



A Society of the Technology Association of Georgia

**“If I had only known.....
10 top gotchas from experienced
(read: bruised) high-tech executives”**

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Based on a Seminar Including the Following Panelists:

Don Campbell, President/CEO, Virtual Management Technologies (Moderator)
Stan Anderson, Managing Partner, TechDiscovery
Larry Duckworth, President/CEO, Learn.Net
Gary Hopkins, President/CEO, Slip Stream Software
Chris Lynn, Vice President, Xaar-USA

Introduction

The Tax and Finance Society of TAG (Technology Association of Georgia) commissioned a primary research study on the key management practices that have made technology leaders successful. Since experience is one of the key drivers for all successful high tech executives, we asked the respondents to share their insights into what made their organizations successful. In fact, we asked the question in a slightly different form: “What are the key ‘gotchas’ that you wished you had known when growing your organization?”

Since experience is the best teacher, we wanted our technology leaders to share their insights, especially the experiences that might not be obvious or part of one’s educational training.

The results are in and they are very interesting. We thank all the respondents for sharing their knowledge and opinions. The Society received over 110 responses representing an approximate 10% response rate which is very good for online surveys.

The questionnaire focused on five key management variables:

- The Financial Challenge
- The Growth Challenge
- The Management Challenge
- The Market Challenge
- The People Challenge

The following pages share the key responses we received. To add color commentary, we shared many of the verbatim comments which are the jewels of wisdom. Think of it this way, the response to the standard questions extends your Management 101 training, while the verbatim comments are your MBA in experience.

Pearls of Wisdom: This section captures the verbatim comments. Comments are edited for clarity and redundancy. Herein lies the “Gotchas.”

A special thanks to The Coker Group for helping in the analysis and preparation of the data.

Methodology

This primary research study was conducted electronically to a segment of the TAG membership in Georgia. The questionnaire consisted of 36 questions combining multiple choice and free-form response types.

The majority of questions required respondents to force rank a selection of options providing us quantifiable results to report on. We then asked them to amplify their structured responses with free form perspectives. These perspectives were the foundation of the “10 Gotchas.” We were looking for salient comments based on experience to come out of the verbatims.

We used TAG’s relationship with SurveyMonkey to structure the survey and calculate the responses. This research is copyrighted by the Technology Association of Georgia. Permission required for use.

Interpreting the Results

As you read through the five Challenge sections, please keep in mind the following:

- The force ranking process (“Rank the top 3 items...”) means that there are three tiers of answers. The results analysis communicates the responses that finished first most often. Second and third tier responses are mentioned when their perspective is important. Bottom line: there is a tremendous amount of data so we can only relate a portion in this white paper.
- We are presenting the data ‘as is.’ In other words, we did not endeavor to apply our own interpretations to the data. It is more important for each reader to apply their perspective, background, experience and issues. A software industry will extract different information than a telecommunications hardware manufacturer.
- Our respondents represented an excellent cross section of management disciplines, industries and growth stages (from start-ups to mature organizations).
- The panel of executives at the Tax & Finance seminar shared their own perspectives on the data providing a great deal of personal insight into the results. See their biographies at the end of the white paper.
- “Gotchas” implies that something bad happened, but this is not the intent. The objective of the research was to find ‘Pearls of Wisdom’ that burgeoning high-tech companies can use to help prevent the mistakes from happening – especially early in the company life cycle.

The 10 Gotchas – Executive Summary

The Gotchas or 'Pearls of Wisdom' were difficult to limit to ten. As you review the 'Pearls of Wisdom,' you'll see why. As always, it's a matter of perspective. Here are the key points we believed provided a comprehensive foundation of learned experience – in no particular order. Remember, these are viewed in hindsight. Your takeaways are highly dependent on your own situation. Enjoy!

1. Don't procrastinate when there is a problem to be resolved.
2. Surround yourself with excellent customers, employees and investors and do not waiver on this. One person can slow the whole ship down.
3. Execution of "the play that we call."
4. Put the right people in the key leadership positions. The gaps can easily be filled with outsourcing and contractors. Management and knowledge capital can not be outsourced...
5. Industry contacts/a golden Rolodex can greatly discount the investment needed to create market awareness.
6. Take more risk.
7. Build a strong "bench" for backup.
8. You have to be willing to terminate relationships that can not adapt to changes required for growth.
9. Never under-estimate the power of references in driving your business.
10. Patience, Perseverance and Reputation.

After reading the document, you may decide to select your own 10 Pearls of Wisdom. Please do so. Our suggestion is to share this document with your management team and review specifically the questions or verbatim comments that you are dealing with today or in the foreseeable future. Follow these guidelines:

- Learn from the experiences of others.
- Never assume your problem is unique.
- Copy the salient points of this research study and incorporate it into your business planning.
- Remember, there are many willing and generous high-tech executives available to help.

See pages 23-25 for a table of the Gotchas.

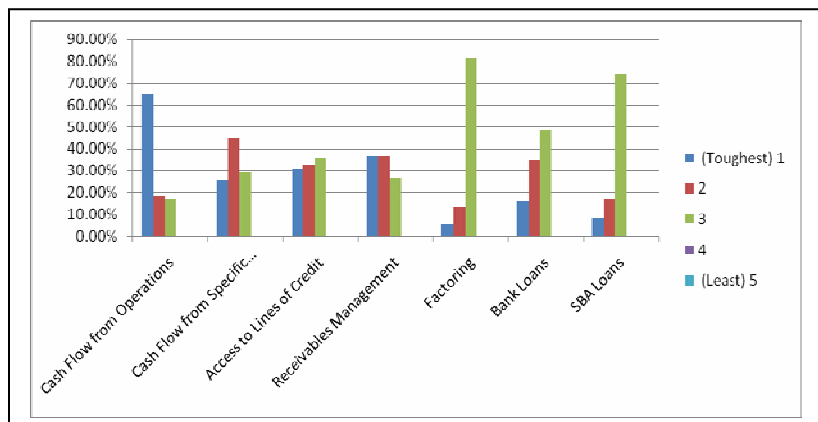
The Financial Challenge

The Financial Challenge section asked executives about how and where they financed their organizations. We asked them about their financial management challenges and how they shaped their financial strategies. We drilled down into areas such as how cash management was handled, what external sources were used for advice and which financial parameters they paid the most attention to.

Here's how they answered:

Let's begin with cash. We asked what the most demanding "cash management" challenge was in a growing organization. 67% of the respondents indicated that 'Cash Flow from Operations' was the number one challenge followed by 'Receivables Management.' Clearly an organization needs cash to operate and grow the company. Access to line(s) of credit was the third most common response.

