NAFTALI BENNETT

EXIT

A GUIDE TO UNDERSTANDING
THE ISRAELI ENTREPRENEURIAL SPIRIT

PLUS972

About *PLUS972*

Founded in 2009, Plus972 is a fully-integrated branding, marketing, and design agency headquartered in New York City and Tel Aviv with a global presence across North America, Europe, and Asia.

Why are we doing this?

We at Plus972 decided to publish this English version of the "Exit" book in order to help young entrepreneurs gain value and insights, help non-Israelis understand the Israeli mindset better, and help Israelis who work with people all over the world better communicate our culture, in order to do better business together.

Opening Words by *Plus972*

Exit The Book | Naftali Bennett

I remember the exact moment back in late 2012, when I first came across this booklet. I had no idea at the time who Naftali Bennett was, But I remember reading the Hebrew version eagerly, all at once.

Since then, I have always kept a printed copy for myself, and referred others to the free online PDF countless times.

But I was always stuck in front of non-Hebrew readers. Now, more than 8 years later, I am happy to take part in the free release of the English version, by Plus972.

Today, Naftali Bennet is a known public figure, but that is not the reason why we at Plus972 took the lead on translating it. The reason is that this booklet contains many effective, pragmatic, simple, true and essential lessons on leadership, business, innovation and more.

Much has been written and said about Israel's success as a tech and innovation powerhouse, a vivid ecosystem of creative energy and entrepreneurship, and the "Startup Nation" brand. This book provides an effective and quick inside look to how Israelis think, act, do business and build startups. Sure, some of the "flavor" may have been lost in translation, and some parts are not relevant all the time, but much of it is simply timeless.

Promoting Israel through business is part of my personal career mission, and partnering with Plus972 is directly connected to that.

With this English version of the booklet, we hope we are able to help young entrepreneurs gain value and insights, help non-Israelis understand the Israeli mindset better, and help Israelis who work with people all over the world better communicate our culture, in order to do better business together.

Last, I wish to thank Plus972 for partnering on this project, and of course to Naftali Bennett for writing it, and collaborating with us on this release.

Thank you,

Assaf Luxembourg
Partner, Israel
PLUS972

"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better.

The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming;

but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause;

who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly;

so that his place shall never be with those cold and timid souls who neither know victory nor defeat."

- Theodore Roosevelt.

I would like to thank Prime Minister Binyamin Netanyahu for introducing me to this wonderful quote.

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Preface

A critical deal has just crashed. Clients are impatient due to product malfunctions. Investors are nudging you with endless advice, employees are skeptical about your skills, the roadmap is insanely delayed, and you have cash on hand for only two more months.

You chose to be a startup CEO.
And the responsibility is entirely on your shoulders.
You know the statistics: over 90% of startups fail. Still, you believe you will succeed.
You must succeed. What other choice is there?

I also chose to be a startup CEO.

Together with my amazing friends, **Lior Golan, Michal Tzur, Ben Anush, and Amir Orad**, we founded a wonderful startup - **Cyota.** Our company dealt with financial fraud detection systems, online fraud, etc.

We mostly failed.

Our first product failed miserably. We discovered competitors we did not even know existed, and they defeated us in the market. We appointed an external CEO with a very different culture, and it was a catastrophe we got out of only after a year. We ran out of money several times, and we had to lay off nearly two-thirds of the company's staff to survive. Our second product didn't take off either; we tried a line of additional products, without any success, and we messed up quite a bit with the clients.

Finally, after five exhausting years, the situation began to improve. We got to know our market, our clients and their needs quite well. Two new products we launched started to take off, revenue increased, and eventually, several potential buyers approached us. After tough negotiations, we sold our company to RSA Security for $145 million.

- We made countless mistakes along the way. Here is a very partial list:
- We hired the wrong people. When we realized our mistake, we were afraid to lay them off.
- We tried to sell clients what we had, not what they needed.
- We spent money insanely and ignored the impending disaster.
- We listened to the board and not to our gut feelings.
- We lost several tenders due to a lack of client attention. We thought we knew everything.
- We spread ourselves too thin and in too many directions at once.
- We believed investors who told us: "Done deal. We will invest in you."

This booklet will not teach you how to prepare a business plan or pitch deck, nor will it analyze business strategies. There are many great books on those topics in the market.

What will you find in this booklet? Imperative Insights, mistakes, and lessons I learned as a CEO. Things that you may not find on Google. Things that one exhausted CEO usually whispers to another, on the way to a red-eye Sunday flight from Tel Aviv to New York. Things I would have loved to know at the beginning of my career as a 27-year-old CEO with no business and management experience.

Note: This booklet is a collection of articles, some of which were published in TheMarker.com as startup columns. There is no need to read it in order from beginning to end. Each chapter stands on its own.

This booklet mainly focuses on startup management, less on the stages of founding and establishing the company.

I am fully responsible for the content.
I would love to hear from you EXITtheBook.mail@gmail.com

CHAPTER 1.

IN THE BEGINNING

- Mistakes, lessons and advice on fundraising venture capital
- Remove the millstone over the neck of startups
- Start lean and fast, with no venture capital
- Choosing your co-founders

Chapter 1:
In The Beginning

Mistakes, lessons and advice on fundraising venture capital

The most intolerable task for a startup founder is raising money.
So, what is the best way to get through it?

At Cyota, we fundraised five times, for a total of $27 million. Some of the funding rounds were a nightmare, and some were just a headache. We've raised money from Israeli and American venture capital funds, including Giza, Poalim Capital Markets, RRE, Bessemer, and more.

With great talent, we managed to make almost every possible mistake, which could have led us to shut down the company.

As a service to the community, here are several suggestions and lessons on how to manage the fundraising process.

Create competition, avoid "tunnel vision"

One of the biggest mistakes I made in one of the rounds was working in "single-thread" (one thing at a time), as opposed to "multi-thread" (simultaneously). Meaning, I invested most of my energy in one fund, which I believed when its representatives told us they were "just about" to close the deal and invest in us.

In other words, I gave them exclusivity on the round. My contact person in the fund assured me that they would invest, performed full due diligence, pestered the company with endless questions, met many of our clients, and in the end, as you already guess - folded back and left us in a very complicated situation.

This investor is no exception.
That is how most venture capital funds work.

At best, the fund exhausts the company and attains excellent conditions because the company has no other realistic option. In the worst case, as happened to us, the fund simply decides not to invest and leaves behind a broken and shattered company.

You should work with a large number of potential investors at any given stage during funding rounds. There are two reasons for that:

1. **Competition** - There is nothing like competitive pressure to shorten procedures and increase valuation and chances of closing.

2. **Safety net** - Do not believe verbal promises by the funds. Until money goes into the bank, anything can happen. Relying on one source will have you start all over again from a point of distress, having the company's performances hampered due to loss of focus during the fundraising process.

Therefore, do not be dragged into the fundraising process before you are ready. Prepare all necessary materials, and then go on a burst of meetings with 3-10 different funds **simultaneously.**

Minimize the exclusivity period

Try to avoid the "no-shop" (exclusivity) period or minimize it as much as possible. Usually, after preliminary checks, investors submit a term sheet in which they state the main conditions - price, size of the investment, etc. At this point, investors need to sign this document as a condition for further review and preparation of the full investment agreement.

In that document, investors demand exclusivity.

This creates an asymmetric situation where the fund is not committed to anything (it merely expresses "serious interest") while the company is prevented from exploring alternative investment options.

Therefore:

- Reduce this period to a minimum (3 weeks) while trying to avoid any exclusivity, which of course, depends on your bargaining power.
- Before you sign exclusivity, do everything you can to determine if the investors are serious about their intentions or whether they are trying to "lock" you in to buy more time.
- Although rare, it is possible to condition the exclusivity on a certain fine on the fund if, in the end, they decide not to invest.

Start with the bad news

Strange, huh? The idea is simple - the more advanced you are in the fundraising process with a particular fund, the more damage is done if the fund drops out of the race. For example, if during the first meeting the investor gives up on continuing the process, it will not cause a lot of damage to the company. However, if this happens after three months of inspection that includes talking to your clients, then the damage is immense.

After learning this lesson in Cyota, we made sure we shared all the bad news and listed all our problems right at the beginning, so that there will be no surprises later and the investors will know what they are getting into, for better or worse.

Prepare a "live" Q&A document for yourselves

Create a "live" document with the most challenging and annoying questions you might be asked, and prepare answers in advance. An answer prepared in advance is always better than improvising. Even if there is no perfect answer. At the end of each meeting, update this document and add any new questions you were asked.

This format will also raise significant problems in your business plan, which is excellent.

Isolate the rest of the Company from the funding round

Fundraising is a necessary evil. The Company needs cash to grow (or survive), but unlike any other business activity, this process does not contribute to growing the company. Therefore, try to reduce the impact of the funding round on the company. It would be best if the CFO will lead the process with the CEO, and minimize the number of meetings that will require other team members and company staff. Assume that the company's performance will be harmed during the fundraising process to some degree, regardless.

Focus on leading investors only

Some funds will not enter an agreement by themselves. They will always wait for another fund to take the lead. It's legitimate, but do not waste time with these funds. Sounds trivial, but a lot of entrepreneurs fail here. Therefore, as soon as in your first phone call with the fund, find out if they tend to lead rounds and perform them by themselves. Do some research on their previous track record and portfolio.

Don't be "conservative", but realistic and optimistic

"Just so you know, dear investors, our assumptions were very conservative…" Don't expect funds to hear this and think "wow, they were conservative, so let's raise the valuation and predictions." Show a plan and relate to expected revenues by working with reasonable to optimistic assumptions, which you can defend.

Do not be overly pessimistic; it does not buy you points anywhere. Investors will lower your forecasts and predictions anyway.

Keep an accurate meeting logbook

During the fundraising process, you will meet many investors, and the process may take many months. Keep a meticulous record of every meeting and conversation with each investor to keep the story consistent. The logbook is a simple spreadsheet, with investor name, contact name, link, status updates, next step, etc.

Create "assets" in early seed/pre-seed stages

In the very first stage (pre-company), all you have is an idea. It is challenging to raise money based on an idea alone. Therefore, try to create a line of "assets." For example:

Expert:
Try to recruit an expert in your field as an external consultant or an active partner. You can reward them with options (there are two advantages to options: 1. It does not cost money - and as mentioned, you still do not have money. 2. It creates an alignment of interests between you and the consultant. Both of you will want the company to succeed). At Cyota, we recruited Professor Adi Shamir, a world-renowned expert for Encrypting and Security. He helped us build credibility in the early stages.

10. The Exit

Provisional patent:
You can file for a provisional patent, with no need for a patent editor. "Throw" all your material in the Patent Office. Within a year, the temporary patent should be converted into a full patent, which costs more money, but in the meantime, you have created an "asset" and also "locked" the early date.

Letter of Intent:
You have to do some footwork and reach out to many potential clients to get them interested in your solution. Try to get as many as possible to sign a "Letter of Intent" (LOI), where they state that they are interested in experimenting with your product.

Demo:
"Demonstration" which illustrates your product.

Better to have a small piece of a large pie than a big piece of nothing

This is a fundamental rule that many entrepreneurs fail in. In the early stages, be generous with options and stocks! Do not be a skimp. The only important thing is to raise money and get going. It does not matter if you have 80% or 30% of a virtual company. The important thing is that you succeed in jump-starting the venture!

Therefore,To recruit a specialist, employees or partners, or get legal services, etc. - be "generous." Founders are often so preoccupied with arguing over the non-existent cake distribution that they no longer have time to advance the venture.
One caveat - it is vital to keep control of the company in your hands and not give anyone the legal option to hold you hostage (through voting rights, etc).

Fundraise when you can, not when you need

This is a pretty well-known lesson. And it's true! The more stressed you are about money, the weaker your bargaining power is. Therefore, raise money when you are "on top," even if you are not sure you need all that money right now. Try to get to a point where you always have the cash flow for the next 24 months. I promise you will encounter a lot of unanticipated surprises along the way.

Learn to describe your company in 30 seconds

I was once in a meeting with a New York venture capital fund (that chose not to invest in us). After 20 minutes of presentation, one of the partners told me: "Listen, you spoke a lot, but up to now, I still do not understand what your company is doing..."

Learn and practice how you describe your company in 30 seconds.

Here is an example:

"Cyota provides banks with full protection over their customers' online activities.

When customers of the bank shop online or perform online banking transactions, Cyota's software examines each acquisition and banking transaction to identify and stop suspicious transactions (such as money transfers), thus reducing bank fraud losses.

The company currently serves eight out of ten largest banks globally and hundreds of other small banks. We operate in the USA, Canada, England, and Japan.

We have two competitors of similar size to us, but Cyota is the market leader.

Our market size is $800 million.

Our revenues currently stand at $11 million, with a growth of 80 percent per year, and we have reached the break-even point. The company has 90 employees in New York and Israel.

We are in the process of fundraising $6 million, designated for developing the next generation of security solutions. The purpose of today's meeting is to convince you to lead our upcoming fundraising round. We are currently in advanced stages with other investors, so if by the end of this meeting you will be interested, you will have to move fast."

That's it, it took only 25 seconds.

Try to reach investors through recommenders

Venture capital funds are overwhelmed with inquiries, and there are always more startups than investors. In order to differentiate yourself and penetrate through the noise wall, try to reach them through someone they trust (another entrepreneur, investor, etc.).

Learn and improve from every meeting

It is recommended to have two people go to each meeting with an investor, in order to observe what is happening and take notes on questions, problems, strengths, weaknesses, and lessons to be learned. Right after leaving the meeting, conduct a quick review, and write down lessons so you can get better before the next meeting.

Also, when investors turn you down, it is imperative to ask for constructive feedback and their real reasons to decline. Do not argue or try to persuade them to change their minds, just listen, ask, learn and draw conclusions for the next investor.

If you do not ask, they will not tell you the real reason.

Do not give up

Raising money for a startup is not easy. You have to "sow" a lot of seeds to "reap" one investment. For example, in the third funding round of Cyota, we met with 25 funds! just in order to conclude with RRE Ventures. It took about 14 months to complete the round. In short, if you have a big thing in hand - do not give up.

Remove the millstone over the neck of startups

Paradoxically, a wise investor would give up excessive Liquidation Preference.
Note: This article is somewhat technical

What is Liquidation Preference?

Liquidation Preference means that during the sale of the company, a certain amount of the proceeds will go to the investors first, while the remaining proceeds shall be divided proportionally among all shareholders, based on the capitalization structure.

For example, imagine a company that is owned 60% by investors, 20% by its founders, and 20% by its employees.. Suppose the investors in this company have a liquidation preference (hereinafter: LP) of $40 million, and the company is sold for $50 million. The income from the sale shall be distributed as follows:

- $40 million will go to the investors due to their LP.
- Out of the remaining $10 million, $6 million will go to investors, $2 million to employees, and $2 million to founders.

