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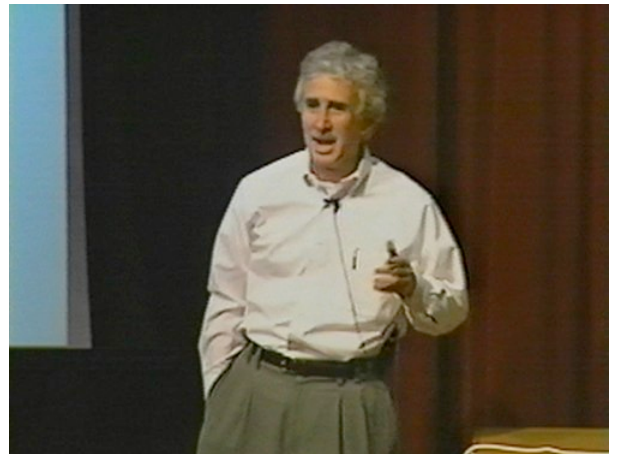
Top 10 Must Have For a Start-up

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Frank Levinson's Top 10 Things You Must Have to Start a Business. These include: 1) Spending everything on a good team and equipment 2) Letting people know the company is in business 3) Raising limited capital 4) Taking stock of a company and determining its needs 5) Being open to opportunities 6) Having a supportive family 7) Targeting mass markets, not just niche markets 8) Having confidence in new ideas 9) Acquiring and selling to real customers 10) Choosing a great partner



Transcript

So we're going to talk about - so the topic of today's thing is from day one, I mean the top 10 things you need that you must have to start a business and I'm going to try to debunk some of the B-School and Silicon Valley and VC myths a little bit as we go. So #10, the first thing you need is comfortable cheap furniture. Don't get carried away, you don't need new steel case, it doesn't help. It doesn't do anything for you. You need a couch. You're going to spend a lot of time there, you're probably doing some sleeping. Used everything. It's just fine because you're going to want customers to pay higher prices and they would otherwise pay. When they visit, you'll think they need the money. Literally, we had people feel that way early on.

Spend everything you can on great people on great equipment. That's everything and your customers know it, too. We even had a couple of mice, this was the picture and we had a lockered cat to chase the mice around. The point is it doesn't matter how you look, what matter is what you do and so focus on that. Number nine, put up a sign. If you're in business, tell the world the first company even though I had money and we had all these things, I never got a sign up. With Finisar, I rented a building and put up a sign within the first week or two and that's important. We chose an abstract name, for those of you who didn't go to Website which I think it's just fine, Finisar was named because I worked at a whole bunch of big companies and never finished anything, and so I named it after the word finished so that we'd finish some stuff. But it means nothing bad in any language in the known world. So we haven't insulted anybody and we didn't name it, you know, really fast gigabit fiber optics because when terabit fiber optics comes a name, it would be out to date.

So that's important too. You need to leave yourself some room for bright ideas to come up inside. Tell your customers to look for a sign and then the main point of putting this is just almost every story in this thing is going to be go get customers. Businesses have customers. If you don't like that part, don't go do it. Go work for somebody. Okay, the next thing you need is too little money. This is really important. This is maybe - I put it low on the list because, you know, it's a great picture. Anybody know what this is? Can you see it? Do you know what movie that came from? How many people have seen Monty Python on the Holy Grail? Okay.

Terry Gellum gave a talk and then after the talk he stood around and was talking to people and he said, "You know, in those days, he said, we didn't have enough money and that was really a good thing." and someone said, "How can that possibly be a good thing to not have enough money?" And he said for example, "Well, for example, you know, when we filmed Holy Grail, we didn't have enough money for horses." What's the joke, right? You got to have the coconuts, right? It's the best joke in the movie but they - you know they had to innovate instead of spend. So growth and ideas are my opinion. They

happened best in very lean companies. They have too much money, you'll - it's not necessarily to better - the second point in the company, this is one of these things that they don't teach on B-School, but I'm going to teach you today. Any money in the company, it's your money if you start that company. The moment the VC gives it to you, it's not his money, it's yours. Treat it like it's your money. Better yet use your money then you'll really treat it like your money. Drive yourself to innovate and not spend for success. It's an easy lesson to see after the .com but it's always been true.

Money sources. The best money source is customer money. Start with customers. Find ways to get your business started with customers. If you can, they'll fund it. Next, use your own money because you'll treat it better. Next, use bank money. They're a lot freer with money. Go borrow against your house. Go borrow against receivables, you know.

