ELEMENTS OF THE DECISION MAKING PROCESS

Idea

The company wouldn't exist if it weren't for the original idea, and that is certainly worth something, BUT there's a lot of truth in the saying, "A successful business is 1% inspiration, and 99% perspiration."

Business Plan Preparation

The development of an initial business plan is a surprisingly difficult and time-consuming effort. To pull together and organize all the thoughts of the founding team, filling in the blanks, identifying and reconciling the differences, and producing a document that captures the essence of the business and helps persuade banks, investors, board members, and others to support the company is a mammoth undertaking, as anyone who has done it will attest.

Again, the plan is a necessary element of starting the business, BUT execution against the plan is where the real value lies.

Domain Expertise

To what degree do you and your partners have meaningful experience in the business of your business? Knowing the industry, having relevant experience, and having a Rolodex full of accessible contacts can greatly improve the company's probability of success and speed its growth rate. Otherwise, it will take longer to get commercial traction and you'll have to pay for these assets, usually by hiring someone and including equity in their compensation package.

Commitment and Risk

You've probably heard the old saying that "a chicken is involved with breakfast, but a pig is committed." Similarly, the founders who join the company full time and are committed to making it a success are much more valuable than founders who are going to sit on the sideline and be cheerleaders. In addition, the opportunity cost for those who join the company instead of pursuing a career is not trivial.

Responsibilities

Who is going to do what? Who is going to go stay up at night when you can't make tomorrow's payroll? Where does the "buck stop"?

RELATIVE IMPORTANCE OF THE ELEMENTS

For each company, the relative importance of these elements is likely to be very different than that for another company. A company based upon new technology is highly dependent upon the "idea." On the other hand, a new restaurant is not likely to be so unique that the "idea" is a major contributor to the restaurant's ultimate success. If we were to evaluate the ideas on a scale of 0-to-10, the technology company's idea might be a 7 or 8, while the restaurant may be only 2 or 3.

Similarly, the relative importance of the business plan will vary. A company that has to raise external financing will need a plan that will assist fund raising efforts. If the founders are providing the start up capital, then the plan will be relatively less important.

	Weight
Idea	
Business Plan	
Domain Expertise	
Commitment & Risk	
Responsibilities	

I believe the same analysis can be productively applied to the other elements. Not only can the absolute evaluations be made (0-to-10), but they can be compared to one another for make sure that their relative values are reasonable as well.

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the founders pie

Relative Contributions of the Founders

Each of the founders can be evaluated on these elements as well. Who did what to come up with the idea? Who contributed what to the business plan? Who has the industry connections? Who is joining the company? Who is accepting responsibility for raising investment capital? Who is responsible for bringing the product to market?

	Founder 1	Founder 2	Founder 3	Founder 4
Idea				
Business Plan				
Domain Expertise				
Commitment & Risk				
Responsibilities				

An Example

Let's look at a hypothetical example. Assume that we have a high technology start up spinning out of a university with four members of the founding team.

1. The inventor who is recognized as the technology leader in his domain.
2. The "business guy" who is bringing business and industry knowledge to the company.
3. The technologist who has been the inventor's "right hand man."
4. The research team member who happened to be at the right place at the right time, but hasn't and won't contribute much to the technology or the company.

If these were all first-time entrepreneurs, it's likely that they would each get 25% of the company's stock, because "it's fair."

Let's take a look at what the Founders' Pie Calculator says. First we evaluate each of the factors on their relative importance and each of the founding team members contribution to each on a scale of 0-to-10.

	Weight	Founder 1	Founder 2	Founder 3	Founder 4
Idea	7	10	3	3	0
Business Plan	2	3	8	1	0
Domain Expertise	5	6	4	6	4
Commitment & Risk	7	0	7	0	0
Responsibilities	6	0	6	0	0

Next, we multiply each of the founder's values by the factor's value to calculate weighted scores. Add up the numbers for each founder, sum those totals and determine the relative percentages. Do a sanity check to see if those numbers seem to make sense, and adjust them accordingly.

	Founder 1	Founder 2	Founder 3	Founder 4	
Idea	70	21	21	0	
Business Plan	6	16	2	0	
Domain Expertise	30	20	30	20	
Commitment & Risk	0	49	0	0	
Responsibilities	0	36	0	0	
Total Points	106	142	53	20	321
% of Total	33.0%	44.2%	16.5%	6.2%	100.0%

ADVICE TO FOUNDERS

- Splitting up the founders' pie is not a trivial undertaking.
- Rarely should it be split evenly, even though that's what many start-ups do.
- Consider the past, current, and future relative contributions of the founding team members to the ultimate success of the company.
- Employ the Founders' Pie Calculator to create a quantified scenario of how the pie might be divided based upon these elements.
- Caution: while I have convinced myself that this is brilliant tool, and that the scenarios that I've run through it have had logical outcomes, use this tool for guidance only. Do not depend upon it exclusively.

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