Cash Management in high-tech organizations.

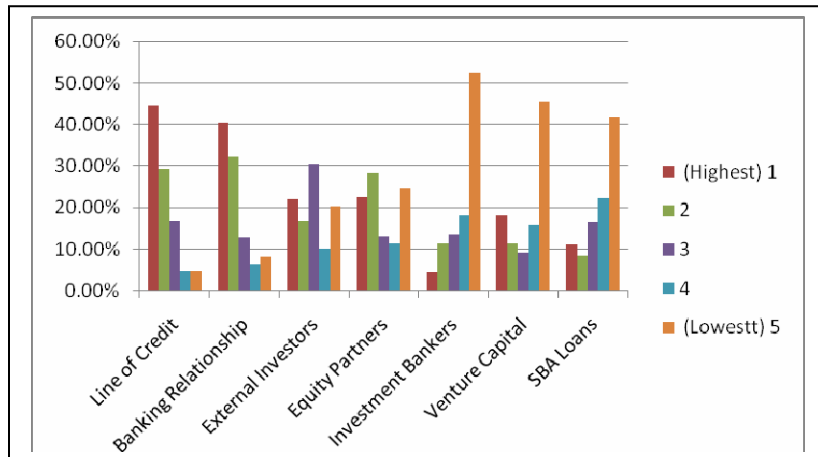


To improve their cash position, 'Line of Credit' with 41% of the votes was the most commonly used method, followed by 'Banking Relationships' (34%) and 'External Investors' (29%).

In fact, Receivables Management (cash flow) was identified as the most important driver (53%) in the overall financial management of the organization, followed by 'CFO Strategy/Tactics' (37%) and 'Financial Guidance from External Sources' (35%).

So, where did they get their advice and direction? Who did they listen to? 'Accounting Firms' (28%) were the number one advisors followed by 'Banks' (18%) and 'Investors' (17%).

Top financial management tools for growth.



Where did financial management fit into the overall growth challenge? 58% indicated that it was 'Important in the Balance of Growth,' but not the 'Absolute Top Priority' (20%), or 'A Necessary Component, But Not the Highest' (16%). And when choosing a financial metric to measure progress, 'EBITDA' was the number one response (28%), followed by 'Net Income' (26%) and 'Gross/Net Revenues' (shared ~16%).

Pearls of Wisdom: The Financial Challenge

- Better access to capital.
- Better budgeting and planning tools.
- More capital sooner.
- Realistic projections, particularly disciplining the sales function.
- Focus on sales and marketing.
- Once traction has been established.....grow organically through cash flow.
- Don't overextend.
- It was most important to look at these items on a cash basis - not accrued. Most accountants want to look at accrued.
- It's never too early to establish a banking relationship...we were determined to go it alone initially and finance ourselves early on. As you grow, it becomes even more important to iron out the "lumpiness" of your cash flow.
- Getting creditworthy customers helps this process along...banks WANT to lend money, give them every reason to want to lend it to you.
- Reliance on a trusted CPA for ongoing advice.
- Larger investment round initially, then an IPO.
- Strong internal financial controls have helped the most, i.e. good P&L disciplines.

- Never losing sight that this can occupy 101% of your time, and almost no one will be there to help you other than yourself.
- Better forecasting, better cash management
- Better banking partnership - one that is interested and vested in our growth, not one that is more concerned about reacting to industry downtrends, stifling our growth based on the industry and not on our actual performance.
- None - Sales is the most important thing to grow the organization.
- Conservation of cash early on. The last two companies I have been with made the mistake of building up too much infrastructure costs before revenue was generated. In both cases, this ate up valuable cash at a time when the company needed it most, and ultimately, led to cutting of salaries and/or firing of certain employees.
- Keep it lean early, and learn how to stretch a dollar a long way.
- Investing capital is as important as using it in operations.
- Lower days outstanding in receivables
- The company had no outside investors and was completely self-funded. At around year 5, we brought an Investment Banker to package the company for sale (after several unsolicited inquiries). While we didn't do a deal at the time, the education that we got from the Investment Banker while pulling the data together was invaluable and changed the way we looked at our financial strategy.
- Line of credit and additional cash on startup.
- More detailed cash forecasting and more contingency planning for shortfalls that can occur for 4 months or less.
- More careful review of spending, forecasting or expenses and cash flow management.
- IRR of individual projects
- Higher profit margins early on in our existence.
- To have focused on net income sooner.
- Having a CFO input from the very beginning. We bled 5 years of capital before we really got the ship righted.
- Raising greater amounts of capital from external sources.
- Strategic alliances with larger better capitalized partners.
- More focus on expense billings on a shorter timely basis to the client
- Better understanding of gross margins by product.
- Not just finding customers, but finding the right customers that pay and pay on time.

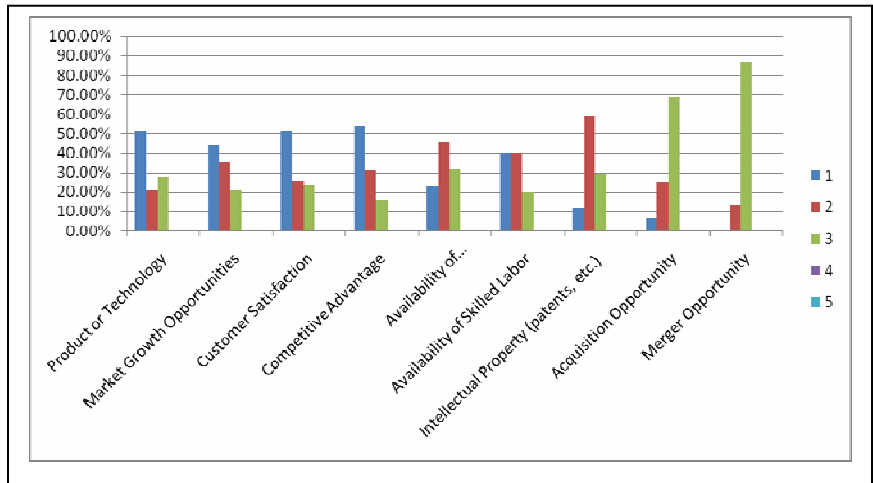
- Product calculation/costing program
- Better financial software that we can discover. Our company was forced to program complex web accounting and management software, thereby losing the time and money devoted to this task. Why? Because we could not find suitable online accounting software. Running a global business has more complications than are handled by online software available in the market today.
- We should have invested more in the infrastructure and sales organization to grow the business in the long term. Focused too much on short term position.
- Sales, sales, and more sales. Without sales there's nothing to manage.

