THE FIVE STAR STARTUP

A System for Evaluating and Ranking Startup Opportunities

If you are an aspiring startup, it's useful to know how investors and judges are going to evaluate your opportunity. If you are a newbie investor, it's useful to know how experienced investors evaluate startups, so you can create your own system of evaluation.

Michael L. O'Donnell

StartupBiz.com

2015-2016

Table of Contents

Introduction

A System for Evaluating and Ranking Startup Opportunities

Over the last three years I've evaluated more than 1,500 startups*. In most of these cases I was asked to score and rank them against a given set of criteria. In some cases, I was evaluating them with the objective of making an investment. Over time, I got really good at assessing the merits on five distinct dimensions.

If you are an aspiring startup, it's useful to know how investors and judges are going to evaluate your opportunity. If you are a newbie investor, it's useful to know how experienced investors evaluate startups, so you can create your own system of evaluation. There is no end-all-be-all system. Every startup is different, but every startup must be capable of maturing into a viable, profit-making business. Every system of evaluation should determine which startups have a shot at becoming one of those businesses.

Most investors – and investor platforms – have a system for evaluating and ranking startup opportunities. They typically look at hundreds of data points across five dimensions:

Product, *Market*, *Team*, *Strategy* and *Economics*.

These are the standards, or fundamentals, on which the evaluation is based. Each dimension can be further defined and expressed by a set of criteria.

How all the underlining criteria is weighed differs widely among investors, based on their industry sectors, investment objectives, experience and personal preferences. For example, many investors give more weight to the quality of the team than to the quality of the product. They figure a good team can “fix” any deficiencies in the other dimensions. If you have a five-star team and a two-star product in their eyes, your chances of attracting financing are still pretty good.

When the scorecards are completed and tallied, few startups are going to rank five stars. Those that rank five stars have no problem attracting financing. Most of them don’t even need financing, they only take the money for buzz, cushion, and to keep the inevitable copycats at bay. Everyone is chasing those deals. If you are one of them, count your lucky (five) stars.

So what does it mean to be a Five Star Startup?

It means you have created a company (not just a product) that excels on all five dimensions – and they are perfectly aligned. When the stars align, it is pure magic, and you have bottled it. Not only are the stars perfectly aligned, the timing for each is impeccable. Your deal is irresistible to everyone who sees it.

When investors dig in and dissect your company during due diligence, looking for fatal flaws and buried bodies, they are surprised to find none. They dig deeper…and get happier. They expect to peal an onion, but find a juicy, ripe fruit. And it’s low hanging fruit.

On a scale of 1 to 10, all of the underlining criteria in each of the five dimensions' ranks between 7 and 10. It's not that your company is perfect. It has its share of challenges and issues. It's that all of the challenges and issues are manageable. There are no insurmountable issues. All are readily resolved with talent, know how, money or connections.

By contrast, many startups are saddled with some seriously negative things that cannot be fixed, no matter how much money or talent you throw at it. The biggest thing being bad timing, usually being too early. None of those things are present in a Five Star Startup.

Now that you know the five dimensions of evaluation, you might want to know the underlining criteria most investors use to determine how well you rank in each dimension. You should know all the "things" that are likely to make an investor pass. I will try to cover these things in a fair amount of detail in the following pages.

---

* Most of these evaluations were cursory, high-level reviews, intended to offer constructive feedback. This includes the decks people sent me and the invitations to review profiles on Gust, Angel List, Venture360, Proseeder, and other startup-investor platforms. It also includes accelerators, business plan competitions and pitch contests where I served as a judge or mentor.

THE FIVE STAR STARTUP PRODUCT

The first dimension is PRODUCT. In this section I will describe the five star product (in my system of evaluation) and offer some of the underlining criteria by which you can score your product. Here we go:

You have a truly remarkable product – in the eyes of customers. There is nothing quite like it on the market. If there are other products like it, yours is better by a factor of 10. It's not just 2x or 3x better, it's not just cheaper or faster or easier to use, it's exponentially better. It solves a big problem or pain point that consumers or companies are willing to pay for. And they want it NOW. It's a "must-have" product, not a nice-to-have product.

Your product is not easy or cheap to replicate. It is imbued with awesomeness, has a cloak of invisibility (trade secrets) and/or natural barriers to entry (patents, trademarks, other IP). By the time the Chinese figure out how to knock it off, you will have already launched an enhanced version that keeps them and other competitors one step behind and clearly inferior.

You have achieved product-market fit. You have customer metrics and feedback that demonstrates strong early adoption and customer love.

