

15.394: Dilemmas in Founding New Ventures

Spring 2016 (9 Units)

Section A: Tuesdays and Thursdays 2:30-4pm, E51-335

Section B: Tuesdays and Thursdays 4-5:30pm, E51-335

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Course overview/objectives:

The purpose of this course is to increase students' chances of success in their early stage ventures by helping them avoid common team-related mistakes. We explore specific dilemmas that founders face—decisions that arrive early on, can be uncomfortable, and that need to be made with minimal information—but can have far-reaching consequences. Whether the founding team stays together, whether the venture achieves an attractive exit, and the extent to which the founder(s) share in those rewards can all be largely determined by early-stage choices.

This is not a strategy course. You can think of this course as being “beyond the business plan” i.e., the elements of *entrepreneurial execution*. As such, 15.394 is an excellent complement to New Enterprises. We will focus primarily on “people” issues as well as the trade-offs involved with enlisting outside resources to accelerate growth (e.g., VC funding). It is composed of three modules:

1. **Assembling the Founding Team.** Do I want to “go it alone” or recruit cofounders, and if so, who (friends/family/coworkers)? How do we allocate the equity among ourselves?
2. **Scaling the Team.** When hiring, do I target proven stars or raw talent? Should I hire “right” or “right now” employees? When do I fire people and how?
3. **Tradeoffs in Scaling the Venture.** What are the trade-offs involved in attracting outside resources? How should my personal motivation guide my choices here?

Course requirements:

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| <i>Class participation</i> | 45% |
| <i>Case memos / polls</i> | 20% |
| <i>Founders' Agreement</i> | 10% |
| <i>Group project</i> | 25% |

Class Participation

15.394 is case-based. Constructive class participation is the most important part of your grade. Your participation grade will reflect our assessment of your contribution to the class discussion, with the most important factor the quality of your in-class contributions. I will cold-call those who have not participated recently; passing on a cold call hurts the participation grade.

I will make every effort to include as many people as possible in the discussion. The TAs will monitor calling patterns by 1) section of the room 2) gender 3) non-native English speaker to ensure that imbalances do not develop. If you feel that you are being passed over, please tell your TA.

Attendance policy. Be in class for the entire class. Comings and goings are much more distracting in a case discussion than a lecture, and guest speakers get annoyed when students file in and out of the classroom. Absences count against the participation grade. Unavoidable absences due to illness, family emergency, or religious holidays are excused. However, all students will have the option to skip one class without penalty or explanation. If you are late, wait outside until ten minutes into the class period and we will allow latecomers to enter. If more than 10m late, you will not be admitted to the classroom. Being late to class or leaving early counts as one-third of an absence.

Case Memos and Polls

Case memos give you an opportunity to demonstrate your individual mastery of course material. They should be no longer than one single-spaced page (~500 words). Do not summarize the case; assume we have read it and know the details. Instead, analyze in depth one or more of the study questions from the syllabus. Memos are due at **noon the day of class**. Sample memos are posted on Stellar. We will endeavor to return memos graded within two weeks.

- Two memos are required in H1: choose from Smartix, Savage Beast, Sittercity, and Mason & Shepherd.
- Three memos are required in H2; choose from Segway, Wily Technology, Les Is More, Evan Williams, Rubbish Boys, Knight the King, or Bettina's Board Walk).

Several classes require response to a brief poll. Links to the poll are available on Stellar. Be sure to enter your name so that you receive credit for completing the poll. Skipping polls hurts participation grade and may lead to cold-calls.

Founders' Agreement

You will create a Founders' Agreement based on the Healthcraft case. This is an individual, not group, writeup. For this assignment you should consider the challenges facing the Healthcraft team and attempt to solve for those. This need not look like a legal document nor do you need to enlist the help of a lawyer in preparing it. Do not simply copy a template from the web and modify it; the founders' situation is more subtle than that. This assignment is due **March 5 at 2pm**.

Group Project

The purpose of the project is for you to delve into a founder's dilemma particularly relevant to you. You may choose any topic as long as it involves decisions faced by founders (not including yourself). There are two general approaches. One is to pick a single dilemmas and investigate it in the context of multiple founding teams, either by interviewing or surveying them. The other is to focus on multiple dilemmas faced by a single founding team. In the past, the latter approach has been difficult to do well. You may interview former but not current Sloan students. You cannot study your own startup.

