

xootic
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magazine



Starting
your own
business

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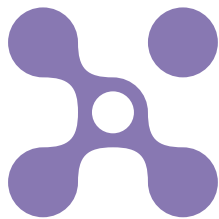
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Editors

Yanja Dajsuren
Panagiotis Georgiadis
Chilo van Best
Jorn Bakker
Chris Delnooz
Menno Lindwer

Address

XOOTIC and XOOTIC MAGAZINE
P.O. Box 6122
5600 HC Eindhoven
The Netherlands
board@xootic.nl
<http://www.xootic.nl>

Secretariat OOTI

Technische Universiteit Eindhoven
Department of Mathematics and Computer Science
c.o. Ms. M. de Wert
HG 6.57, P.O. Box 513
5600 MB Eindhoven
The Netherlands
ooti@tue.nl
<http://www.ooti.win.tue.nl/>

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Starting your own business

editorial

Your Magazine Committee was very busy battling the economic waves this year. As is often the case, the economic turnaround comes from young, innovative and dynamic companies. In the process of sailing through the winds of change, we found the experts on starting such companies. They have been so generous as to share their advise for the benefit of our XOOTIC audience.

The year 2009 has been very hectic. In 2008, we produced two magazines and promised to better our lives and enrich yours with more such gems. In terms of quantity, we failed. I hope that, with this Magazine we at least succeeded on quality. We feel that, although this Magazine does not so much have a technical background, it could prove very valuable to our members. If, as a small company you manage to survive the 2009 downturn in the IT industry, you really prove your value.

The first article in this magazine is an interview with Lucian Voinea, an OOTI graduate who started his own company, developing tools that give developers and managers a good insight in the quality of software. His company, Solid Source, is a typical example of a start-up, having grown in two years from an attic-based one-desk entity to a viable business with office space and employees and multiple customer projects.

The second article deals with the experiences of setting up an IT outsourcing company in perhaps one of the least likely places in the world. Nepal was discovered in the 70s by westerners seeking solace and adventure. They found plenty and nowadays Nepal is a target for adventure tourism and Himalaya trekking. But, as this article explains, you can now mix spirituality, mountain hikes, white water rafting, and business if you open up your mind to outsourcing software development to this wonderous place.

Then comes an article by one of Forbes.com's top authors, Martin Zwilling. He writes about the ways in which investors value companies. It is very important to know this, because the viewpoint of investors tends to add focus to the companies they invest in. Of course, find such good advise and to use it improve your business. But what's equally important is to use this knowledge to attract funds for your company, and in the end to know when and how to obtain the best return on the numerous efforts you put in building up your company.

We continue with another technology start-up. Paul Jansen gives his four best practises on how to navigate your growing, yet still small, ship through the waters that are populated with big enterprises trying to swallow you or run you over.

Lastly, we close with Eric Hak, general manager of OMS International, who brings in some more longer term experience. OMS is a 19 years old company providing integration of data for financial and automotive enterprises. Eric gives us a set of pitfalls (to avoid, naturally!), and valuable tips for starting entrepreneurs. As his company is active in the medical, automotive, and financial domains, his tips will be valuable for many.

XOOTIC Magazine Committee

Yanja Dajsuren

Georg Panagiotis

Jorn Bakker

Chilo van Best

Chris Delnooz

Menno Lindwer

Tomorrow, we will be able to make chips faster. Today, you can tell us how.

Deep UV-light
(193 nm)

The race to increase the number of IC switches per square centimeter is not the only race that is underway in the chip world. Manufacturers are also aiming to accelerate chip production. But how do you boost a machine that needs to be accurate to the nanometer?

ASML is now working on chip lithography systems in which a disk of photo-sensitive silicium (the wafer) is illuminated at high speed.

The wafer lies on the so-called wafer stage, which weighs more than 35 kilos. It is passed back and forth under the light, with an extreme acceleration and deceleration of 33 m/s^2 .

33 m/s^2



Chips with 45 nm details can only be made if, between acceleration and deceleration, you illuminate the wafer precisely to the nanometer. One thousand sensors and 800 actuators control and, consequently, illuminate 180 wafers an hour. How much software and how many processes are required to do this? And how do you manage the necessary IT architecture?