This means that in the end, investors will get $46 million, employees will get $2 million, and founders will get $2 million.

The LP is determined in each deal between investors and startups, it is usually open for negotiations, and is usually correlated with deal size (at least in tech). If the fund invests X, then it will require to pull X before the distribution of exit returns. Many funds even require two or three times their investment. Meaning, if the fund invests $4 million, it will sometimes demand an LP of $8 million or $12 million. "Doubling" and "tripling" are especially common when a company is in trouble or when the whole market is in crisis, and then funds grow their negotiating power, as well as the risks they undertake.

Many entrepreneurs and CEOs believe that excessive LP is unfair for their companies.

I agree. Moreover, in my opinion, paradoxically, those who are significantly affected by this are the investors themselves. I believe that it is not in anyone's interest to determine a big LP.

Towards our last funding round, we managed to eliminate the LP in Cyota entirely! This is a very rare thing. I am not familiar with any other startups that have eliminated the LP, although there are likely to be some.

Below is a summary of the conversations that eventually led to the complete deletion of LP in our last funding round:

- **Cyota management:** Let's eliminate all liquidation preference in Cyota. Completely.
- **Investor:** Why? After all, we invest a lot of money in you, and we shall have the right to pull it back + ROI first.
- **Cyota management:** The liquidation preference does not serve your interests (see details below).
- **Investor:** I understand that, but we have never invested in a company without liquidation preference.
- **Cyota management:** So what? There is a first time for everything. If it's worth it to you and us, let's do it.

Finally, the investors agreed because they had a consensus that this move was healthy. And indeed, we eliminated the LP. A year later, Cyota was acquired for an amount that yielded very nice returns for everyone.

Why is Liquidation Preference unfair?

It's pretty obvious, actually. The whole idea behind stock options and shares is that company employees will be partners in its fate and success. Startup work requires great personal sacrifice, and employees expect to enjoy the fruits of their labor after years of investment. When the LP is too high in relation to the company's expected price, the employees will hardly get anything. In Israel, in many cases, the LP was even higher than the sale price, so the employees did not get anything. Going back to the example above, if the company had been sold for $40 million (a considerable amount), the employees and founders would have received absolutely nothing. Investors may claim: "We put the money in, so we have the right to withdraw it." However, energy, commitment and long-term devotion by talented people are no less of a valued resource for a company than money.

Why Liquidation Preference is not within the interest of investors?

Lack of incentive:
Excessive LP creates a situation in which the company's employees understand that even if they do an excellent job, there is no chance of them seeing a return on exit. If that is the case, it is better not to divide options at all. A startup with a surplus of LP will have difficulty hiring good employees and attracting talents.

Conflict of interests:
LP creates a situation in which the company's board (investors) and the company's leadership management have entirely different interests, which is very bad. In the example above, selling the company for #40 million may be a great deal for investors, but it is a terrible deal for the founders and employees. Clearly, the executive leadership of a company is a critical factor in the chances of that company being attractive and in the end - getting acquired. At times, investors may say to the executive leadership - "We will take care of you" - that is, only to senior executives. A CEO who agrees to this, and I know such examples, acts dishonestly (clearly), and unwisely (who will want to follow

"Noise" during the exit:

When the issue of LP is not settled in advance when a potential business opportunity arrives, there is a big mess, where everyone is trying to "correct" the division towards them. Such an amendment is complicated and may take 6-8 weeks. An exit deal is already complicated on its own. When the investor's company leadership argues with each other during a sensitive time like this, the chances of chasing away the buyer are high. I know at least two examples in Israel where something like this happened. In both cases, the companies eventually closed down entirely without any return to investors and employees. This argument, by the way, is the strongest one for investors to understand that LP may work against them.

Note: LP may be reasonable if it is not a large percentage of the expected deal size. In such cases, there is no need to argue over eliminating the LP. Save your energy.

How to eliminate or reduce the liquidation preference?

Talk to your investors now, early. Do not wait for the purchase to occur, as then there will be no one to talk to, and that might blow up the deal. Do not talk about fairness - it does not interest investors. Explain to them why it is actually in their interest.

Liquidation preference is common in many Israeli VC-backed startups, and in many of them, it is too high. Changing this situation by reducing or eliminating the LP will increase companies' motivation to succeed and grow investors' returns.

Start lean and fast, with no venture capital

Instead of waiting in vain for an initial capital injection of millions, it is often better to build winning companies that are self-funded.

A week ago, I met a talented team of founders with a good idea for an internet startup. They have been trying to raise $1.5 million to get started. Their plan was typical: after raising the money, they will rent offices, hire employees, purchase equipment, develop the product for about 8 months, and finally go out to market with their solution. This, as mentioned, will require about $1.5 million.

These founders are currently employed by other companies and are not convinced that it is worth risking jumping into what could be an empty pool, losing their livelihood before they raise enough money to start up the company. So, in the meantime, everything is pending until they can raise the money. I told them that, in my opinion, for a variety of reasons, venture capital funds (VC) will not invest in them right now, which means that if they wait for VC, their venture will never see the light of day and be born.

At this point, we threw a challenge in the air - reach the market with a minimum viable product which will cost $150k, a tenth (!) of what they originally planned they needed. This is a sum that can be raised much more easily with the help of angel investors, friends and family, and without the help of big VCs.

At first, this seemed impossible, but after we switched gear in our minds and analyzed the necessary expenses, we have seen that this is feasible. Now, the entrepreneurs need to decide if they will quit their jobs and jump to the deep water of the startup world.

15. In the beginning

For many years, Israeli hi-tech entrepreneurs (including me!) have become accustomed to demanding large initial investments of over a $1 million. In short, we became a bit spoiled. There are many good teams of entrepreneurs who will never become actual companies unless they make necessary mental changes: sprint and forward with a lean budget.

For example, my friend Ofer Shoshan, raised $33 million for Qlusters, a company that did not make it. Later, as a true entrepreneur, he started another company called OneHourTranslation without raising a single dollar, and the company took off.

There is a market failure in Internet investments. Large venture capital funds cannot afford small investments, although sometimes that's all it takes. To illustrate, try to divide the $200 million of a typical VC into slices of $200,000. This is about 1,000 investments. It is clear that four VC partners are unable to keep track of 1,000 companies (not even 50.) Therefore, their investments must be relatively large - millions of dollars per company.

But along with the size of the investment comes caution and slowness. And this is not suitable for an internet company that must push forward because it is threatened by agile competition. Moreover, internet exits are sometimes in relatively small amounts (around $30-20 million), which is not interesting for VC but very significant for entrepreneurs who have invested hundreds of thousands of dollars and a lot of sweat in the venture.

In short, in many cases, startups in the Internet and software worlds are not suitable for VC investments. Therefore, you need another way of action.
So how do you get started without the help of the venture funds?

Resign from your current job and work 18 hours a day - yes, you just have to start working. You do not need much management at this point. Just concentrate on building a product that provides value to the customer. You do need to scrape enough money to start writing code, a few tens of thousands of dollars (from family, friends, and angels) will be enough to get started. You should take advantage of cheap or free development tools and services - things that exist and are available out there.

One critical point is product design. It is very important to reduce the initial product as much as possible in order to reach the market fast and cheaply.

Minimum viable product (MVP). Only necessary components should be included in the development, so that end-users will generate immediate value from your product, even if a lot of additions are left for later on. However, you cannot compromise on user experience. I mean, it is okay for your MVP not to be very rich in features and functionality, as long as the core of what it should do works perfectly and generates immediate value to your customer. For example, the first version of Microsoft Word only allowed very basic transcripts processing, but it did it well. All the functions that we know today came later on.

Marketing to customers is also cheaper than ever. If there is an innovative and fascinating product, it is relatively easy to get it to the users' consciousness, and then we face the real test - whether the product is good and adds real value.

By the way, after developing an excellent MVP and gaining traction with a good and growing customer base, it is always possible to approach VCs, if needed. At this point, the company is much more likely to be interesting to them.

There are industries and verticals where a relatively large initial investment is required to prove feasibility and achieve success (biotech, hardware, etc). However, when it comes to internet and software startups, entrepreneurs should consider giving up the waste of time in search of the big investment that will not come, and just set off by themselves. Like it used to be in the past.

Choosing your co-founders

You can make many mistakes, but one thing must not go wrong: building up the founding team. What are the desired character traits of an entrepreneur?

You have decided that you want to start a startup. Where do you begin?

The most important thing, in my opinion, is choosing your partners and co-founders. Certainly, more important than the idea and the market. I am pretty sure your idea for the product will change many times in ways you have not even imagined, and the market you have relied on may become non-existent.

But there is one thing that is stable and constant: unsuitable people will fail in the mission. With excellent people, there is a chance to succeed.

When we founded Cyota, we had no particular business idea at all. The four of us (Ben Anosh, Lior Golan, Michal Tzur, and myself) collaborated and decided to start a startup. We sat in the attic of Ben's father's office for a few weeks until an idea came up. By the way, our original vision - one-time use of credit card numbers for online shopping - failed miserably in the global market. We ended up abandoning the idea after about two years, but that's a story for another time.

Character traits that kill a startup

What type of people should you look for? I will detail the character traits of people who are **not suitable** for such entrepreneurship:

The part-time employee:
People who are not willing to dedicate themselves to the venture are not suitable. Startups require 200% commitment, especially in the early years. There are not enough hours in the day to have a second job. Moreover, lacking the willingness to "jump into the water" indicates a lack of faith in the venture. A person who does not believe will abandon the venture as soon as they encounter difficult challenges that seem unsolvable. And it will happen fast. Do not add such a person to the founding team. Either you are completely in, or you're out.

The negative:
It's easy to dismiss ideas. The trick is to find ways to make the idea work anyway. Startups require a lot of creativity, which could not thrive when there is a person who finds the negative in every idea. By the way, one must distinguish between pessimism for realism. The difference between a negative person and a realistic person is that the realistic person is looking to raise problems early, in order to deal with them and solve them. In contrast, the negative person seeks issues to disqualify. Each of us knows people like that.

The Big Ego Man:
The only thing that should be important to everyone is for the venture to succeed. If one or some of the founders are preoccupied with themselves, their position in the organization, and their self-esteem, there is no chance of success. There will be endless quarrels, and business will not take off. The journey is challenging as it is. Entrepreneurs do not have the luxury of dealing with internal conflicts.

The risk-hater:
Entrepreneurs are required to risk a lot:

- Reputation - Most ventures fail, and the social and economic cost of carrying a "mark of failure" can be heavy.

- Standard of living - Founding a startup usually involves giving up a stable and good job in favor of a lower salary and lack of stability.

If one or some of the partners is not built for it, it is better to give up their contribution in the first place.

The greedy:
Throughout the startup's life, the entrepreneurs need to give up "percentages" in the company from time to time to maximize the potential of its success. This happens when raising capital, when hiring advisors or when recruiting employees and executive managers. If one or some of the entrepreneurs is too busy with their share of the "cake," the company will get stuck. If the entrepreneurs do not understand the principle of "the company above all", being preoccupied with an imaginary distribution of percentages will leave nothing left to divide.

The fool:
Well, that's obvious.

The philosopher/theorist:
To jump-start a company, one needs people of action. There are brilliant people that love intellectual challenges per se. These people may be great in academia, but not in startups, where it would be best to move fast. Make decisions. Execute. Do. There is no room for endless hypothetical analysis. You definitely need brilliant people, but there is no contradictionbetween geniousity (in question) and practicality. Lior Golan (who was CTO at Cyota), for example, is a practical genius.

Hence, a good entrepreneur's essential characteristics are quite clear: willingness to take risks, 200% commitment to the company, optimism, generosity (in terms of company shares), having the "everything is solvable" approach, wisdom, and practicality.

Desirable skills

A team of founders should have a good set of skills. There is no need for everyone to know how to do everything. Their cumulative total skillset is what's important. Unlike character traits, here we deal with something which is **desirable** but not a **necessity.**

These skills include, but are not limited to:

Technical capability in the field of the venture:
That's obvious. If, for example we're dealing with a crystal manufacturing technology startup, you better have a chemistry and physics expert. It is very difficult to outsource the core work of your company to a subcontractor.

Pitching capability:
In the beginning, it is necessary to "sell" the venture to everyone. to new employees, to potential investors, to clients, even to suppliers, service providers and subcontractors (for example, we persuaded an excellent lawyer to work for a conditional-deferred payment in the beginning. Only when we raise money will he receive his salary plus a tiny percentage in the company. And that's what happened). So, at least one of the founding team members needs to present and pitch successfully and in a very persuasive way.

Ability to perform a Business-Marketing Analysis:
There are many decisions to be made along the way. How shall the product be priced, how shall it be distributed, geographical focus, the actual necessities of the product, and more. Some of these decisions may have long-term consequences. It is highly advisable to have someone with a good business mindset and understanding to make those decisions.

Pushing forward and driving ability:
From the very first moment, there are many things, small and big alike, that need to be done. Hire good employees fast, finish the first funding round, rent an office, develop an MVP, start reaching out to customers, and more.

All these skills provide an advantage but are not a necessary condition for success. You can also acquire them by hiring the right people. In our case, I will admit, we did not have all the required skill set in the beginning. We were not familiar with the banking and financial sector at all, we did not have much experience in negotiations, our business analysis capability was limited, and we paid a heavy price for it (our shareholders, employees, and group of founders), but we survived.

As entrepreneurs, we made many mistakes, but we managed to overcome them. However, assembling a founding team with unsuitable character traits is a mistake that will surely kill the company's future.

CHAPTER 2.

SALES AND CUSTOMERS MANAGEMENT

- Startup guerrilla warfare: Getting your first customer
- Competition theory in a nutshell
- Mistakes in customer communication

Chapter 2: **Sales and Customers Management**

Startup guerrilla warfare: Getting your first customer

How can a small Israeli startup penetrate and sell to large international companies?

You started a company, even managed to raise some money, and built a product. Now comes the biggest challenge of all: selling the product to the first client.

The client - a telecom company, bank, or any large organization - has all the reasons in the world not to choose your company. This is, after all, an Israeli company (“Israel? There are smart people there, a lot of desert and wars. You also did operation Entebbe, didn’t you?)” You do not have a lot of money in the bank, which is a significant risk to the client since they do not know if you will be able to survive for a long time; you have no proof that you can supply the product and service adequately because, in truth, the product is not quite finished yet; and to sum it all up - you have several seasoned, well-known and much stronger competitors.

How the hell can you win under these conditions?

A small company’s main advantage is that it has no choice, it is merely a must-win situation, which is why they will put everything into acquiring the client. On the other hand, the larger and more fulfilled competitor tends to underestimate and invest less in competing. This is a loophole that may allow you to win.