You have attracted brand ambassadors and product evangelists that regularly spread the love. For every customer that you sell, they recommend your product to three or four of their friends or colleagues. Your product enhances or enables other products and services to such a degree that their owners push your product -- because it makes them better and helps them sell more.

You don't just have a Minimum Viable Product (MVP), you have a Minimum Scalable Product. You can produce it and sell it in mass quantities. You can recite your COGS in your sleep. Once you hit a certain scale, the gross profit margins are sweet -- higher than industry average. You don't compete on price, but once the big boys or upstarts take notice and bring pricing pressure, you have sufficient margins to withstand the onslaught.

You have a 3-5 year product plan. Every hour spent brainstorming, researching, and planning....every line of code written and every dollar spent on product design and development...brings you one step closer to achieving that plan. You are not pursuing the product strategy of the week. You are not building one-off features that don't scale just because they are cool, or because a few vocal customers ask for them. You are learning from the market and adjusting the plan regularly, but it remains perfectly aligned with your vision to own the market and stay two years ahead of the competition. You are on the path of becoming a defacto monopoly.

Score the following criteria on a scale of 1 to 10, with 10 being the highest. Try not to use the numbers 4, 5, and 6 -- they are fudge numbers. Your product either clearly excels in each of these areas, or it is subpar:

____ No other product exactly like ours, or ours is disruptive, 10X better

____ Our product solves a big problem or pain point for a large market

____ Our product is wanted/needed by customers now, not a future maybe or nice-to-have

____ Our product has significant competitive advantages and barriers to entry, not easy to replicate

____ Our product has customer traction and metrics that support wider adoption (with more money or talent)

____ Our product has attracted fervent evangelists who regularly refer it to their friends

____ Our product makes other products and services better, they push us to increase their sales

____ Our product is scalable and has high margins, we have a good handle on our COGS

____ We have a clear, comprehensive, 3-5 year product plan for market domination

____ It would take a competitor at least 2 years to match our product capability or market penetration – it would be more cost effective for them to buy us rather than compete with us

Total your score, divide by 10. If your score is between 7 and 10, *congrats*, you have a Five Star Startup Product!

Don't disparage if your product score is below 7. The product can always be made better. If you excel in the other four dimensions, you are still capable of attracting investors and building a successful company.

THE FIVE STAR STARTUP MARKET

The second dimension is MARKET. In this article, I will describe the five star market (in my system of evaluation) and offer some of the underlining criteria by which you can score your market. Here we go:

You have quantified the market for your product in terms of its size and segments. The Total Addressable Market (TAM) is at least $100M. It's clear that you are not building a life-style business that is limited by geography or sells time (hourly billing) for its revenue. Your product is capable of reaching a national or global audience and can be sold while you sleep.

You have clearly defined each segment of the market and the order in which you plan to attack each segment. You have mapped the customer demographics, geographics and psychographics. You understand customer needs and behaviors better than almost anyone because you are one of them. As a customer in this market, you garnered a unique insight, or stumbled across an inside track, that led you to pioneer a new product or business model for the market that is disruptive or revolutionary. You have a special edge. You have identified the disenfranchised or underserved segments of the market. You know how to empower customers in a way that no other product/company is currently doing.

You have a plan for serving the market in a new way that will inevitably lead to market growth. The very existence of your product -- and plan for supporting it -- will make the market more vibrant and resilient. Your entry will attract all new customers. You understand the entire market landscape, not just the customer base. You know the direct competitors and indirect competitors, and how each is positioned. You know the suppliers, service providers, industry associations, and key influencers. You understand the sales and distribution channels and have a plan for leveraging them to capture market share.

You know the 20% of the market – the power users and early adopters – that are likely to comprise 80% of your revenue. You didn't make the mistake of thinking you can capture 1% of the total market. You are focused on capturing a decent percentage of the 20 percenters. Your market has a natural virality to it. Customers fall like dominoes for your product, sharing it with others and building the Network Effect.

You have developed a User Persona that describes the wants and needs of your typical customer; how this customer learns about your product, and how this customer goes about buying and using your product. Finally, you have market validation, either traction that demonstrates month-over-month growth, or surveys and testimonials that prove you have done your homework and that sales are imminent. You know that investors know that no market need (or an indifferent market) is the single biggest cause of startup failure. Your data proves unequivocally that your startup has a fighting chance of market success if it executes well. You may not yet have all the metrics, but you are closing in on the costs to acquire a customer (CAC) and the long term value (LTV) of a customer. Your assumptions about those numbers are defensible and validate attractive profits and margins, even if you are off by a factor of two.

