



A Better Way to Manage Your Startup

Plan and Execute from the Bottom Up

As any venture manager or investor knows, change is a fact of life in technology startups. Nowhere does this apply more than to planning and execution. But companies can't plan what they don't know, and trying to run an emergent business by strict adherence to a strategic plan usually creates more problems than it solves. In the unpredictable environment of a startup, a bottom-up, learning-based approach to planning and execution makes far more sense than the strategic, top-down methods of today.

Most of a startup's early sales and marketing life is spent learning. Learning is unavoidable because no matter how much analysis is done in advance, the nature of innovation makes it difficult to plan before customers are actually engaged. For most startups, understanding of the value proposition changes almost as soon the business gets underway. And with this, come accompanying shifts in target customers and market.

Yet even when circumstances call for change, companies are slow to react, wasting marketing and sales efforts and precious company resources in the process. The dilemma for these companies: *how and when should execution be changed by new information, especially when it doesn't fit plans or strategy?* Lacking a clear way to resolve the issue, organizations often stay

the course until: (a) strategies and plans work; or (b) they don't, and draconian changes are invoked to get the business on track. When this happens, the casualties are not only business plans and strategies, but also management teams and investor returns.

The Drawbacks of Top-Down in Startups

Though not widely recognized, many early management problems stem from the top-down, "go-to-market" process that most investors expect and companies practice. Under this top-down approach, market analysis and strategy serve as the basis for plans and execution designed to deliver targeted results. By any other name, it's strategic management. It also represents a big impediment to startup execution.

On the surface, strategic, go-to-market approaches are attractive because they provide tidy explanations of markets and

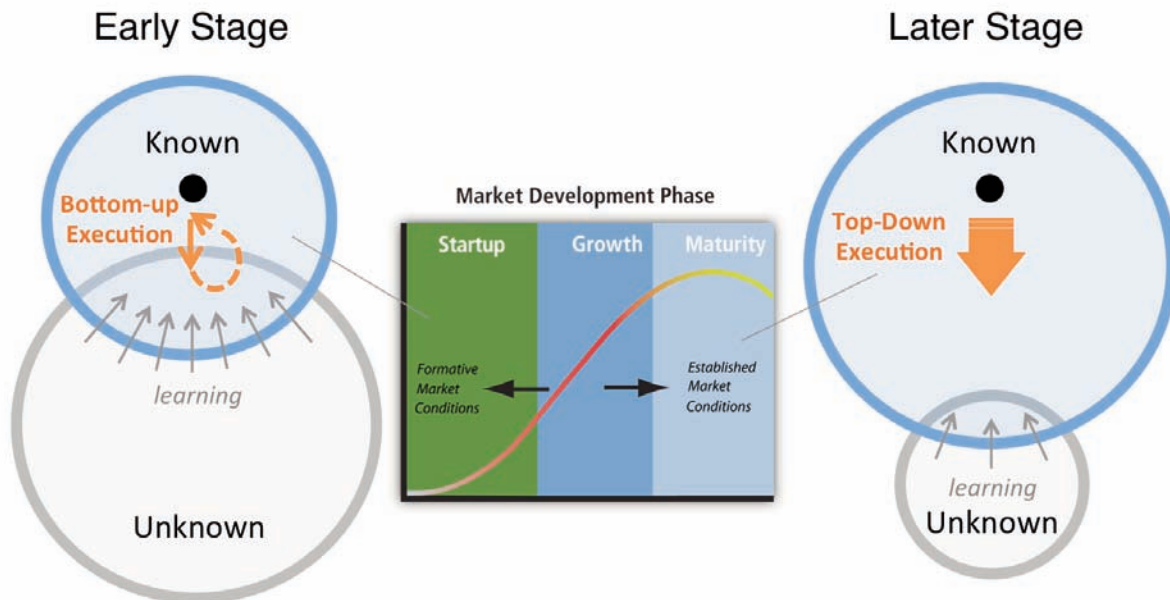
plans for exploiting them. Investments are made based on these representations. In reality, the process of taking innovation to market is usually far less straightforward. With innovation, success depends less on brilliant strategy than on an organization's ability to engage customers, learn from them, and adapt to the opportunity. As a result, knowing how to manage from the bottom up is not optional, but essential for startup success.

Top-Down vs. Bottom Up

Choosing between a top-down or bottom-up approach depends on the predictability of the company's operating environment. Predictability, in turn, depends on how much a company knows about its environment and how much it doesn't. Predicting the course of innovation business is virtually impossible because anything new involves learning. Promoting innovation adoption not only requires learning by customers, but also by those trying to sell the innovation.



Different Management Approaches Needed at Different Stages of Development



Different Stages of Development. Choosing the appropriate execution approach depends on how much a company knows vs. how much it doesn't about its environment — effectively, the ratio of known to unknown. In early-stage technology businesses, little is known about the market or how the opportunity will evolve. Here, a bottom-up, learning-driven methodology will yield better results than a top-down approach that focuses on execution at the expense of flexibility and discovery.

As shown in the illustration above, a company in a mature market environment faces far less uncertainty than a startup because customers readily understand the company's offering and the environment is relatively stable. Surprises are rare because company management also understands the environment. Under these conditions, strategy and execution determine company performance. Deliberate execution of the company's strategy pays good dividends.