Next, angel money, they're a lot more connected and they've been through the experience that you have and last, honestly. There's any VCs that I apologize but go to these guys last. They're going to extract the most and so on and there's no other reason to go to them last because if you go to them last, it's because you finally really have a good reason for all their expertise. You're on your right to go on public and you need sums of money that they can provide to really move you along early on when you're starting. Remember the coconuts. And the next thing you need is common sense. I'm not a PowerPoint jack in case you might wonder, you know, where all those distills and I don't know how to do that but a couple of things. So businesses must have customers. They got to have products, sales, profits and taxes to be paid. One of the nicest things and there's a good story, when Jimmy Carter was president, they did a study to find out which were happier - rich folks or poor folks.

Guess what, it's the rich guys. All those movies of happy poor dancing people. So, you've got to have profits, you've got to have taxes to be paid. Now, what don't you need? Okay, we talked about this a little bit but you don't have to have CFOs. They don't help at all. Early on when you're developing products, all you're doing is spending money, just get an Excel spreadsheet or a get a Quicken. It's not hard. A little checkbook keeps track of it all. You really don't need VPs of anything. If you got VPs, you got guys with egos instead of guys who are going to want to drag this thing home.

You don't really need market studies, you need customers. We're going to talk about customers every time so it will get all. You don't need ad campaigns because you probably don't have any products and if you had products, you've shown the customers first and they would tell what's right and what's wrong. You definitely don't need a website. I know that you're going to do all these business plans for 25,000 but the business plans that are best come from your customers first. They come from interacting with people, interacting with standards bodies, listening to what's the pulse of what's going on, not knowing what you're going to do. I knew what I wanted to do with Netech. I had this vision, "I raised money, I wrote a business plan, and we execute it. I got axed." So these are a list of things and I'm sure there's more - it's not that some of them are wrong. It is that they come too early.

Finisar is 14 years old, we were profitable all 14 years. We have grown and so I'll show you later and nearly a 100% a year for 14 years. We got CFOs six months before we went public. It's not needed. What is the - No suits. You need the pride of a fat baby. How many are Lyle Lovitt avid fans in here? Anybody? Okay. What do fat babies have? No pride. What does that mean? It means you got to go and do whatever it takes to stay in business. You're in business.

You're not doing engineering to please you. You're doing things to please your customers. We had a bunch of early customers. The first thing that came through, it's a really fun story so we'll tell the whole thing from it. Some guys came to us in August of 1990 and they wanted us to build a video-on-demand server. It was - they had this patent. They had invented other things. They were a marketing shell and they hired us to be their engineers. They said, "By January for the consumer electronic show, can you get this whole thing done?" We said, "Yeah, maybe, let's try it." We did. They took it to the show.

It was a big hit. In that, we actually had our first product which is a fiber optic module that did some special things in a gigabit so we had to invent that along the way. They were funded by U2. I have met Bono. I've hang out with the edge. They didn't come to Finisar, we're too scrappy in those days. We had to go over to Oakland to see him. But the point is we didn't care what we did. We did a scuba diving computer for a company and I never scuba dived until, I don't know, spring break or this last summer I learned my way to do it. But I've actually programmed the algorithms on decompression from thousands of people around the world that never knew it.

The same process we're using that and it was our first pattern how to do smart modules for our company and it's still our most valuable pattern today. So the exact process is just the same when we use our first modules. It's the same one we use some modules we still ship. We wired the San Francisco environmental protection agency building with fiber, one summer, one winter. We even did a pool computer, not enough with water and computers. We did that. But every one of these things helped us stay alive and they kept us close to customers. They kept introducing new technology on the company. These were not the greatest ones, I mean this was okay. But all of them are important because that's why we're here today.

Yeah? You said you don't need a Website, but isn't that the best way to get customers now? Why? Having a Website. It

can be depending on the market you're in. My company is in a very high tech market that's OEM sales. We sell to the other businesses. We know who our businesses that we sell to are there are perhaps 25 in the world. And of those that are our customers, we know tons of engineers in that company. We know all the Vice Presidents and generally, the CEO and all the buyers. I mean, yes the Website helps but there's almost nothing that you can - that replaces the face-to-face customer interaction and so, one of the temptations because engineers are shy, is to allow Websites to replace that key human contact. "Why aren't you buying our product?" And then listen when they start trashing it. Okay, we'll fix that.

Now, why not? You have to go through that. If you don't that's dodging the ultimate part of what you're trying to do. One moment, where are we here? Pride of a fat baby. You need a supporting family even if they are the Clampetts. Here are the Clampetts. These were my children about the age when we started Finisar. That was me. I actually had brown hair in those days. This is my wife. These are my in-laws.

My wife - and I'm telling these stories because I think this is an important part of the talk. You can do this with the family. You can do this while working and serving in your church or things like that. It should be. You don't want to give up every part of your life. My wife was very creative. For example, when we were working late night, she would bring the kids over at dinner time. She brings a picnic. We'd spread it out on the table. They bring their homework.

