

# Startup War Story- Common Mistake #2

By Bob Norton



Helping You Break Through Barriers You Can't See

## This is a Sample Chapter From a Book In the Secrets of a Serial Entrepreneur™ Series

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## Startup War Story - Common Mistake #2

### Understanding Capital Expenditures and Their Real Cost

During my first week at a company I had just joined as President, I was asked to approve the purchase of a \$250,000 piece of hardware. The operations people, all from larger companies, were de-sensitized to the cost of capital and its accessibility. They wanted to buy this \$250,000-piece of hardware, to be ready for the flood of customers “coming soon”. The part-time CFO had been convinced by the technical staff that the world would fall apart without this equipment and we could never serve any customers ‘correctly’. The logic was that they needed months to install it and we were coming out of beta testing soon. So time was running out! The reality was that they wanted the latest and greatest systems and near 0% risk for these non-existent customers and themselves personally, with little weight given to the huge capital investment.

In fact, the beta test was very limited and probably needed much more time, and the capacity already available, I personally calculated, was sufficient to handle many more customers. It would take many months to exceed the capacity that we already had. Since it would take at least 60-120 days to install our product, after any sale at new customers’ sites, the lead-time was sufficient to order this capacity as needed, only after sales were actually made.

**So when hiring for an early-stage company take your time and wait for the right individual with start-up experience. Don't fill the job with the first warm body that meets the minimum requirements.**

These very bright people were falling into one of the easiest traps in startups and in life. They were acting on past experiences without adjusting their decisions to the specific

circumstances at the time – Most importantly this is a startup situation with rapidly changing needs. They were also in a ‘planning mode’ as they would be at a former large company where they would avoid all risk, because of the potential high cost of mistakes to a large customer-base and their personal careers. They were assuming, there was an established distribution channel for the product, when in fact, there wasn’t even a sales team in place yet or a single paying-customer in sight yet.

Unknown to both the operations staff (or “management team”) and myself during this first week on the job, we would quickly switch from a centralized ASP model to a decentralized enterprise software model, negating the need for this hardware completely, as it would be provided by the customer on site - but that's 20-20 hindsight, sort of, so lets talk about why this made no sense even without this knowledge.

The fact is, that startups must live with risk every day, manage it aggressively, and must act on a just-in-time basis with any large capital expenditure, or most any expenditure for that matter. A startup is on a rapid learning curve. It must assume a dynamic environment and hence spend money only when it is absolutely needed, NOW!

**So how did I manage this request from my management team?**

I knew immediately this purchase would never happen, but I wanted to walk the

**You need exceptional people in every function. You cannot afford to succumb to the law of averages. In the long run repeating the process again will be MUCH more expensive.**

team through the thinking process so they would understand why. It could not just be an edict from on high or their morale would be hurt

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and people would begin talking about the CEO's rash decisions that were endangering the company. I also wanted to begin to train this group on what being in a startup really meant. My main goal wasn't really making the decision. That was easy. It was training my management staff to make these decisions better in the near future. It was instilling in them some of my early-stage company experience so they could become an effective startup management team.

The requested equipment purchase was the latest, greatest and most expensive solution they could possibly imagine. So this was not just about wanting a little more than we needed; it was about buying a battleship when we needed a speedboat. Ultimately, we had three meetings to allow the message and training to be swallowed with time and understanding.

**The Meetings**

At the first meeting the team explained why we needed the expensive hardware, and I asked for a "cheaper solution". There were lots of diagrams, technical terms and probably the hope that I would just say OK out of a lack of understanding of the technical details. Certainly many CEOs could be buffaloed into this decision because the "trust the experts". The meeting started in the late afternoon, and it was well after dinnertime before it was over. I basically sent them away to look at every possible

solution again. I specifically asked them to look at both software and hardware solutions, hinting I was biased towards the former. I was already certain there was a nearly free software solution but wanted them to find it.

**In any early-stage company you need exceptional people in every function. You cannot afford to succumb to the law of averages. In the long run repeating the process again will be MUCH more expensive.**

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At the second meeting they admitted that a solution from another hardware vendor at half the cost would probably do the same thing, but they still wanted the original vendor and configuration because the software with it was thought to be the best. Now this was pure macho ego, not practical business sense. However, "if we couldn't afford it," then they would manage with the \$125,000 solution. At this meeting I began to design a software solution with them that would allow the same level of data redundancy they were convinced we needed. I directed them to return with an estimate in man-days to implement this software solution to "delay" the purchase.

