

CEO Master Class

ANN ARBOR
SPARK

Arbor  Dakota

From Founder to CEO

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Who is this session for?

- People who are definitely interested in becoming a better CEO
- People who are not sure precisely what the CEO job is
- People who may worry about their ability to scale their businesses
- People who want to learn about leadership responsibilities in general
- People who don't want a sugar-coated view of building an entrepreneurial team



What problem are we solving?

- Success is about the quality and execution of the CEO
- Most entrepreneurs know how to build a product, but struggle with how to build a company and the team to support the company
- The CEO role evolves over the course of the life of a company
- The CEO role is to build a company, not the product
- Building a company requires attracting people, customers and revenue as well as learning to work with employees, partners, customers and a board



Reasons For This Discussion

- Many entrepreneurs don't fully understand what the CEO does
- Often entrepreneurs want the title but not the responsibility of the CEO job
- Sometimes the founder does not want the title, but does not want to give up control
- Most entrepreneurs miss major chunks of the CEO role
- Many ideas are good but the execution is not. The CEO is responsible for execution
- Entrepreneurs don't understand board dynamics and forget that they are accountable to board members and shareholders

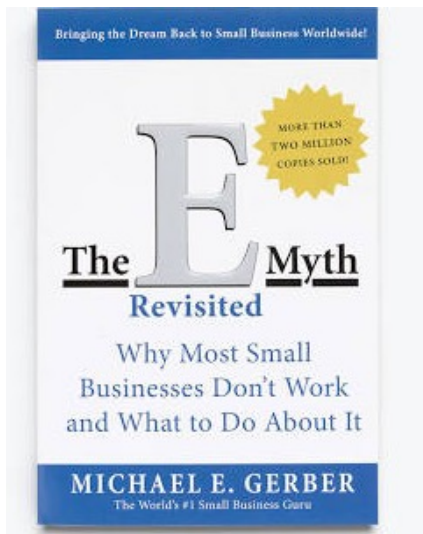


Please Interrupt Me





E-Myth Revisited



The Fatal Flaw

“Because you understand the technical work of a business does not mean that you understand a business that does technical work”

Yes, I know...



“I’m smart. How hard can it be?”

5 Stages of CEO Development

where founders fall down and why



Stages

1. **Product Conceptualization** – Product, Vision, Culture
2. **MVP/MSP** – Product Development
3. **Early Customer Acquisition** – Hands-on Sales, Marketing and Customer Support
4. **Early Scale** – Culture, Organizational Development (building the team), Company Vision, Communications, Business Strategy, Fund Raising, Board Management, Processes....
5. **Defend** – Maintenance and fending off new competitors. Keeping the business relevant



Starts Out a Product Development Job



But Morphs Into Business Development



Then Becomes CEO Job

- Strategy
- Communications
- Organizational Development
- Board Management
- Processes
- Metrics and accountability
- Measurement of everything

Not

- Product Development
- Sales
- Sometimes not as much fun for founders



Work On Your Business, Not In It



How Do You Build Functions...?

- Sales (direct, channel)
- Marketing (messaging, lead generation, web-site....)
- Customer Support (pre-sales, post sales, communications)
- Product Management (defines product direction)
- Product Development (development, QA..)
- Finance (accounting, budgeting, forecasting, contracts)
- Human Resources