Score the following criteria on a scale of 1 to 10, with 10 being the highest. Try not to use the numbers 4, 5, and 6 -- they are fudge numbers. The market dynamics and your understanding of the entire landscape is either excellent, or it is subpar:

____ The total size of our market (TAM) is at least $100M and we know precisely how it is segmented.

____ Our market is national or global. We have a plan for penetrating each segment in order.

____ We have mapped the demographics, geographics and psychographics of our customer base.

____ We have a unique insight into the market that gives us an edge over other solutions, even if they are indirectly competitive.

____ We understand the entire market landscape -- all the players and their core businesses. Our entry will help grow the market.

____ We know our competitors better than they know themselves. We have a unique position relative to competitors that offers us a sustainable advantage.

____ We know how to reach and win over the key influencers, and how to leverage the sales and distribution channels to capture market share.

____ We know the 20% of the market that matters most, or how to convert the underserved 80% into 20 percenters.

____ Our market has virality and network effects.

____ We have created a User Persona of the typical customer and know the cost to acquire that customer and his/her long-term value.

Total your score, divide by 10. If your score is between 7 and 10, *congrats*, you have a Five Star Startup Market!

The proof of a big enough market -- and your thorough understanding of it -- is only half the battle.

THE FIVE STAR STARTUP TEAM

The third dimension is TEAM. In this article, I will describe the five star team (in my system of evaluation) and offer some of the underlining criteria by which you can score your team. Here we go:

The second biggest reason startups fail (behind *no market*) is having the wrong team. You understand that you do not yet have the right (complete) team, and one of your key priorities is identifying the people you are going to need to build a successful company. You know what you don't know, you are not blind to your limitations and those of your co-founders. You and the other core members of your team are working in the venture full-time. You have a 24-month staffing plan that will fill in the gaps.

You love your idea…think it can be a game-changer, but you believe it is less important than your team's ability to execute on it. You believe that speed is a weapon. You are obsessed with outrunning and out executing the competition. You and your co-founders are seasoned pros. You've seen your share of successes and failures. You know what works and what doesn't work, which is what makes you so confident that you can win in this new venture. And you have the chops to see it to the end. You are still hungry, still driven, and still determined to make a bigger mark.

There is a special, unbreakable bond, between you and your co-founders. You didn't just meet at an ideation event last week and decide to start a company together. You have been through the team-building phases of forming, storming and norming. You're ready to perform! There is a clear division of labor, authority, and accountability among the core team members – no overlap. One has product, one has sales, and one has finance and operations. One is the CEO and there is no question that he/she is the "boss." You're filling in the gaps with the other talent you need and you are ruthless about who you let in the door. You know that one bad hire can sow the seeds of dysfunction and tank the whole company.

No one is operating on a handshake. The founders do not have a 50/50 equity split and the shares were not all issued upfront. The company has at least one outside board member who can vote to break a stalemate. The founder's shares vest over 3-4 years based on performance. You have executed restricted stock agreements with buy-sell provisions. At least 15% of the company has been allocated for new hires. All team members, whether employees or contractors, have executed confidentiality and intellectual property assignment agreements. You are working with good legal and financial professionals. You have a trusted slate of informal mentors, if not a formal advisory board.

You have begun to foster a company culture based on the uniqueness of your product, and accentuated by the personalities of the founders. Your culture is driven by a set of core values and an unrelenting focus on customer happiness. The founders are obsessed with innovation and market dominance, not with speaking engagements and media coverage. There are no prima donnas at your startup. Every team member is as valued as much as the next, and every one of them is essential for success.

Finally, you have the ability to sell investors on a billion-dollar opportunity. It wasn't just the fact that the background check they ran on you and your team came back positive. They believe in your venture, because they believe in you and the team you have assembled. They trust you with their money and with their reputations. They will go to bat for you time-and-time again. They have faith that if anyone can do it, it will be you and your team.

Score the following criteria on a scale of 1 to 10, with 10 being the highest. Try not to use the numbers 4, 5, and 6 -- they are fudge numbers. Your team and team dynamics are either excellent, or they are subpar:

____ The core team is working full-time in the venture and are not otherwise committed to time-consuming outside projects.

____ The team has identified the skills/talent needed (the gaps) to build the company and created a short list of candidates. There is a 24-month staffing plan, subject to financing/revenue.