At the third meeting they admitted that the software solution could be implemented, but they did not want to admit how long this might take. I knew by this time that the layering and architecture of their software was excellent. This allowed me, leveraging my years as software architect and CTO, to know for a fact that this would be easy to implement. I suspect they did not want to admit how easy it was going to be because

they still wanted this macho hardware and it would have been an embarrassing comparison.

The last meeting was very short, maybe 10-15 minutes. "We" selected the software solution, which wound up taking less than ONE MAN-DAY to implement, at a total cost of maybe \$500. This



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at over \$14 billion each, when all you need is this F-111 general  
purpose fighter bomber at a cost of \$18 million per plane with the  
right smart bombs.

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versus the \$250,000 solution they originally insisted that we needed!

Ultimately the way things evolved, this purchase would have been a total waste of money and time in several different ways. As it turned out, it was never going to be needed!

## MAKING IT REAL FOR THEM

At the end of the day, I think they got it only after I took them through this example on buying a car with THEIR OWN money, as follows:

**GENERAL DYNAMICS F 111 AARDVARK**

This fighter-bomber has a range of over 2,500 miles without re-fuelling. It has a crew of 2 and the cockpit doubles as an escape module with parachutes if the crew has to eject. The F 111 can deliver both conventional and nuclear weapons with a precision radar bombing system. It can carry 2 bombs or fuel tanks in its internal bay, and 4 others on its wing pylons. It has a max. operating altitude of just over 60,000 feet, and has a "swing wing" design. The Aardvark is currently in use with the US Air Force and the Royal Australian Air Force. Its first flight was in December 1964. It is 73 feet long, 17 feet high, and has a 63 feet wingspan. The F 111 costs \$18 million dollars a plane.

1) Our cost of capital (VC money) was expected to be about 40% per year.

2) The cost of this hardware would be 50% of what it was today in 12-18 months (Moore's law applies well to disk storage too.) when we MIGHT really need it. Therefore, it would cost about 25% as much if we waited till we really needed it, not to mention that we never did.

Let's suppose your favorite car costs \$30,000 new and will depreciate at a rate of 50% per year. Also, imagine that the only way you could buy it was using a credit card with a 40% annual interest. How old a car of that model would you buy? Doing the math can be very enlightening, especially when it's your money that you're thinking about.

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	<b>Capital Cost</b>	<b>3 Years Interest at 40%</b>	<b>3 year Total Cost</b>
<b>New</b>	\$30,000	\$18,000	\$48,000
<b>1 year old car</b>	\$15,000	\$9,000	\$24,000
<b>2 year old car</b>	\$7,500	\$4,500	\$12,000

I know if this same math applied to automobiles, I would be buying cars that were at least two years old with 6+ years of useful life left in them. This would mean I would pay under \$3,000 per year when someone buying the same car new would be paying about \$16,000 per year over 4 years. That is enough difference to be a competitive advantage, never mind just a cost savings when you consider you might need to buy 10, 20 or 30 of these things at a company.

Thankfully, the economics of a new car are not nearly as bad as some computer equipment, but I doubt many people would be driving brand new cars if they were. Certainly they would not be buying new \$250,000 computer equipment they did not really, really need yet.

It is not just engineers who can be taken in by the ‘gotta have the latest and greatest’ phenomenon. There are lots of very high-paid sales and marketing folks out there convincing everyone that their most expensive solution is the only way to go too. Four thousand dollar laptops when a \$2,000 one will do fine), three thousand dollar desks (when a \$400 one will do fine), and many other "image" products. Startups can rarely afford these and having them should and does scare away the best investors.