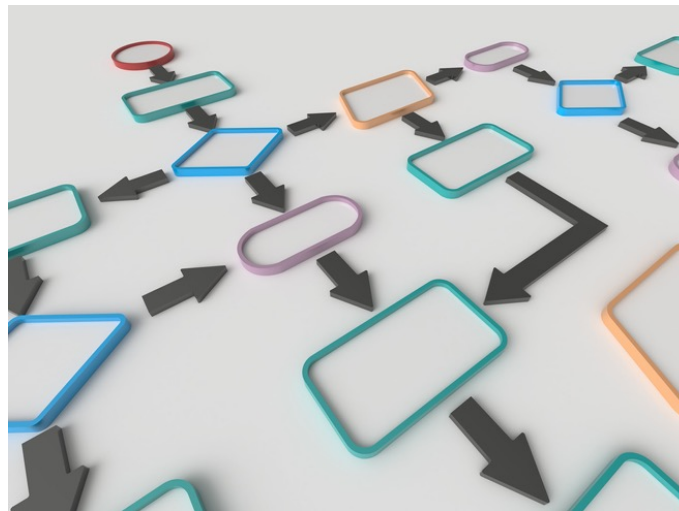
It Takes a Different Skill Set



Now, you are
building a company
and team, not a
product

Decisions

- Which functions do we need and when?
- What will they be responsible for?
- How will we on-board them?
- What goals will we establish for them?
- How will they work together?
- How will we hold them accountable?

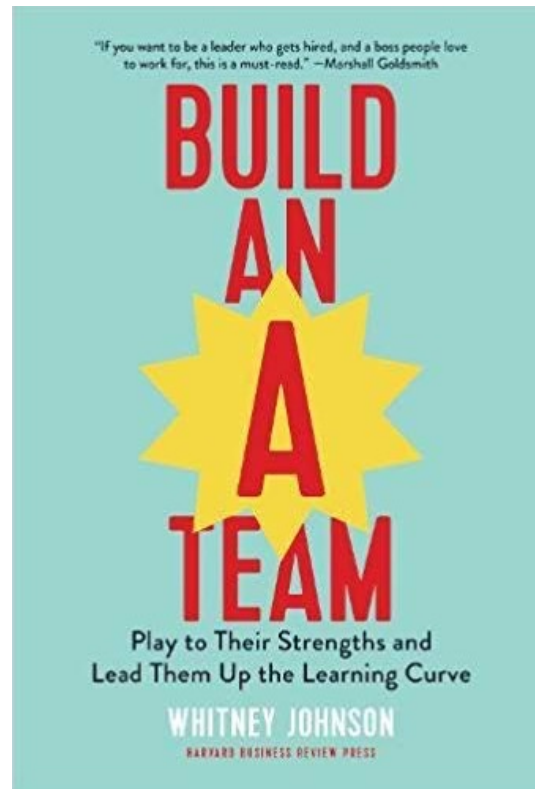


Chess, Not Checkers

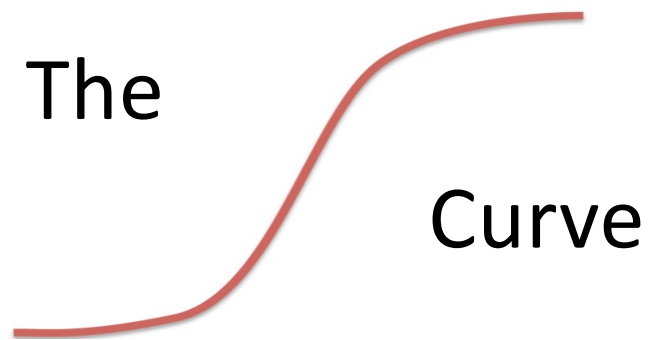
- Chess is a strategy game
 - In checkers, all the pieces do the same thing
 - In chess, each piece does something unique
 - A great chess player understands how to use the pieces individually and knows how to best deploy them in complimentary ways
-
- Managing a company will be like chess, not checkers



