

5 Pitfalls Tech Start-Ups Must Avoid

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There's no shortage of advice for start-up companies to follow, but in my experience working with emerging technology companies I've noticed something that's just as important: there are certain pitfalls that bog down entrepreneurs, costing them money, time and ultimately a change to break through the clutter. Every new venture has limited resources – and limited time – to get off the ground, and anything that needlessly burns cash or slows progress limits the chances of making it to the next level. Here are five ways to avoid the most common traps that snare new companies.

1 – Don't overspend on marketing or advertising

During the late 1990s dot-com boom it was common practice for companies to blow millions of dollars on ambitious advertising and marketing campaigns. Remember the Pets.com sock puppet? It was a funny ad campaign – highlighted by blowing \$1.2 million on a Super Bowl television spot - but it wasn't so funny when the company closed its doors nine months after going public, and investors probably weren't laughing when they recouped just 17 cents on the dollar two years later.

While most early-stage companies don't have the resources to mount a marketing effort on that scale, entrepreneurs are often tempted to divert valuable resources to advertising and promotional activities before their products are ready for prime time. A great example is a social networking company I recently worked with. They spent a fair bit of money on acquiring members, but their site wasn't ready to offer the full range of services they were planning. As a result, users went

to the site but had a terrible user experience because there was nothing for them to do once they logged in. The company might as well have stacked up their cash, poured kerosene on the pile and lit a match.

Entrepreneurs need to make sure that any marketing or advertising they do is in support of a specific and tangible goal. For example, it might be worth spending money to generate profitable traffic or to reach a critical mass of customers in a "tipping point" business, but writing checks to achieve the amorphous goal of "awareness" is a sure-fire way to lose money with no discernible benefit.

2 - Don't confuse years of experience with ability to execute

One of the most difficult parts of being an entrepreneur is hiring the right team. After all, one misstep in a key area could not only cost you money, but could also set the company's growth plans back. For example, hiring a director of engineering who lacks the right skills or acumen to deliver on your vision could delay the release of your products, which could have devastating consequences for a new company trying to succeed in a crowded marketplace.

Many entrepreneurs overspend on seasoned executives so that they can make sure that their mission-critical work is done quickly and efficiently, but it doesn't always work out that way. I worked with a start-up mobile applications company that hired a seasoned business-development person to generate deals with major advertisers. They paid him an annual salary of more than \$200,000, but never saw any results. In addition to his high pay, he was racking up exorbitant travel costs, including expensive hotel rooms and dinners. It was pretty clear that he was enjoying the lifestyle, flexible hours and good salary without the pressure of incentives to deliver results. In this case, hiring a scrappy, less-experienced candidate with bonus or stock-based compensation would have been a much better choice.

3 – Don't lock yourself away from the world

Deciding on the right product strategy is a never-ending tightrope walk between sticking to your vision and building products that will generate short-term sales. After all, no one wants to build the wrong solution for the market, but at the same time you can't spend your time "chasing the rainbow" looking for the next big trend. I have seen companies that are so busy responding to others' points of view they lose focus on the core rationale for founding their business. But I have also seen companies that go to the opposite extreme, locking

themselves away from the world for months on end to build the "perfect" product.

The best approach for start-up entrepreneurs is to try your best to walk the line: pursue a vision while at the same time taking time to really understand the problem you are trying to solve. Sit down with potential customers to hear their pain and really figure out what they're looking for and take advantage of experts in your own community or industry by recruiting advisors who can help you determine your sales, product and marketing strategies. In many cases, they won't even ask to be compensated! Also, you need to get out in the world to start refining your elevator pitch. Before you ever get in front of a VC, you'll have to sell yourself to potential employees, landlords, strategic partners, banks and many others. Get used to it so you're good and ready for the investor pitch.

4 - Don't forget you are building a company, not a club

Part of being an entrepreneur is relying on your friends and personal contacts to help you get off the ground, but be wary of hiring or partnering with people who don't add value to your business.

It's happened to me personally, experiencing the thrill of starting a business with a group of friends only to hit painful bumps in the road later as people show different levels of commitment or value. For some businesses, these conflicts can become debilitating.

While there are no tried and true rules for dealing with friends and family, there are a few things to be aware of. First, make sure you pick partners that have a passion and an expertise that can move your business forward. Second, make sure they are committed to leave their current jobs to join you full time. I've seen several companies suffer major conflicts when one partner can't get himself to leave the comfort of the corporate world. Third, look for warning signs that might indicate your partner isn't cut out for startup work. Does he panic every time something takes longer than it should? Does he demand an outlandish salary? Does he analyze every decision to death? Take care of partner mismatches as soon as possible! The pain of fixing the problem only gets worse when you bring in outside capital. There's nothing more damaging to a relationship than having to side with an investor when she demands you fire your college roommate.

5 – Don't be timid

The meek may one day inherit the earth, but the present belongs to those who are decisive and assertive. If you need help or advice don't beat around the bush: just come out and ask. Plenty of people are willing to give guidance, but chances are that they're not going to come to you without being asked, and you'll never get anywhere unless you make a conscious decision every day to actively pursue what you need.

Don't even know where to start? It's easy – you just need to pick up the phone and start dialing. Looking for someone to help you write a column for your new women's fashion site? Go out and buy every fashion magazine and start calling every name on the masthead to see if the editors or writers will spend a few minutes answering your questions. Most likely, they will. Looking for that first reference customer? Go to the industry trade shows and strike up conversations with people you meet on the floor. If you have your pitch down, you'll be surprised how many people will be willing to help or get involved.

It takes guts at every step to be an entrepreneur, and if you're skittish about asking for advice and guidance today, chances are you're not going to be very successful when you have to start asking professional investors for money.