**Appendix  
Other Available Products to Help Your Business Grow More Rapidly**

**Appendix - Other Products For CEOs, Entrepreneurs and  
C-Level Executives To Help Grow Your Business More  
Rapidly**

C-Level Enterprises, Inc. offers a series of unique books as part of titled “The Secrets of a Serial Entrepreneur™”. These books are all written by Bob Norton and are designed to be used at key points in a company’s development life cycle, and throughout the development of the company. They are a great alternative to high-price consulting services from business launch experts and will greatly increase any entrepreneur’s chances of success. They provide proven frameworks for success, developed by Bob Norton over 15 years as a CEO and 25 years as a serial entrepreneur, to help break through some of the most common and practical traps that growing businesses fall in to virtually all the time; if they have not grown a business before to this size.

The entire series can be seen at <http://www.CLevelEnterprises.com/products.htm> if you are online go there for the most up-to-date information now. Otherwise you can read below. The Books cover the business development steps: Design, Launch, Hire and Manage. And ideally should all be read in that order.



**Appendix  
Other Available Products to Help Your Business Grow More Rapidly**

**Books and Tapes For CEOs, Entrepreneurs and C-Level Executives To  
Help Grow Your Businesses More Rapidly and Develop Long-term  
Competitive Advantage**

These books are all written by Bob Norton, a serial entrepreneur for over 25 years and a CEO for more than 15 years. Mr. Norton is one of the leading authorities in the world on entrepreneurship, intrapreneurship and growing businesses rapidly. He has participated in eight startup companies, grown two to over \$100 million in sales and several have dominated their respective markets. He has also worked for two multi-billion dollar corporations running product development efforts. His experience goes across all size companies, and many types of businesses in various industries. During his career Mr. Norton has helped created over \$1 billion in new shareholder value just while at those companies. Mr. Norton provides expertise on growing small and medium size companies more rapidly using eleven different proprietary tools and methodologies for business design, development and optimization, which he has developed over the last fifteen years. Many ideas are also contributed from over 1,000 business books in his personal library. He also runs the premier CEO and Entrepreneur Boot Camp in the U.S. today, which is design to cut years off the learning curve of CEOs and entrepreneurs and turn them into world-class CEOs. This exclusive event teaches practical business design and optimization systems in an intensive 3-day training program for any CEO or entrepreneur.

Mr. Norton has appeared on CNBC, Good Morning America and many other regional and national media like Inc. magazine. He provides advice to entrepreneurs and CEOs through consulting, speaking, writing and seminars. He frequently speaks at corporations, associations, and universities on business topics.

**Appendix  
Other Available Products to Help Your Business Grow More Rapidly**

These books are targeted at particular problems and stages of development where early-stage ventures commonly encounter critical issues while moving from raw startup with an idea to becoming an established company. They are guaranteed to improve any business's chances of success dramatically. They can be downloaded immediately and the ideas and systems put into action the same day. Unlike hardcover books, that need to be a certain size to justify the printing, distribution and retail markups, these books will not have lots of redundant information, essentially showcasing the same basic ideas five different ways. They are packed with totally unique content that comes from the experience of a real serial entrepreneur, not just an author who did some academic research, but practical advice and systems for CEOs and entrepreneurs proven to work over two decades. The philosophies and systems used in each are compatible so that, as a set, they will create a framework for successful and rapid business growth.

You can click on each book icon below for more complete information.



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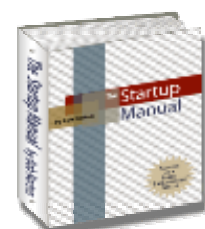
**LAUNCHING**



**HIRING**



**MANAGING**



**ALL FOUR  
BOOKS**

**The Startup Manual includes all four books plus our proprietary business design tools CD-ROM.**

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Books and Tapes Order Form

(Click on Titles For Complete Information and online ordering)

