

# **ACCELERATED STARTUP**

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**THE NEW BUSINESS SCHOOL**



**Secret Business-Building  
Hacks From the World's  
Top Startup Accelerators**

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**VITALY M. GOLOMB**

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The New Business School



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SECRET BUSINESS-BUILDING  
HACKS FROM THE WORLD'S  
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**TIME TRAVELLER**

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# Chapter 1

## THE IMPORTANCE OF INNOVATION TO SOCIETY

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Startups depend on coming up with something new—a better, faster, cheaper way of solving an existing problem or an entirely new idea that disrupts the way we think about it all together. The drive to do something different, to make something that didn't exist before, has led pioneers to launch new businesses since there were such things as businesses. Our fertile startup environment may be home for more of that activity than any previous period. But innovation itself is hardly unique to our time.

Human history has been marked by technological innovation ever since the first hominid stood up and sharpened a stick. From improved hunting and digging tools through the development of plows and pottery right up to today's smartphone, the human story has been one of attempts to use technology to improve the environment and tailor it to our needs and to relieve the burden of manual labor. Innovation is simply part of human nature, and has been from the beginning. Technological innovation may be moving faster now than ever before, but we're not the first generation to live through a technological paradigm shift.

Technological innovation has been so fundamental to the course of human history that it's provided the names we use to demarcate certain stages: the Stone, Bronze, and Iron Ages, and the Agricultural and Industrial Revolutions. The term "Stone Age" today is a synonym for primitive, but it was in fact a time of significant innovation. Starting about three and a half million years ago and ending a few millennia BCE (depending on what part of the world we're talking about), this period took humanity from rocks shaped into basic cutting tools through the mortar and pestle and other tools used in agriculture.

Following the Stone Age came the Bronze Age (with some overlap, of course). Bronze is an alloy of copper and tin, and at first, the metals likely came from nuggets found at or near the surface melted by cooking

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fires. Eventually, people learned to mine the metals and developed more advanced smelting techniques to improve the alloy's quality.

Moving from stone to metal let people create tools and weapons more precisely shaped and fitted to their tasks. In a pattern that would be repeated in subsequent technological revolutions, such advanced tools enabled new developments in other areas. For example, metal axes and woodworking tools made it easier to cut and shape wood, leading eventually to the design of wheels with spokes. They also made it possible to build large structures out of wood rather than stone.

Following the Bronze Age came the Iron Age, which included the smelting of iron with carbon to produce steel. Working with steel and iron enabled the production of tools that were stronger than bronze tools for the same weight, or lighter and cheaper for the same strength. Among other benefits, iron and steel axes let people clear land faster and easier than was possible with bronze axes, enabling larger permanent settlements.

These developments also accelerated the agricultural revolution, in which humankind transitioned from hunting-gathering economies with temporary settlements to more permanent, larger communities. This transition was made possible by the ability to grow more food and feed more people, thus sustaining an increased population and inviting the division of labor. That in turn produced second-order innovations: surplus food demanded sturdy, reliable storage containers, which led to advances in pottery. (And the ability to store food for the non-growing season was another factor encouraging the growth of permanent settlements, since it reduced the need for migration.) A permanent large settlement also permitted specialization in labor, so that some people could become bakers while others became toolmakers. Such specialization spurred technological innovation in each niche.

That's another example of how the effects of technological innovation are not limited to just their first-order, direct effects. Similarly, as humans domesticated animals for food, they were also able to use them for other purposes than just meat. Wool from sheep, goats, and llamas, for example, provided the raw material for cloth and spurred the development of tools for shearing, spinning, and weaving.

The same kind of feedback loop characterized the Industrial Revolution of the late 1700s through the mid-1800s. Beginning in Britain, it was a time when hand manufacturing was replaced by machine

manufacturing and the human and animal muscle power was replaced by the steam engine. Steam powered new means of transportation, such as the locomotive and the steamship. At the same time, the telegraph, invented in the early 1800s, enabled instantaneous long-distance communications for the first time. These developments opened up settlement in new regions—think the American West—which demanded still more new tools.

Today, of course, we're in the middle of another technological revolution, started by the development of electronics and digital technology. This revolution has seen the invention of the personal computer, a communications and learning tool unparalleled in human history. It's also seen the rise of the Internet, which enables collaboration and communication instantly across the entire globe. More recently, the innovations in mobile technology have put all those capabilities in your pocket—once the province of science fiction stories like Star Trek, they're now within reach of even the poorest citizens of the world. These technological developments have and are having massive effects on society both within countries and globally.