The Growth Challenge

The challenges of growth are many. We asked our executives their thoughts on the key drivers behind growth. We asked what strategies were used that worked best. We asked what limiting factors they experienced that inhibited growth at the desired rate. And we asked what they wished they had invested in more.

Here's what they said. One clarification point: you'll begin to see a differentiation between pure technology companies (e.g. software) and technology manufacturing companies (e.g. hardware) where supply chain, availability of raw materials and cost of manufacturing play a key role.

Top factors impacting ability of a high-tech organization to grow.



We asked what the most important factors that impacted the ability of the organization to grow. 'Lack of competitive advantage' was the highest with a 52% response, closely followed by 'Product or Technology' and 'Market Growth Opportunities' (both with 50%). In third place was 'Customer Satisfaction' (46%) – a common problem with early stage product based companies. At

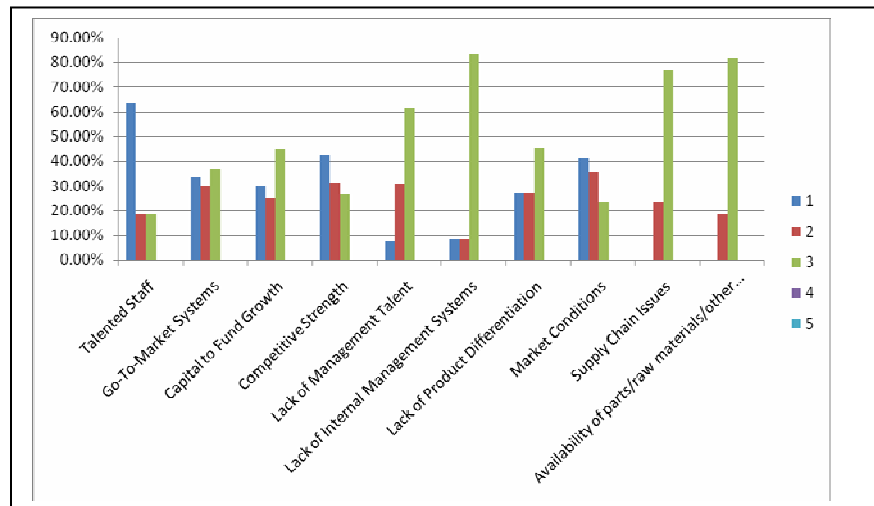
the bottom of the list of inhibiting growth factors was the opportunities presented by merger or acquisition.

We then asked which growth strategy had the greatest impact on the organization’s performance. The top ranked answers were ‘Investment in R&D’ (53%), followed by ‘Adding Service Revenues’ (47%) and ‘Investment in Sales’ (45%). The next highest ranking answer was ‘Investment in Marketing’ followed by ‘Channel Distribution.’

The catalysts that contributed most to growth were balanced between the need for strong products and talented staff to build the products and manage the organization. ‘Talented Staff’ was the highest ranking response with 63% response, followed by ‘Lack of Management Talent’ (46%) and Lack of Product Differentiation (35%). ‘Market Conditions’ and ‘Competitive Strength’ were the highest second rank response with ‘Channel Distribution’ as the third highest rank response.

When asked about the limiting factors to growth, there was an interesting balance of responses. ‘Talented Staff’ and ‘Capital to Fund Growth’ were tied for the highest response rate at 51%. ‘Go-to-Market Systems’ and ‘Market Conditions’ were tied for second with 31% response. The third ranking limiting factor went to the manufacturing sector with ‘Availability of Parts/Raw Materials/Other Resources’ (82%) and ‘Supply Chain Issues’ (60%).

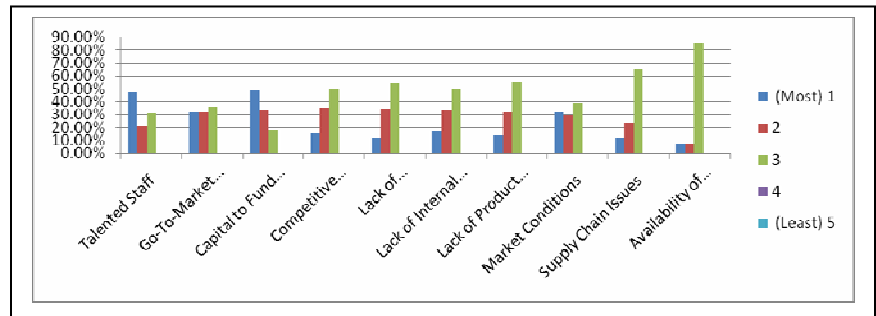
Positive factors in growing a business.



So, which strategy do our respondents wish they had invested in more? Number one was ‘Investment in Sales’ (71%). Second place was tied between ‘Investment in Marketing’ and ‘Investment in R&D’ (both 42%) and finally the combination of ‘Partnerships,’ ‘Channel Distribution’ and ‘Adding New Revenue Streams’ – all at 30% of responses. The second place answers for what growth strategy to invest in were all revenue stream and channel driven.

In third place overall was areas such as 'Investment in Supply Chain' and 'Pricing' tactics.

Limiting factors to growth of business.



Pearls of Wisdom: The Growth Challenge

- Delivering excellent service at an economical price.
- The right people.
- Identifying critical interdependencies, and managing them with a high degree of discipline.
- You have to spend money to make money, and it is helpful to have some cushion because there is lead time between spending it and receiving it in revenue and you have to support what your investing in meanwhile.
- Growth throttling - make sure growth does not outrun cash flow, especially if there is limited access to additional working capital.
- Align your product with the market and invest heavily in sales and business development. Top line revenue is key to a start-up business and will help to overcome obstacles that can be dealt with later in the business' evolution.
- Find great people that can execute on ideas/concepts
- Market size and compelling need quotient, together; plus valued differentiations
- Surround yourself with excellent customers, employees and investors and do not waiver on this. One person can slow the whole ship down.
- Everything depends on a superior technology or product. It's the source of comfort that any potential partner ultimately makes when taking the risks involved with partnership or licensing. A good Rolodex is a close second.
- Perseverance.
- Be completely honest when evaluating new ventures and opportunities. This is not the time to 'choose' to put a positive spin on disappointing revenue forecasts or underperforming results.
- Sales.
- The right leadership team.