<b>Books &amp; eBooks</b> These are provided as PDF files. Add \$8.95 shipping and handling for each book <u>only</u> if you want a physical hard copy printed and shipped to you.	<b>Unit Price</b>	<b>Printing &amp; Shipping</b> (eBooks Free)	<b>Quantity</b>	<b>Total</b>
<a href="#"><u>Designing a Startup For Rapid Growth and Profit</u></a>	\$39.00	\$8.95		
<a href="#"><u>Roadmap To Launching A Successful Company</u></a>	\$39.00	\$8.95		
<a href="#"><u>Hiring The Best People At Early Stage Companies</u></a>	\$27.00	\$8.95		
<a href="#"><u>How to Manage a Business For Rapid Growth</u></a>	\$34.00	\$8.95		
<b><a href="#"><u>The Startup Manual</u></a></b> Set Of All 4 books above in 3-ring binder. Save \$10 When all are purchased together	\$129.00	\$10.95		
<b>Audio Taped Seminars With Slides</b>				
<a href="#"><u>Raising Angel Financing (2 CDs + Slides)</u></a>	\$39.00	\$6.95		
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<b><a href="#"><u>The Ultimate Startup Manual</u></a></b> All 4 of the above books plus both audiotape programs. This product comes in a three ring binder with over three hours of audio on Raising Angel Financing and Bootstrapping. It is a	\$189	\$11.95		

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complete system for starting an early stage company from original idea to first outside financing. It should save or make you many thousands of dollars.				
(You may deduct \$1.00 for each shipping and handling charge after the first item)				
<b>TOTAL CHARGES:</b>				<b>-</b>

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**Entrepreneur and CEO Boot Camp DVD Order Form**

Available 8/1/2004

This is the premier training program for entrepreneurs and CEOs in the U.S. today. Almost 12 hours of video documenting a complete CEO and Entrepreneur Boot Camp weekend available by subject, or as a complete set. This is some of the best advice available today on launching and growing businesses from someone who has done it many times. You can replay them and share them with your entire team, which multiplies the power and impact on your company many fold. [See video testimonials by clicking here.](#)

<b>The CEO Boot Camp DVDs The Art and Science of Business Design™</b>	<b>Unit Price</b>	<b>Shipping and Handling (eBooks Free)</b>	<b>Quantity</b>	<b>Total</b>
1. Roadmap to a Successful Vision – Included free with any other DVD ordered. Included free with any other DVD. Plus our Risk Management tool and Boot Camp Preview.	\$44.95	\$5.95		
2. Market Research – Marketing Steers The Enterprise	\$89.95	\$5.95		
3. Competitive Positioning (also includes Risk Management and business optimization system)	\$89.95	\$5.95		
4. Entrepreneurial and Intrapreneurial Marketing	\$89.95	\$5.95		
5. Rapid and Efficient Product and Service Development	\$89.95	\$5.95		
6. Managing The Sales Process	\$89.95	\$5.95		
7. Finance, Financing and The Financial Plan	\$89.95	\$5.95		
8. Developing Your Team - The Skill Set Matrix, Management Methods and the Employee Development Ladder	\$89.95	\$5.95		
9. Operations and Customer Service – The Corporate Dashboard	\$89.95	\$5.95		

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**Other Available Products to Help Your Business Grow More Rapidly**

10. Hiring Sales Winners	\$89.95	\$5.95		
11. Everybody Needs a Branding Strategy	\$89.95	\$5.95		
<b>The complete CEO and Entrepreneur Boot Camp DVD Set Contains All DVDs Listed Above.</b> Over 11 hours of the most valuable video you will ever watch. This package also includes the full 300 page manual with all slides, articles, our proprietary business design tools CD-ROM and plus a Rapid Growth By Design™ system wall poster that pulls it all together after you have listened to the entire set.	\$799.00	FREE		
<b>TOTAL: _____</b>				

[Click Here or Call For CEO and Entrepreneur 3- Day Boot Camp Seminar Dates and Locations in October, December, January \(7 Day Caribbean Cruise\) and March 2004](#)

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Shipping and Billing Information	
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Credit Card Number:	<input type="text"/>
Expiration Date:	<input type="text"/> MM/YY
Cardholders Signature:	<input type="text"/>
Ship To:	<input type="text"/>
Street Address, Apt. #	<input type="text"/>
City/State/ Zip Code	<input type="text"/>
Country (if outside US)	<input type="text"/>
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E-Mail Address	<input type="text"/> (Please print clearly)

**FAX To: (801) 672-9640 Or Call (508) 381-1450**

**Note: All orders outside of the United States: Add five dollars for each video, nine dollars for each physical book, above regular shipping costs.**

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This complete collection of four eBooks is also available as a package at 30% off, with over 300 secrets of a serial entrepreneur and hundreds of pages of valuable "How To" content from someone who has done it before.