____ The core team has breadth and depth of experience, and understands the space the company is competing in.

____ The team is driven, has a sense of urgency, and believes that good execution (not ideas) will win the day.

____ The team has more than a casual working relationship. It has either been through similar battles together, or bonded through this venture.

____ There is a clear division of authority and labor among the team members. Each team member has his/her specific job and deliverables, and is held accountable by the other team members.

____ All team members have signed a restricted stock agreement or stock options agreement with buy-sell provisions, and the stock vests over 3-4 years based on performance.

____ The company has engaged professional advisors and the core team members have relationships with mentors who can help them with introductions and their responsibilities.

____ The team has begun to foster and coalesce around a unique culture, and hires new people based on how well they fit with the culture. A rigorous screening/interviewing process weeds out potential misfits.

____ Core team members have (or can) pass a background check and have the ability to engender trust among investors.

Total your score, divide by 10. If your score is between 7 and 10, congrats, you have a Five Star Startup Team!

For additional guidance on startup team dynamics, see my posts Would I Ride Into Startup Battle With You, and Three Criteria For High Performing Teams.

The Five Star Startup Strategy

The fourth dimension is STRATEGY. In this article, I will describe the five star strategy (in my system of evaluation) and offer some of the underlining criteria by which you can score your strategy. Here we go:

The third biggest reason startups fail (behind *no market* and *wrong team*) is lack of a strategic advantage. You have a killer strategy for gaining a foothold in the market and maintaining that position, while rapidly expanding your share of the market. Your strategy capitalizes on your unique insight into the needs, behaviors or trends of the market. Your strategy enables you to out-maneuver the competition as they respond to your entry into the market. Your strategy allows you to nibble away at the edges of the competition's position, while fortifying your own position as you advance. If executed well, your strategy will inevitably allow you to capture an *unfair share* of the market.

Your strategy gives customers a compelling reason to buy from you instead of the competition. Even if no other product is directly competitive, your strategy makes it a no-brainer for customers to switch from substitute solutions. However, your strategy does not force customers to undergo a high learning curve, or drastically change their habits or the manner in which their needs are met. If your product represents a paradigm shift or requires an entirely new usage methodology, your strategy provides a navigable bridge from the old to the new. Easy adoption is central to your strategy.

Your strategy includes growth hacking, with the tools and systems to quickly analyze conversion metrics and adjust marketing campaigns and budgets accordingly. Your strategy keeps everyone in your company close to the customer. It creates evangelists for your product and incentivizes them to share with their networks and attract new customers. The cornerstone of your strategy is innovation -- not only constant product innovation, but devising innovative touch points that give customers an experience that continually surprises and delights them.

Your strategy has a strong branding component that accelerates market awareness and engenders customer loyalty. Prospective customers "get it" on first glance and immediately understand how your product will make their lives better. If your product is B2B, a core part of the strategy is signing marquee accounts. If your product is B2C, a core part of the strategy is testimonials and user referrals. In either case, your strategy enables you to establish credibility and relationships with the media and market leaders who influence large segments of the market.

Finally, and most importantly, your strategy *leverages* existing sales and distribution channels and allows you to *piggyback* on the installed base of others. You don't have to educate or create every new customer from scratch. You have developed some strategic partnerships that accelerates your entry into the market and help preempt or fend off alternative solutions. As a bonus, your strategy includes being socially responsible, because you know that customers actively favor companies that contribute to the greater good.

Score the following criteria on a scale of 1 to 10, with 10 being the highest. Try not to use the numbers 4, 5, and 6. Your strategy either clearly excels in each of these areas, or it is subpar:

____ You have a workable strategy for gaining and maintaining a foothold in the market.

____ Your strategy helps you to nibble away at competitive or substitute solutions, while carving out and advancing your own defensible position.

____ Your strategy motivates customers to buy from you over other solutions, without a high learning curve or having to change their policies, systems or behaviors.

____ Easy adoption (onboarding) is central to your strategy and you have proved that it works.

____ Your strategy includes growth hacking, actionable metrics, and ways of keeping everyone in your company close to customers.

____ Your strategy creates product evangelists and brand ambassadors that increase virality and network effects.

____ Your strategy ensures continuous product innovation and customer touch points that surprise and delight.

____ Your strategy has a strong branding component and establishes credibility and relationships with market influencers.

____ Your strategy leverages existing sales and distribution channels and allows you to piggyback on the installed base of others.

____ You have signed strategic partnerships that accelerates your entry into the market and will help you grow the customer base.

Total your score, divide by 10. If your score is between 7 and 10, congrats, you have a Five Star Startup Strategy!