- Patience!
- Assuming your product/service has value, the most important factor in successfully growing the company is to have a realistic understanding of the sales cycle and to properly fund the company to allow cash flow from operations to support the organization before the outside capital is exhausted.
- Having the right team.
- Alliances is a strong means of growing an organization.
- Great leadership from CEO.
- Access to capital.
- Internal systems that allow you to measure what you're doing...you manage what you monitor.
- We were primarily a services firm in the Business Intelligence space. As the space moved towards a commodity status, we invested in product development. The IP that we developed was the catalyst for the sale of the business, but we were under funded to successfully launch a product. So, understanding and acquiring the appropriate funding as you move your business into new growth areas is very important.
- Employee retention.
- Reputation.
- Your people and providing a level of customer service that is not the "norm."
- Planning - keep execution at the forefront of the growth strategy.
- A deliverable product that gives ROI.
- Continuing to have quality talent pool.
- Having the right people in the key leadership positions. The gaps can easily be filled with outsourcing and contractors. Management and knowledge capital can not be outsourced...
- Management, at both executive and tactical levels. At the executive level, the knowledge of technology is less important than the ability to execute a clearly articulated vision and strategy. Strategic management trumps reactive management. If the company was launched and managed during the early years at the founder's kitchen table, there must be more of a vision than yearning for a larger kitchen table.
- Keeping focus on building additional client base and not get rapped up in fulfilling client needs.
- Successful new product development with timely introduction.
- Management strength - having the right people in the right positions.
- Quick execution.
- Strategic relationships.
- Execution of "the play that we call."

- Partnerships.
- Optimizing the process and procedures for delivery of engineering and installation services.
- Focus on specific markets.
- Customer retention.
- Listen to the voice of the customer!
- Shaping the product must run hand in hand with shaping the management team. The quality and size of each are both are reliant upon money. R&D is slowed dramatically when funds are not reliably available to invest, stretching time to market. Also, attracting sales and marketing are related to available funds.
- Investment in Marketing and time to put a clear message.
- Finding and inspiring enthusiastic, talented, trustworthy people to join the firm as equity partners.

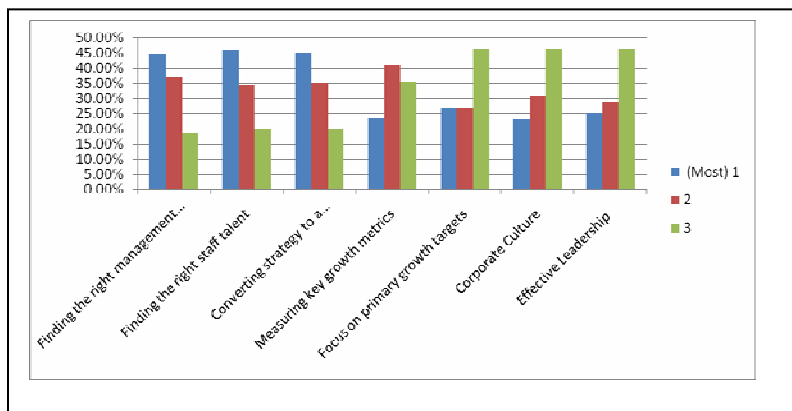
The Management Challenge

Driving growth is an in-depth management challenge. We asked our high-tech executives about the approaches they used to stimulate and manage growth.

We asked our audience to distinguish between the internal systems and external, or outsourced systems (e.g. IT services, Accounting), used to manage the operations of their organization.

We began by asking what were the greatest management challenges in managing growth? 46% said that 'Finding the right management team' or 'Finding the right staff talent' (both 46%) was the greatest challenge followed closely by 'Converting strategy to a successful tactical plan' (42%).

Greatest management challenges in driving growth.



Considering all of the major internal management practices or systems, which had the greatest impact on driving growth? The number one choice was self-evident: 'Sales

Management' (40%). 'Marketing Management' and 'Business Process Management' tied for second with 15% of the vote. 'Product Management' was a third with 14%.

We then asked an interesting question. Was the growth process: over managed, under managed or effectively managed? The majority, or 57%, believed their organization was under managed, balanced by 37% that believed their organization was effectively managed.

Next, we move to which business processes were outsourced. The leaders were 'Payroll Processing' (72%) and 'Legal Services' (59%). 'IT/Computer Services' and 'Accounting/Finance' were tied for third with about 38% of the vote.

Of these outsourced services, which contributed most to the management systems? 'IT/Computer Services' and 'Accounting' led the vote with 34%. 'Legal Services' and 'Payroll Processing' were next in line. For the manufacturing segment, 'Product Development' and 'Outsourced Manufacturing' were also critical to the growth and success of the organization.

So, for the technology manufacturing companies, what were the top 3 challenges? Number one was 'Quality Issues' (19%). 'Protection of Intellectual Property' finished second with 16% and 'Supply Chain Consistency' was the third greatest challenge at 13%. It is important to note that there was a balance of responses across the choices provided. Most prominent were 'Availability of Spare Parts,' 'Warranty Issues' and 'Availability of Parts.'

We then moved to a discussion of management issues facing those organizations that did their product development and/or manufacturing offshore. For the organizations that used offshore manufacturing, 26% indicated that 'Product Quality' was the biggest issue followed by 'On-Time Delivery' and 'Supplier Communications.' For the organizations using offshore product development such as software, 34% indicated that 'Product Quality' was the biggest challenge. 'Product Consistency' and 'Supplier Communications' was the next biggest challenge followed by 'On-Time Delivery.'

When developing or manufacturing offshore, what region or country did they go most often? 'India' was the highest at 28%, followed by 'China.' 'Taiwan' was third with 8%.

Pearls of Wisdom: The Management Challenge

- Align go-to-market strategies with product availability -- promises do not result in revenue.
- Product or service quality and consistency is absolutely critical.
- Never under-estimate the power of references in driving your business.
- Understand what is truly critical about your product/service (from your standpoint and that of your customer) and protect its integrity intensely.
- Tie each person's objectives to the tactical plan and reward based on performance. Outsource all staff functions where appropriate. Keep the metrics simple and measurable. Communicate financial results etc. to the entire company on a monthly basis so everyone understands where the company is and where it's going.
- Segmentation and focus to achieve differentiations-based defacto leadership.
- Find and leverage partners, especially on the sell side.
- International support -- sales, finance, etc.
- Ensure to have no less than a quarterly overview with everyone to ensure the team understands the operational, technical and financial goals, achievements, set-backs, etc. It is very easy to quickly lose sight as new challenges arise.
- Build rapid product development cycles that receive input from customer feedback. Customer feedback is like choosing colors from a paint company's color wheel, the feedback is diverse and large in quantity. You can't choose them all to decorate a house. Management must select a theme/tone and then choose the colors that best support the design aesthetic.
- Managing offshore development is no easier than managing employees.
- Don't procrastinate when there is a problem to be resolved.
- Nothing is more important than tactics that generate sales growth.
- Align pay with company goals.
- Use creative marketing to cast a bigger shadow than your size warrants. Don't invest in making the product 100% perfect at the expense of identifying and qualifying leads. Be very responsive to customer feedback especially complaints.
- Price, quality, and on time delivery are far more greater incentives to use offshore suppliers and manufacturers
- Our product was essentially a systems integration solution around both internal and external components.