Our company lost in the first three tenders we competed for (at Citibank and two other substantial American banks). We were already in a desperate situation when suddenly a large bank informed us that we had finally won the first tender. When we asked the manager who chose us why they chose us, she told us that our competitor was arrogant and full of overconfidence, while we gave her the feeling that we would turn worlds for her. Even though we are small and new, she preferred us. This was a tremendous lesson for us.

Forty-five years ago, the American car rental company AVIS trailed behind the market leader Hertz. AVIS used this weakness and turned it into an advantage. They embedded the slogan “ We Try Harder.” In doing so, they gave the clients the feeling that they care about them and strive to satisfy them. This is a strategy I recommend startups to adopt. But how do you do that?

First of all, the sale must be defined as the company’s top objective: the company’s CEO must see this as their personal responsibility, and not just the sales people’s responsibility. The CEO needs to harness all the resources and employees to be successful. Developers, the product, the support, and what not - everyone must be available for this critical task because nothing is more important than winning the client. The product is worth nothing without it. I think it is worthwhile to set up a dedicated action team that meets daily to track and make quick decisions. It is valuable for the CEO to visit the client in person. Rent a room near the client’s offices and live there for several months if needed.

21. The Exit

Clients need to see that you understand their specific needs and not treat them as "another" client. Therefore, during the entire sales process, one must continuously listen, ask questions, and understand the client's perspective. It's always amazing to see how happy the client is in many cases to share these things with you if you just ask. Based on this information, you should build a unique solution that precisely fits the client's needs.

When presenting to the client, you should start with your understanding of their needs. The mere fact that you can show that you understand precisely what they want is a significant advantage. When you see the client nodding in satisfaction of "wow, they get me," you know you're in the right direction.

Throughout the sales process, one has to map out the various stakeholders in the organization involved in making the decision. The information which must be gathered about every stakeholder is what is important to them, their organizational status, and how their success is measured. For example, the IT manager may want peace of mind and minimal risk (summer vacation is coming up). The business unit manager may want to increase revenues (the CEO presses them hard). The financial manager may want to prove how successful they are in lowering your price (their predecessor at the firm is considered a tireless thrift, and the current financial manager wants to show how they save even more money). Every meeting with one of these stakeholders should end with collecting new information and better mapping of the organization. This is also how you strengthen the personal connection with each of them. In these meetings, you should ask a lot of questions, express interest and mostly stay silent. Do not always try to "sell" in every meeting. It annoys the client and is only harmful. A bad meeting is one where you learned nothing new.

It is vital to nurture an employee in the organization who becomes your friend and navigates you through the organizational maze and internal politics.

A small company must go out of its way to look established and legitimate. Mostly it is reflected in its visibility: quality of the materials and the company's website, zero spelling errors, accuracy in emails, and any external contact. This is the face of the company.

The sales process to a large organization can take many months, even over a year. We had a sales process that took more than three years (!) with a big British client. Throughout this period, continuous but not oppressive contact must be maintained with your contacts at the client. One should try to produce value for them over time, for example, by sharing materials that may interest them or by solving problems they had even if they were not directly related to your offering. The aspiration is to be recognized as a partner, a friend who helps and not as a company trying to push their product. In the long run, this is a healthy and rewarding approach.

Last but not least, sometimes you lose. The client calls, informs you that they have chosen your competitor, and thanks you for the tremendous effort you put in. In such a situation, remember that you are in a marathon, not a sprint. It's important to take the news respectfully and not act desperately ("You are insane! They are criminals ... How did you choose them? You did not give us a chance!") as if there is no tomorrow. There is tomorrow. Sometimes clients are not happy with their choice. If you were smart enough to build a healthy relationship with them, they might turn back to you. This has happened to us several times.

Acquiring first clients while facing seasoned, strong competitors is a challenging task for a new startup. Without clients you have no credibility, and without credibility, it is difficult to bring clients. The way to break this "catch 22" is by turning this weakness into a strength. Show your clients that you care more.

Competition theory in a nutshell

One of the best tips in business we ever received was from a blunt and impatient client.

Cyota participated in a big tender for a huge American bank and became one of the final contenders. After submitting the tender and the proposal documents, each of the finalists was invited for a final client presentation. In preparation for the crucial meeting, I called the bank's division manager, who would be the one to decide on this tender. My goal was to try to get information before the meeting. This manager has gained a reputation as an aggressive, blunt, and busy person. After talking to me for 30 seconds, he said: " Listen, I do not have much time. When you come in a few days to present, do not tell me stories. I'm giving you exactly 20 minutes.I want you to explain to me what the differences are between Cyota and all other competitors, and why should it matter to me."

For comparison, a year and a half earlier, we were bidding on another tender from a major credit card company in Chicago. I managed the submission of the tender and led the presentation. We did a very impressive job. We presented our unique technology and architecture, companycomposition, and form of installation for five hours in depth. The Credit Company employees nodded vigorously, so we knew we were on the same page. Finally, we demonstrated all the product features and left feeling great.

After two days, we were informed that we had lost the tender.

Back to our blunt client. 20 minutes. Not much time. How do we summarize five hours into 20 minutes? How will we express the product capabilities?

We followed his instructions: *"What are the differences between you and the competitor, and why should it matter to me."*

We suddenly realized that most of the things we present are exciting but not unique. The competing product also has excellent capabilities and smart architecture. But, much more significant is that we have discovered many of the things that set us apart from the competition were simply irrelevant to the client!

This is similar to a vacuum cleaner salesman telling you that the "stignator" in his device is made of steel and not aluminum like the "stignator" in the competing product. Indeed different, but completely irrelevant (by the way - I just made that up. I am not even sure there is a "stignator" in vacuum cleaners, or if there even is such a thing at all).

This exercise forced us to understand what is essential to our clients, in order to create and present actual differences between us and our competitor. We found out that there are significant differences between the competitors and us, but it was all hidden in our unnecessary current presentation copy.

We approached the meeting with a presentation of only 10 slides. The opening slide's title was: "The Differences Between Cyota and the competiion," and the slides showed only four different points. At the click of a button, one sentence appeared next to each different point that explains why this difference is significant for the customer. The rest of the slides detailed each point of difference. To sum it all up, we went over the four differences again.

Since then, in every final presentation of a tender, we have made sure we use this format. Clients liked this direct approach because it made the comparison and selection process easier for them. The results were accordingly.

The more important progress was that our entire way of thinking was directed at this approach. We found that if we cannot answer these two simple questions, we have a fundamental problem that needs to be addressed.

After a while, we argued over the design of one of our products. Many people have pushed to add specific capabilities to the product. Lior, our CTO, objected. He explained that at the moment, the most important thing to the client is the ease of installation, not any other sparkly feature, even if it is attractive. We eventually gave up the wealth of capabilities in favor of the ease of installation. In retrospect, the market proved him to be right.

Some will say that all these things are obvious. Fundamentals of marketing and business. They are right. But look around you, at all the companies that offer you products and services. Usually, there is no real difference between the various competitors, or there are differences that are not relevant to you. Recently, when I was offered cable TV, they kept emphasizing that switching channels in the satellite is a lot slower. That may be true, but it doesn't matter to me. What was important for me was to make sure I have the baby channel.

That's why we at Cyota have always tried to follow the advice of our blunt client.

Oh, and in case you were wondering: we won that tender.

Mistakes in customer communication

One of the most significant weaknesses for Israelis is communication with customers. For customers to be satisfied, it is not enough to provide value. We need to also manage client communication wisely.

Here's a case-study. Towards the end of a large project with a client, I received an email from one of our Cyota team members, who was managing the project on our behalf: "... This was our most successful installation with this client ... We did a good job, guys. There is an evident improvement in the quality of the system..." About two hours later, I received an email from a senior manager on behalf of the client: "... We were disappointed by the quality of the software and the missed deadlines..."

After a more profound deep-dive examination, it turned out that we worked well and we provided a quality product on time. Still, for various reasons (entirely our fault), this information was not communicated to the senior manager at the client.

Sounds familiar? Almost everyone who has ever worked for an Israeli startup that addresses clients overseas has had a similar experience.

The fundamental problem is that sometimes we Israelis do an excellent practical job but do not communicate it properly to the people we work with, and for "justice is done, is not seen." This problem causes us heavy damage with clients. Often, the client is not satisfied even though the "objective" results are promising. Clients act according to their perception of reality, and not according to what we will believe is reality itself. We must understand that part of our responsibility is to shape the customer's perception of reality. It is not enough that we provide the service on time and with good quality. We must maintain continuous and thought-over communication with clients and help them know and understand that they are receiving good service and will be satisfied at the end of the project.

In the United States, for example, people tend to absorb the importance of communication from a very young age. Every child who attended elementary school in the U.S. probably experienced "Show and Tell." For those who may not know, this is some sort of a weekly educational activity where students stand individually in front of their class, and present something of their choice (their rabbit, for example) and then explain them in details (rabbit characteristics, etc). In Israel, we tend to dislike people who talk too much. We were educated on saying: "Never judge a book by its cover." I often heard criticism from Israeli workers of Americans who "deal only with appearance and not with essence."

This so-called criticism is incorrect and out of place. First, Americans are concerned with essence just as much as others. They are the great economic power that they are for a reason. But more importantly - as mentioned, we are measured quite a bit on the cover and not just on the book's content, and from the moment we chose to serve customers, we must conduct ourselves according to the rules of that reality, whether we like it or not.

We need to allocate resources and energy to better communicate with customers and develop these skills. If I sound a little repetitive, it is merely because we have failed in this area so much in the past. We need to stop accepting to hear how much "we were fine" and the client "does not understand." Instead of whining, we just have to fix it. We must take the initiative, shape the client's perception of reality as much as possible by better communicating our truth, and not settle for just a sense of inner justice.

Here are several principles and rules in the fields of service, project management, and customer perception design:

Invest in proactive communication with the client:

If you are running a project with a client, treat communicating with them as an integral part of the project. Not just tables, Gantt charts, and tasks management. Make sure you update the client regularly. Build a personal relationship with them. Tell them about your progress and successes. Warn about problems and by that, build trust.

Coordinate client expectations:
The biggest mistake I have seen in project management is that the service provider does not prepare the client in advance and coordinate expectations. More than once, salespeople promise many things the product does to have yet, declaring short timeframes that are not real and making you feel like everything will go smoothly. When reality kicks in, meaning, when there are delays and problems (and there are always), the customer is surprised, disappointed, and loses confidence in you, even though everything was expected. In general, it is better to lower expectations, underpromise and then overdeliver. Usually, the client values honesty and integrity, even if the news is not so good.

"Eliminate" problems early:
Suppose the client asks you for something unreasonable that you know the company is unable to deliver. Do not tell the client "Let me check and get back to you" to buy time, as, in the meantime, the client will develop unrealistic expectations. Tell the client immediately that it is impossible to meet their request (of course, while explaining and proposing alternatives, etc.). Problems tend to grow and not disappear over time.

Learn to speak the client's language and use it:
Many of the shortcomings in communication stem from different internal languages. Every company uses different words to express the same things. For example, the meaning of the term "Quality Check" in your company may be a system test by your people, but for the client, the same expression is used for testing in front of their end-customer control groups. At the beginning of a project, it is worthwhile to spend a few minutes creating a kind of "client-contractor dictionary."

Listen to the client and understand their needs (both at company and personal levels):
When you sell to a company or serve them, you need to consider two layers of interests constantly. The first one is of the company you serve. The second is of the specific stakeholders within that company. For example, it is possible that the decision-making managers need to show their bosses that they are tough on external service providers, and you can help them do it in different ways.

Be available and respond quickly:
There is nothing that annoys clients more than waiting a long time for a problem to be solved. Also, the "disappearance" of service providers is very annoying (when you do not answer the phone and do not return a call). Even if something is delayed, it is better to inform the client proactively than to stall until finding the solution. People appreciate proactive updating, even if it is partial.

Build a relationship with the client:
It is not enough to deliver your value. You need to invest time and energy to get to know the client personally and understand their organizational structure.

Show that you care:
For example, if there is a problem your team is dealing with, explain to the client how much effort you put into it for them ("our team stayed up all night to resolve the problem"). Do not assume they will guess it by themselves.

Be meticulous and professional:
Ensure that every email you send out is well written, without spelling mistakes, and that all the documents you provide the client with are professional and well-edited. Things that seem insignificant to us may mean a lot to clients. Imagine seeing a leaflet that says ***"This phone is now offered for sail," or "we going be ready at tomorrow."*** Be professional.

Ask for feedback all the time:
Do not wait for the end of a project to hear how you were. Request feedback directly from the client from time to time. That's how you could discover and fix the problems in real-time.

CHAPTER

3.

COMPANY SPIRIT, VALUES AND OPERATION

- The foolishness of over-secrecy
- “What the hell” approach in product development
- Focus!
- Execution

Chapter 3:
Company Spirit, Values and Operation

The foolishness of over-secrecy

One common mistake of managers is over-secrecy. When in reality, the more that people in the company know, the better their performance will be.

Too often people keep essential information to themselves, instead of sharing it. It may be a tendency to over-create drama, in which everything becomes a secret. I think this is a senseless practice.

For years, my partners and I have tried to update Cyota employees on almost every vital piece of information that has come to us. Things like issues with our product, customer complaints or words of praise, strengths that were discovered in a competitor, successful idea of someone in the company, closing a deal with a new client, summary of an important meeting with a client, developments in our market (new regulation, new competitor, etc), problems the company is facing, and the list goes on.

The simplest form of an update is a short e-mail to the entire company or relevant subgroups, once every few days depending on developments. Now and then, you can also assemble the whole company for an update meeting, but that involves disrupting the daily work, and it is best to minimize doing it. A reasonable frequency would be every two to three months.

Monthly email update

At Cyota, we used to send a monthly update in a regular format:

• The company’s current three main objectives.

• A detailed description of meeting or not meeting the goals in the previous month.

• Other developments.

This way, we could see where we had progressed each month, where we were stuck, and where the problems were. I will admit, the stress of the monthly update encouraged my colleaguesand me to operate so that we would not have to tell them every month that “there is no progress” in a particular field. The need to be accountable to the entire company certainly contributes to the motivation to meet the goals. I highly recommend every CEO to send a monthly update to all company employees.

New employees who came to Cyota from other companies were sometimes surprised by the openness and flow of information. I have often heard doubts and even complaints against the “excessive” updates in the company. I will review these arguments, and why in my opinion, they have no basis.

Excessive updates create an email overload and distract people from their work:
In reality, you can prepare a short and concise update in five to ten minutes, and you can read it in two minutes. Moreover, you can indicate in the email subject line that this is an informational update so that those who are busy can ignore the email. There are dozens of other actions that waste a lot more time than reading a short email update. Some companies have an internal intranet system, something we did not do in Cyota, but I think it is a pretty good idea.