Even these innovations, remarkable as they are, are about to be superseded by the wearable computing paradigm, started by products like Google Glass and smart watches, and the Internet of Things, which will turn every device into a connected sensor. With people connected basically all the time and sensors and devices communicating with our computers and themselves, we can expect yet another second-order period of innovation in devices to take advantage of these new capabilities. Already, the combination of wearable computers and Internet-enabled exercise devices is ushering in a boom in electronic health monitoring tools, a good example of how new technology can produce a revolution that, in turn, spurs the development of still more new technology. And with each technological paradigm, entrepreneurs that can see the future can solve the same problems over and over again. Each time cheaper, faster, and better.

## What is Innovation?

As we've seen, human history is the story of innovation. But what exactly do we mean when we say innovation? It's not the same thing as invention, which refers to the process of coming up with something entirely new, often through tinkering and experimentation. Innovation in

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business and technology, on the other hand, can mean leveraging existing technology to answer a market need. The first steam engine was an invention; the steam locomotive and the steamship were innovations.

Most innovation falls into one of two categories: continuous innovation, or the ongoing extension of current products or ideas, a form of innovation that doesn't significantly upend an industry. An example of extension innovation would be the development of telephones from dials to pushbuttons. Disruptive innovation, by contrast—also sometimes called discontinuous innovation—usually involves products or services that are so new and different that they have the potential for wreaking havoc on existing industries or business models. Cell phones and VOIP (voice over Internet Protocol) phones, for example, are bypassing the traditional communications carriers and are forcing them to scramble to keep up with the changes. And Uber, before it's 5th anniversary, has made a serious dent in the taxi industry in over 250 cities in over 50 countries and has an \$41B valuation.

A product that results in disruptive innovation need not be something no one's ever seen before, however. It doesn't have to be a new invention. It can rely on adapting existing ideas or technology to a new context, a process that has been called recombinant innovation. A good example is Apple's iPod. There were other digital music players on the market when the iPod was released in 2001, but by fusing the iPod to the company's existing iTunes music software (itself not the first of its kind) to make transferring songs from a computer and managing them on the player essentially frictionless. In so doing, Apple upended the entire music industry. This kind of recombination was the special genius of Steve Jobs: taking bits and pieces of existing technology and putting them together in a product that was more intuitive and easy to use than the sources. The ecosystem, and the network effects that came along with it, created a complete experience far beyond anything a single product could provide.

Like a shark that has to keep moving forward, companies and industries have to keep innovating. The world of technology, especially, does not stand still, and you don't want to be stuck with a big investment in bronze when everyone starts moving to iron. Even businesses and business models that look unshakeable—like the railroads, automobile manufacturers and phone companies once did—can find their foundations crumbling beneath them.

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Similarly, trends and fads that have little to do with new technologies can disrupt an industry. Coffee roasting, grinding, and brewing technology has been around for a long time. But who would have guessed 20 years ago that coffee drinkers would line up to pay five dollars for a cup, and that people would spend hundreds or thousands of dollars on coffee-brewing paraphernalia for the home? Innovation is what enables a business to be prepared to ride those waves as they come and new categories to be invented.

It's also what keeps a business relevant in the minds of consumers. A business school cliché is that most of the old railroad companies went out of business because they thought they were in the railroad business. When the automobile came along and started to make rail travel increasingly irrelevant, those companies had no answer. The innovative companies, by contrast, realized they were in the transportation business. That insight enabled them to stay relevant in the changing world.

Perhaps the most compelling reason of all, though, is that if a business doesn't innovate, it's opening the door to their competition or to an upstart challenger. Trying to play catch-up once the initial wave of innovation has passed is never a good position to be in. It can be done successfully—Samsung and Google have managed to claim a place in the smartphone landscape once reinvented by Apple a few years before. But even Microsoft, with all its resources, was never able to make a dent in the iPod's dominance in digital music players.

Innovation isn't just about staying abreast of consumer demand for new products. It has other benefits as well. Earlier, we defined innovation as "leveraging existing technology to answer a market need." In that respect, it enables a company to maximize its assets, both technological and human. The once-ubiquitous BlackBerry smartphone began with simple two-way paging technology that the manufacturer extended by adding email capabilities. The rest is history.