We went forward with industry marketing and sales efforts before beta product became commercially ready, and our key external hardware and firmware development partner had oversold their capabilities to deliver "reliable" product on time. We were continually taken in by the promise of delivery just around the corner, instead of finding alternative partners for this critical component or negotiating penalties for further late delivery. This mistake cost us time, money, and market opportunity.

- Outsource non-strategic functions like payroll. Protect intellectual property rights.
- Don't "wing it" when it comes to outsourcing - need to have a well thought out plan that goes beyond simple cost management.
- Outsourcing can be great, but don't be afraid to cut away vendors who aren't giving you great service.
- Make sure the viability of the outsourcer for follow on support service etc. Common language skills between both organizations.
- All business plans require very thorough risk analysis and risk management processes to the extent that the risks are identified (to the extent possible) and quantified (\$) prior to undertaking any business endeavor.
- Internally developing talent.
- Continuous Improvement Cycle
- Our company is heavy in localization of IT products. And the world is changing. Globalization means global sales, not just outsourcing. Doing virtual business is the future as far as we can see. In our model, a small handful of people in 90 countries work hand in hand across the globe to produce our products and services. It is marvelous to hire the people who are right for the job - wherever they may live. And, in so doing, we assure that our client's technology products are perfect for their target countries.
- Listen to your customers and observe his/her business processes very carefully. Then modify your product concept to meet the customers' requirements. Your customer may have a totally different perspective on how to employ your "visionary" idea.

The Market Challenge

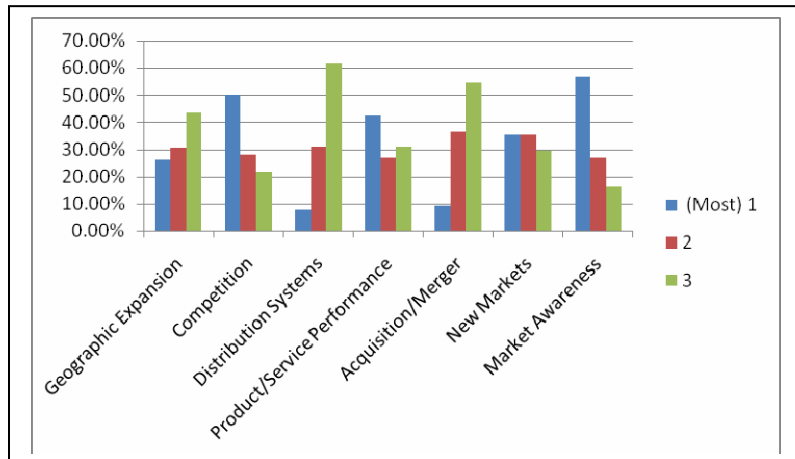
The Market Challenge focuses on different dimensions of growth:

- How well the organization positioned itself for success through market awareness and strategic partnerships, and
- The impact of external forces on the success of these systems.

We began by asking what the top 3 market challenges they faced in designing a growth plan. The top three answers were group tightly with 'Market Awareness' leading with 48% of the vote. 'Competition' and 'Product/Service Performance' followed with 45%.

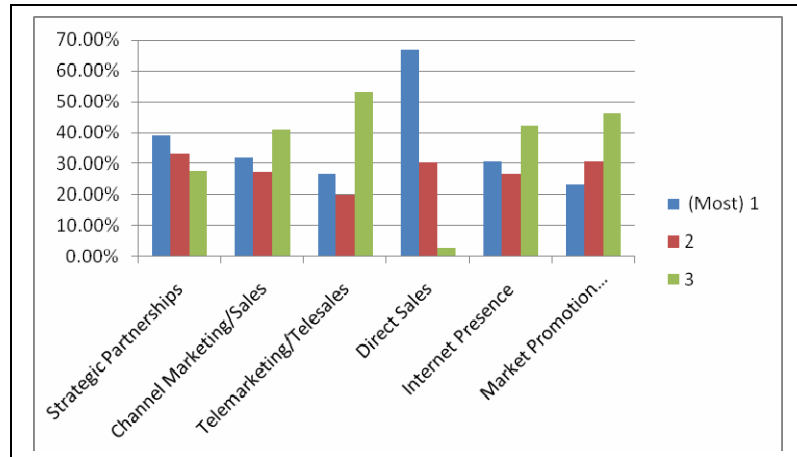
When asked what the 3 most effective marketing systems used to drive growth, our respondents indicated 'Direct Sales' (56%), 'Strategic Partnerships' (53%) and 'Internet Presence' as the most important. Second and third choices were 'Telemarketing/Telesales' and 'Market Promotion (Advertising, PR, etc.)'

Top Market Challenges



Turning to external influencers, 'Market Awareness' led the responses with 55%, 'Economy' came in second with 48% followed by Product Performance (39%). Second and third selections were 'Sales Team Performance,' 'Availability of Funds' and the impact of 'Competitive Pricing.'

Most Effective Marketing Systems



Pearls of Wisdom: The Market Challenge

- Invested in sales more up front.
- Limit investment in sales channels/partnerships to those which are producing near term results before expanding the broader marketing vision.
- Try new approaches but measure effectiveness. Direct sales and partnerships will generate the fastest and most productive results. Agree with marketing agencies on benchmarks for performance and work towards a reward based fee system if possible.
- I would have been more aggressive in pulling the plug on salespeople that struggled early.
- More funds being secured to invest more in marketing and sales.
- Relationship selling at C level, working with strategic channel partners to secure introduction
- More emphasis on International.
- Industry contacts/a golden Rolodex can greatly discount the investment needed to create market awareness. A good relationship with a decision maker in a potential partner builds awareness more quickly and for less money than the costs of building such awareness over time using external/indirect means. Despite a good relationship however many partners also use time as a proxy for due diligence - especially for small software companies. Standing the test of time in the marketplace signifies that such a company is on a sustainable trajectory rather than one that resembles a shooting star.
- Establish early relationships with industry analyst have them be the voice in creating your market awareness
- Would have spent more on marketing.