For additional guidance on startup strategy, see my post [Awesome 1 Star Review: The Power of Product Evangelism].

Five Star Startup Economics

The fifth (and final) dimension is ECONOMICS. In this article, I will describe five star economics (in my system of evaluation) and offer some of the underlining criteria by which you can score the fundamental economics of your startup. Here we go:

You are absolutely clear about how you are going to make money. Your business model has been validated by real customers who have the willingness and ability to pay for your solution. And there is enough of them to achieve and sustain profitability – or to at least position your startup for an attractive exit. You have charted a business model canvas that outlines the key activities required to generate and grow revenue. Whether you are B2B or B2C, your customers are motivated by the economic benefits (ROI) that your products and services provide to them over other solutions.

You have created at least one predictable revenue stream. You have proven that revenue is repeatable and scalable, either recurring from existing customers at regular intervals, or growing from a steady stream of new customers – preferably both! You have begun to develop and test top line assumptions for additional sources of revenue that can fuel growth and reduce dependencies on a single source of revenue. You have crystallized these revenue streams and assumptions into a cash flow forecast with 3-5 year projections. Your costs are mostly variable, your financial model minimizes the requirement for fixed or long-term expenses.

You know how much capital is required to achieve break even, or at least the minimum amount of money needed to achieve the milestones that will ensure follow-on investment. You have a budget that details "use of funds," with a 50% cushion for the unexpected. With the appropriate level of financing, you can safely operate for at least 18 months without running out of capital – and that will be sufficient to get you to the next stage. Once the money is raised, investors have confidence in your financial discipline and money-management skills to spend it wisely. You know that the single biggest mistake a startup founder/CEO can make is allowing his/her company to run out of capital.

Your valuation and terms of investment make economic sense to new investors, but don't put the founders or team at an economic disadvantage. Your valuation is at least 3X the amount of money you are raising, otherwise the long-term economics won't likely work for your current investors or for your team. There is a high likelihood that the amount of capital you are raising will accelerate growth and increase the valuation of the next round by 3X....5X if you crush it. When discussing valuation with investors, you are not simply pulling numbers out of the air. You have a sound economic rationale and independent validation of your startup's value.

After all the economics of financing have been weighed, you are not one to be penny wise and pound foolish. You are smart enough to know that the right investor at a slightly lower valuation is far more important than the wrong investor at a higher valuation. And you know the difference between the two. You would rather be a company-builder than a full-time fundraiser.

Finally, you understand the timing and economics of a favorable exit for your investors. As much as investors like you and your vision…as much as they know your company is your passion and perhaps your life's work…they don't want to be along for the ride for the duration of your natural life. You have the character to put their economic priorities above your own. That means selling your company, going public, or creating an opportunity for your early stage investors to be bought out by later stage investors with a nice return.

You can articulate the top 3 most likely acquirers. You know what these companies have paid for other startups and the economics upon which those decisions were made. You know what has to be done to put your startup in a position to be acquired, or to go public, and you know the time horizon. And everything you are doing…every decision you are making, increases the probability of an economic windfall for your team and your investors. You are starting with the end in mind.

Score the following criteria on a scale of 1 to 10, with 10 being the highest. Try not to use the numbers 4, 5, and 6 – they are fudge numbers. The economics of your startup are either superior, or they are subpar:

____ Your business model has been validated by paying customers and your solution delivers them a demonstrable return on investment.

____ You have charted a business model canvas with the activities necessary to generate and grow revenue.

____ You have created at least one predictable revenue stream that is scalable and repeatable, with plans to create multiple revenue streams.

____ You have proof that your top line assumptions are achievable and have 3-5 year projections showing the trajectory of your business merits outside investment.

____ Your costs are mostly variable, you have minimized the need for fixed and long-term expenses until the company has achieved profitability or otherwise becomes bankable.

____ You know how much capital is required to achieve break-even, or the milestones required to attract the next round of financing, and you have budgeted for adequate cushion to get there.

____ Your valuation and terms of investment make economic sense to new investors, as well as protecting the long-term economic interests of your team and existing investors.

____ You are focused on finding the right investors, not just any investors, and you know that every day spent raising money is one less day building a successful business.

____ You understand the needs of your investors to see a healthy return from their investment in your startup and you are committed to their time horizon for exit.

____ Every decision you make, every action you take, is designed to produce an inevitable economic windfall for your team and your investors. You are starting and funding every stage of your company with that end in mind.