They'd stay from 6 o'clock until 9. I'd helped them with homework. It kept the family going. This is the family today. I coached two soccer teams for my daughter and three OM teams during this time. The soccer teams, we had a small field across from Finisar in the first building while we were - it wasn't actually in the zone where the soccer league was played but since no other parent would volunteer to even coach a thing, I said you have to bring them to me. So I walked across the street, they all drove 20 minutes but we practiced soccer. We had one season where we won every game and lost the championship, and one season where we lost every game but somehow won the championship. Who knows? This group of people, right here. These three kids, these two and my wife and I - that's one our Christmas season.

We were late in shipments to customers because we had one oven where we can burn in every module we were shipping and we can only do - I think it was 500 modules a day and we were behind. So literally, one Christmas morning before we open new presents, we took all seven ovens in. We emptied the ovens. We took the modules that have been potted on Christmas eve, put them into the ovens and so on and went back home and had Christmas. The point is that we shipped 1,000 modules on that next Tuesday or Wednesday, whenever it was, as supposed to 500 and we made a delivery to the customer. So again, we tell that story among each other with a lot of pride. You know, it wasn't a bad thing to help customers on Christmas and yet, you know we're all still together, this is us and the kids turned out just fine so they're all on college now. Number 4, you got to like surfing real waves. Don't try to make everything on your own. Too many ventures are started by entrepreneurs that know what the world needs.

Real waves are defined by standards bodies by broad groups of customers and if you're company or your small group finds working with this people tedious, that's a really serious flaw. What makes the world go are standards, little niche markets are one thing but selling millions of units takes people agreeing on things, and you've got to be willing to take that at very non-engineering step of working with those groups and making them, helping them accept your ideas as part of where they need to go forward. What do you think? You need to have confidence that you're going to have thousands of great ideas. Sometime if one of these starts a company and you're thinking you're going to start your company, you're going to think I've got this fabulous idea. I should go form a company around this idea. That's okay. But you're going to need lots of them. Don't plan to build a company around one great idea. What we did was we gave away our good ideas early in exchange for money. That turned out to be a good idea.

First of all, we got us money. And second of all, we got us customers. When customers give you money, it's more than just money that you get to spend like it came from a VC. It's trust. They made a commitment. They believe in you and that's really, really a big deal. So don't hold ideas too closely. It will prevent you from getting new ones. Develop a culture in your company where new ideas are expected with regularly. You're going to have lots of them every year that way.

Based all your business thinking in projections on the idea that you're going to keep having new ideas, new innovations, inventions are going to come. Don't cling on to the past. Okay, #2, we've been talking about all along about sales. This is Finisar graph. This redline is a perfect compounding of a 100% sales growth a year for 14 years. This is what Finisar did, the blue. You know what's the most important thing about that graph? All those three points, right there. We funded the company on those three points. Customers paid us money. We spent it.

We didn't go get VCs. We didn't have to give away the company. Our market developed very slowly. We had the same module almost that we're selling today in 1990. By 1994, we were selling maybe dozens, maybe 100 a month, I don't know but there was - it was no amount of money that would have made a difference. It would have been like trying to get nine women in the room and have a baby in a month. It's not going to happen. Same thing here. Have sales, get them started early. Always have sales from the beginning.

Love your tough customers. Love the ones that are saying, "No, this isn't good enough for me, take it back." If they're, you know if they're little be careful but if they're not, you know there are great big companies that are willing to work with you even that's small it's because they see something they really want - honor. Stick with them. Keep making it better. Never give up. Never just count what customers say. Now, here's the next one. A customer is someone who actually sends cheques for products received after placing POs. That is perhaps the most important thing I'll tell you. You have to have customers and that's what one is.

Customer is not someone who likes your idea. He is not someone who talks about huge volumes, needs free samples, wants to do co-development, needs a little more sucking up. A customer is someone who places POs and sends cheques. That's very important. Real sales are commitments that you must have to be in business. Okay, and last, the most important thing, even more important than customers is get a great partner. There's a couple of wonderful books out there if you look on Amazon about you know partners and things like that, it really helps. You guys probably tried to get Jerry to give this talk instead of me, if you had, it would have even been better. He is my partner throughout all of these years. He is also an engineer as is our CFO but he is more of our public side.

He is in New York talking to the financial community today. We complement each other. Yes, I can - I did our first bookkeeping system, he did the second one. He does mechanical engineering, I can sort of do some other types. So choose your partner carefully. A partner shouldn't be the same as you. It should be complementary. Make sure they're fanatically ethical. Be loyal to that partner. You're going to have lots of people come and then you know, venture capitalist and your company is going to grow, be loyal to the partner.

He is the guy that you went through this whole thing with and even when time seemed rough, he is the one that's likely to be there to protect and defend side by side and it really helps in my case. It really helps if he is smarter than you are or she is. You know, this is a generic key. Okay, that's the talk.