This is sensitive information, and it may leak to competitors or the media:
In six and a half years, we were **never** harmed by a leak in the company. On the contrary, if clarified in the body of the email that it is inside information only, people will respect that. You create a type of unwritten agreement within the company according to which, on the one hand, we share a lot of information, and on the other hand, this information is not misused. Rumors by contrast are created when things are kept a secret. People do not feel the same commitment to maintaining confidentiality when it comes to rumors.

Moreover, there is rarely information that, if disclosed, would cause actual harm to the company. In my opinion, this issue is highly overrated. Usually, the success factor in competition in a market is its execution ability not because it's secret.

Only managers should be exposed to this information. There is no point in sharing it with all the employees:
That's it. We have reached the bottom of it. This sentence should be read as follows: "*We are very important managers. The more secrets we keep, the more important we will be viewed by our employees. Moreover, the more we hide our actions, the harder it will be to see all the mistakes we make, which will strengthen our status as managers*".

A few years ago, while studying Law, I became acquainted with a beautiful saying by the American Supreme Court Justice Louis Brandeis: "Sunlight is the best disinfectant." Was referring to government transparency and freedom of information. The idea is simple and valid, in my opinion, regarding managing a company as well: the more revealing the actions, the fewer mistakes and arbitrary actions are made. This is for two reasons:

- **External audit:** More people will be able to spot a mistake and get it corrected sooner.

- **Self-criticism:** If people know what's going on, the fear of "looking bad" will make managers act correctly and adequately, to begin with. The need to be accountable makes the manager think more thoroughly before making decisions, which is good. The magic word is - Accountability.

At one point, a problem arose that threatened the very existence of Cyota. Instead of hiding it, we emphasized it (we even gave it a unique nickname: "saving xxx"). That was how the entire company helped, each in his way, to solve the problem.

The benefits of information sharing are enormous.

First, every startup has many activities going on at the same time, and many people come in contact with customers and partners. For any person to be an ambassador of the company, they must first be updated. For example, if a problem was discovered in our product or a strength was found in a competing product - if the company's personnel are not updated about this vital information (because "management is working hard to solve the problem ... and there's no point in talking about it yet"), they will be surprised over and over again when they are out in the field in front of customers, and this will cause unnecessary damage.

Second, startup innovation is a chaotic and unorganized process. It is impossible to know where the next successful idea will come from. However, it is possible to increase the chance of producing good ideas by equipping people with the most up-to-date information and goals.

A third advantage is a reciprocity in information sharing. When company employees see that managers are not afraid to be exposed, they will also respond with openness. This is how critical information (usually problematic) will flow in both directions.

Finally, and almost apparent - people act with more motivation when they know the entire company's goals and happenings, not just their department and staff.

Of course, it is neither right nor practical to share everything with everyone. But the rule should be clear: everyone should know unless there is a very good reason not to share.

"What the hell" approach in product development

Exercising over-caution in a startup is a recipe for failure.

Background
Location: Cyota offices in Israel.

Situation: After two years of hard struggle, we reached market leadership in our core product. But we were stuck. It is clear to us that to grow; we must develop another new product and introduce it to the market. What should we do? We have set up a committee that will focus on creating new product directions and examining them. The committee looked at six potential products (a subgroup examined each product) in light of several parameters: the degree of need in the market, adjustment to the company's capabilities, existing and future competition, entry barriers, competitive advantages, and more. Each parameter was given a score. In the end, the product development committee convened to make a decision. Impressive process, right?

The result: nothing. No product matched all the required parameters, and in all of them, we found problems and reasons for expected failure, so we went back to the starting point - no new product. We were stuck.

Story:
One day, we got familiarized with a new phenomenon of an internet scam called phishing. Without tiring you with an excess of details, it is an email scam in which a thief impersonates the bank and thus, fraudulently obtains the victim's personal information to misuse it.

After a quick inquiry, we identified that many banks are affected by these attacks. We developed an idea - establish an operational center that will be staffed 24/7, identify a Phishing attack on a bank, update them and act in various methods to eliminate the attack. In return, the bank will pay us a monthly subscription fee.

Instead of making an endless analysis of the idea, this time, we acted. Within a few days, we set up a task force to promote this service. We quickly researched the phenomenon, established the operation center, formulated work procedures, hired the operation center employees, and created necessary collaborations with other companies.

The team convened every three days to monitor task performance, respond to developments and assign new tasks.

We believed we identified a real problem, so we acted as if our tails were on fire. We were afraid to miss the opportunity because it was clear that others will soon enter the field. Instead of performing an unnecessary in-depth analysis, we ran with the idea to two or three clients who expressed interest and some reservations.

After four weeks: Now, a decision needed to be made. You sit in a room and deliberate - launching and go-to-market, or continuing to wait? After a loud discussion, Amir Orad, the company's marketing director, made an in-depth multi-layered and thoughtful statement. The statement reflected the mood we were all in: "What the hell? Why not? What do we have to lose?". We went for it.

The next day: We announce a green light in Cyota and set a deadline for the launch of the service (in between, we also found a name for it - FraudAction). We worked frantically to meet the deadline.

After fifty days: Launching the service. A promotional campaign for clients. Product papers. Prices. Training sales team. Press Release. Everything.

The result: Two years later, the company signed long-term contracts with about a hundred (!) banks worldwide, and the service protects more than 150 million end-clients. The operations center detected and eliminated over 15,000 attacks on our customers. The service generated millions of dollars in regular annual revenue, and sales were growing from month to month. FraudAction is one of Cyota's three most successful product lines.

Years later, even after Cyota was acquired by RSA, hundreds of employees still operated this service, and in 2012 they crossed the half-million-attack line that the center neutralized.

What is the lesson?

Developing new products is a rather complex field and cannot be covered in a short article. Still, it is possible to learn many things from this case study: You need luck; Contrary to popular belief, it is not always right to "listen to the customer" because, in futuristic products, it is often difficult for the client to define their needs and desires; That task groups are a useful tool for rapid progress and many more lessons. But for now, we will focus only on the importance of daring and taking risks in the startup.

This is not to preach reckless and irresponsible actions. When you are about to launch a new product, it is clear that you need to perform a reasonable and sensible analysis. But startups by nature can and must take more significant risks than large, well-established companies. Young companies are in an inferior position compared to older companies in many areas (resources, reputation, customer access, etc), but this can itself be turned into an advantage because a young venture has less to lose. A young company does not have Wall Street blowing in its back and the analysts who examine every step superficially and immediately punish for every failure. Startups must not give up this advantage. They must dare more.

A startup that does not take the initiative and risks will eventually lose customers (who are looking for a long-term partner to solve new problems for them), lose investors (who are looking for a good return on their investment), and lose employees (who are looking for stimulus and participation in a growing venture).

Extreme caution will eliminate any innovative direction and expose the startup to a greater risk – standing still.

Focus!

One of the big dangers for startups is jumping on too many opportunities.

A while ago, I met an entrepreneur in Israel who told me about his new company. He was passionate about the idea in an admirable way and asked me for my opinion. Each time I asked him for clarification - who he thought were the potential competitors, his execution plan, the common obstacles, etc - instead of answering the question, he enthusiastically described additional possible derivative products of his technology. This is a typical case of lack of focus and shooting in all directions. Such unfocused conduct could eliminate a startup.

Take Google, for example. The company currently provides hundreds of different services. However, it only started this expansion after gaining success in its initial product, an Internet search engine. At the beginning of their journey, if the Google entrepreneurs ran in six directions simultaneously instead of focusing on just the basic search engine, they most likely would have reached mediocre results in all avenues, and nothing might have come out of it. However, Google acted differently, and for several years they have focused on only one task: to become the best and most popular search engine in the world. Only after they have done that and gained a loyal audience, they expanded their range of services.

The focus dilemma is not simple. When there is an interesting opportunity beyond the company's main effort, it is not easy giving it up. It may generate a decent income, may mark a huge market that could lead to the company taking off, and after all, how can you refuse a client's offer for a product? This is every entrepreneur's dream.

Energy is a scarce resource in a company. It is almost impossible to do many things at once in a good way. CEOs must get used to this thought pattern and build an effective and quick method for analyzing and making decisions about new opportunities in the organization. What makes the situation even more difficult is that sometimes the right thing to do is jump at the chance (see "What the Hell" approach in product development). The line between focus and narrow-mindedness is thin. Making the right decision on which side of this line to be on requires a lot of mental effort.

There is a stage of brainstorming in every new idea for a company or product, but there is a point when one must stop and focus on a very specific direction and run with it as hard as you can while making adjustments on the move. There is a typecast of people that tend to get bored with one idea and rush to move on to something new. Without self-discipline, such a person will eventually be left with many ideas but with no commercial success. In the Israeli army's cadet course, we were taught that it is better to complete a charge even if it is not the optimal decision than change direction every second ("charge to the right... actually, you know what - charge to the left").

When establishing a company, as you have a surplus of ideas, it is required to decide what is the immediate idea which the company will focus on and store the other ideas for a while. When you introduce investors to the company, you should create a clear separation between the immediate work plan and the vision and potential in the long run. This way, you can show that you have your feet on the ground on the one hand, and on the other hand, express the full potential the company has.

33. The Exit

Throughout a company's lifespan, there is a constant tension between taking advantage of opportunities and focusing efforts. Leaders should be aware of this and concentrate their energies on two or three main tasks, no more. Without concentration of effort in a startup, the company will find it hard to do a lot. Every long journey begins with a small step.

Execution

An excellent strategy will not help when the company is lacking performance.

Most startup companies fail.

Entrepreneurs usually blame the failure on the market problem ("we were ahead of our time. The market is not there yet"), the failed strategy, or the lack of support from investors.

In my opinion, in many cases, the failure stems from something completely different, more prosaic: Lack of execution. In other words, the team did not take work seriously enough.

It seems unnecessaryto write about this issue since it is clear that serious work is needed. But it's a phenomenon that hurts us in so many areas in our lives that it needs to be taken seriously.

In the public sector in Israel, for example, the situation is complicated. Surveys have found that 70% (!) of the Israeli government's decisions are not being carried out. Amazing, no less.

President Truman once said mercifully about his successor Eisenhower: "Poor Eisenhower. When he was a General and gave orders, the orders were carried out. Now he will tell people 'do this, and that' and nothing will happen."

The most common problem in this context is when you get confused and believe that words and even decisions themselves produce results. It's a mistake. Words by themselves mean nothing. Who among us has not spent two hours discussing, for example, the penetration strategy of the product to the European market. Seven people arrive at the meeting, they seriously debate the pros and cons of cooperating with a local distributor, how to position the product, pricing, and more - and then the meeting is over. The only thing they forgot to define was who is responsible for doing what and when.

One of the overused words in my opinion is "need." We need to make a plan. We need to close a deal with suppliers. We need to clearly define the product. But who the hell "needs" to do that?

Common mistakes that hurt company execution

Lack of proper goal setting:
Every employee in the company must know at any given time what the company's current goals are and what his or her personal goals are.

In my company, I sent a monthly email to all the company employees (as I shared in the article about the foolishness of over-secrecy). The email included the company's 3-4 main goals and how we are in meeting those goals. By the way, the need to report to the whole company about our situation personally drove me to meet those goals. After all, it is not particularly pleasant to write month after month that we have failed to introduce our new product to the market.

No assignment of people and deadlines to tasks:
An orphaned task will not be executed, that's a fact.

Too many supervisors for each task:
Each goal or task should have only one person in charge. Otherwise, everyone feels free from performing since the trouble of many is half the consolation. It is incorrect to say "*team, let's do it,*" but rather "*Danny shall get it done by next Monday.*"

No proper follow-up and supervision:
Let's say you set a goal correctly. If there is no consistent format for ensuring execution (for example, having a weekly follow-up meeting or email update), this is a shot in the dark. The assignment may get done arbitrarily, but over time, when people see that no one is checking, they just do not. There are very few people who do not need any follow-up supervision.

Execution is not celebrated in the company:
If the boss gives credit to people who have brought good ideas and is rewarding people for intelligence and creativity but taking for granted those who execute and get actual results, the company will implement a culture of inefficiency. You don't need philosophers; you need smart working people.

No proper planning and feedback:
Do not confuse performance with acting thoughtfully (it does not contradict the previous section!). The best course of action, in my opinion, is a continuous cycle of thinking and planning that leads to action, which leads to thinking again and vice versa. For example, when raising capital, it is advisable to constantly polish the story and presentation before and after each meeting with investors. Before every new move in the company (developing a product, opening a market, raising capital, etc), you need to think and only then perform.

No documenting and notes taking:
One way to know if a person is serious is if that person is taking notes. I am not a big believer in meetings where no one is taking notes and documenting decisions. What we do not put on paper is usually not done.

Excessive tasks and lack of focus:
As soon as you take the job seriously, you suddenly understand why you should not allow the excess of tasks and objectives. A company can adopt 3-4 key goals, but not 15. It is simply impossible to withstand the overload. Therefore, you should execute on what you chose to focus on.

The good news is that, unlike other fields, any company can adopt a culture of execution. You do not need great talent or extraordinary intelligence, just self-discipline, and consistency.

The problem is that it is not that fun. It's quite annoying to summarize meetings and discussions, set deadlines, follow-up, and be the eternal and perpetual "nudger" who makes sure things are getting done.
But as I said,"T*hose who nudges, win*".

CHAPTER 4.

CRISES

- Help, money is running out!
- Even at war, the show must go on
- Economic crises and your startup
- Cut salaries? Give options!

Chapter 4: **Crises**

Help, money is running out!

Mistakes and lessons in a startup in need of cash.

One of the most common situations during a startup's lifetime is a lack of cash. The reason is simple: when entrepreneurs raise money, they tend to present an optimistic development and sales plan. This is due to the true belief by the founders regarding their ability to develop the product fast, which is incorrect, as well as underestimating the complexity of the product sales process. At Cyota, we believed that we would be able to develop the first product in six months, and in practice, it took a year and a half. The sale process to our clients had been much longer and harder than expected.

A year and a half after the company was founded, we were in a situation familiar to many startups:

We had money for only one month of activity. A few weeks earlier, the board had replaced the company's external CEO, and I was assigned the job.

We signed a significant deal with a large American client; however, early revenues were expected only after about eight months. We were now required to bridge over a substantial period of time, and we had no money to continue paying salaries for more than thirty days.

We took a series of rescue actions:

1. We carried out two layoff rounds which led to a reduction in the number of employees by two-thirds.

2. We cut executive salaries by 25% and the wages of other company employees by 15%.

3. We focused on only one thing: selling the current product and delivering it.

4. We approached existing investors with a rescue plan while explaining the business potential and size of the additional funding we needed.

To the credit of our leading investors (Poalim Ventures, Giza, and Israel Seed Ventures), they stood by us in these difficult moments. The funds set conditions for investment: Raise a sufficient amount of money that could sustain you for twelve months, until you meet the goals of the plan. Otherwise, it's a waste of money.