Total your score, divide by 10. If your score is between 7 and 10, *congrats*, you have Five Star Startup Economics!

The Five Star Startup Finale: Timing and Alignment

This is the last section.....I promise! If you were gracious enough to follow along, we covered the five dimensions most startups are evaluated on by investors:

Product | Market | Team | Strategy | Economics

To wrap it up, I wanted to touch on Alignment and Timing – two variables that influence whether or not a startup has a decent shot at getting funded after the five dimensions are evaluated by investors. And if funded, a reasonable chance of being successful.

ALIGNMENT

After completing their due diligence, how the five dimensions are aligned (or not) in the eyes of investors will largely determine if they will be interested in investing. The underlining criteria in each of the five dimensions are evaluated differently by different types of investors. How those investors rate and assess the criteria and their alignment with each other (in their system of evaluation), will determine if they extend a term sheet.

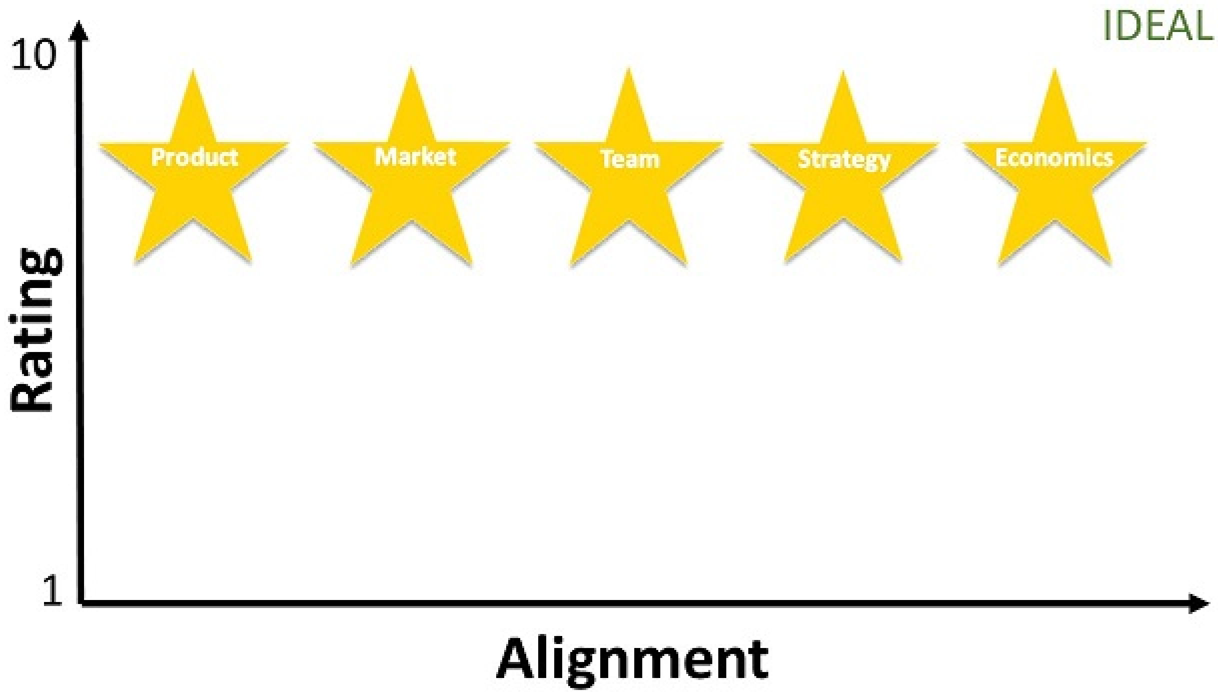
You probably surmised by now that Five Star Startups are a rarity – very few come along each year. Every startup has flaws. Most flaws, however, are not fatal. Savvy investors know most things are fixable – and some have made a killing by helping to shore up the weaknesses and align their portfolio companies for success.

- The product can always be improved.
- A company can pivot to a more lucrative, underserved market.
- Exceptional people can be added to the team.
- Brilliant strategies can be devised, tested and executed.
- The revenue model can be perfected and the financing terms negotiated for a win-win by investors and the team.

But just because these things are fixable does not mean the company is fundable. It depends on what dimensions are out of alignment and what it will take in time/money/talent to align them for success.