Accelerating by 33 m/s^2 poses a challenge in itself. Which motors do you choose? Where do you find amplifiers with 100kW capacity, 120 dB SNR and 10 kHz BW? And that is just the beginning – because the heat itself distorts the accuracy of your system as well...

For engineers who think ahead

Profile: Worldwide market leader in chip lithography systems | Market share: 65% | R&D-budget: EUR 500 million | Opportunities for: Physicists, Chemists, Software Engineers, Electrotechnicians, Mechatronics and mechanical engineers | Discover: ASML.com/careers



ASML

Interview with Lucian Voinea

Yanja Dajsuren



We have invited Lucian Voinea to share his experience of starting up his own company with the XOOTIC readers as he is one of the successful XOOTIC entrepreneurs. He is a co-owner and CEO of SolidSource, which is a technology-based company striving at becoming an internationally recognized provider of applications and solutions for maintaining and managing software.

YD: Could you introduce us about your professional background?

LV: I have first come to The Netherlands in 1998 as an exchange student. Then was the first time I have heard about OOTI. There were a number of Romanian guys enrolled in the program and they were very enthusiastic about it, so I have decided to apply for it myself. In 2001 I have joined the program and in 2003 I was finally ready to start my final project at Philips Semiconductors. During the preparation years at OOTI I have learned many things about how the software industry works. These gave me a totally new image about the real life (I thought). I was wondering how students graduating the normal university curriculum can start working without the kind of basic knowledge I have got during my study years at OOTI. However, after my 9 months graduation project, I have realized there is yet another face of the software industry. The “design” was not too different from what I have learned, yet the “implementation” had serious flaws. I have decided then to spend some more time in the academic world, and look for ways in which things could be improved. After four years of research, I had finally a bunch of tested ideas and a plan to change the world. So, in 2007, I have started SolidSource.

YD: Since SolidSource has been established not so long ago, it is interesting for our readers to know more about your company, the products it delivers, and the market you are targeting to.

LV: SolidSource makes applications to support software development and maintenance. Many companies spend a lot of resources on improving

the development process but forget to keep an eye on the ultimate goal of the development, the software product itself. In most cases this looks like trying to take a dog for a walk and not minding the fact that the dog is actually an elephant. I want to give people the right tools to have a leash on their software projects.

Since 2007 we developed four products that give software engineers and managers better insight into the developed software. These products support a number of use cases ranging from understanding the source code, its design and quality attributes, to assessing the development evolution and predicting its trends. The latest product that we've just launched looks at code duplication into software stacks. Removing such code can greatly facilitate maintenance and can reduce the memory footprint of software applications.

So far we have mainly addressed the embedded industry, which I guess is not surprising given our location in Eindhoven. The location was actually chosen such that we could be very close to our contacts. It is a great advantage, especially in the beginning, to be at just a few minutes driving from your clients. With the time, however, the contact network grows bigger and bigger and now I have to travel quite far sometimes. The furthest I had to go was Austin (Texas, USA). We are discussing now with a partner in Seoul (South Korea) so I might have to go even further away. I find it actually amazing how small the world can become in this kind of business.

YD: How did you think of starting your own business?

LV: Starting an own company was not a very dif-

difficult choice for me. I had ideas, the family was very supportive, and I have met a business angel that was willing to provide some seed capital. The most difficult thing to overcome was the fear to try something against my education. You see, I come from a land where entrepreneurship was not valued too much during my youth years. However, I took the step and so far I'm happy I did.

YD: How did the first period evolve? (e.g. financing, gaining momentum, etc)

LV: SolidSource is still a start-up company but we have achieved quite a lot. We started in 2007 in the classic way, with one desk and a computer in the attic. We were organizing meetings in ho-

tel lobbies (as it was business-like yet for free) and we had difficulties trying to converge all customer requirements in one development direction for our products. Now we rent an office, we have four people in the team, and a number of successful projects behind. It is only two years later, but sometimes it feels like a lifetime. It was definitely not an easy period, and sleeping was not always smooth, but I have learned a lot and I feel it was worth the effort I have put in it. Looking at the material rewards so far, they are definitely not enough to retire on a tropical island. It is rather enough for a long weekend in the Ardennes. On the other I can introduce myself as the CEO of SolidSource so that should compensate .