Innovation also provides a marketing advantage. Every business must ask itself, "What makes us special? Why should customers come to us rather than our competitors?" If the only answer is, "Because we're cheaper"—if a company is only competing on price—the risk is that someone will come along with a more efficient process or some other way to offer still lower prices. What then? A company that has managed to offer a unique value proposition, on the other hand, isn't handcuffed the same

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way—its customers will continue to patronize it even if they could go elsewhere cheaper, because it's giving them something the competitor doesn't. Innovation helps a company develop such a value proposition; again, Apple provides an example. Their products are not the cheapest, but they've established a reputation for high-quality, leading-edge computers for which people are willing to pay a premium price. (Critics say that Apple customers are just paying for some perceived "coolness factor." But that's a value proposition in itself.) They have done so partly by constantly innovating in the technology that goes into their products. It's not just technological innovation, however: they've also innovated in their sales channel and customer service with the creation of Apple stores and Genius Bars. Innovative thinking doesn't have to be confined to products and technology.

As a startup, your company has an advantage when it comes to innovation. Large, established companies may have more resources, but they also operate under numerous restraints—golden handcuffs, if you will—that reinforce the status quo. When there is innovation in large companies, much of it takes the form of improved processes and increased efficiencies in what the company is already doing. It makes sense that a business with an established model and customer base would not look for or encourage developments that stood a chance of disrupting them.

Furthermore, once a business grows to a certain size, it has to develop a formal structure with explicit rules in order to operate at all. Having lots of employees and initiatives to manage requires multiple layers of management, and a new idea can get stuck in any one of them. As Ben T. Smith IV, serial entrepreneur and investor (and, coincidentally, one of the first venture capitalists I ever pitched), has put it, "these rules are 'The Box.' The goal of most enterprise innovation is to get close to the edge of 'The Box' without touching the lines."

Large companies also have to answer to constituencies beyond the people directly involved with the business operation or the product. Shareholders want to see a return on their investment, while innovation can take a long time to pay off; and shareholders, too, aren't eager to see their investments disrupted. Also, public companies are required to report their results every quarter, and within companies teams are often expected to make quarterly reports of their progress. That pressure further leads to impatience with the development of a new product or technology. Startups

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can work on their products without being subjected to such external influences.

Besides those formal restrictions, startups have an edge when it comes to innovation just because of the kind of people they attract. Large companies by their nature tend to be staffed by people with some commitment to the status quo. And there's nothing wrong with that—it's appropriate for maintaining a well-established enterprise. BP isn't going to attract, and doesn't really want, employees who are obsessed with finding an alternative to fossil fuels. But that kind of itch is what drives the innovators who get involved in startups.

While innovation in business is important for all the reasons we've discussed, it's certainly no guarantee of success. For one thing, timing is critical. To the extent innovation involves extending technology into a new context, success depends on whether the context is conducive to the new idea. Similarly, while innovation can help a business ride the waves of popular trends, it's possible to be too innovative, to be ready for a wave that hasn't risen yet.

Google, for example, offered a superior alternative to the search engines of the time. But if Internet users hadn't already been trained in Internet searching by AltaVista and Lycos, Google might not have attracted the positive attention it did. Similarly, when Netflix launched in 1999, consumers were already used to ordering products online. (Amazon had launched four years before.) Not only that, but the percentage of American homes with DVD players was starting to skyrocket. Those two factors created the context that Netflix's innovative business model was able to take advantage of.

Even the companies with the best track record for innovation, on the other hand, can get the timing wrong. In 1993, Apple introduced the Newton, a handheld computer/digital assistant with handwriting recognition and an assortment of productivity tools. A mere five years later, Steve Jobs discontinued the product. It's certainly possible to list several flaws with the product itself that led to its demise: the handwriting recognition didn't work well at first, making the device the butt of jokes for cartoonists and comedians; it was too big and heavy; and it was expensive. But perhaps most of all, it was offered to a populace that had no familiarity with handheld computers as constant companions. In 1996, when the Palm Pilot was introduced, it entered a marketplace that the

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Newton had already educated about the potential for a personal digital assistant. (It also didn't hurt that the Palm was smaller and cheaper than the Newton.) It's worth noting that the next time Apple set out to introduce a handheld computer, it combined it with a cellular phone, a device consumers were already familiar with, and familiarity with the iPhone in turn provided a fertile marketplace for the iPad. In fact, as Steve Jobs revealed in 2010, the iPad was actually developed before the iPhone but was shelved until the market was ready.

In sum, the ability to innovate and the willingness to embrace innovation are desirable and often necessary traits for any business. Compared to established, large companies, startups are well positioned to embrace and leverage innovation. In the following pages, we'll discuss approaches to coming up with new ideas, building organizations to take advantage of them, and turning them into full-fledged products.