After an intense internal funding round among all our investors, we lacked a certain amount to meet the minimum threshold. At this point, each of the founders opened their wallets and invested as much as they could. But even that was not enough. The one who finally saved the company was the grandmother of Ben Anush (one of our funding team). She filled in the gaps, the investment came to fruition, and the company was saved.

Lessons for cash-flow management

Do not deceive yourself:
The biggest lesson is to avoid this situation in advance. For quite a while, we fooled ourselves. Instead of facing the harsh reality, we preferred to indulge in Excel spreadsheets with unrealistic predictions. Our CFO, Gilad Zvi, is the one who managed to wake us up, face reality and make difficult decisions. During this period, we adopted a culture of "the emperor is naked" in the company and became more pessimistic and realistic.

Be early in making decisions:
There is a natural tendency to postpone unpleasant tasks. This is especially true when it comes to firing a dysfunctional employee. The manager must always remember that this is not an immoral act. On the contrary - a manager that postpones the necessary dismissal will cause the company to close down and harm all employees instead of some. "This is a false leadership behavior which is derived from cowardness." The painful decision to fire 50 people eventually created jobs for 400 people and their families. If leaders cannot execute difficult decisions, they should look for another line of profession.

Cut deep and in one blow:
When it comes to cutting down to survive, it must be done deeply and vigorously. Cut with one blow and avoid multiple small cuts (we were wrong doing it in two waves instead of one). Employees can understand the need for firing if there is a clear end to it. The moral damage from repetitive layoffs is enormous. The layoffs must be made with compassion and with preserving the rights of those laid-off, but let us not deceive ourselves: there is no "good" way to lay off people. The impact on laid-off employees and their families is always significant.

Harness your managers for this move:
If each manager tries to defend his territory, there will be no chance of getting to the necessary budget reduction because it is difficult for the CEO to know each employee's real importance. A mental "switch" must be made to cause managers to volunteer and help advance such a problematic move.

Focus:
The company's activities must be reduced to the minimum necessary for survival and for meeting essential goals and plans, also at the expense of essential yet long-term issues. Giving up participation in an important conference, postponing equipment purchases, considering every new recruitment ten times, etc. In such distressed situations, If there are doubts regarding the need for a specific position, it probably could and should be terminated.

Scrape funds and turn the world upside down for the company to survive:
Do not give up. Consider looking for one-time projects, scrape loans, cut salaries and locate grandmothers willing to invest money to save the company.

Present a hopeful plan:
The Leader must present a clear plan on how the company will reach balance and growth. Employees will not agree to stay and investors will not continue to support if there is a sense of dying. The leader must answer the question, "why keep this company?" However, in this period of time, reliability is more important than ever.

The leader should avoid “dragging it around” with employees and present them with the real situation and its complexities. This will increase the confidence of the investors and employees.

A fundamental shortage of cash flow is a challenging experience. A good manager will anticipate this situation ahead of time by examining reality (we failed at this at first). When it is necessary to make cuts, the executive managers must understand that any delay in getting it done and any show of weakness are unethical practice, as it endangers the company’s very existence and the workplace of the remaining employees. To allow a company to survive, it must make difficult decisions as early as possible.

Even at war, the show must go on

In turbulent days, startups should communicate ‘business as usual’ to customers.

Written during the outbreak of the Second Lebanon War. I left things as they are because they reflect insights about leadership and management during real-time crises.

As disasters happen in real-time, (in this case, as rockets were falling on Haifa and the north of Israel), you may be tempted to treat a tech startup’s routine with contempt: product development, customer service, sales, etc. After all, what’s so important right now with regards to another big tendering process with a client, or a bug in our software, as our soldiers are in the front line and our country is at war on two fronts?

A startup company that operates globally must not think and conduct itself that way. You need to do whatever you can to show stability and meet your regular goals.

Every few years, the State of Israel finds itself in a difficult security situation of terrorist attacks, missiles, extensive operations, etc. However, things are actually calm most of the time. Our clients and investors expect us to continue to operate and serve them at all times like any other company. If they feel that their purchasing orders, projects, or products are at risk, they will refrain from doing business with the company in the future. Although some may show sympathy, in the moment of truth of choosing a service provider, all risks will rise to the surface. There are many alternative service providers to you, and with all due respect to the fact that you’re from Israel, they need to prioritize their own business goals.

Therefore, startups that operate in distressed locations and/or times must make a special effort to convey stability, tranquility and continue to operate as usual, especially when the surrounding situation is turbulent. After all, we know that in just a few days or weeks, things will return to normal, and the way we deal with the crisis today will directly impact our customers’ trust in the company over time. At Cyota, we faced quite complex situations, but we always tried to distance the customers from the situation so they will barely feel the change.

Executive managers in the company must be active in these situations. All the ideas listed here are based on common sense. However, they should not be taken for granted, and you should never assume that no action is needed since “everyone will already know what to do.”

What to do in times of crisis

Convey calmness and stability in the company and tell the employees they should work to meet all tasks, as usual:

It should be very clear to everyone that we do not stop working. Except for specific people who are required to leave everything and take care of the situation, there is no reason not to come to work. Managers need to turn around and make sure people are focused on tasks. However, it is required to inform employees about the safety plans and define an address they can turn to with any questions. If people still do not want to come to work due to concerns, they should be allowed to do so, but never encouraged.

Communicate to non-local team members:

We Israelis know that unlike the images displayed in the news, the actual situation is always safer and calmer. This is not the case with non-Israeli workers in the company. You need to initiate communication with them proactively. Assume that their families and friends ask them many questions, which might stress them out. Moreover, to convey calmness to customers, they must first feel calm and knowledgeable themselves.

Make sure there is a safety plan in the workplace:

It is appropriate to define one manager in the company responsible for employee safety during crisis times, and the CEO should review the plan and approve it. The procedures should be transferred to all company employees and inform them who is responsible.

Prepare a message for customers:

This issue varies from company to company. Some companies are very "Israeli" in their DNA and persona, and some are global, with an R&D center in Israel. In any case, you must prepare a message to customers in advance. In some companies, it is worthwhile to issue a statement to customers proactively. It is useful in other companies to continue business as usual and release the message only for customers who have specifically asked. Make sure every employee who is in contact with customers is adequately briefed. At Cyota, we have prepared a customized email for salespeople and customer service people so that they will be able to send it whenever needed. Main message: Services continue as usual, we act according to plans adapted to such situations. In any case, avoid sharing stories of heroism and action with customers *("Listen, Chris, this morning a missile fell near my house, but we in Israel are used to it")*.

Build a "continuity" and work from home plan:

People may be required to stay home at some point. Be sure to prepare a plan for such a situation. The plan should include necessary tech and logistic support, as well as ensuring proper communication. In the past, we took care of hiring babysitters who were prepared to come to the company's offices to take care of the children when the kindergartens were closed.

The current situation will eventually calm down. The way a startup company conducts itself today will significantly affect its strength and results in the future. The company's managers must convey calmness and continue to conduct themselves as usual.

Economic crises and your startup

What is expected for the tech industry, and what actions should a CEO of a startup take?

Written during the outbreak of the global economic crisis in 2008.

I would like to thank Avi Zeevi - Managing Partner at Carmel Ventures, who contributed his insights to this article.

During historic economic crises that our generation has yet to experience, and no one has any idea when and how it will end, CEOs must prepare wisely and quickly for a challenging and long period.

At the beginning of the 21 century, high tech has gone through several difficult crises, such as the explosion of the Internet bubble, 9/11, etc. Despite their differences, we can learn from them what we should expect and how to prepare.

What is expected for the high-tech industry?

In one word: bunker. In uncertain situations, everyone closes their wallets and does not part with cash quickly. So, "cash is king." Funds slow down the pace of investments, sometimes to the point of stopping new investments for a while. You need to understand their world: a significant proportion of investors are in the process of raising their own funds, and now they do not know if they will be able to complete their own funding round.

Another problem is that the IPO market is effectively almost shut down. Without IPOs, the entire exit chain is impacted. Acquisitions are less likely to be made, and those that will still be purchased will be priced much lower.

In light of this, and from past experience, VC funds are expected to preserve existing companies to get them through this challenging period. In the dot-com crisis of 2000-2003, many funds performed what is called – Triage - classifying their companies to those worth continuing to support because they have a chance to succeed, and those you give up and stop putting more investments into.

Customers are also expected to be affected. In times of economic crisis, customers will only buy what they must and give up the nice-to-have products.. They will ask to open existing contracts for renewed negotiations in order to lower prices. I remember one client who demanded a 40% price reduction from us *"because this is the CEO's directive regarding all service providers."*

So, what should we do?
The most important thing for CEOs is to immediately internalize that the world has changed and that they must take several actions.

What to do during a financial crisis

Perform an honest assessment of the impact of the crisis on your company:
You need to analyze your sales forecast (pipeline) realistically and go through each client to understand what is to be expected from them - which transactions will be rejected or canceled and update revenue per client. Be a realist, and do not fool yourself.

Save your money; Make sure to buy more time for the company:
Many startups operate at expected losses while expecting to reach a point of equilibrium. In a global financial crisis, the path to profitability will likely take substantially longer. For example, suppose in the current forecast, you assumed that within 10 months you will reach profitability, and now in light of your income analysis, you think it will take 15 months (I would recommend you assume 20 months). In that case, you should plan your expenses accordingly. Imagine you took a deep breath and dived into an underwater tunnel, and it suddenly becomes clear to you that the tunnel is twice as long as you thought. Think twice before recruiting new employees, but recruit if necessary. Stop wage increases decrease fixed expenses as much as possible. Reconsider non-critical projects. You may even be forced to cut salaries or employees. During a similar crisis in our company, we cut both our salaries and had to lay off employees to survive the crisis. If you have to cut back, here are two tips: First, cut back on your salary and your managers' salaries. Second - execute the cuts "in one blow" and not in small, continuous blows that create uncertainty and apprehension.

Focus on the core:
Identify the three things that are important to your company and focus your energies and resources on those.

Talk to your employees:
It is crucial during such a period to openly explain the consequences of the crisis on the company, what are the main goals, and what is your plan for the near future. Do it calmly and peacefully, but talk! This is not the time to disappear or remain silent.

Look for opportunities:
The cliché that every crisis is an opportunity is true. For example, you can now attract external talents and bring them to the company. This does not contradict the previous tips. Put yourself in the customers' shoes and try to think about what exactly can interest them now. For example, something that will help them reduce expenses. Suddenly some competitors will disappear from the arena. In short - keep an eye out and look for ways to take advantage of the crisis and use it to benefit your company.

Cut salaries? Give options!

If employees suffer the cuts, they should also enjoy the fruits of success.

In times of economic crises, startup CEOs get a quick reality check - they understand that there is no choice, and they must reduce expenses to survive the crisis. Companies that do not reduce cash burn simply will not survive.

Naturally, the main and most available place for cuts is salaries of executives and employees. The cuts usually range from five to twenty percent of the salary. It is possible to make differential cuts and minimally hurt the already low wages. It is also appropriate to set a personal example and for management to cut their salaries at a higher rate than other employees.

Here's an idea that might make the difficult move a little easier: When you cut employees' salaries, give them stocks or options in exchange for their salary cut.

The logic is simple: if employees share pain and hardship during difficult times, then they should also enjoy success if and when it comes. The economy is moving in cycles. In times of high tide, stocks are a valuable commodity, while in periods of recession, "Cash is King" and should be preserved, but it is possible to be generous in stocks.

How to do it?

There are several techniques to do this. One way is to convert the salary into stocks or options. If a particular employee lost $1,000 per month from his salary ($12,000 per year), you give that employee options equivalent to the investment of $12,000, according to the most recent valuation.

Another possible way is to grant options with no direct correlation to salary cuts. There is flexibility in determining the company's value, and it is also possible to limit the total allocation to avoid an "open cheque" and create certainty in the structure of the company's holdings.

How do I persuade my investors to agree? After all, they will be diluted following the allocation of shares.

In crisis times, your investors are well aware that it is tough to raise capital, and they will surely be happy to receive new investment in the company to increase its survival chances. Tell them you've found a new "investor" - the employees. The employees are willing to invest, say, $300,000 over the coming year - this is the amount of salary savings - and like any investor, they deserve a return. Once you have accurately calculated the number of shares allotted (usually individual percentages) and the dilution rate for investors, you will realize that this is not a particularly heavy dilution. There are, as mentioned, also softer formulas for the allotment of shares.

In times of crisis, everyone is trying to reduce investment risks (downside) even while harming the potential yield (upside). This is also the case here - increasing the company's survival in exchange for a slight dilution.

Why should I give employees shares now? They are entering a recession anyway and do not have many alternatives. They should be grateful they even have a job.

First, the sky will not fall if you give up the idea. But it is not very wise to treat the employees as kings in good times and send them on vacations, whereas in times of recession and depression, treat them as prisoners in the company without options. CEOs who behave in this way will lose their employees' loyalty, and rightly so.

CHAPTER

5. THE CEO ALONE

- What, exactly, should the CEO do?
- The CEO is always to blame
- Your board of directors is not the “council of sages”

Chapter 5:
The CEO Alone

What, exactly, should the CEO do?

"What do you do when you wake up in the morning?"
***(known Israeli song, by Arik Einstein)*.**

Let's start with what you don't: the CEO is not the "company commander." CEOs do not have to decide on the strategy by themselves and definitely do not drop down decisions. On movies and TV shows (especially old ones), the CEO is usually an authoritative male (and very attractive in many cases) that makes cold cut decisions while his employees anxiously wait to hear what he has to say, and immediately run to do what he ordered ("let's go, boys").

In reality, if CEOs of a startup conduct themselves that way they will soon find the most talented employees leaving the company because smart and gifted people do not like having things dictated to them. Those CEOs will also find that most of their decisions are wrong because no one is that talented.

So, what do you do?

When a company is just starting out, you are not a CEO, but rather an entrepreneur. You need to be part of every task, small and big alike: renting offices, sales, writing code (when relevant), etc. Bottom line – whatever it takes to push the venture forward. As things do move forward, and the company grows and matures, here are the main actions, as I see it, a CEO needs to take:

Hire exceptional talents:
I believe that the real HR manager of a company needs to be the CEO. The most important decision you make is who you recruit to the company and who you let go of. Strategies and products may change, but excellent talents stay excellent.

Manage the strategic thought process:
I wrote earlier that CEOs should not "dictate" the strategy. Simply put, they are not necessarily the smartest person in the room, and their mind is obviously weaker than the cumulative mind power of their employees. If you think a CEO sits in a room, thinks, goes more in-depth, and finally comes up with a genius strategy, you would be wrong. CEOs should be more like project managers who inspire others around them, organize meetings, summarize them, and take care of the decisions' follow-ups (makes sure they are carried out and executed). In short, kind of a "staff sergeant." Yes, that is all you are: the strategic thinking process's staff sergeant.