- Focus on making early customers referencable ASAP i.e. willing to speak publicly and positively about the product & company.
- We would have put off opportunities for near term revenue to fund operations in favor of higher initial investment to ensure that our product was ready for market. We were so concerned with further dilution from additional development that we took risks on product development readiness that we should not have taken. In hindsight, we had significantly more time to make a positive market entry than we thought, and our poor initial product reliability cost us time, money, and early reputation.
- Focused more on developing strategic partnerships.
- More focused qualifying of leads sooner.
- Perhaps more direct marketing, but still mostly relational sales for our business works best.
- A better effort to build the brand -- using marketing and promotion initiatives to take pressure off the sales group and reduce the sales cycle. Better prospect qualification. With the customer, focus less on the technology...more on the business problem and the prospective solution. We have great technology that is under marketed, so our sales group feels it has to be oversold.
- Understand who will buy and under what circumstances...then translate that understanding into step by step plans that are executed and then monitored for effectiveness and adjusted accordingly. Every step of the way.
- Focus more on networking and finding additional revenue streams. As well as keeping Internet and business successes and information in the public eye. (Update Web sites)
- Keep the focus on growing the best opportunities - do not dilute management attention.
- More of an investment in sales.
- Would have created better sales force to generate more market awareness.
- Taken more risk.

The People Challenge

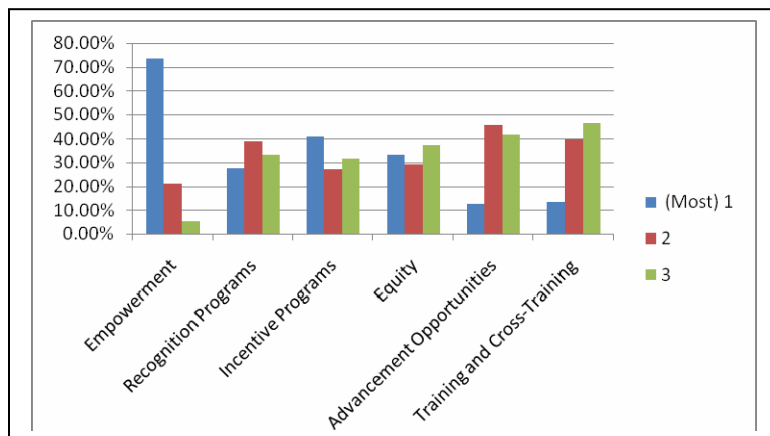
This section covers two management principles:

- Where do personnel fit into growth tactics, and
- The challenges of owners/partners in managing an exit strategy.

Let's begin on the staffing side. We asked what were the 3 toughest people challenges in meeting growth expectations. The dominant responses were 'Attracting the Right People' (77%) and 'Retaining Top Talent' (25%). The second level of challenges were 'Compensation' and 'Internal Management Systems.' The third level was 'Corporate Culture' and 'Training.'

We then asked what people management techniques best contributed to their growth success. 'Empowerment' was the clear leader with 76% of the vote. 'Incentive Programs' and 'Equity' trailed at the top tier responses. At the second and third levels, 'Advancement Opportunities,' 'Training and Cross-Training' and 'Recognition Programs' were the strongest contributors.

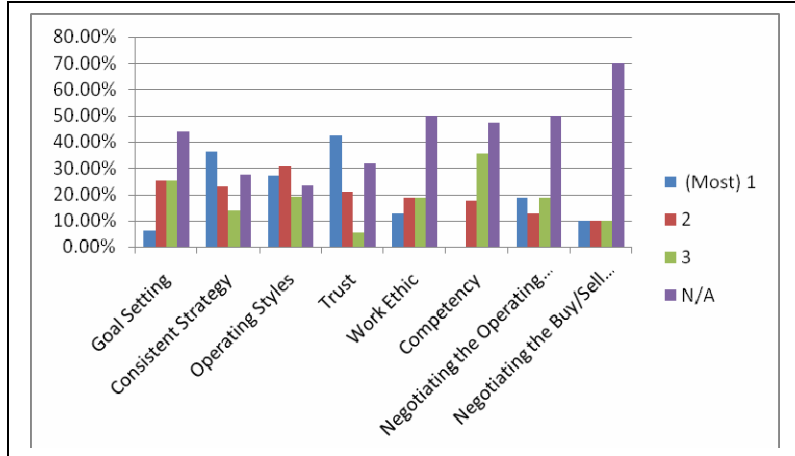
People Management Techniques



People factors limiting growth were 'Ability to Attract the Right People' (77%), followed by 'Compensation' (38%) and 'Corporate Culture' (23%). Second and third level responses focused on the 'Ability to Retain the Best People,' 'Corporate Culture' and 'Management Processes.'

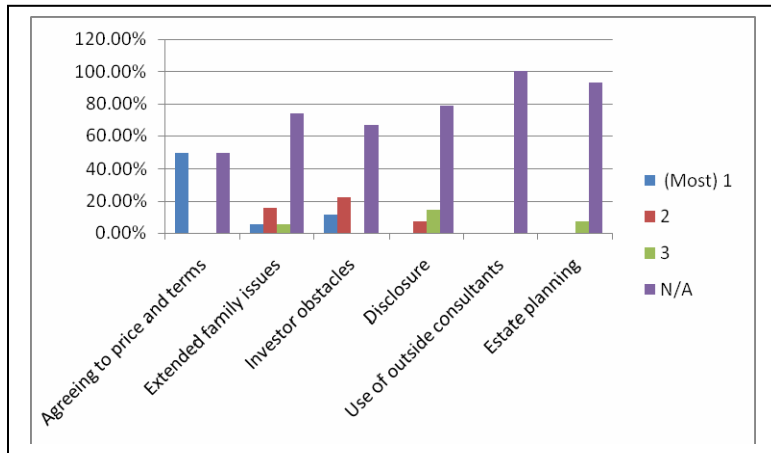
Now we turn to the impact of partnerships in managing and growing a business. Many companies are founded by multiple partners and this dynamic can often create friction. So, we asked about the sources of friction. We began by asking the challenges in making a partnership work. The top three choices shared about one-third of the responses: 'Operating Styles,' 'Trust' and 'Consistent Strategy.'

