Can your CEO pass this simple startup investor test?

The two-fold purpose of this article is to:

1) Enable CEO's of established revenue generating companies to identify some potential survival issues.
2) Enable startup founders to assess if they have some deal-killer issues from an investors point of view and from a survival perspective.

Investors, advisors, the board of directors, employees, and others may already be aware of the CEO/founders issues. This process is intended to increase the CEO/founder self-awareness.

The following are some questions that you can ask the CEO in a 20-minute period. The questions are those that some investors use to screen out in a quick phone call early stage companies seeking funding. These questions are known as deal-killers. Individual investors will have various deal-killer issues.

If the existing company has more than one business unit, with different target users/customers (e.g. users are people using Google to do searches, customers are people paying Google to advertise), then the question should be asked of the business unit leader. The questions can also be adapted for internal users/customers

Deal-Killer Questions

The following questions are those investor deal-killers for a pre-revenue company. The questions are valid for any stage and size of company. When asking your CEO these questions, remember that much of the actual work and analysis may have been done by others in the company. These questions identify if that work has been done and the degree of the CEO's understanding.

1) Who are the target users/customers and what are their urgent problems or needs?
2) How did you calculate the market size? Number of customers, users, and revenue if you had 100% market share with all possible distribution channels and partners? Number of customers, users, and revenue if you had 100% market share using your initial or current distribution channels or partners? What is your initial or current market share, recognizing that not everyone will actually buy, there will be adoption rates as well as competition.
3) How many potential customers did you interview to validate the assumptions above and what did your learn from your interviews? What did you do differently as a result of your learnings?
4) Can your solution easily be duplicated or copied by other companies? What is unique and hard for others to copy?
5) Would you be willing to step aside, if necessary, for another CEO? If so, why? If not, why not?

How do the questions address deal-killer issues?

The deal-killer issues I use are:

<u>There is not a large number of people with a problem or need they are willing to spend money on.</u>

1) If the market size isn't large, then investors are not interested.
2) Many startups merely copy a few numbers from consulting report and don't do their own bottom up analysis supported by potential user/customer interviews.
3) Existing companies must do ongoing user/customer interviews, and surveys to understand the changing user/customer needs as well as user/customer perception of your company's solution relative to competition.
4) This insight is provided by questions 1,2,3,4

<u>The CEO/founder is not coachable</u>.

1) Some signs that a CEO is not coachable include: They always think they're right and don't possess the ability to self-reflect; They are not willing to experiment, learn new things and are not open to change; They are arrogant about their intellectual prowess; They usually are rolling eyes during constructive criticism; They have answers to every question without even questioning the logic of their answers; They react negatively to any constructive criticism; and they are disrespectful of others and/or others' opinions.
2) Being coachable means: being open to radical changes; when getting constructive criticism, they ask themselves "*What can be the benefit of this feedback to me and what is there for me to learn from this feedback?*"; They are comfortable acknowledging their ignorance and are willing to do the work in order to fill the gaps in their knowledge**.**
3) They need to be coachable because they need to learn from users/customers, advisors, investors, distribution channels, partners, and others in order to change their behaviors and actions in an environment where unexpected change is a constant.
4) This insight is provided by question 4.

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The solution is easy to copy and duplicate or is already a common commodity solution.

1) Investors seek what is both unique and hard for competitors to copy.
2) New technology and new intellectual property may be hard to copy.
3) There are markets where all solutions get copied, thus the key actions are: understand the user/customers better than the competition; enable users/customers to obtain value quicker than the competition.
4) This insight is provided by question 5.

The CEO/founder is unwilling to step aside, if necessary, for another CEO.

1) The majority of startup CEOs/founders will end up stepping aside (either voluntarily or forcibly). Few CEOs are like Bill Gates, able to change and learn as they take a startup to a massive global company.
2) CEOs need to understand that they are in place to meet the needs for a point in time (and the next 24 months) and that in 24 months time, they may not be the right person.
3) A CEO who refuses to recognize this will impact the value of any investment, plus result in a painful and costly CEO exit. The CEO may not be enabling the development of a pool of qualified successors, both short-term and long-term.
4) This insight is provided by question 6.

Your next steps

If you are a startup CEO/founder:

1) Ask one of your trusted: investors, potential investors, advisory board members, board directors, or advisors to prepare their 4-5 deal-killer questions, which may be different from what I suggested.

If you are the CEO of an established revenue generating company:

1) Ask one of your trusted: investors, potential investors, advisory board members, board directors, or advisors to prepare their 4-5 deal-killer questions, which may be different from what I suggested. If you are a public company do not ask: investors, potential investors, or bord directors.

In either case:

1) The reason for a trusted person is the assumption that the CEO/founder will listen to and think about the feedback.
2) You should know the questions in advance.
3) You will be probed and asked for the logic and/or proof of your answers. Opinions, guesses, and hopes are of little value.
4) You will have a 20-minute discussion, in which you'll be asked the questions. The discussion will be recorded.
2) The trusted person will review both their notes and the recording to set down their observations. The recording will then be destroyed.
3) The trusted person will then share their observations with you.

The implications of the constructive criticism observations:
If you are a startup CEO/founder:

1) The CEO/founder is not coachable. Investors will likely decide to not invest or continue investing. Advisors will likely decide to not be involved, because there is little value and impact from their time investment.
2) There is not a large number of people with a problem or need they are willing to spend money on. If this is a result of logical, fact-based analysis, the investors will decide if the market size still warrants an investment. If the CEO/founder is bootstrapping, the CEO/founder needs to determine if the potential warrants continuing. If there has not been sufficient logical fact-based analysis of the target market, the CEO/founder may be coached on how to address this.
3) The solution is easy to copy and duplicate or is already a common commodity product. The CEO/founder will focus on how she will successfully compete against both current and future competitors. Investors will likely not invest.
4) The CEO/founder is not willing to step aside, if necessary, for another CEO. The CEO/founder will require coaching, assuming the CEO/founder is willing. The willingness may also come about when the startup runs into difficulty or when investors require a new CEO in return for funding.

If you are the CEO of an established revenue generating company:

1) The CEO is not coachable. The external environment (customers, competitors, technology, regulation, etc.) is transforming at an ever-increasing pace. An uncoachable CEO, who cannot learn from others and continually transform themselves is dooming the company to eventual failure. Investors and the board of directors will sooner or later (unfortunately often later) make the decision to exit the CEO. /Advisors will likely decide to not be involved, because there is little value and impact from their time investment.

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2) There is not a large number of people with a problem or need they are willing to spend money on. If this is a result of logical, fact-based analysis, the CEO needs to fundamentally rethink the target market and the solution.
3) The solution is easy to copy and duplicate or is already a common commodity product. The CEO needs to understand the logic and facts as to why the company has been successful in this environment, what needs to continue, and what needs to be transformed for continued success.
5) The CEO is not willing to step aside, if necessary, for another CEO. The CEO/founder will require coaching, assuming that they are willing. The willingness may also come about when the company runs into difficulty or when investors require a new CEO in return for funding. Investors and the board of directors will take actions to ensure that qualified successors are available. The investors and board of directors will also prepare and maintain an exit plan for the CEO, which may be triggered at any point.

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