'Rock the Boat':
The employees are all busy. Unlike you, they actually have a real job to do. You are the only one that should have free time to lift your head above the water and see what needs to be done. A company tends to stay fixated on the present. You have a good product,

so everyone is focused on developing and selling it. Your job is to constantly make sure you are not fixated: constantly identifying approaching threats and opportunities that come around.

Organize task forces and "commando projects":
From time to time, it is essential to assemble a task force that distances itself from the company, like a special commando unit that disengages from its main force for a special-op. This is done to promote a goal that is not part of the company's routine activities. For example, testing and launching an innovative product. When you want to move fast without distracting the whole company, you should set up such a team.

I used to head such teams, at least for the first month or two, just to make it clear that we were serious about it. It is complicated for others to get away from their daily tasks and responsibilities and push such things.

Note: In my opinion, it is wrong to set up more than one such team at a time (maximum two) in a small company.

The CEO is always to blame

CEOs should live by the perception that every failure in the company results from their own actions and personal failures.

Every company suffers severe failures and serious malfunctions. When this happens, there are several different types of leaders, with different typical responses.

One response is pointing an accusing finger at others. Of course, a company where executives operate that way won't survive. Accusations are not helpful, and they direct everyone's energies to internal wars instead of solving the problem. This may sound obvious, but in many cases - that's what's happening.

A second and more sophisticated response is to pretend to take responsibility for the outside world ("Ministerial responsibility", as it was also called in Israel after the 1973 Yom Kippur War, for example). The scenario goes like this: A failure occurred, and the senior manager announces with great chivalry that he is "taking responsibility" on behalf of his people because he is the one standing at the top of the pyramid. However, on the subtext level, he means that he was not really directly linked to the incident and is not to be blamed at all. After taking this imaginary responsibility, there is no follow-up, i.e., it is an empty statement that might sound nice. Such managers do not act ethically, do not feel responsible, and certainly will not fix the problem or change their ways.

A third possible response is a genuine sense of general responsibility by managers. Here, they act as leaders by **honestly** feeling responsible by virtue of their role. They will sometimes offer their dismissal or repent publicly. This is a better response than the former in that it instills an acceptable norm in which everyone first examines themselves. The problem is that beyond taking responsibility and personally paying for the mistake, it does not lead to concrete improvement, and there is no real benefit in doing so. Worse than that, a company cannot absorb the loss of good managers who have failed, for there is hardly a manager who has never caused a malfunction or failure. This approach, although seemingly more moral, will not benefit the organization.

The fourth and right response in my opinion is a fundamental sense of responsibility with a clear understanding of the "chain reaction" and its much needed in-depth correction and improvement. To understand what the chain reaction is, the leaders must ask the question: "how exactly did my actions and behaviors directly cause this failure?"

For example, suppose there was a malfunction in the company's product that caused damage to one of its clients. This client called the customer service personnel in the company and received bad and indifferent treatment. The client got upset and canceled a big contract with the company. Definitely, a severe failure. By the way, at Cyota we had similar cases that luckily ended up with the client settling for just a reprimand.

Good leaders, after turning tables to get the client to come back, will analyze the situation as follows:

First, as stated, they will ask themselves "how exactly did my actions and behaviors directly cause this failure?" In this case, part of their answer may be for example:

A. I did not instill the value of "customer service" as a critical one in the company and did not prioritize this issue. If I had done that, the company's employees would have done everything in their power to handle the client's request.

B. Even though I knew my customer service manager was mediocre, I compromised on keeping it as is because I did not dare to confront and replace the manager. This manager has created a mediocre department where such malfunctions are likely to occur.

Second, good leaders will draw and implement the key conclusions. In this example, they will work to instill customer service values by a series of actions and will replace the customer service manager with someone better even though it is

unpleasant. By the way, after failures occur, it is even more challenging to replace team members since it may be perceived as a "witch hunt." Therefore, the lesson is that if managers are not suitable, they must be replaced before failures occur.

Finally, good leaders will inquire and investigate on a more abstract level and produce and apply broader lessons and actions. In our example, good leaders will themselves whether there are other values to be instilled in the company, where it may be taken for granted but should be taken care of as well. They will also check if there are any other mediocre executives in the company that they dread replacing, and in general, whether there is a compromise on the quality of executives in the company.

This is not a recommendation for leaders to publicly repent whenever there is a problem - leaders who act like this will not survive. There is certainly no intention here to cause an external onslaught on CEOs for every mistake. A distinction must be made between outward appearance and internal perception. It is appropriate for CEOs to live according to the perception that any failure in the company is caused by their own actions or personal mistakes, even though sometimes failure or success is mostly a result of luck. Perception of self-responsibility is only meant for correction and improvement and not for unnecessary remorse. Everyone makes mistakes.

From personal experience, I can say that a senior manager's mistake usually causes much greater damage than an employee's mistake. By the way, Leaders' own mistakes may remain confidential, and sometimes only the leaders themselves are aware of them and the damages they cause.

Leaders must not indulge in persistent feelings of guilt due to failures, and lose sleep for many nights with the empty thoughts of "If only I had done things differently." It is already in the past, and it is impossible to go back in time, but it is certainly possible to fix what is fixable and do better in the future.

When a company suffers failures, the initial tendency of some executives is to blame others. But as CEOs, if any of your managers are incompetent and consistently mess up, and you are only complaining about their poor performances, you are to blame for allowing an unfit person to serve in this position. When a company experiences a major failure, the leader must follow the chain reaction from end to end, analyze, and fix it for the future.

Every employee and manager in the company should always examine how their own actions affect the company's failures or successes. Adopting a culture of inquiry and constant self-improvement without pointing an accusing finger will soon seep to all management levels and employees and lead to continuous improvement in the company.

Your board of directors is not the "council of sages"

It is not the job of investors and the board of directors to manage the company for you. Some ideas for managing existing investors.

Let's start with a reality check: No one will run the company for you. No one will solve the problems for you. Not the board of directors nor the investors. The sooner founders understand this, the better off they will be.

Here's a story. One time, we dealt with a significant problem with a new product that we had just launched. It was still not clear if this product had a right to exist in the market. I decided to bring the issue up for discussion with our board. I described the difficult problems we faced, and I shared my concerns with them. I asked them for their advice.

The result - We did not gain any new insight or progress on the matter, but I managed to cause a lot of unhelpful concerns with the investors, and I had to spend a lot of time over several months managing investors who became concerned due to the discussion mentioned above, instead of focusing on solving the problem. This discussion, instead of benefiting us, caused me months of dealing with distractions.

Many VC funds and investors are neither strategy experts nor management experts. Many VC partners come from a financial background, rather than an operational one. Therefore, do not assume that the investors are the "Council of Sages." We are dealing with people that are quite smart, but as mentioned, not everything they say should be treated as set in stone.

Moreover, in order to deal with challenges in the company, you need an in-depth knowledge of the product, market, competition, etc. You need to "live the company."

It is unrealistic to expect board members that come once every six weeks for a meeting to effectively handle problems and challenges, even if they are exceptionally talented.

If I were a board member, I would expect the company's CEO to raise problems and present the action plan for a solution. Do not leave dilemmas without answers. After all, no one knows the company like the CEO. If CEOs are clueless, they should find another job. The role of the board of directors is to supervise the company, not to manage it.

Therefore, it is worthwhile to manage your work with investors baring two goals in mind:

Goals for working with your investors

Create backup and support by investors in you and the company:
When a company builds investor trust over the years, the chances are that these investors will support the company during difficult times when they arrive.

Allow the company to operate without excess interference:
If investors and the board of directors believe in the management, they will try not to harass and interfere with its activities. In short - they will let you do the work quietly.

As a startup CEO, if you find yourself investing more than 10% of your time in managing the investors and board, it means that something is not right.

Some ideas for managing the existing investors

Communicate a lot, and proactively:
Investors want to know what's going on. It is their prerogative. They have invested a lot of money in you. If you do not update them regularly, they may develop false concerns. They are likely to call you to get an update. Suppose you have 25 investors. A load of managing 25 phone calls is enormous. You can avoid this by sending updates proactively. One email is worth 25 calls. Think about it.

Share bad news early, and present the action plan:
It is imperative to update your investors with the good news and bad news. They must not discover a serious problem indirectly. But as stated above, never present a problem without the solution.

Share good news only when the achievement is definite:
Here's an example. A client has informed you that you have won a big tender. Wonderful. Do not rush to update investors until it is final and the client has signed the agreement with you. The damage caused by a positive update that turns out later as a false one is much greater than the benefit coming from the early update. It is better to be silent until good news is definite.

Avoid creating extreme moods:
It is advisable to avoid euphoria when something good happens, and depression when something bad happens. It is best to mitigate attitudes and generate stability.

Define your goals at any given point in time:
What do you want from your investors right now? Are you close to raising more money? Do you enjoy stability and "business as usual?" Tailor your actions and requests from them to the right cause.

Strive to isolate your company from the investors:
Your activity with your investors and the board not contribute to growing the company (unlike acquiring clients, developing products, etc). This is in a way, a waste of time and energy. Therefore, try to isolate executive managers (except for the CFO and CEO) from as much interaction with investors as you can. It is advisable to define the CFO as the point of contact with them, taking in their inquiries and communicating back, thus freeing up your time and the rest of the employees' time for useful activity. Every minute your sales managers talk to investors is a minute they are not with a customer.

Stimulate your investors:
Assign them tasks. For example, if you want to reach a particular client, send an email to the investors and ask them if they have a connection to that client. Get them to work. Let them feel they are part of the company. Sometimes, this will also yield beneficial results. Besides, busy people ask fewer questions.

Working wisely with existing investors will allow you to operate without significant disruptions and result in them being by your side even in difficult times. However, always remember that you carry the full responsibility for making decisions, not them.

CHAPTER

6.

MANAGING PEOPLE

- Hiring: Do not rely solely on gut feeling
- Shattering the myth: Leaders should correct the weaknesses of their people

Chapter 6: **Managing People**

Hiring: Do not rely solely on gut feeling

Intuition is not a substitute for the process when interviewing candidates.

One of the things that characterize good managers is that they are in a constant state of talent-hunting. Whenever you find potential hotshots, you jump at the opportunity and use all means to recruit them to the company. The reason is simple: One excellent person contributes to the company like 5 or 6 other people. It took me several years to realize it, but in the end, we internalized and tried to implement this approach. Similar to the movie "Terminator" in which the "killer" measures every object and person he sees using his sight device, this is how a good manager works: on flights abroad, at meals, at conferences - you are constantly examining people with a "is this person a superstar that fits my organization" mood of thinking, and if you find talent, you need to jump at the opportunity and do not let go until you onboard that person.

When a company is growing, this challenge increases. You need to attract and recruit a larger number of superstars. There is a constant shortage of talented people.

One of the most important decisions of a manager is who to bring into the company. Insist on hiring excellent people. In my opinion, employees should be measured mainly by their inherent qualities, such as sharpness of thought, responsibility, caring, thinking outside the box, etc. Experience, for example, is a little less critical in many cases. While people are capable of changing and improving, for a young company with no room for errors, it is infinitely better to recruit only excellent people in the first place. Maybe that doesn't sound "nice", but that's the way it is.

Having said that, it is astonishing to see how amateurish the interview process many managers conduct is. The most common mistakes are conducting interviews without allocating sufficient time, lack of preparation for the interview, and running it in an unsystematic manner while relying on gut feelings only. Had a sales representative come to a customer without being prepared while relying on improvisation and intuition, any manager would take it most severely. For some reason, when hiring people, which as mentioned is critical to the company's success, improvisation and amateurism are frequent. Moreover, lack of preparation is a serious disregard for candidates themselves, who have invested their time and energy and take the employment opportunity seriously.

Therefore, the most important thing is to understand the importance of the interview and act accordingly. Here are some ideas to improve the quality of the interview and recruitment process:

Ideas for improving your interview process

Define the Desired Attributes and Capabilities in advance:
Before an interview, list the characteristics that the candidate must have. Of course, these characteristics are entirely different from one role to another.

For example, expression abilities and performance under pressure are essential to a customer service person, while analytical ability is essential to a software person. During the interview, the interviewer is obliged to reach a clear conclusion regarding each of those characteristics. It must not be given up. If interviewers end an interview without a clear answer with regards to a critical characteristic (for example, a salesperson's ability to listen), they have failed the assignment. I usually write the list of characteristics on the margins of the resume, and during the interview, I make sure that I covered all relevant ones.

By the way, as a CEO of a company in Israel, I regularly interview in English for roles that come in direct contact with clients: salespeople, business development, customer service, implementation management, etc, since most of our clients are in English-speaking countries.

Prepare for the interview:
The preparation includes reading the resume carefully and planning how to uncover and discover all required information. It is important to remember that every candidate is interested in creating a particular impression, and they come ready from home with planned answers. For this reason, avoid asking the typical questions *("What are your strengths/weaknesses?")* since the answers will not reflect the truth, but rather the pre-prepared answers. Instead, prepare unique and surprising questions that will shed light on the required characteristics. I think a skilled manager should allocate between five and ten minutes in preparation for an interview.

Dig deep, not laterally:
Most candidates have several workplaces in their experience. The traditional approach of interviewers is to go through the entire history of candidates and find out what they did at each stage of their career. I believe in a different way. Since the interview is time-limited, it is best to choose only one period that is significant and relevant to the current position and focus on it for most of the interview. This is the only way to understand the candidate's form of thinking and working, and their main characteristics.

Create simulations:
Instead of candidates talking about their characteristics, it is better that they just demonstrate them in practice. For example, if it is a potential customer service person, create a case study of a crisis with a customer and see how candidates function in this condition. Instead of saying that they are creative, one can examine whether they demonstrate creativity in a particular scenario. The simulations can be prepared in advance, but sometimes it is better to base it on events that candidates describe while making changes to the storyline and setting a surprising challenge. For example, suppose a candidate for a salesperson position describes a successful sale. In that case, you can ask this person - "and what would you do if the customer would place a demand for the exclusivity of the product at the last minute?". The advantage of this method is that candidates cannot prepare for it, and so their true abilities are revealed.

Ask open questions:
Do not focus only on "what", but on "why". Try to understand their motives for acting the way they did, in different situations.

Interview several candidates for the position simultaneously:
Sometimes, due to constraints, you find yourself in a situation where there is only one relevant candidate, and you lose the ability to make a comparison. All that is left is to either hire the candidate or remain under pressure. This situation forces managers to compromise, and it is extremely bad. A great effort must be made to bring 2-3 serious candidates to the final stage, to reach an optimal result.

Set a high standard:
The first time we defined to our HR company that we are looking for the "*best candidate in the State of Israel*" for a specific position, they found it difficult to hide their cynical smile. However, once you define it that way, the whole course of thinking changes. Throughout the process, the candidates were examined with this state of mind, and suddenly it became clear that a particular candidate is not a good fit. Think about it. Next time you are looking for a development manager, say to yourself, "*We are looking for the best candidate for the position of a development manager in my company*" and act accordingly.