Groups should be 2-3 people, no more than 4. There are no solo "groups." The deliverable for this project is a paper of not more than 8,000 words. Begin with a rich description of the founder and dilemmas you are focusing on, and then move to an analysis of how the frameworks from the course apply (or don't) in this setting. Additional details will be provided in class and posted on Stellar.

Three deadlines are associated with the project. The time for each of these is 2pm, immediately before class.

- At **2pm on April 7**, you need to turn in a 1-2 page project update. Who is the team, which dilemma(s) are you studying, and how do you plan to pursue this (i.e., interviews, surveys, etc.), what data have you gathered so far.
- At **2pm on May 7**, you need to turn in 3-5 slides summarizing your project. Some projects will be chosen to present on May 12.
- At **2pm on May 14**, you need to turn in your final writeup.

COURSE SCHEDULE SUMMARY

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| Module 1: Assembling the founding team |
| Module 2: Scaling the team |
| Module 3: Tradeoffs in scaling the venture |

| TUESDAY | THURSDAY |
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| February 2: Introduction & Overview | February 4: Founding with Classmates • case: Smartix |
| February 9: Founding with Strangers • case: Savage Beast | February 11: Founding with “Family” • case: Playing with Fire at Sittercity |
| February 16: Presidents’ Day, no class | February 18: Equity split simulation case: Negotiating equity splits at UpDown |
| February 23: UpDown simulation debrief • | February 25: Founders’ Agreements <i>guest: Dan Ryan, Trinity Law Group</i> |
| March 1: <i>guest: Bijan Sabet, Spark Capital</i> | March 3: Module wrap-up • Founders’ Agreement due (2pm) |
| March 8: Legal issues in founding & hiring • case: Mason & Shepherd | March 10: Legal issues in hiring & firing • <i>guest: John Bauer, Birnbaum & Goodkin LLP</i> |
| March 14—no class/Sloan Innovation Period | March 17—no class/Sloan Innovation Period |
| March 22—no class/spring break | March 24—no class/spring break |
| March 29: Firing simulation | March 31: Managing High-Performance Teams • <i>Guest: Michael Baum, Founder.org</i> |
| April 5: Performance Evaluations • Case: Wolfgang Keller | April 7: Hiring tactics • book: <i>Who: the A-Method for Hiring</i> <i>Guest speaker: Geoff Smart, ghSmart</i> |
| April 12: Module wrap-up & Keeping Control case: Segway | April 14: Managing the Startup Board • Case: Bettina’s Board Walk |
| April 19: Patriot’s Day, no class | April 21: Relinquishing Control Case: Wily Technology |
| April 26: Joining the Founding Team • Case: Les Is More <i>Guest: Les Trachtman</i> | April 28: Control Choices Across Ventures • case: Evan Williams |
| May 3: Bootstrapping • case: Rubbish Boys | May 7: Exits • case: Nantucket Nectars the Exit • Project slides due (2pm) |
| May 12: Project presentations | May 14: Course wrap-up • Project write-ups due (2pm) |

CLASS-BY-CLASS DETAILED ASSIGNMENTS

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| Feb 2 | Course intro/overview |
| Case | No prep for this day. |
| Feb 4 | Assembling the Founding Team (I): Founding with Classmates |
| Case | <p><u>Smartix</u></p> <p><i>Vivek Khuller has built Smartix by attracting classmates to co-found with him, learning how to pitch it to top VC firms and potential strategic partners, and honing the concept and business model by testing it in smaller venues. Now, he is facing the implications of the choices he has made in each of these areas and has to decide how to manage those implications.</i></p> <p>Study questions:</p> <ol style="list-style-type: none"> 1. Is this a good founding team, and why? 2. What are the pros and cons of Vivek’s approach to splitting the equity within the founding team? 3. Do you agree with the Vivek’s decision to target only the top five VC firms that only the best venue? |
| | See Stellar for survey link. |
| Optional reading | Ruef, Aldrich, and Carter, “The Structure of Founding Teams: Homophily, Strong Ties, and Isolation Among US Entrepreneurs” |
| Feb 9 | Assembling the Founding Team (II): Founding with Strangers |
| Case | <p><u>Savage Beast</u></p> <p><i>For several months, things have been spiraling downward set Savage Beast, the music-recommendation company started three years before by Tim Westergren. The company's founder/CEO recently left into pressures both at home and within the venture, dozens of investors have turned thumbs-down on the venture, salaries have been cut, and tensions have risen within the founding team. Now Tim, the founder who has taken over as CEO, is facing even deeper pressures as he finds out about a lawsuit filed by former employees. He is wondering if it is time to give up on ever achieving his vision.</i></p> <p>Study questions:</p> <ol style="list-style-type: none"> 1. Is this a good founding team, and how does it compare with the Smartix team? 2. Was Jon right to quit? Should Tim quit now? |
| | See Stellar for survey link. |
| Optional reading | Noam Wasserman, “The Founder Discount: Agents, Stewards, and Executive Compensation in Small Ventures.” |

