

Rising From the Dot-Com Ashes

A startup consultant survives – and thrives – through five tough years, and shares some lessons learned

CAYENNE CONSULTING WAS LAUNCHED on March 7, 2001, almost a year to the day after the Nasdaq reached its peak. By then, the index had fallen by 56% to 2,224. The Nasdaq continued to plunge for another year and a half, finally bottoming out in October 2002 at 1,114. It would have been hard to pick a worse time to start a business plan consulting firm to serve high-tech startups seeking capital.

Today, Cayenne is regarded as one of the premiere service providers in its field. Their record is probably unrivaled: among business planning clients that spent an appropriate amount of time seeking capital, over 80% succeeded in either raising capital, getting commitments from investors, or being acquired – most of them during a period when perhaps only one in every 250 entrepreneurs who sought venture capital succeeded.

Cayenne's clients span a diverse mix of markets, including medical devices, biotech, enterprise software, entertainment, telecom, building components, alternative energy, e-learning, heavy equipment, real estate and financial services. "We're market neutral," explains Akira Hirai, 39, the firm's founder. "Our clients already know their markets. They don't need us for that. Our value is in helping them understand how investors think."

A quiet and unassuming figure, Hirai is a self-described geek. After earning his engineering degree at Harvard, he spent ten years in New York working for various management consulting firms and on Wall Street working with fixed income derivatives. "You can say that I've paid my dues crunching numbers and wrangling spreadsheets."

Then, the dot-com bug bit: Hirai spent 1999 and 2000 starting two Internet-based ventures: ID Networks in Silicon Valley, and MyRaptor.com in San Francisco. He commuted for nearly two years between Arizona, where his fiancée lived, and the Bay Area. After the dot-com bubble burst, investors suddenly became gun shy. "We were still pre-revenue, and we couldn't raise additional capital no matter how much potential investors liked our business plan," said Hirai. "We tightened our belts, but the money eventually ran dry. I closed up shop and moved to Arizona to get some sun, recuperate, and figure out what I wanted to do next."

These tastes of failure taught him the intricacies of starting businesses, the practical importance of cash management, and the nuances investors look for in business plans and financial forecasts. "I was fortunate to surround myself with experienced entrepreneurs and advisors who understood what worked and what didn't. I offer the same lessons to our clients today," Hirai explained [see sidebar, *The Ten Big Questions*].

As Hirai pondered the direction his career should take next, he decided to generate cash flow by writing business plans on the side. After all, he reasoned, a number of investors and advisors from the

dot-com days had told him that his plans were among the best they had ever seen.

"My first client was Integrated Axis, a local startup looking for a CFO to join its team.

Randy Asselin, the company's president, ran across my resume on Monster.com. We met at a coffee shop the next day and agreed on a small project." And thus, Cayenne Consulting LLC was born on March 7, 2001.

Integrated Axis was a systems integration firm developing a new telecommunications distribution technology. Hirai began by preparing a detailed financial forecast for the client. Impressed with the results, the company hired Cayenne to rewrite its business plan and investor presentation, redesign its website, and build a demo of its proposed product. "Working with Cayenne really put us into high gear," said Asselin.

"I wasn't sure if business planning would be a long-term activity for me, but I knew that in order to be successful, I had to quickly build a portfolio of satisfied clients," said Hirai. To attract these initial clients, he offered "very competitive" pricing and made sure that whatever he produced far exceeded client expectations. "The first few clients were local, and I started to develop a bit of a reputation among the entrepreneurs, lawyers, and accountants in town. They started sending me business," he explained. "The first couple of years were almost all based on personal referrals - mostly software and medical device companies."

"In hindsight, the period after the bubble bust, including the global slowdown after 9/11, was an absurd time to start a company that served startups." But Hirai persevered.

"Our type of service will be in demand as long as entrepreneurs keep founding companies," reasons Hirai. Industry experts agree: "One cannot over emphasize the importance of well thought out business planning for the emerging growth venture, especially in the fund raising effort," said Mario Rosati, senior partner at Silicon Valley law firm Wilson Sonsini Goodrich & Rosati. "In many cases you will only get to present your venture once."