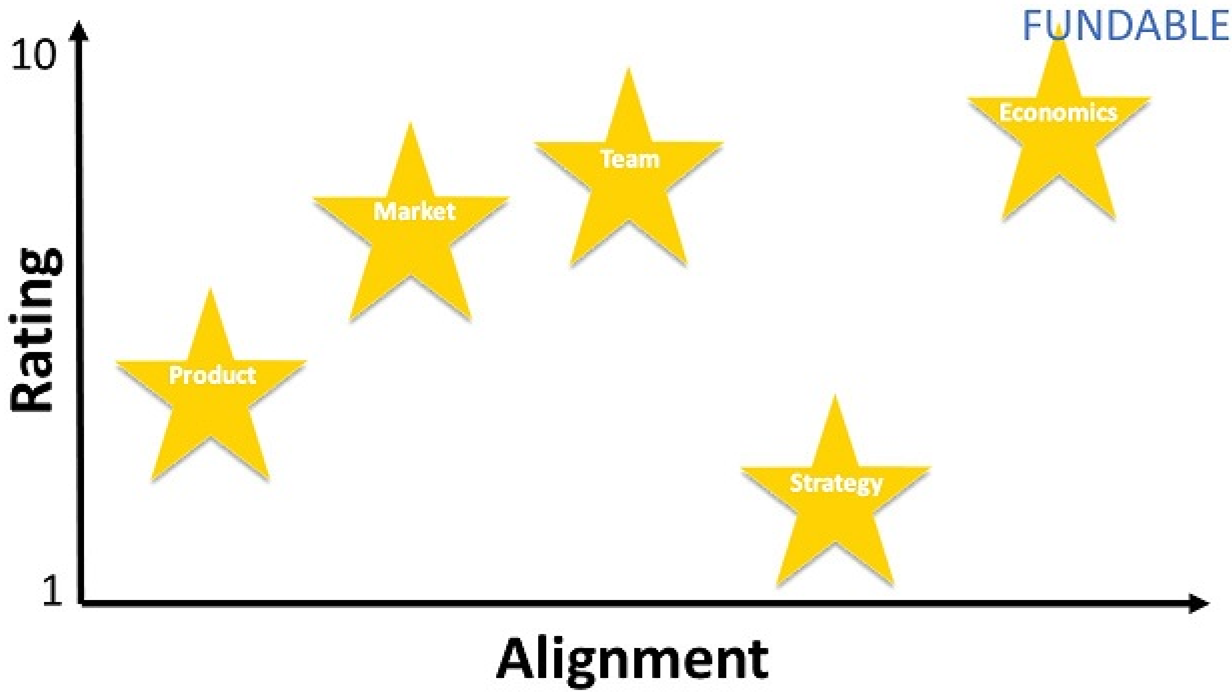
Consider these three scenarios:

The IDEAL (very rare) Deal



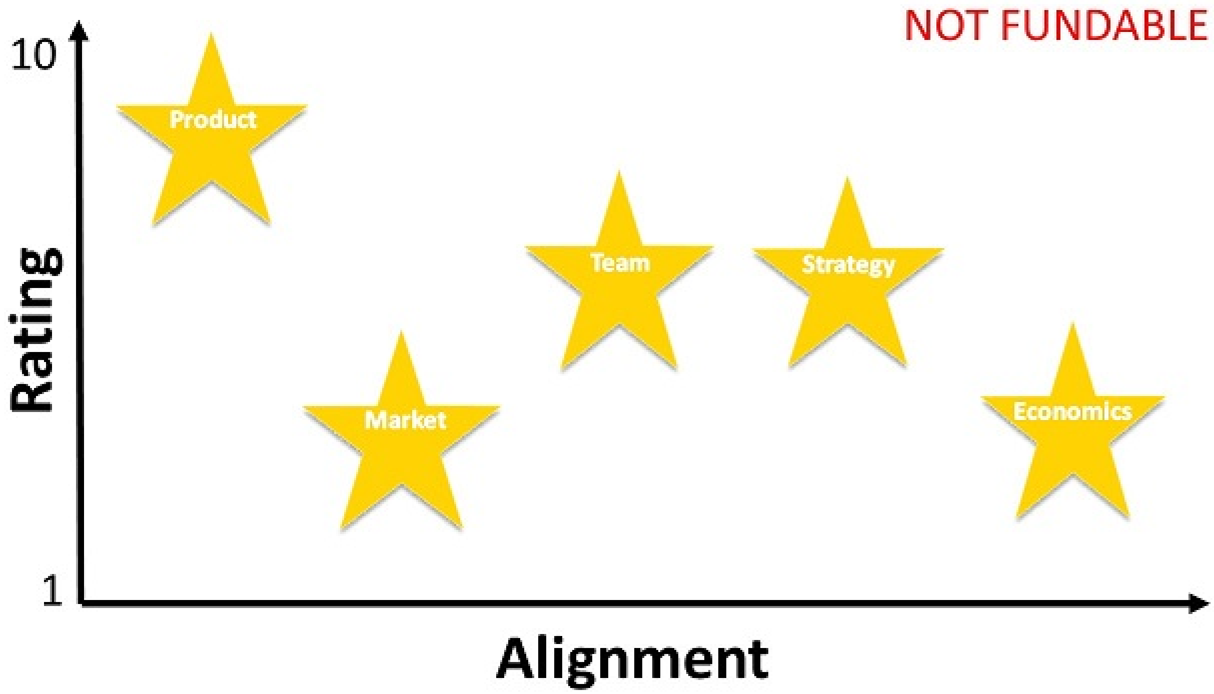
If the underlining criteria in each of the five dimensions ranks high after due diligence, the startup is a great bet and will attract investors like bees to honey. The stars are fairly well aligned. The deal will be oversubscribed, the founders can pick and choose their investors. The risks to investors are manageable. These deals are rare.