Do not compromise:
If you have not found the right person, keep searching. This is the hardest advice to implement. There is always an urgent short-term need. You need a project manager now. You must bring a salesperson yesterday. You have already examined 15 people, and you are exhausted. It is very tempting to settle for someone "good enough". There were times we compromised and paid a high price for it: a mediocre person comes to the job, the company invests a long studying period in them, and the productivity is mediocre. After a year and a half, you are forced to replace them (at best) or decide to come to terms with mediocrity (the worst scenario, which is very common). It has a devastating effect on the environment and on the ability to attract excellent talents from now on. Exceptional people want to join an environment of excellence. If you remember this bad dynamic during the deliberation, you can minimize the cases where you cut yourself some slack and compromise.

Remember you need to sell:
Exceptional talents have many opportunities. The potential employee must also be viewed as a customer you need to persuade to buy your "goods", in this case - come and work for your company.

Despite all these methods, the predictive and successful recruitment abilities of managers are limited. A manager who manages to score 50% of the cases, in my opinion, is an excellent interviewer. When it comes to a candidate from a different culture, the USA for example, the Israeli interviewer's job is much more difficult.

Every manager you meet will tell you that people are the most important thing in an organization. If you truly mean that, you should treat the recruitment, hiring, and interview process seriously and systematically and not be lazy using the excuse that your gut feelings and intuitions are good enough.

Shattering the myth: Leaders should fix the weaknesses of their people

Leaders who spend most of their time trying to fix their employees' flaws will miss the main issue - exploiting their strengths and cultivating them

A few years ago, I had a revelation and "it hit me." For quite a long time, the same problems reoccurred in one of the departments in my company. As a result of these problems, we found ourselves in a chronic crisis with the company's clients (meaning, we needed to contact the angry client, listen to their complaints, deal with them, report back to them and pray for a good ending).

As the CEO of the company, it was clear to me that I needed to get to the bottom of this and solve this recurring problem at its roots.

For several weeks I dove deep into the core of this department. I studied the existing processes, I spoke to all the employees in the department, and in the end, we built an improvement plan together.

It was clear that the manager himself also needed significant improvements - he lacked the executive ability, and he did not know how to insist on these standards with his employees. So, I took it upon myself to educate him closely and improve his performances in these areas.

It did not work. Despite going down to details and countless calls and feedback, the recurring issues have not stopped.

I estimate I have spent over 150 net hours dealing with this, meanwhile neglecting other essential tasks. Exhausted from this frustrating experience, I finally decided to replace him with another manager, and within a short time, there was an impressive improvement in the department. I invested time in her too, but her training was different... Instead of correcting her weaknesses, we dealt with cultivating her strengths.

And then, it hit me.

I realized that a year and a half earlier, I had made a fundamental mistake when I interviewed candidates for this managerial position. I assumed it was possible to recruit "fairly qualified" people for the job, and it will be possible to correct their weaknesses on the go. Therefore, I saw no need to perform heavy research for every hiring position in the company.

This was a complete mistake, for which I paid a heavy price for 18 months.

The truth is that instead of investing so much in trying to fix flaws, one should insist on hiring people with strengths that match the relevant position from the very beginning and then invest in strengthening those strengths.

If brilliant technical people are not good with human contact, it would be a mistake to appoint them as managers and then try to "raise" them to the position. It is better to exploit and cultivate their unique strength, for example - as internal guru consultants in a company in their area of expertise.

I do not claim that flaws cannot be fixed. It's possible. But the truth is that it is very difficult to change deep character traits or turn someone to be talented in areas that they are not. Even if I worked very hard, I would never be talented at dancing. Believe me, my wife tried teaching me and I gave up. Try turning a pessimistic person into an optimist or a conservative person into a risk-lover. Instead of "converting" conservative employees, appoint them to suitable positions (project managers or finance managers for example, but not a business development person), and help them develop precisely in skills in which they are strong.

It may not be popular, but it's the truth. At some point in life, it's better for everyone (and their manager) to know themselves well and position themselves so that their strengths are manifested, and their weaknesses become less relevant.

A good leader's role is not to teach the fish how to fly, but to put it in water and let it succeed in what it does best in the world - swim.

CHAPTER 7.

THE EXIT

- The exit is approaching, what do we do?

Chapter 7:
The Exit

The exit is approaching, what should we do?

Lessons and insights from the process of selling a company.

Although the exit is the dream many founders have had for years - the actual acquisition offer usually comes as quite a surprise. When it comes, the founder/CEO should deal with something completely new and strange - selling the company, while dealing with amounts of money that are often much greater than what was dealt with so far. In our case, the average customer transaction was worth hundreds of thousands of dollars, while the company was sold for $145 million. At this point, there is no one to actually advise with, since all of a sudden - everyone has different motives and interests.

In short - selling a company is a very complex and sensitive process.

In the following paragraphs, I will try to share with you the insights and lessons I have gained from the sale of my company and from other companies I was exposed to. However, I will not discuss whether to actually sell a company and when - an important question in itself.

Internalize that you are in the process of negotiating an exit deal

It is rare for a company to proactively decide that it is time to exit, to turn to potential buyers, request proposals, and then get acquired. IT seldom works that way because a self-initiated search for a buyer transmits weakness, insecurity, and lack of faith in the company's future, which leads to a low price in any future deal if any at all.

It is more common for a company to advance, sell more, close deals with clients, develop better technology, increase revenues, and at some point - a potential buyer turns to the CEO of the company and starts to "snoop around." What does this fumble look like? Sometimes you are asked directly if you are interested in being acquired. Sometimes, potential buyers express interest in whether it is possible to carry out a "strategic collaboration." There are many ways to hint at it.

Suppose you do not internalize that this is happening. In that case, you may cause harm, for example, by releasing information that can damage your status in negotiations or by not creating competition in time.

Verify the seriousness of the potential buyer

Before you "rock the boat", you need to gather information. Has the buyer made any purchases in recent years? At what amounts? Does the buyer have enough funding sources to meet the price? Does its market value allow your investment in shares?

About six months before we were purchased, we were approached by a certain public company. Its market value was $180 million. At such a market value, it was clear to us that they would not be able to pay more than $50-60 million (in stocks) for us, and we got out of it without unnecessary waste of energy.

Understand why they want to buy you

There are various reasons why some companies acquire others. Sometimes they are missing a specific technology that you have, sometimes they want to eliminate a competitor that is bothering them, and sometimes they just want to buy a growth machine. Find out what motivates the buyer in order to direct and emphasize the right aspects, and identify your leverage points in negotiations. This is usually not difficult to clarify. Just ask them.

Contact the buyer in person

Beyond data and numbers, it is worth building a personal relationship with the buyer early on. For example, when I was in the process of selling my company, I was skeptical about the seriousness of one of the potential buyers, RSA Security. It was only after spending an evening with the company's CEO that I realized he actually intended to purchase us, as indeed happened.

Assemble a special task force, as small as possible, to manage the process

The fewer members of the company are involved in the selling process, the better things will flow, and there will be fewer communication problems. In my opinion, only the CEO and CFO and maybe one additional person should be included in this task force.

Create competition!

In my opinion, this is the most critical action you need to take. The existence of competition between potential buyers significantly increases both the chances of closing the deal and the possible valuation of the company. Put yourself in the shoes of the potential acquiring company. There is a big difference between a situation where they do not acquire you and business continues as usual - compared to a situation where they do not acquire you and their direct competitor does.

Creating a competition can increase the deal size by tens of percentage points, if not more. The timing to bring in the competition is as soon as you realize that the potential buyer is serious and you decide to start a real process.

However, it is essential to do this long before signing an exclusivity ("No Shop") agreement with the buyer. Meaning, you need to get to a situation where you are simultaneously conducting negotiations with several buyers and make progress with each and every one of them, keeping them at the same stage compared to each other. There is no point in bringing a new competing buyer to the table the day before signing a term sheet. It's too late.

Run business as usual as if "there is tomorrow"

Some founders and CEOs lose their senses during the exit process and neglect ongoing business (sales, product development, managing people, etc). In many cases, you should be aware that talks and negotiations on an acquisition deal take months, end in nothing. Neglecting ongoing activity in such cases can seriously harm the company. I know two companies that almost made an exit and had to shut down shortly afterward because of such behavior.

In general, I recommend that CEOs always behave and act as if they believe that chances are that the exit will not happen this time around.

The greed season has arrived - take care of your employees!

As the exit approaches, everything you know changes. Everyone cares about how much they will get from the deal. Those same investors who expressed interest in the company all these years are suddenly preoccupied with their share. Most of them do not care what will happen to the employees and the clients the day after.

If you, the CEO, will not take care of the employees, no one else will. There is no shortage of cases of companies abandoning their employees at the moment of exit, and after years of working for the company, they were left with nothing.

Take care of corporate governance ahead of time

Sometimes the window of exit opportunity is very short. It is most important to ensure that you will not realize that many legal and financial matters are not clear and are not properly set in this sensitive time. I am explicitly referring to the Capitalization Table (“Cap Table”), which describes the company’s holding and ownership structure. Arranging these matters is complicated and may take several months. A company CEO should set things in order before approaching the exit time.

Manage information in a calculated way

In principle, I believe almost obsessively in transparency and information sharing. However, when negotiating an acquisition, I think information should be kept as secret as possible since an uncontrolled “leakage” might cause serious confusion and harm to clients and employees and maybe even blow up the deal.

Decide early on whether to hire an investment banker

First, a brief explanation. An investment banker is an intermediary who represents one of the parties in the deal - the acquiring or acquired company. This person is usually rewarded with a certain percentage of the deal’s size, generally between two and six percent. Sometimes, both parties are represented by bankers.

There are advantages and disadvantages to using a banker on the part of the acquired company.

Advantages:
A good banker can generate competition for the deal using connections; Assist in arranging the company for the sale and in the preparation of useful materials; Advise the company with regards to the valuation it deserves, and most importantly, to be a stimulant that pushes to close the deal and solve problems which may arise.

Disadvantages:
The banker’s interest is different from that of the shareholders of the company (see the following section).

The banker does not always fully understand the company. And, of course, the banker costs money. Bottom line, I recommend finding an excellent banker before negotiating an acquisition, even though in selling our company, Cyota, we did it without a banker.

Create the right incentive for the investment banker

It is imperative to create a set of incentives for the banker that reflects your interests as much as possible. The banker aspires to close a deal at almost any cost since if there is no deal the banker is not getting paid, while for you if the price is too low, you may prefer to give up a particular deal and keep on growing the company.

By the way, studies have indicated that real estate brokers sell their private apartments for a price significantly higher than the price they get for their customers.

Another example: Sometimes, a banker is only rewarded for a buyer they brought to the table and not for a buyer who came from another source. I think this is a mistake. This will cause the banker to be biased and favor certain buyers, which may not serve you at all. It is better to have the banker rewarded regardless of the source of the buyer even though it looks like a "gift." This way, the banker will work in your favor anyway.

Prepare detailed plans for the day after

As the actual moment of truth comes and you are about to announce the deal, remember that detailed plans should be made for the day after with regards to the structure of the company, people, responsibilities, overlaps, information systems, sales, etc. Special focus should be given to communication with different stakeholders and how it should look like. Clients need to know that you will keep on serving them as usual. Employees need to be as straightforward as possible about what the future will look like, with an emphasis on their job security. Avoid creating a vacuum of information after the announcement.

CHAPTER 8.

GENERAL

- What did I learn from Benjamin Netanyahu?
- How to kill a startup
- How to take advantage of luck?
- Open letter to venture capital funds

Chapter 8: **General**

What did I learn from Benjamin Netanyahu?

What can a hi-tech entrepreneur learn from the Israeli prime minister?

From 2006 to 2008, I served as Benjamin Netanyahu's Chief of Staff, when he was the chairman of the opposition in the Israeli parliament - the Knesset.This was the period of the "opposition desert" when he was merely an ordinary Knesset member. His party, the "Likud", had only 12 seats, meaning - a small-medium party.

Our main goal was to overthrow the running government led by Ehud Olmert and to ha Netanyahu win the elections. But elections were not in sight, and Netanyahu's return to state leadership seemed almost imaginary.

Netanyahu is not free of management flaws (especially in team and people management), and I have quite a bit of criticism of his performance and results. However, I learned from him four essential lessons for anyone who wants to do something extraordinary.

Four lessons from Benjamin Netanyahu

Determination and perseverance:
Netanyahu is like a marathon runner who runs sprints all the time. After the public chose to replace him in 1999, he knew he would return to the prime minister's office. He believed it when his entire surroundings had already given up on him. From speech to a meeting, from a house meeting to a lecture, from a press interview to a gathering of political party members, he ran around and did not give up. He persevered. He invested in everything and went down to details as if this is the most important mission on earth. For long nights we sat on every comma and every word in his opening session of the Knesset speech. In the primaries for the movement's leadership in the summer of 2007, we went to most of the country's branches, from Netivot in the south to Tiberias in the north.

I have never seen another man so stubborn and persistent.

Entering the arena and taking responsibility:
A group of advisers always surrounds Netanyahu, people close to him and those who only have his best interest at heart. They always have a critique and a bundle of tips: Why don't you go out to the streets? Why are you not being heard enough? Why are you being interviewed too much? Why not invest in a relationship with this person? Why don't you trample that person?

And in the midst of all the commotion, in the end, the responsibility fell on one person: Netanyahu. He is the one who comes up for the speech. He's the one who ran in the party leadership primaries. He's the one who's going to be crucified alive.

And Netanyahu did not complain. He knew the responsibility was on him, for better or worse.

By the way, Netanyahu introduced me to the fantastic piece by Teddy Roosevelt that appears in the introduction to the book *("The credit belongs to the man who is actually in the arena")*. How appropriate.

Ability to accept criticism:
I have given a lot of feedback in my lifetime: to my employees, to managers, to colleagues. Most people do not know how to accept constructive criticism. They claim they can, but they do not. They immediately defend themselves and explain to you why you are wrong. They do not understand that in doing so, they are missing out on the opportunity to improve.

Netanyahu knew how to accept criticism - when I gave it to him in private and in a dignified manner.

I always tried to give it in the following format: What exactly did you do wrong - not in general, but in a detailed example - and how it can be improved next time.

The fact that Netanyahu, a former prime minister, was silent, listened, internalized, and implemented, with no attempt to fend off or defend, is Honorable. Only a person with self-confidence can take criticism properly.

Focus:
Every politician encounters a tremendous amount of noise: Party center members want help, a Russian newspaper asks for an interview, a girl from Be'er Sheva wants to be photographed for her Bat-Mitzvah project, a university wants you to give a speaking engagement at a society and economics conference... The list is endless.