**Sign-up for No Charge Mini-course on Raising Angel Financing just by  
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<mailto:bob3-66436@autocontactor.com>

This free mini-course on raising angel financing will help you understand why today angel financing is far more important than institutional venture capital financing and far more accessible.

**The Art and Science of Business Design CEO and Entrepreneur  
Boot Camp**



**The Premier CEO and Entrepreneur Boot Camp  
in the World Today.**

Developed and Delivered by a successful serial entrepreneur and 15 Year CEO who has grow two businesses from \$0 to over \$100 million in revenue and generated over \$1 billion in shareholder value.



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**Two Days That Will Change Your Life, Accelerate Your Business,  
and Accelerate Your Career**

*Learn How To Turn Any Enterprise Into A  
High-Growth \$100 Million Business*

In this intensive seminar, you will learn how to design and run businesses for high growth and profit from very successful, "been there, done that" experts. It is a complete integrated system for designing and running businesses compiled over 15 years from over 1,000 business books and field-tested. Experts offer you the most important systems, tips and techniques for success that they've learned during their distinguished careers, while also letting you know how to avoid many common business missteps by employing systems using the latest research, techniques and best practices available today.

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below.

Call (508) 381-1450 or email <mailto:Seminars@ClevelEnterprises.com>

**What is The CEO and Entrepreneur Boot Camp About?**

Join Bob Norton, a serial entrepreneur who has grown two businesses to over \$100 million in sales, for an intense two-day Boot Camp filled with 312 secrets on starting and running companies for fast growth. Learn to greatly improve your strategy, vision, business design, and management skills using a complete system developed over 15 years as a CEO incorporating some of the best ideas from 1,000 business books. You will learn to use 11 proprietary tools that will radically improve any business in any industry.

*Nothing ever fully prepares you for stepping into the role of a CEO or Entrepreneur.*

The Art and Science of Business Design details how to design, plan and manage each of any enterprise's key disciplines - Sales, Marketing, Finance, Operation and Product Development. As a CEO and Entrepreneur, you need to know how these departments interact and even compete. You need to know how to recruit, hire, motivate and manage

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the best people in each discipline. You must also know how to get them to work together so that everybody is on the same page.

In "The Art and Science of Business Design" you will learn to:

1. Design and position a business for more sustainable competitive advantage and higher barriers to entry.
2. Optimize your business model for minimum risk and capital investment.
3. Better define the exact skills you need on your team and learn how to select people and interview for skills you do not have yourself.
4. Raise capital in any market from the best sources without giving the company away.
5. Inject entrepreneurial spirit into ANY organization, large or small, and improve product development productivity by a factor of FIVE times the average or more.
6. Develop a marketing, communications and messaging plan, and a marketing department, that is accountable to a return on investment.
7. Develop and improve your corporate vision to better attract investors, employees and customers.
8. Plan, design and manage a sales department and select strategies, tactics and channels that will work for your business.
9. Hire the best people in every area and understand what personality types work best in each business area to create superior results.
10. Adjust your management style, risk, appetite and executive decisions based on your company's stage of development as it grows from a raw startup to a significant business.
11. Manage employees and develop them into more valuable assets for your company's benefit and theirs.
12. And much, much more than what we can list here.

*If you are an entrepreneur intent on growing your business to \$50 million or more in sales, you really can't afford to miss this unique event.*

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Admission includes:

- A sure-fire business and career-booster that is not available anywhere else. The skills developed in this seminar will allow managers to move up in any organization
- A complete system that will bring high-growth to any business
- More cutting edge, how-to content than you'll find in some 3 to 5 day seminars
- Reference materials you'll use over and over again, including a complete 350+ page manual that includes all the slides, handouts and tools presented in the seminar
- A BONUS CD-ROM containing the key tools, forms and templates that could save thousands of dollars in expenses. (This is a \$499 value sold separately)
- Each attendee will receive one hour of consulting from our President and Founder, Bob Norton, at our offices in Milford Massachusetts. This is a \$400 value
- An e-book from our "Secrets of a Serial Entrepreneur Series". Four titles all written by Mr. Norton- even more will be available shortly
- Breakfast, lunch and snack break both days
- A 100% money-back guarantee (see web site for details)
- Free parking.