The Fundable (more common) Deal



If the underlining criteria in product and strategy are sub-par following due diligence, the deal is still fundable as long as the market opportunity and team rank high. A good team can fix product. Smart investors can help fix strategy. And, of course, if the economics are strong, there will be enough investors willing to take the risk. These are the most common types of deals invested in by both VC's and angels.

The UNFUNDABLE (typically rejected) Deal



If the underlining criteria in market and economics are sub-par following due diligence, the deal has almost zero chance of getting funded. This is especially true if the team is average (usually young and inexperienced) and the economics don't make sense. Every investor (including myself) see these types of deals EVERYDAY. The product is usually awesome, but there is no defined market for it and/or no clear idea of how the company will make money. The risks are too high for most investors to want to help fix these problems – there are better deals to chase.

TIMING

Upon concluding due diligence and assessing the rating and alignment of the five dimensions, smart investors will give serious consideration to TIMING. It's a super hard variable to evaluate, but plays a critical role in a startup's likelihood of success. As Victor Hugo famously said, *"Nothing is more powerful than an idea whose time has come."*

If you get the timing right – and the five dimensions can be brought into alignment with a moderate degree of risk – you are golden. Bill Gross from IdeaLab recently gave a great TED Talk: The Single Biggest Reason Why Startups Succeed

You guessed it, his findings found that TIMING was the biggest reason. In my humble experience, having founded seven companies and been involved as an investor or advisor in dozens of others, I agree wholeheartedly with his conclusion. In my small world as a startup founder/investor/advisor, being early and scaling prematurely has been the single biggest cause of failure. In hindsight, the task at hand was practically insurmountable, no matter how much money and talent we threw at it... no matter how passionate, how committed, or how hard the team worked.

That's a critically important (and expensive) lesson for all startup founders and investors! It begs the need for more posts on the subject of startup timing: *how to recognize it, and what to do if you are too early or a tad too late.* I'll try to take up this subject in future posts and would love the benefit of your insights and examples. You can send me your thoughts at mike@startupbiz.com.

IN SUMMARY

Thanks a bunch for staying with me through this series and to those of you who contributed your thoughts. Whether you are an entrepreneur, investor, or member of a startup team, I hope you found this series useful. For all of their challenges and risks, startups are still the best source of new innovations, new jobs, and new wealth. May more of your startups be FIVE STAR. Cheers!

About the Author

Michael O'Donnell is a serial entrepreneur, innovator, author and startup strategist, with deep expertise in starting and building technology companies backed by angel investors and venture capital. O'Donnell founded Ask-Me Multimedia (acquired by Midisoft), iCopyright.com (ongoing), and StartupBiz.com (ongoing), among other companies. He was on the launch teams of CompuServe Sprynet, one of the first national Internet Service Providers (went public as part of CompuServe in 1996), and Design Intelligence (acquired by Microsoft).

O'Donnell is the author of two best-selling books on business planning and marketing planning. He served as Chairman of the Northwest Entrepreneurs Network in Seattle, Washington and as a Director/Mentor for The Founder Institute in Tampa and Fort Lauderdale. He ran two programs for Startup Quest in South Florida and served as the Executive Managing Director of Thesis Ventures, one of the first early-stage venture funds and company builders in the state of Florida. He currently advises startups and is a popular blogger and speaker on startup business models, launch strategies, and venture financing. He can be reached at mike@startupbiz.com.