George O'Neill

GEORGE O'NEILL has been fortunate to work with and learn from many great people at several industry leading companies including McDonnell Douglas, Spar Aerospace, Hydro One, Deloitte and PwC. His roles have included engineering, enterprise IT, sales, marketing, corporate development, M&A as well as board and senior management. He recently left the CEO position at an $8 billion real estate trade association to launch NxtHm.com which is currently in the pre-seed funding stage. Over his thirty-year career George has been involved in four startups.

Please send an email to George@NxtHm.com to continue the dialogue.

Startup Views From a Founder

By GEORGE O'NEILL, *MSc. Eng, MBA, ICD.D*

Being the founder of a business is one of the most rewarding and simultaneously challenging undertakings one may encounter. Identifying a market opportunity that fulfills a real consumer need creates a business opportunity, and of course presents risk. Finding the right financing structure to maximize that opportunity and to minimize the inherent risk is a dance that founders and investors engage in. Founders often talk about the importance of achieving product-market fit for the businesses we are creating. Another key fundamental is also ensuring there is founder-investor fit, and trust.

This article is based on my experiences as a founder, with the aim to shed some light on what makes us tick. Creating a feeling of fit and trust early in investments is in my experience critically important. Having founders fully committed and motivated to serve both you the investor and themselves, is clearly the way to go. You do not want the founder focused on counting his days until he can refinance the business just to exit you. Instead the founder needs to remain totally focused on running her business to benefit all stakeholders for the investment period already agreed to.

An article in Entrepreneur Magazine[1] cited research conducted by the Harvard Business School indicating that up to 75% of venture capital backed startups never return the invested capital. One must assume we all would like to find the secret sauce to improve those odds. To that end, responsibility lies on both sides of the table, with founders and investors. Understanding the founder's mindset, along with the investor's decision making process on where to place bets, is paramount. It is important that not only the criteria each use to find their desired match is articulated and explained, but there also should be a cultural fit to ensure trust is achieved at the outset and maintained. Money is a critical ingredient to ensuring success, but so is execution based on the human feelings of fit and trust.

I am currently working in my fourth startup NxtHm.com which is a mobile platform to help democratize residential real estate information. During my three decades long career as an engineer, management consultant, board director and CEO I have worked for several companies and have been involved in four startup businesses. Two of those were new ventures spawned from inside existing large companies, and two were pure startups sparked by opportunities to provide better customer service.

Reflecting on the roles and experiences I have gained throughout my career, following are three lessons I have learned as a founder. My hope is that investors who wish to better understand the mindset of a founder find these of interest. Coincidentally, recently I was speaking with a seasoned investor who has a targeted strategy to fund mature companies dealing with change of ownership situations, and after several years of investing even he is still striving to better understand the mindset of founders so he can not only provide the capital needed, but also advice and guidance to add more value during the time his firm is invested in those companies. My discussion with him mirrored the notes below.

The first lesson is to ask questions to fully understand the founder's view, and to not assume you know everything as an investor. If you are dealing with an experienced founder in a particular vertical, that person will most likely know more about that industry than you. Money brings power but it does not necessarily bring knowledge, so be careful not to think that you know it all because you are bringing money to the table, unless it is understood you are indeed also bringing specific expertise.

Experienced founders do not like to be told what to do by someone in an authoritative position who lacks a base of solid experience from which to make such recommendations. The reason one is a founder is because they have the confidence to break out from the pack to be a leader, and they are more often than not able to quickly size up people and the value they offer. Brainstorming ideas is fine, but providing direction with limited actual relevant experience is perhaps the fastest way to break down the trust relationship, which I have unfortunately seen happen. Stick to your expertise, and let the founder stick to hers. Egos on both sides need to be left at the door.

The second lesson is to ensure the founder remains motivated to do a great job, and through her all her staff as well. As an investor you probably do not have the time, desire or expertise to go in and do the founder's job, so you obviously need her. Someone once told me, "George I am totally committed to you, you are my horse, and I want you to succeed". Although the suggestion that I am a horse perhaps could have been better crafted, the intention was genuine as the investor was saying he had total faith in me. You should have total faith in your founder. If you do not then maybe there is a real issue with the founder, or an issue with your approach. It is important to resolve either to ensure founders stay motivated.

The third lesson is not to be greedy. Watching a show like Shark Tank is very informative to a founder for many reasons, and one is that sometimes on the show a shark gets overly greedy. Of course there is a real need to satisfy the investor's desire to maintain some form of control to offset risk because their money is at stake. But asking for too much equity, or debt yield, is almost a certain way to create resentment with the founder out of the gate, especially if the founder is somewhat desperate to pay his bills at that moment and later feels he was taken advantage of. Despite our capitalistic intuition, that is not the moment to overtly flex your strong position as an investor. You have most likely heard the Bay Street maxim, "Pigs get fat, hogs get slaughtered".

Of course this also works the other way when a founder asks for too high a valuation and he gets greedy (or more likely is simply being unrealistic due to the characteristic that many founders suffer from, being overly positive). But the equalizer is often the funding search process itself which usually requires the founder to talk with several potential investors, which often adjusts his expectation closer to reality. The founder/investor negotiation process is one where the relationship needs to stay in tack for what will most likely still be a number of future years, and I have learned it is generally better to leave something on the table so the other side feels they have negotiated a good deal. How much to ask for, being flexible and listening, and knowing when to walk away are all important traits of great founders and investors. Creating a sense of resentment at the start is not a positive way to begin any long term relationship.

Those are just three of the lessons I have learned over the years, and when applied effectively, I have seen lead to better outcomes. At the end of the day, there is no formula to guarantee the best deal structure. So whether you are a founder or investor, lean into your experience, rely on your gut feeling and listen to your sense of fairness. Perhaps if we all do that we can help create a stronger startup ecosystem generating higher levels of success. ■