Primary Challenges in Making Partnerships Work

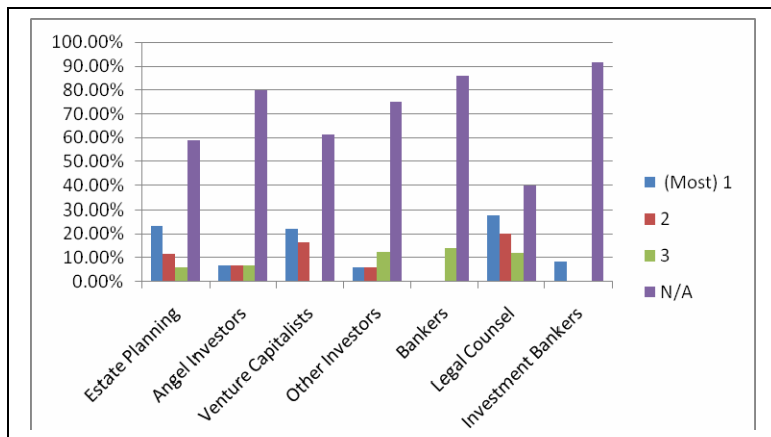


Exit strategies were questioned next. We asked respondents to rank the top three obstacles in consummating a sale or merger. The top response was 'Agreeing to Price and Terms.' Other factors were: 'Investor Obstacles,' 'Family Issues' and 'Estate Planning.'

Obstacles Encountered When Organizations were Sold or Merged



Factors in managing Exit Strategy



For those executives that managed their exit strategy, we asked what consumed the bulk of their time. The top three responses were closely weighted to 'Investment Bankers,' 'Angel Investors' and 'Bankers.'

Pearls of Wisdom: The People Challenge

- Build a strong "bench" for backup.
- Careful selection of initial partners, agreement on core management principles and personal commitment to execution of basic operating plan.
- Start-ups will always have a difficult time. Pay MORE than the market dictates. It will help retain people while you're growing the business. Allow everyone to have a voice and the ability to share ideas.
- Provide opportunity and locate the best.
- A good relationship with a decision maker in a potential partner builds awareness more quickly and for less money than the costs of building such awareness over time using external/indirect means.
- Stay focused on people who have the same values and determination as you, but are more successful in critical areas.
- For small companies, the right "chemistry" is a must as you add team members.
- Spend more and get the best.
- Have a CEO who is focused on operations and sales, and not solely on strategy and vision.
- More time recruiting the 'right' talent.
- Listen, empathize and empower while providing a unique culture.
- Continue to make the tough calls that put the best people in the right jobs
- You have to be willing to terminate relationships that can not adapt to changes required for growth.
- Continue to provide very high incentives--financially oriented primarily.
- People are what make your business. Take care of them, before you take care of yourself.
- When a top talent is hired, make sure the compensation matches the talent. Do not allow key people to job hunt on your time, because they need more money. Give them a reason to stay. Younger talented people should be the focus of an exit strategy. Mentor them to confidently take over the executive reins.
- Spend more time on finding personnel in the right geographic areas not just the right person.
- Pursue different (non-standard) compensation
- Hire Slow, fire fast

- Create an environment where people are always learning and recognized
- Attract a stronger management team earlier in the growth cycle
- Do not let your trust in anyone cloud your judgment of his/her integrity. Do not begin working with any person or organization before an ironclad operating agreement has been signed by all.

Penultimate Question: What were the three biggest Gotchas (or things you wish you had known) in growing your business?

First Response	Second Response	Third Response
(Leadership) Mislacing confidence and trust in partners.	(Leadership) Unwavering awareness of all aspects of the business.	(Leadership) Staying true to one's own vision without detouring into suspect growth paths.
Corporate changes in direction	investment limitations	balancing risk/reward
Make sure your senior mgmt team are compatible workers (work ethic, strategic direction, culture, etc).	Pay up for good talent, and don't reward mediocrity. Great sales people should be rewarded and below average sales people should feel the pain.	Avoid nepotism whenever possible.
Cash flow is king	Talent and accountability of staff really matters	Process provides stability through staffing changes
Having the aggressive sales people	Lack of capital	Talented and dedicated employees
Timely introduction of new products.	Availability of capital.	The right people in the organization
Know when to quit	Put financing and business plan in place FIRST	Great technology will never supplant great marketing
implement plans quickly	setting management goals	sales forecasting goal setting
Sales/marketing lack of experience	Capital	Human Resources
Creation and invention of a modern product was much more time consuming and expensive than we could have imagined. But then again, we cannot imagine NOT inventing and developing it.	Huge gotcha with the inadequate online accounting software currently available. Running a global business requires more than the traditional approach to accounting and project management.	Legal fees and inability to predict the costs associated with patent legal fees
Time involved in non revenue based items	Length of time for contract closure with client	Not spending enough time looking for additional opportunities in and outside the current client base
Market conditions	Finding right people	Partnerships
Personal Cash Flow	Diversification	Sales team
Difficulty in making process changes	Setting appropriate/sustainable sales comp plans	how stupid clients can be.
Partner	Finance	Never underestimate the amount of working capital needed
the money struggle	time for family	Keep focus
No matter how great your business plan is, sales drive revenue	Large customers aren't necessarily the best ones (they pay slow and on their terms)	Strategic Relationships
Stay flexible and adaptable	Operational challenges/Execution	Funding growth
Attracting "right" clients	Attracting staff	Competitive pricing
financial acumen	payroll/tax outsourcing from beginning	Having the right management in place is critical to success.

forecasting growth	hiring talented people	Procuring quality associates
Retaining good management	Cost of an effective marketing strategy	People
Don't try to do everything yourself. Outsource the redundant tasks.	Don't outsource your knowledge base. You have to own your knowledge capital.	payroll/payroll taxes
Balancing management with operations work as CEO	Retaining quality associates	Cash flow challenges
Financial Performance	Execution	Watch your contracts
IT cost	legal	People first projects next
Customer service is the biggest factor in growing revenues.	Difficulty in finding quality people	As the company grows, fixed expenses / expectations increase
Requirement Analysis	Employee growth shouldn't outpace revenue growth	Selecting good equity partners
Exogenous events 9/11 could quickly reverberate	Identifying customer's ability to pay for the service	importance of focusing your marketing efforts to specific, well defined services
Managing corporate culture during periods of change and growth	Cash management is an ongoing process	everything takes longer
Capital required for AR.	Acquiring the appropriate funding for growth	access to capital
Financial planning and funding always takes longer to implement than expected. Plan well ahead.	need for top talent	The Timing of Market Launch Must Coincide with Product Readiness, not Beta Readiness (Depending on the Target Customers)
having the 'right' team	corporate culture	Don't rely on customers for foresight or insight
Less Tolerance of Poor Ethics/Character within Management	Closer Attention to Risk Management in Supply Agreements	Be prepared for the marathon, not for a sprint
Cash is king	Execution is everything	capital requirements
Choose your partners carefully with an eye towards how they help your brand reputation	Avoid wasting money in unjustifiable marketing efforts to build awareness	Take nothing for granted
Access to technology resources	legal considerations	Align compensation with Company goals
While focusing on the big picture	Focus on cash flow	need more money than you thought
Growth consumes cash	Get the best & right people	the balance between rigidity and flexibility in commitment to our culture
tactics are better than strategy	takes twice as long as you thought	CASH IS KING
economic cycles of our clients.	The commoditization of the industry	VC contract structures
CASH IS KING	CASH IS KING	How important banks were
Effective marketing	Truthfulness and reliability of sales staff	Raising money is harder than you expect
How difficult it would be to NOT take outside capital to smooth	How important is was to get like-minded people	Bigger is not always better