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| Feb 11 | Assembling the Founding Team (III): Founding with Family |
| Case | <p><u>Sittercity</u></p> <p><i>In August 2006, Genevieve Thiers, founder and CEO of Sitter.com, looked over at Dan Ratner, Sittercity's vice president and her boyfriend of five years. It had taken her six long years to build Sittercity into the nation's leading babysitting web service. Thiers wondered what challenges she and Ratner would face as she continued to grow her venture.</i></p> <p>Study questions:</p> <ol style="list-style-type: none"> 1. What were the riskiest decisions Genevieve made while building Sittercity? 2. What issues should Genevieve be most worried about now? |
| Optional reading | Jason Greenberg, "Lifeblood or Liability?" |

Feb 16 Presidents' Day / no class

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| Feb 18 | Negotiating Equity Splits (I) |
| | <p>Negotiating Equity Splits at UpDown</p> <p>This is an online case. Read the general instructions and the instructions for your role before class. You may do the negotiation in-class or at another time that works for your negotiation team.</p> |

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| Feb 23 | Negotiating Equity Splits (II) |
| Case | We will debrief the UpDown negotiation. |

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| Feb 25 | Guest speaker: Dan Ryan, Trinity Law Group on Founders' Agreements |
| Case | Healthcraft. We will not discuss the Healthcraft case in class, but it will help to have read it before Dan's talk. |
| Mar 1 | Guest speaker: Bijan Sabet, Spark Capital |
| | Email your TA with any questions for Bijan you would not feel comfortable asking directly in class. |

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| Mar 3 | Module wrap-up |
| | Deadline to submit Founders' Agreements on Healthcraft case, 2pm. |
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| Mar 8 | Scaling the team (I): Legal Issues in founding & hiring |
| Case | Mason & Shepherd |
| | <p><i>Sheila and Craig are excited to start a new company together, but they are not sure whether they are legally able to do so given employment contracts they have previously signed.</i></p> <p>Study questions:</p> <ol style="list-style-type: none"> 1. what legal and ethical issues do you see, and how would you advise them to proceed? 2. Do Mason and Shepherd need a lawyer? How should they select one? <p>What actions should Mason and Shepherd take in order to terminate their employment relationship with their current employers?</p> |
| | See Stellar for survey link & H1 survey link. |
| Mar 10 | Scaling the team (II): Legal Issues in Hiring and Firing Speaker: John Bauer, Birnbaum & Goodkin, LLP |

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| Mar 14 | No Class/SIP |
| Mar 17 | No Class/SIP |
| Mar 22 | No Class/Spring Break |
| Mar 24 | No Class/Spring Break |

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| Mar 29 | Scaling the Team (III): Firing Simulation |
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| Mar 31 | Scaling the Team (IV): Managing High Performance Teams Guest Speaker: Michael Baum, founder.org |
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| Apr 5 | Scaling the Team (V): Performance Evaluations Case: Wolfgang Keller. Project update due at 2pm |
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| Apr 7 | Scaling the Team (VI): Hiring Simulation |
| Book | Who The Hell Method for Hiring by Geoff Smart and Randy Street Guest Speaker: Geoff Smart, ghSmart |
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| <p>Apr 12 Case</p> | <p>Scaling the Team (III): Trade-Offs in Scaling the Venture (I): Keeping Control <u>Segway</u></p> <p><i>For eight years, Dean Kamen has been developing the technology that underlies Ginger, a self balancing human transporter that he later renamed the “Segway.” Kamen has decided to spin off Ginger as a separate company, has hired the former president of Chrysler Europe as CEO, and has spent two years building the company. However, major tensions have developed between Kamen and Ginger senior team, and the company is facing problems with shipping the product.</i></p> <p>Study questions:</p> <ol style="list-style-type: none"> 1. Would you want to work for Dean Kamen? 2. Has Dean done a good job of getting Ginger/Segway off the ground? |