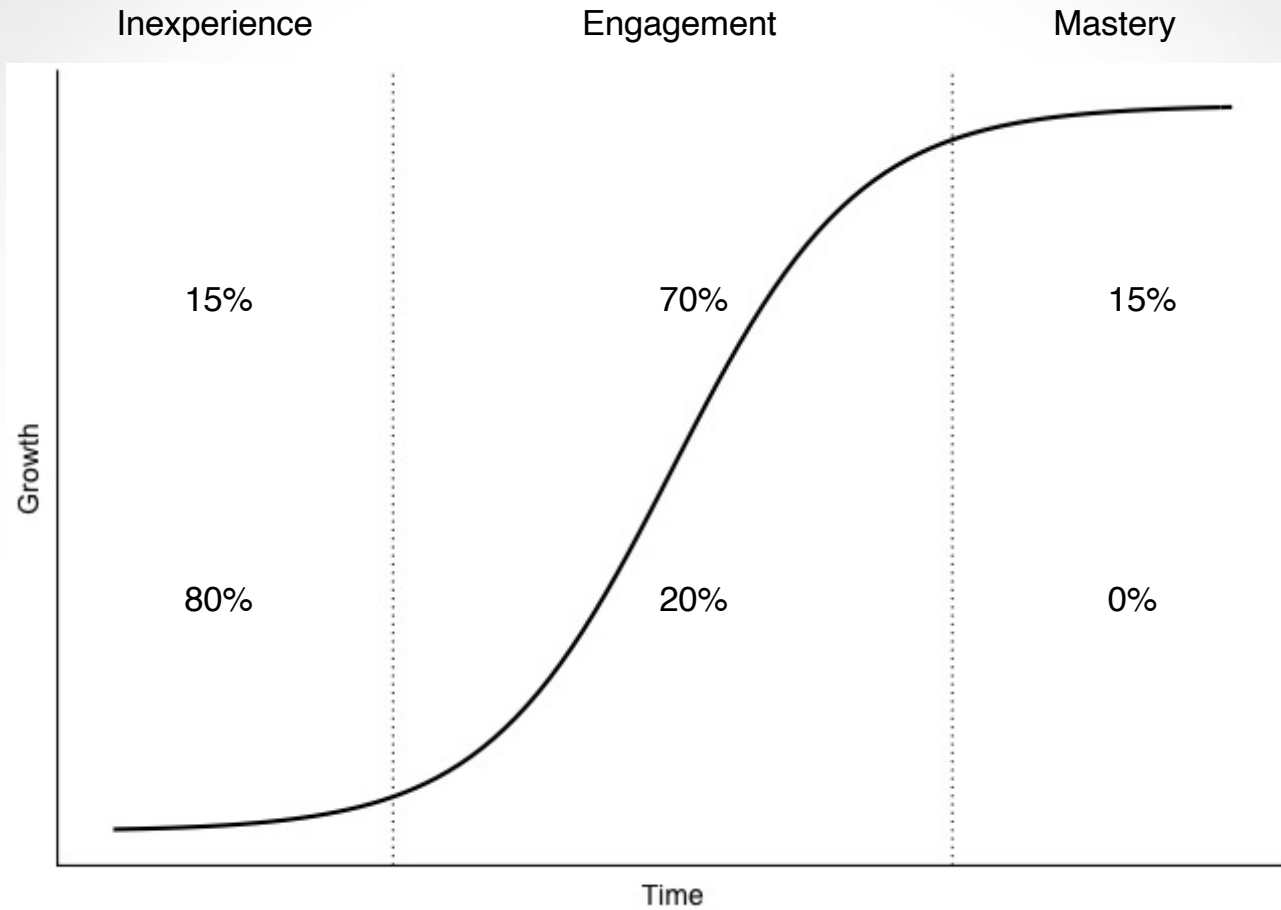
Employee Learning/Growth



Employee Learning/Growth



Employee Learning/Growth



But you are here

And, believe you are here

Founder Versus CEO



Founder Versus CEO

Founder

- Entrepreneurial Visionary
- Disruptive
- Strategic Thinkers Not Necessarily Well-Suited for Coordinating All ~~Moving Parts~~
- Builds Products



CEO

- Turn Vision Into Reality
- Strategic Thinkers Concerned With Operationalizing the Strategy
- Making the Components Work ~~and Work Together~~
- Builds Companies