I circulated [the plan] among the other Partners here at Veritas as an example of what a business plan should look like.

Gideon Tolkowsky, Veritas Venture Partners

Cayenne steadily developed its reputation over the next five years, one business plan at a time. "I see a lot of business plans every week," said Harry George, a leading Southwest venture capitalist. "Frankly, most aren't ready for the big leagues. Cayenne's work, on the other hand, is consistently excellent. They figured out the formula. Cayenne makes it easy for investors to quickly understand the value in a company," he noted. "Now that startup activity is picking up, investors have more deals to choose from. It's more important than ever for a business plan to make the right first impression."

One of Cayenne's early clients was Harmonia Medical Devices in Tucson, Arizona. Gideon Tolkowsky, Founding Partner of Israeli

venture fund Veritas Venture Partners and investor in Harmonia, worked closely with Hirai to develop the plan.

"Consultants almost never do a good job with this kind of work because they don't take the time to really understand the client's business," said Tolkowsky. "Cayenne was exactly the opposite. They were like a member of the management team. When the plan was done, I circulated it among the other Partners here at Veritas as an example of what a business plan *should* look like." Since then, Cayenne has worked with several other medical device and technology companies in the Veritas portfolio.

This was Cayenne's big break. "Having investors on my side made it easier to survive those first couple of years," said Hirai. He has since nurtured relationships with several other venture capitalists to create a steady flow of referral business.

Another of Cayenne's early clients was SynCardia Systems, developer of the CardioWest Total Artificial Heart, used to keep end-stage heart failure patients alive while awaiting a donor heart for transplant. "When we worked with Cayenne in the spring of 2002, we were both young companies. I think we helped each other grow," recalled Dr. Marvin Slepian, co-founder and Chairman of SynCardia. "The materials that Cayenne created for us enabled us to ultimately close several large rounds of financing and reach where we are today."

"Cayenne is part of our success, and by association, they helped to save some lives," he continued. "I'm very happy to see that Akira has grown Cayenne to where it is today. I wouldn't have expected anything less. Cayenne is a company to watch during the next five years."

As the economy and startup activity began to recover about two years ago, inquiries from potential clients started pouring in. In order to keep the workload manageable, Hirai raised his fees sev-

eral times. But as Cayenne's reputation grew, higher fees failed to deter many of the potential clients. "In fact," Hirai, smiles, "clients recognized that 'you get what you pay for,'" and Cayenne quickly came to be regarded as one of the premier providers of business planning services. By mid-2004, there was more work than one person could handle, and Hirai knew it was time to expand.

Since Cayenne had developed its reputation based on expertise in business planning and startup issues, Hirai knew he had to attract a talented and experienced team. A few of the unsolicited resumes he'd received had the right mix of functional expertise, industry knowledge, startup experience, and academic pedigree. Hirai began interviewing candidates, and invited the best to join the team. "In the end, the most important things were whether we 'connected' at a personal level, and whether I felt I could entrust them to uphold our standards of excellence," said Hirai.

Booway Balhaajav, one of several Harvard MBAs on the team, was among the earliest recruits. "I heard about Cayenne through a friend," he said. "The website looked impressive and well-planned," so he decided to find out if there were any openings. He and Hirai hit it off, and the timing was perfect. "Cayenne's well-organized, structured methodology provides clarity for the client in terms of how we work and what they can expect."

Several former clients have also joined Cayenne as consultants. Damon Danielson, a Bay Area serial entrepreneur, explained that, "Cayenne has a wealth of experience that enables it to formulate the value proposition in start-up opportunities and translate that into a compelling business model. That's what I enjoy doing, and that's why I joined."

These new consultants work as independent contractors, called upon to work on engagements where there is a good fit with a cli-

The Ten Big Questions

Cayenne Consulting suggests that entrepreneurs prepare compelling answers to Ten Questions that investors always ask:

1. What's the problem? If there isn't a big problem in the market - a major unfilled need - there's no point in trying to sell a solution. Explain how people or companies are experiencing a significant level of pain because existing solutions are deficient.