It is very easy to be dragged into a variety of tasks. But Netanyahu always knew how to mark the one most important thing needed to focus on, then obsessively treat it.

During the primaries for the leadership of the Likud party, he realized that the key was to increase the voting percentages of all Likud members. The more they come to vote, the higher the support rate for him, because the opponent, Moshe Feiglin, had a loyal, fixed-size group supporting him. Once he realized this, he acted with a laser-targeted focus. He repeated the call "come vote" like a mantra, and all our resources were set towards this goal.

Even as prime minister today (as of writing these words), he has one key goal: stopping the Iranian nuclear threat to Israel. Everything else is secondary to this goal. This is how you can understand and interpret most of his other actions.

There is not much connection between politics and hi-tech, and that is a good thing. But every entrepreneur and startup CEO would benefit by learning from Netanyahu to be determined, take responsibility, accept criticism and get better, and obsessively focus on the things that really matter.

How to kill a startup

There is no straightforward recipe for the success of a startup company, but there are several direct ways to lead to its failure

Unsuitable founders

Everything can be changed in a company - strategy, target market, and even product, but if the entrepreneurs and founders themselves are inappropriate, there is no point in setting off. In my opinion, choosing the founding team of a company is the most important decision in the life of the company. Our company, the four founders, decided to set up the company even before we had any idea! What is an inappropriate characteristic of an entrepreneur? People who are not committed to the venture and are not willing to jump into the water; Greedy people who only care about their salary, their shares and their status; People who are negative and cynical by nature. I know a particular company that before they even closed the initial funding round, the entrepreneurs argued among themselves over degrees and their internal voting rights – waste of time. Before you embark on such a long campaign, make sure your team is suitable.

Neglecting cash flow

Countless companies with the potential for success have crashed because they ran out of money before they could take off. This is due to an unrealistic estimate of the time required for the company to start generating revenues, unnecessary extravagance on perks such as beautiful offices, and a lack of sufficient attention to the financial situation. In all the revenue forecasts that are being put, a safety margin of fifty to one hundred percent should be created, that is - if you expect product development to take eight months, assume about 14 months of development. It is worthwhile to develop a very frugal culture in the company. In every decision you make about opening new roles, you should always ask yourself if the new position is essential (believe me, after the first time you will make emergency layoffs to save the company, you will think twice before each employee you wish to recruit). The problem with a high level of expenses is that there is no margin of error, mistakes, or taking advantage of opportunities. If the company is running “on the edge” and suddenly encounters an unpleasant surprise, this may kill the company.

Internal politics

How do you identify politics in the company? When company executives and employees are more preoccupied with their status and ego than with the success of the venture. When the people participating in a discussion prefer to show that they are smart rather than come to the best conclusion. When you hear the word “I” too much. When a manager takes credit instead of giving it to his people. When you do not see someone complimenting someone else. If you come across a startup with such a culture, stay away. The chances of it succeeding are slim, and in any case, it would be a shame to waste your time in such a negative atmosphere. You only live once.

Lack of focus

Energy is a rare resource in a company. It is almost impossible to do many things at once in a good way. For example, it is not possible to launch 2-3 new products at the same time. Even one product is a difficult challenge that requires focus and effort. It would help if you decided which initiatives to go for, and no less important - what to give up. CEOs need to get used to this thinking pattern and build an effective and quick method for analyzing and making decisions about new opportunities. Some people get bored of one idea and are quick to move on to something new. Without self-discipline, such a person will eventually end up with lots of loose ends but no commercial success.

Ignoring an unpleasant reality

Entrepreneurs are required to live within an incredibly complex system. On the one hand, they must continuously convey optimism and paint a vision for everyone – the skeptical investors, concerned employees, fearful suppliers, and clients. On the other hand, they must look reality in the eye. In my company, we "fooled" ourselves for a long time, which almost eliminated us. Over a year and a half, we tried to sell the company's flagship product without success. Every month we used to update the sales forecast by moving the revenue columns in the Excel sheet to the right (the deal will close in September instead of August, etc.). We managed with great talent to burn millions of dollars.

Only at the last minute, we woke up to face reality and made difficult decisions: replaced the flagship product, layoffs of almost two-thirds of the company's employees, and the replacement of the CEO. After this period, we adopted a culture of "*the emperor has no clothes*" in the company, and we became more pessimistic and realistic people.

Bad luck

Yes, this is the truth: you must be lucky in a startup. While there is not much that can be done to produce luck, there is plenty to do to take advantage of an opportunity when it comes your way. Entrepreneurs should get the company operating in a flexible manner while making many quick changes. You should stay attentive to the market, clients, and competitors to spot opportunities early. It is better to invest the energies in identifying opportunities and exploiting them than to engage in building long-term business plans that are unlikely ever to materialize. A wise man once said, "*if you want to make G-d laugh, share your plans.*"

How to take advantage of luck?

Instead of pursuing a long-term strategy, the start-up must build itself to respond quickly.

When we, the founding team at Cyota, are asked about our strategy, people expect us to describe a long-term and well-thought-out plan that we have executed over a long period of time. We could explain how we designed and implemented a multi-year plan in which we knew from the get-go how we would reach our ultimate goal of controlling the online banking's security market.

The only problem with this story is that it is simply not true.

In reality, we ultimately failed with our first product, we had abnormal luck with the second product (or the help of G-d if you ask me), and most of the good things that happened in the company were not planned for more than a few months in advance. We certainly did not act according to a multi-year strategic plan. Whenever we had a long-term strategy, an external event stirred things up and made us change our actions. Of course, impressive explanations can be provided retroactively, but we must admit that this is not how we planned things. In short - luck played a very central role in our success.

So, what's the lesson? That everything is luck, therefore no point in planning anything? That everything is set from above, therefore no point in working hard?

Of course not. It would be like people who put a note on the Western Wall every week, in which they ask G-d to win the lottery. After forty years without any win, one of the angels implores G-d to allow them to win, and G-d answers the angel, "Listen, I would love to let them win, but they never bother to actually buy lottery tickets!"

While luck may play a significant role in a company's success, potential opportunities are quite common and what sets a good startup apart is the ability to seize the opportunity and realize it. The most critical component of exploiting opportunities is the speed of response. A startup company should build itself to respond quickly and flexibly, rather than engage in a long-term strategy that will change many times. Luck belongs to the rapid responders.

How can startups take advantage of luck

Get the company used to frequent changes:
People at their core love certainty and resist change. Salespeople love stability and constantly find it difficult to accept changes in the product. Developers dislike drastic changes in the definition of the product. These desires are natural and logical. The problem is that sometimes, in order to take advantage of opportunities, one has to make sharp and fast changes, and stability can hurt the company. Of course, the intention here is not to shoot in all directions without getting any result. When we first introduced our anti-phishing service to our salespeople (an operational center that alerts fraud attacks in real-time), we encountered cynicism and ridicule. You should prepare for skepticism from all directions when making changes. Everyone should be accustomed to "routine" situations of uncertainty and frequent changes.

Recruit people who work well in conditions of uncertainty from the beginning:
Add this parameter to the list of required attributes from the executives at your startup. Sometimes startups get CEOs who have performed well in large, organized companies where multi-year planning has been carried out and fail in young companies because they do not adjust to a changing reality and conditions of extreme uncertainty. We once had a board member who was a senior executive at a bank. He insisted on seeing a revenue forecast of two years ahead when we had not yet sold to the first client. An imaginary Excel spreadsheet has no meaning in such a situation, and every minute you invest in building it is a wasted one.

Be attentive to the market and competitors:
Do not enter autopilot mode where you run on an action plan and forget to check out what's happening in the market. You must constantly make sure to be in touch with customers, see what is important to them and adapt your product accordingly. You also need to keep track of your competitors, know what's going on with them and respond accordingly.

Focus on the short term rather than the long term:
It is clear that this is a rather harsh statement and may be interpreted in the wrong way. I am referring to all kinds of philosophers who are preoccupied with the long-term vision and forget that in order to reach the "long-term," one must first close the deal this coming Tuesday. There is a tendency to indulge in strategic discussions because it is challenging and fun and usually has no immediate consequences. That is, one can speak without doing. In a startup, unlike in large companies or countries, I think the primary need has to outweigh the long-term needs because, in any case,, no one has any idea what will happen over time. One exception - all the above refers to tactical business planning, not to hiring, where one should indeed plan ahead and not compromise.

It should be noted that the intention is not to give up on long-term planning entirely, but not to engage in it too much.

Think all the time:
It is advisable to assemble a small elite group that converges very frequently to analyze every development and think carefully about the next step and how to implement it. It is highly recommended for the CEO not to act alone.

Communicate a lot:
Since the pace of change is significant, time and energy must be allocated to communicating with the company staff. You need the "head and body" of the company to act in a more or less coordinated manner. It's okay to run ahead, but the people in the company must understand what is being done and why, in order for them to operate well.

Know when to grow up and change:
Everything written above is suitable for the first years in the company. However, when the company gains customers, revenues, products, and employees, it must act in a more organized manner. It must build a strategy and a plan for at least a year ahead, though it will change. We started working according to an organized plan in our fourth year, and each month we updated the company about progress compared to the goals of the plan. This approach was very effective.

A startup in its early stages is very different from any other organization. The rate of change it has to go through is extremely high, and most of the time, you operate in extremely uncertain conditions. Company executives need to invest in building a machine that responds fast and accurately to opportunities and threats instead of putting on paper a long-term strategic plan which could become empty of meaning even before the ink dries.

Open letter to venture capital funds

From speaking with many entrepreneurs, an image of frustration emerges with regard to venture capital funds. Those funds have a partly justified bad reputation, albeit an exaggerated one. It would be best to remember that these funds are one of the two most essential components in Israel's high-tech success. The other component is the excellent quality of Israeli entrepreneurs. However, the life of an entrepreneur with investors is not easy. At Cyota, we were blessed with generally helpful and decent investors, though certainly not without flaws. Most of them saw the good of the company in front of them and backed us up during difficult times. It is generally frequent for investors to present their expectations from the entrepreneurs.

The below list is actually aimed at the investor community, detailing the entrepreneurs' expectations of them before and after an investment.

Expectations from investors before investing

Due-diligent my company fairly:
It is perfectly legitimate for you to decide not to invest in me. It is clear that out of the twenty funds I approach, nineteen will decide to give up the investment, which is fine. However, I have some requests with regards to the process:

- Please give your negative answer quickly, because every minute you drag me, I burn precious time and other options.

- Do not drag time in vain out of laziness, discomfort, or desire to get me into a situation where I depend on you. And most importantly - leave the conversation with my clients to the latest stage. I will not forget how a manager of an Israeli fund promised me that he is sure of the investment in us and he is going to talk to clients only to verify details and satisfaction. After the great conversations, and after stalling and being quiet, I pressured him to explain to me what was going on. He told me that they had decided to give up the investment.When I asked him why he explained that the market size was too small. He knew about the size of the market (which was indeed mediocre) at the very first moment we approached him. Talking to our clients did not provide any new information with regards to this matter.

- Dear investor, please talk to my clients only when you are completely convinced that you are interested in investing in me, and all that is left is to make sure that we have indeed told you the truth about our clients' satisfaction. Do not talk to them to learn about my industry. Conversations with clients are precious and perishable, and I cannot ask them to speak to ten different funds.

If you decide not to invest, let me know honestly why:
I, for my part, promise to be silent, listen, and take notes. But please, don't jive me.

Conduct negotiations fairly and directly:
After the investment, we are expected to work together for years, so let's avoid inappropriate moves at this point that will harm the relationship. For example, from the moment we sign a letter of intent that locks me into exclusive negotiations with you, do not suddenly change fundamental conditions, such as the company's value. Do not try to sneak unfair clauses into the contract on the assumption that I will not pay attention. By the way, a fund that will build a reputation for being honest and fair will create a competitive advantage for itself among entrepreneurs.

Expectations from an existing investor after investing

Give me advice but do not expect me always to follow it:
This is the first company I have run. You've already seen several companies. You probably have important and helpful insights, and I would love for you to share them with me.
But once you have done that, let me work quietly. Do not expect me to update you on whether and how I implement your new pricing concept or your offer to partner with a particular distributor. I have a lot of things on my mind.

Use your connections for my benefit:
I need to penetrate a particular market or need an expert for a specific field. I sent you an email about it. Please shake up your relationship tree and do not skimp on using your connections. Do everything in your power to serve the needs of the company. Make an effort to connect me with people I need.

Help me logistically:
You have means I do not have: large meeting room, video conference, access to market reports, in-house lawyer, and more. Please inform me about these things and make them available to me.

Hunt me some talents:
Act like a matchmaker. Wherever you may be, look around you and search for the right talented people for my company.

Do not throw unnecessary tasks at me; I am busy as it is:
You returned from an exhibition and met an interesting person who told you about a third-generation biometric technology based on solar energy. You are convinced that him and I should talk, and you gave him my contact details without asking me. Now he's calling me, and I have to spend 40 minutes on a transatlantic conversation, and in the end, politely try to repel his requests (he asks to organize a brainstorming workshop day)! Please do not do this to me. I am currently struggling to resolve a major crisis with our most important client. I do not have time for this person. If you think it will interest me, ask me first. And do not be offended if I write you a short email: "Not interested at the moment."

Do not follow the herd - keep an open mind for non-traditional ideas:
The venture capital market tends to adopt various trends. For example, for a long time, the overall approach was that a non-Israeli (mostly American) CEO must be brought into Israeli startups. Everyone did it. In retrospect, it is clear that most of them were wrong. Let's agree that we will discuss everything in the context of the situation, and we will not always act according to recent trends.

Act for the company's interest and not for maximizing the profits of your specific fund:
A number of funds invested in my company, and everyone has different interests. For example, one fund is small and has no possibility of continuing to invest, while another fund has deep pockets, and is interested in increasing its shareholding in my company. Each fund passionately explains why it is a good idea for the company to raise / not raise more money. Let us consider only the company's needs, or at the very least, openly represent the real and honest motives of each fund.

Respond in a businesslike manner and do not whine to the sound of bad news:
I want you to know what happens, even when it comes to problems. But if every time I describe a problem, you will click your tongue and blame my people or me for causing the problem instead of focusing on the solution, my motivation to share the news with you will diminish over time. Steam is not a work plan. A few startup CEOs run two reporting systems: the first is internal, and it treats reality as it is with all the problems. The second is external, towards investors, and is "fixed" so that the funds will not freak out and bother the company in an unhelpful way. Such dual management consumes a lot of energy and is unhealthy. Please respond in a businesslike and constructive manner to problems, and give me the feeling that you are joining me in resolving them, or at the very least, back me up.

The funds and the entrepreneurs together constitute the spearhead of the startup industry in Israel and must work together and not in an atmosphere of suspicion and closure. Funds that will operate decently before investing and properly help companies after investing will be reciprocated and yield better results.

For more information visit: exitbook.plus972.com