The CEO Comfort Zone



Most Early-Stage CEOs Die of Suicide, Not Homicide



Founder's Dilemma

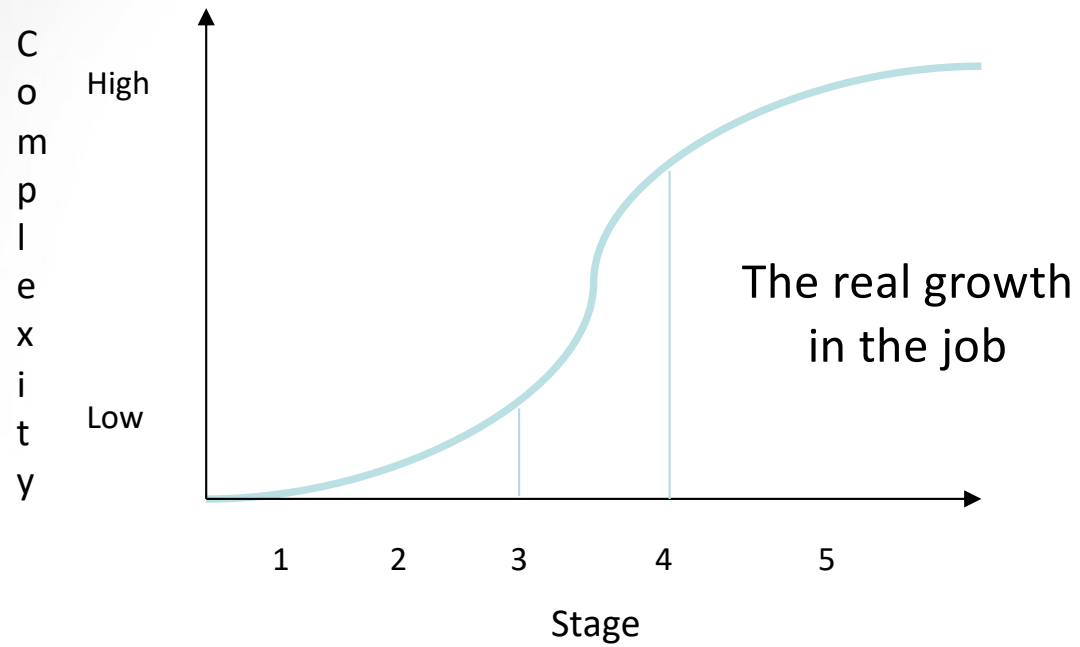
		FINANCIAL GAINS	
		WELL BELOW POTENTIAL	CLOSE TO POTENTIAL
CONTROL OVER COMPANY	LITTLE	Failure	Rich
	COMPLETE	King	Exception

Stages

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Job Complexity by Stage



How Many Have...

- Built a sales organization?
 - Wrote the job description?
 - Set performance metrics?
- Built a marketing organization?
- Built a cross-functional revenue and expense budget?
- Raised a \$5.0M investment round?
- Ran a \$10M company?
- Worked with a board?
- Ran a board meeting?
- Built a financial reporting package?
- Developed a business strategy?
- Hired an HR professional?
- Set up a company incentive compensation plan?
- Built a distribution partner program?
- On and on.....

Key Responsibilities

1. Vision
2. Culture
3. Scale
4. Strategy (Plan, Organize and **Execute**)
5. Decision Making
6. Organizational Development (Team, roles...)
7. Establishing the right metrics that drive value
8. Holding people accountable for performance against those metrics
9. Customer Acquisition/Sales
10. Communications with all stakeholders
11. Business Model/Financial Model/Fundraising
12. Innovation
13. Product (and launch plan)
14. Work With The Board



Ten Suggested Performance Evaluation Criteria

1. Role
2. Business
3. People
4. Organizational Development
5. Strategy
6. Communications
7. Progress
8. Innovation
9. Emotional Intelligence
10. Personal Potential and Growth



#1 - Role

- Does the CEO know and perform the key responsibilities of the job? Is the CEO focused on building a company or simply building a product?
- Does the CEO provide vision, set or enable the culture, set the right quantifiable goals and metrics for the business and hold people accountable? Is the CEO decisive?
- Does the CEO have a solid decision-making framework? Does the CEO make good decisions?
- Can the CEO solve problems quickly and effectively? Does the CEO focus on the right issues?