2. What is your solution and what makes it special? This one is obvious. Tell them what you do, and how your customers will benefit relative to existing solutions.

3. How big or severe is the problem? An attractive problem, from the investor's point of view, is a big problem - preferably one that the market will collectively spend a billion dollars or more to solve.

4. How will you make money? This may be obvious for some companies ("We will sell widgets for \$10 each"), but not so obvious for many others. Software, for example, can be sold on a per-user or per-site basis, with or without recurring licensing fees, with or without recurring maintenance fees, with or without installation fees, and so forth.

5. Who will buy it, and how will you sell it to them? That is, how do you segment your potential customers, and what is your plan to efficiently make them aware of your product and decide to give you their money in exchange for it?

6. Why are YOU the best team to do this? You may have a great solution to a big problem, but good luck finding an investor if your team lacks the experience to be able to execute your vision.

7. What are the alternatives, and what makes yours the best? No matter what you think, you do have competitors. Even if you've invented a teleporter that moves people instantly from point A to point B, your competitors will still include trains, planes, and automobiles (not to mention bicycles and sneakers). Is your alternative better, faster, or cheaper?

8. What have you done lately, and what will you do next? Ideas are dime-a-dozen. Execution is what counts. Show that you have the ability to make the right things happen. A good track record with aggressive future milestones (and a realistic plan for making it happen) demonstrates that you mean business.

9. What are the economics? Investors want a way to measure your progress, often in the form of metrics like revenue per headcount, expense per headcount, marginal gross margins, revenue per customer, or cumulative units to break-even.

10. How much do you need, and what will you do with my money? Investors need to know if you have a realistic understanding of the costs involved in starting and growing your business.

ent's specific needs. The structure allows the firm to remain flexible, and keep its overhead to a bare minimum.

By early 2005, Cayenne had transformed itself from a one-man operation into a national company staffed by experts in entrepreneurial hot spots like San Francisco, New York, Boston, and Los Angeles. The company has attracted more than a dozen senior consultants working part-time – and some even full-time – on business planning engagements.

Cayenne, which celebrated its fifth anniversary on March 7, continues to reinvent itself. Hirai explains that, "Until now, Cayenne has been run somewhat informally. I've been too busy writing business plans for clients to give a lot of thought to Cayenne's own operations and strategy." He plans to focus on managerial, administrative, marketing, training, and quality-assurance tasks this year, developing an infrastructure to enable Cayenne to be more self-

In many cases you will only get to present your venture once.

Mario Rosati, Wilson Sonsini Goodrich & Rosati

sustaining.

"We also need to develop new revenue streams," said Hirai. "Most of what we now do seems like a 'one-time' activity in the clients' eyes. Once they get funded, a lot of them may think they don't need us any more." He believes that Cayenne can continue to add value through long-term partnerships that last well beyond the initial planning exercise. "We love the planning activities, but our talented team is eager to participate in longer-term engagements with our clients, including new areas in which value can be found

like innovation management and strategic corporate development. I want to retain our reputation for planning expertise, while becoming a more integral long-term partner for our clients as they grow."

Furthermore, Hirai contends that his company's services aren't just for startups. "Most members of our team have *Fortune 500* experience and advanced degrees from top schools. They're capable of advising any organization, not just startups." The company has taken steps in this direction, and has received inquiries from several well-known companies and government agencies, which he declined to name. "We view ourselves as problem-solvers. We help our clients succeed. Our old slogan was '*The One Stop Shop for Startups*,' but that limited us to working with startups. About a year ago, we changed our slogan to '*Innovate. Grow. Succeed.*' This resonates with startups and established firms alike, and Cayenne recently completed its first major non-startup assignment."

"It's ironic that we never prepared a business plan for ourselves," muses Hirai. "Most of our clients come to us because they're too busy building their companies to write their own plans. We're in the same boat. I really need to get away from the phone and e-mail for a few weeks to commit our collective ideas to paper."

Maybe some time in Cayenne's second five years! ■

For more information, please visit Cayenne Consulting at <http://www.caycon.com>. For publication inquiries, contact Akira Hirai at 888.965.8880 or akira@caycon.com.