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| <p>Apr 14 Case</p> | <p>Managing a Startup Board Bettina’s Board Walk</p> <p><i>Bettina Hein, founder-CEO of Pixability, is meeting with her board of directors to discuss her startup's fundraising prospects and the recent strategic pivot. Launching her Cambridged-based start up on the eve of the economic downturn of 2008, Bettina has steered Pixability through several strategic pivots to arrive at its current product – software that helps large companies optimize their video marketing campaigns. She has also raised two rounds of angel funding and built a team of 20 employees. However, the company's current cash position provides only a four-month runway, leading financing to be top of mind for Bettina, and for Pixability’s board of directors.</i></p> <ol style="list-style-type: none"> 1. What are your goals for this board meeting? How will you know whether you achieved them? 2. What are the most important things Bettina has done to paper for the board meeting? Is there anything else Bettina should have done to prepare for it? <p>Guest Speaker: Bettina Hein, Pixability See Stellar for survey link.</p> |
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| <p>Apr 19</p> | <p>No class – Patriots’ Day</p> |
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| <p>Apr 21 Case</p> | <p>Trade-Offs in Scaling the Venture (II): Relinquishing Control <u>Wily Technology</u></p> <p>Before he accepts the new CEO position, Richard Williams wants founder Lew Cirne</p> |
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| | <p>to step down as chairman of the board. While considering Williams incredible demand, sir and reflect on everything he has already given up to get wily technology to this point. Cirne wonders what he could have done to be pushed to the side like this, and what he should do now.</p> <p>Study questions:</p> <ol style="list-style-type: none"> 1. Has Lew Cirne been a good CEO so far? Why or why not? 2. As Lew Cirne, why would Richard Williams want to replace you?? 3. As David Strom, if Lew rejects Richard Williams demands and threatens to leave Wily, what should you do? |
| | See Stellar for survey link. |
| Apr 26 | Trade-Offs in Scaling the Venture (III): Joining the Founding Team |
| Case | <p><u>Les Is More...Times Four</u></p> <p><i>“I’ve had enough! I decided that I need to resign,” read the mail from the founder of Webpoint to the company’s board of directors. Les Trachtman, the CEO of Webpoint, has to figure out how to react to the founder’s ultimatum.</i></p> <p>Study questions:</p> <ol style="list-style-type: none"> 1. Across his four experiences replacing founders, what has Les Trachtman done well? Done poorly? 2. What should he do now? |
| | <u>See Stellar for survey link.</u> |

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| Apr 28 | Trade-Offs in Scaling the Venture (IV): Control Choices Across Ventures |
| Case | <p><u>Evan Williams</u></p> <p><i>For several months, founder/CEO Evan Williams has felt trapped, unable to control Odeo and its strategic direction. He longs for the “simple” days of Blogger, the previous venture he had cofounded. A vote is blogger experiences have included a major blowup with his cofounder that had resulted in legal proceedings, a brush with near-bankruptcy, and the laying off of his entire team, Williams has become even more disillusioned with his current venture, Odeo.</i></p> <p>Study questions:</p> |

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| | <ol style="list-style-type: none"> 1. How has Evan Williams gotten himself into this mess? 2. What should he do now? |
| | See Stellar for a pre-class poll on founding preferences. |

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| May 3 | Trade-Offs in Scaling the Venture (V): Bootstrapping |
| Case | <u>Rubbish Boys</u> <i>It looked like founder/CEO Brian Scudamore might not be able to pursue franchising as a growth option or his junk removal business after all. Over the years he had overcome many hurdles, including buying out his cofounder, firing all of his employees so he could start all over again, and a previous failed experiment with student franchising. Now looking to expand within North America, he had turned to a professional franchising model and developed a new branch help grow the business.</i> Study questions: <ol style="list-style-type: none"> 1. If you just had one or two words with which to describe Brian Scudamore, what would they be? 2. What was at stake in the negotiation between Brian and Paul died over the franchising agreement? 3. What should Brian do now? |

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| May 7 | Exits |
| Case | <u>Nantucket Nectars</u> <i>The founders of Nantucket Nectars are trying to decide whether and how to sell the company.</i> Study questions: <ol style="list-style-type: none"> 1. If you are Tom and Tom, what is the minimum price you expect for Nantucket Nectars? 2. If you were a potential acquirer, how could you convince the founders of Nantucket Nectars to sell their company to you? 3. Prepare to be a potential acquirer who is pitching Tom and Tom to accept your offer. We will role-play this in class. |
| | Project slide summaries due at 2pm |

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| May 12 | Project presentations |
| May 14 | Course wrap-up Project write-ups due at 2pm H2 Feedback survey link on Stellar |