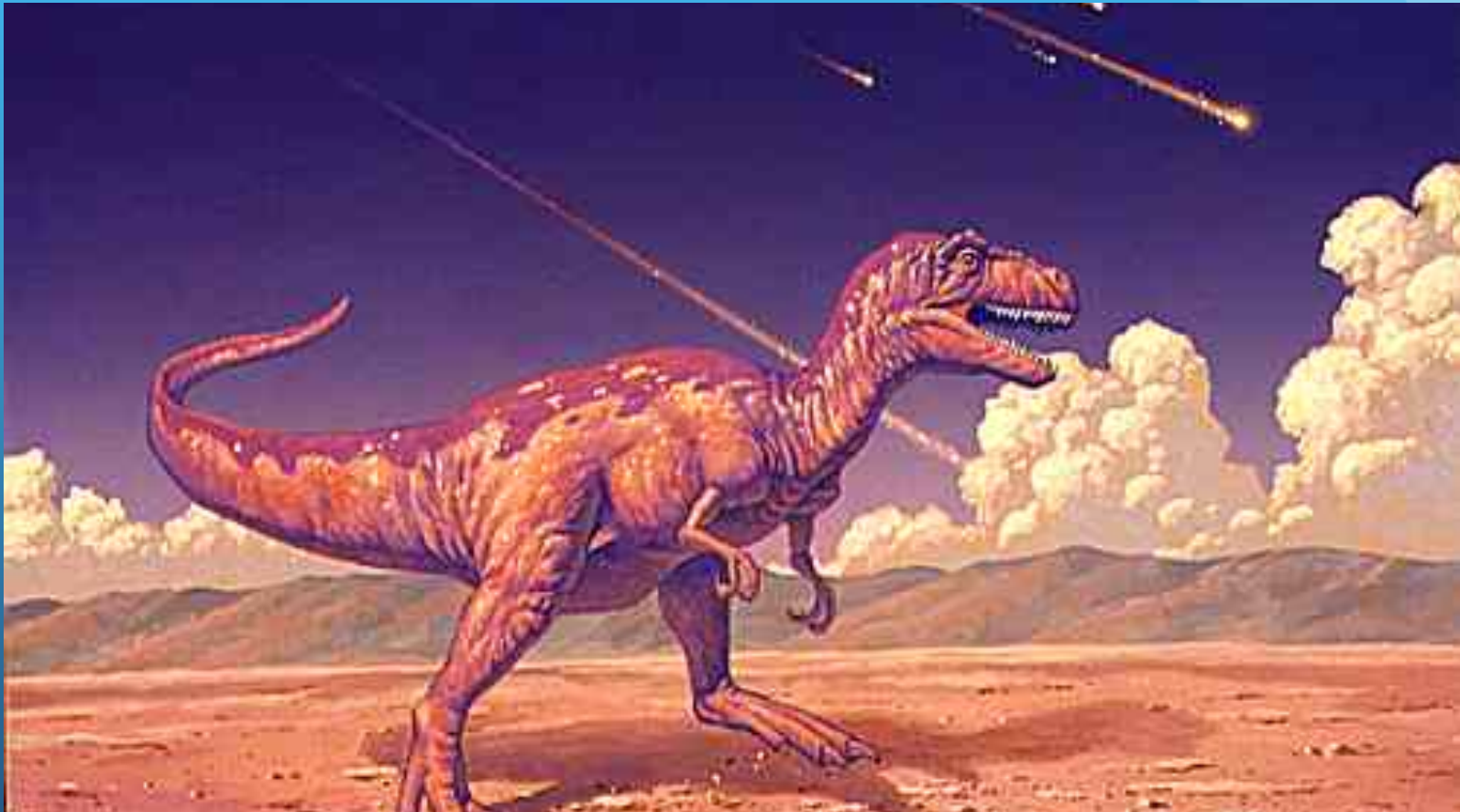
Mistakes We Made

- Too little thought to *business* in early years
  - Knew our *technology* was great, thought $$ would just come
  - Built what we were excited about rather than what customers would pay for
  - Didn't always have a business plan
  - Didn't have financial projections

Mistakes We Made And Fixed

- No option pool before Series A financing

- Inconsistent contracts with employees

- Messy corporate structure

Why Did We Make These Mistakes?

- Inexperience

- Business

- Excitement over our technology

- Geographical distribution

- Lack of a good mentor
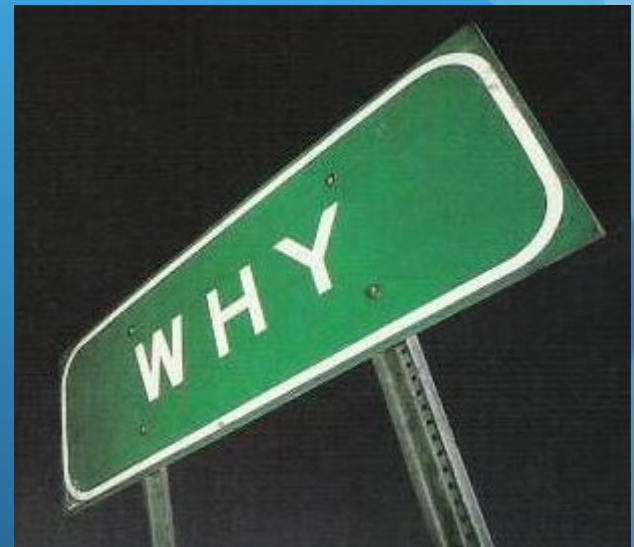
Sample Audit: Me

Inexperience

Experience

Silicon Valley

Building a plan

Consulting

Management

Communication

Business models

Java

Mentoring Matters

And, as you travel life's highway, don't forget to stop and eat the roses.

Cow philosophy

Mistakes We *Didn't* Make

- Disputes between founders

- Letting down our user community or customers

- Losing sight of our core values

- Losing control of burn rate

- Letting big individual customers control product roadmap

...Mistakes We *Didn't* Make

- Pissing people off: Karma Matters

- Recruitment attempt, 2004

- Acquisition attempt, 2007 ($25m)
  - *So you want to roll the dice*

- Investor I am working with today

Life After SpringSource

neotechnology graphs are everywhere

elasticsearch.

Typesafe

Meteor JS

hazelcast

Takeaways

Takeaways

- Much of this sounds sounds obvious, but people forget the basics

- Doing a startup is risky, with huge ups and downs
  - May not make you happy

- Focus on problem before solution

- Much of it's about people, not technology

- Always maintain a written strategy and plan

Some Lessons are More General

- No such thing as a secure job today
  - <u>You</u> are a business even if you're a permanent employee

- Think entrepreneurially about your career
  - Get ahead of the curve as an individual contributor
  - Learn to assess prospects of startups you may join

- In today's world, an individual developer can have a huge impact!

Thank You!