Key Responsibilities

1. Vision
2. Culture
3. Scale
4. Strategy (Plan, Organize and **Execute**)
5. Decision Making
6. Organizational Development
7. Metrics
8. Accountability
9. Customer Acquisition/Sales
10. Communications
11. Business Model/Fundraising
12. Innovation
13. Product (and launch plan)
14. Work With Your Board



#2 - Business

- Does the CEO have an understanding of business in general, the business the company is in, the market it serves, the opportunity for the company and the metrics that will drive valuation for the business that the company is in?
- This includes the industry you are selling into as well as the industry you are in (example: SaaS)



#3 - People

- Does the CEO work to motivate, engage, manage and improve the skills of the management team and the people in general?
- Is the CEO respected and trusted by employees?
- Can the CEO attract and retain good people or is there too much turnover (particularly of key employees)?
- Is the CEO promoting the culture that is needed to build this company?
- Does the CEO hold people accountable for results?



#4 – Organizational Development

- Does the CEO know how to build out the organization to match the needs of the company at the stage it is in?
- Does the CEO effectively develop and utilize the talent available inside the organization and help the organization learn how to win in its market and then scale that into a valuable business.?
- Can the CEO attract and retain good people or is there too much turnover (particularly of key employees)? (repeat from above)
- Does the CEO hold people accountable for results?



#5 – Strategy

- Does the CEO have an achievable vision for the business? Is there an achievable long-term plan?
- Does the CEO have a realistic plan to win in the company's market?
- Can the CEO articulate the strategy?
- Does the CEO have the ability to build an effective strategy for the company, clearly communicate that strategy properly to all constituents and to execute to implement the strategy?
- Are the operational goals and plans aligned with the strategy? Are there metrics in place to measure the effectiveness of the strategy? Does the CEO hold himself/herself, the organization and the people accountable for the metrics?
- Are there contingency plans in place for the strategy?



#6 – Communications

- Does the CEO **clearly** and consistently communicate with the board, employees, customers, prospects, press, partners, industry influencers?
- Is the CEO good at oral, visual, numeric and written communications
- Can the CEO properly position the company and articulate the defensible differentiation of the company?
- Is the CEO good at positioning issues and challenges in the best light?
- Is the CEO good at asking tough questions?
- Can the CEO simplify complexity?



#7 – Progress

- Are we achieving the agreed upon metrics and goals (and are they the right ones)?
- Are those goals the right goals and metrics for the organization? Or are we falling for fauxmentum?
- Is the organization held accountable for goals?
- Are we always asking “What’s next?”



#8 – Innovation

- Is the CEO leading practical innovation?
- Does the company innovate across the organization (not just product, for instance, sales, marketing, client services...)?
- Does the CEO promote and stimulate new ideas?
- Does the company stay current on innovation within the industry?



#9 – Emotional Intelligence

- Does the CEO react in the right manner (particularly during times of stress)?
- Does the CEO deal with conflict and turmoil correctly?
- Does the CEO accept responsibility for all things that happen in an organization?
- Will the CEO accept feedback?
- Is the CEO self-aware of strengths and weaknesses?
- Does the CEO develop a strategy to help deal with personal weaknesses?
- Does the CEO have the basic CEO characteristics?
- Does the CEO have resilience to deal with the myriad of things that can happen to a company?



#10 – Personal Potential and Growth

- Is the CEO capable of leading the company in its next phase of evolution?
- Can the CEO adapt to constant change and uncertainty?
- Does he/she have the necessary skills and characteristics to deal with the next set of company challenges?
- If not, is the CEO capable of developing and growing into the role and specifically how will they achieve that growth?



Using a Scorecard

- List the factors above
- Have the board weight them according to what they believe is most important to the company at this stage. Every category can't be a "10". The weighting can be different based on the individual company, market position and need.
- Have the board and/or the employees and the CEO score them.
- Multiply the score times the weighting factor and look at both the total score (all categories) and the individual scores by category compared to what the total possible score is.
- The total score itself may (or may not) be telling, but the combination of the weighting and the scoring will point out critical gaps.
- The total score as a percentage of possible score gives a numeric grade.