Bottom-up Planning and Execution

However, these same top-down methods tend to be less effective in startups because the approach emphasizes execution at the expense of discovery and learning. Because startups operate in formative conditions, execution must be tempered by a lack of certainty about the environment. From a practical standpoint, the go-to-market process needs to guide execution and accommodate discovery as the market takes shape.

To put this into practice, startups must plan and organize to learn. Knowledge sharing is essential to the process, and early customer engagements are best accomplished with cross-functional teams. Knowledge gained from engagements enables the company to progressively adjust and refine its execution. It's a dynamic process: as more and more customers are engaged, the company grows its understanding of innovation value and how to communicate, position, and improve its offerings. By taking this approach, execution informs the company of market patterns that can be used in the re-formulation of strategy.

Collectively, these activities comprise a bottom-up process in which learning helps shape an emergent strategy while improving execution effectiveness.

Implementation

To implement a bottom up planning and execution process, companies should:

- **Focus on adoption.** Innovation adoption by customers, not strategy, determines early-market success. Promoting adoption is a progressive development process, in which each new customer win makes it easier to sell to the next. Managed well, this process will grow the business exponentially. Managed poorly, it can retard growth.
- **Treat strategy as a framework.** Under the fluid conditions of early markets, strategy should be treated as a framework for execution rather than a detailed business blueprint. Instead of efficient conduct of strategy, early execution should be used to validate key assumptions about the business. Learning from this process should be used to supplement or, if necessary, supplant initial strategy.

Thought in Brief

■ Practice dynamic communications.

When an innovation is introduced, neither company nor customer has prior experience with it. As the company learns and develops proof for its assertions, it must quickly adapt initial value proposition and corporate positioning to support continued adoption.

■ Organize to Share and Learn.

Company organization serves as an all-important “lens” for understanding the innovation opportunity. Execution effectiveness depends heavily on how the company views its environment and responds to unanticipated developments. This requires collaborative learning by customer-facing organizations. It also takes purposeful organization.

Evaluating and Diagnosing Startup Performance

Evaluating startup performance is a dynamic problem: the unpredictability of innovation makes the go-to-market process a moving target. As the business evolves, so must company plans, management, and execution. At 1st Wave Marketing, we’ve developed systematic planning methods and evaluation tools designed specifically for these tasks. Through our Fast Forward™ Assessment Services, we provide planning and diagnostic assistance to emergent companies to raise their execution effectiveness and understanding of the adoption process.

Better Management Tools Needed. In the early stages of market development, the pace of change is often so quick that strategy and execution plans become obsolete in a matter of months. The challenge in finding an answer is that there is a lot that an

early-stage company doesn’t know — about the market, customers, and even what they will buy.

Troubleshooting with conventional strategic analysis takes more time and effort than most companies can afford. Using a top-down, “outside-in” approach, this process starts with market analysis and moves methodically into strategy, execution and customers. The main drawback: the limited information of early markets complicates the process, and time-consuming data gathering and analyses are needed to justify conclusions.

Unable to afford the time and expense of this approach, many companies resort to problem-by-problem correction of positioning, demand generation, messaging, etc. While this ad hoc technique may produce results, it risks fixing only symptoms of the underlying growth problem. It may also take considerable trial and error to find an answer.

SUMMARY: Planning and Executing from the Bottom Up

Top-down Planning and Execution

- Most startups operate in formative and unpredictable environments.
- The conventional go-to-market plan is effectively a top-down methodology.
- Top-down strategies are best suited for stable market environments.
 - Top-down management methods focus on execution at the expense of organizational adaptability.
 - Over-reliance on top-down methods leaves little room for learning or re-direction of strategy.

Troubleshooting

- Innovation adoption, the basis for sales and revenues, is a key learning process. Growing adoption takes learning by both customers and sellers.
- Organizational learning is the answer to unpredictability. It is a bottom-up process that comes from customer engagement and ongoing discovery.
- To capitalize on learning, execution and planning must be dynamic; they must be constantly adapted as learning occurs.

Thought in Brief

Systematic Planning and Troubleshooting

We've devised a decidedly better way to plan and diagnose early-stage companies: we analyze them from the inside out. Starting with the customer innovation adoption process, we systematically evaluate how well the company promotes (or will promote) the process, and whether its strategy furthers these aims. It's an inside-out, bottom-up approach that allows us to get to the heart of growth issues much faster than traditional methods of analysis.

Fast Forward Planning services provides a systematic, bottom-up assessment of the company's go-to-market plan and validation milestones on which to evaluate progress of the business. It includes development of a checkpoint event plan to validate the business, analysis of critical business assumptions, and simulation analysis of the company's operating plan.

Fast Forward Troubleshooting services provide diagnostic assistance to companies that have encountered sustainability or growth issues. Using bottom-up methodology and tools similar to those used for Fast Forward Planning, we conduct a detailed, end-to-end evaluation of the company's execution practices and effectiveness. This includes a 23-point execution assessment, interviews, review of customer and financial data, and comprehensive, "what-if" analysis of the company's operating plan based on findings and actual operating data.

About 1st Wave Marketing™

The 1st Wave Marketing Group provides business consulting services to emerging technology ventures. Services include market development planning, troubleshooting, and strategy development.

For additional information, we invite you to visit our website at www.1stwavemktg.com or call us at 408-292-2834