cash flow

You have to believe 101% when others do not believe

No one is there to really help in the beginning but yourself

Huge pitfalls of an early stage company selling to the public sector.

Cash, cash, cash

Use more contract talent when possible

Market Evolution / Timing

If you are not sufficiently capitalized to meet your early, critical milestones, you will pay the price indefinitely.

Know your partners better than you know your wife before you begin.

Compelling need problem's scope

Large customer dependency

Recruiting

Underestimate your revenue assumptions

Be careful when adding staff but pay them more than the market dictates

Sufficient investment \$

Panelist Biographies

Don Campbell, President/CEO, Virtual Management Technologies (Moderator)

Don Campbell brings a broad management background in the software and high technology industry to Virtual Management Technologies (VMT). He has been responsible for the start up of three high technology ventures and has served in general management and senior executive positions for a number of software, computer services and transaction processing companies.

Most recently, he served as President of the Highland Consulting Group. Prior to that, he held senior executive positions with Idapta, Ross Systems, Comdata Corporation, Sungard Data Systems, Hogan Systems and Cincom Systems. He brings over 20 years of experience in General Management, Sales, Marketing, Business Development and Product Management.

A co-founder of VMT, Campbell is focused on the vision of bringing the power of big company technology to smaller organizations at a reasonable cost. By aggregating the cost of this expensive technology across a broad base of users, VMT is capable of lowering IT costs significantly and providing a stable and predictable IT infrastructure.

Campbell was educated at Hartwick College and the University of Paris, France.

Stan Anderson, Managing Partner, TechDiscovery

Anderson brings more than 15 years of senior management experience to the TechDiscovery team. Previously, he served as President of Spherion Technology Group, a diversified IT services company, where he ran North American operations and managed 3,000 consultants in 32 cities. Anderson's group serviced multiple Fortune 100 companies and had a revenue base of \$500 million.

Prior to Spherion, Anderson was a Senior Vice President with Norrell Services, a provider of outsourcing and technology services to large corporations. During his tenure, Anderson managed large profit centers with responsibility for both franchised and company-owned divisions and was instrumental in the company's growth from \$50 million to \$1.5 billion in revenues. His duties at Norrell involved the expansion of core staffing services including the establishment of a large outsourcing business. He also led the effort to build a profitable technology consulting practice that grew to \$250 million in revenues through an aggressive acquisition strategy.

Anderson began his career at Dexter Corporation, a manufacturer of specialized industrial products, where he held a variety of positions in marketing, finance and operations. Anderson earned a B.S in Industrial Management from Georgia Tech.

Lawrence D. Duckworth, President/CEO, Learn.net, Inc.

Mr. Duckworth has more than 20 years of experience leading fast growth, customer-focused public, private, domestic and global technology and services companies. Solutions have been provided for banking, financial services, insurance, retail, transportation, manufacturing, work force management, e-commerce, data communications, international business, and mergers and acquisitions.

Mr. Duckworth also has substantial educational experience, including: Adjunct Professor, University of Minnesota system; School Board Trustee; Professional Educator/Instructor, for the University of Southern California (USDOT funded) and Northeastern University (UMTA); management methods seminars leader and articles author; and is currently writing *Avoiding*

Entrepreneurial Landmines.

Mr. Duckworth served three years in the U.S. Army, stationed with NATO's Allied Forces Central Europe command in the Netherlands, and was awarded the Joint Services Commendation Medal.

Mr. Duckworth has a Bachelors Degree in Economics with Honors Convocation and an MBA in Marketing and Finance; and is an inductee in the graduate Beta Gamma Sigma National Business Honorary. He is a Presbyterian Church Elder and enjoys reading, fly-fishing, golf, and international travel with family.

Gary Hopkins, President/CEO, Slip Stream Software

Gary Hopkins has been actively involved in the Manufacturing Automation industry for 20 plus years. Before starting SlipStream Software, Gary was President of Citect, Americas. He was responsible for a business turnaround that resulted in double digit growth of both revenue and profits. Under his leadership, Citect, Americas successfully launched a number of products into the Enterprise Manufacturing Intelligence sector.

During his tenure with Rockwell Automation, Gary was involved with a number of innovative initiatives in the Enterprise Manufacturing Intelligence sector that resulted in market firsts. As VP of Sales and Marketing he led the worldwide effort for Intecolor, a Rockwell Automation subsidiary. He was responsible for the worldwide relationship between Rockwell and IBM which initiated the first ever integration of a Human-Machine Interface (HMI) package with a Manufacturing Execution Software (MES-POMS) package. This floor-to-enterprise solution was instrumental in securing major business within the Pharmaceutical industry with global companies such as Merck and SmithKline. In addition, Gary was responsible for the global launch of DeviceNet, now considered one of the worldwide standards for high-speed device connection.

As a founding partner of IdNET, Gary was successfully involved in another high tech startup which focused on the Insurance sector and was subsequently purchased by AFNI Insurance Services.

Gary was one of the original board members for MESA helping to set the foundation for its direction. Currently he serves as Chairperson for a non-profit foundation focused on the homeless in Atlanta.

Chris Lynn – VP, Sales & Marketing, Xaar Americas

Chris Lynn has 30 years experience in the management of technology businesses in Europe, Asia and the USA. An Atlanta resident since 1994, he has set up local subsidiaries of two European companies, run his own market-entry consulting business, Hillam Technology Partners, and led business development and marketing teams at Iterated Systems (later called MediaBin, Inc). He is currently leads the Americas business of UK-based Xaar plc, the leading independent supplier of industrial inkjet products.