Sample Scorecard

	Board Weight	Board Score	Total	Possible	Gap			Self Score	Total	Gap To Board
Role	10	8	80	100	20	80%	B-	9	90	-10
Business	10	10	100	100	0	100%	A+	10	100	0
People	10	8	80	100	20	80%	B-	9	90	-10
Organizational Development	8	7	56	80	24	70%	C-	8	64	-8
Strategy	9	6	54	90	36	60%	F	9	81	-27
Communications	10	8	80	100	20	80%	B-	9	90	-10
Progress Against Metrics	10	7	70	100	30	70%	C-	10	100	-30
Innovation	8	9	72	80	8	90%	A-	10	80	-8
Emotional Intelligence	7	9	63	70	7	90%	A-	10	70	-7
Personal Growth	9	6	54	90	36	60%	F	10	90	-36
			709	910					855	
Score			78%						94%	
Grade			C+						A	



Common Evaluation Metrics

- **Sales** – Are sales targets set and achieved by month, quarter and year?
- **Growth Rate** – Is there an agreed upon revenue and expense growth rate and is that being achieved?
- **Customer Attrition** - Are we setting and achieving minimal customer attrition targets?
- **Hiring** – Are we achieving our hiring plan?
- **Personnel Turnover** – Are we losing more quality people than we should?
- **MRR** – Do we have agreed upon Monthly Recurring Revenue targets and are they being achieved?
- **MAU** – Do we have goals for Monthly Active Users and are we achieving these?
- **CAC** - Do we know our Customer Acquisition Costs and are we minimizing these?
- **LTV** - Is customer revenue high enough and are we minimizing customer attrition to know if our Lifetime Customer Value is strong enough to operate the business profitably?



Common Evaluation Metrics

- **Expenses** – Are we achieving our monthly and YTD expense goals?
- **Cash** – Are we achieving our month-end cash balance numbers?
- **Profitability** – Are we achieving our profitability targets?
- **Product release dates and functionality therein** – Are we building out the product to our plan and specifications on time and on budget?
- **Marketing events or new leads (sales opportunities)** – Are we achieving our monthly plan for generating new sales opportunities? Do we have a continuous lead generation program in place or are we doing this in fits and starts? Is messaging for events consistent?
- **Lead Conversion Rate** – Are we turning leads into sales?
- **Fundraising** - Are we on track to hit our funding goals? Can we raise money based on our progress?



You Are Either

- A Revenue multiple company
- An Earnings multiple company
- An Active User multiple company
- Ad Advertising revenue multiple company
- A Strategic Fit valued company



@HealthMedia

Board was only interested in 6 key metrics

1. Revenue size
2. Revenue growth rate
3. Profitability status
4. Cash-flow status
5. Attrition
6. Market opportunity

We were a revenue multiple company and these were the 6 critical factors that would determine that multiple

10 Things to Remember

1. The CEO role changes over time based on the stage the company is in
2. The CEO job is about building a company, not a product
3. CEOs need to develop a reasonable, but compelling win strategy
4. The CEO **MUST** know the numbers that drive the value of the company
5. The CEO must set stretch, but reasonable metrics and hold people accountable and make very difficult decisions
6. This is a communications job
7. The CEO reports to the board. Once you take money you are accountable to your shareholders and board
8. Investors bet on the jockey, not just the horse and there is a reason for that
9. It takes time, skill and discipline to move a market, raise money, and attract and hire good people and it's not simply about the product
10. Hiring a sales person will not solve your sales challenges. Hiring a marketing agency will not solve your marketing challenges. Raising money will not solve you market problems

Summary

- Being CEO is hard and evolves over time
- The CEO role and the founder roles are different
- It requires a skill set that you probably do not have but need to develop
- It is not about the product
- You are going to make a ton of mistakes
- You are going to get very frustrated by lack of progress
- You are going to have to leave your comfort zone
- You are going to question “why” you need to do the things you are asked to do
- Get in line. Everyone goes through it



Group Discussion



What did you learn today?



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