Shamans and Software

Martin Schoenmakers



Tucked away at the foot of the Everest, Nepal seems to become a new destination for more and more European IT companies in search of offshore ventures. What is the secret of this new branch on the tree of outsourcing IT solutions? Martin Schoenmakers joined a study trip to Nepal in 2006 and found himself at the helm of a small IT enterprise in Kathmandu just two years later. With the second anniversary of the company in sight, has this beautiful country of snow capped mountains, white water rivers and stunning flora and fauna met his expectations? A tale of young programmers, the seductions of the western hemisphere and the best cooked lunches of a life time.

Yaks and Yetis

Mystical cultures in a magnificent mountainous landscape of eternal snow, praying Buddhist monks and the occasional sighting of the famous Yeti. . . this would be the image that people around the world have of Nepal, the Hindu kingdom turned republic, land-locked between Tibet and India. Often mistakenly referred to as the “roof of the world” which is the ancient nickname for Tibet and for the Himalayas it harbours a potent and sometimes violent mix of more than 60 different ethnic groups and languages and boasts a turbulent history which keeps on being rewritten almost day by day. It was in 1995 that I set foot in this country for the first time, as anybody immediately taken ablaze by its immense richness of smells, sounds and colours. My mission in those days was a short one: a 3 month contribution to the improvement of the IT infrastructure of the Dutch owned Summit Hotel in Kathmandu, Nepals capital. Little did I know that this visit would result

in my being appointed General Manager of this same hotel a mere 13 months down the road. My partner and I enjoyed Nepal for three years that time and returned back to the Low Lands just before the millennium change. However, the Himalayan magnetism popped up again within a few years and since I had been involved in “business IT” type activities in the Netherlands, I decided to explore the possibilities of starting an IT business in Nepal. I joined a small study trip to Nepal early 2006 and met my current business partner during a seminar mid 2007. From that moment on, things started to move fast and we found ourselves moving back to Nepal in the early days of 2008, to start our second life in the land of Gods and Shamans.

Independence at last

Looking back on the first two years of this experience, I sometimes wonder how I got to this idea

of “off shored entrepreneurship” in the first place. Was it the search for freedom, the reunification with a lost love or the good old smell of money? Since I had never thrived very well in an employment setting, I decided to become independent after our return from Nepal late 1999. I registered an “éénmanszaak” (single person company) at the first day of the millennium and operated under that flag ever since, although combined with a few years employment in our then largest national bank. In my capacity of independent consultant I delivered small size automation services to large organisations, such as implementation of a document management system in a city council and development of various MS Access applications. However, something seemed to be missing in this setting, the missing turned into nagging and before long I started searching for some overseas experience again. When I met my current business partner during a seminar on Nepal, we sensed in an instant that our targets were perfectly compatible. He had only just completed his first offshore software development adventure with a third party in Nepal and was considering starting an offshore company of his own, while residing in the Netherlands. I was keen on starting a Nepali IT company as well, but only if it was to get me based in Kathmandu. This is how the partnership was born. We visited Kathmandu together in November 2007 and completed most of the introductory arrangements, such as registration procedures and finding an office building, in just over two and a half weeks. And the rest is history, as they say. We are now heading towards our second anniversary as the foreign subsidiary of our mother company in Aalsmeer, just south of Amsterdam. The Dutch company was established about five years ago and is a customer service oriented company focused on the automotive branch in the Netherlands, mainly importers and dealers. We deliver multiple business solutions to this market, ranging from staffing customer service desks to developing complex customer relationship management software, tailor made to service basically every car owner or lease driver in The Netherlands. The Nepali daughter company is the software development branch of the group. We deliver all automated solutions that operate as part of the larger customer relationship management application suites already in place. Besides the regular automotive clientele, we also deliver software to third party customers of any kind. Our specialty is Microsoft .NET on an MS SQL background and any type of customer with a requirement in this area is our prospect. Having started out with 6 employees during the first year, currently the company has 15 staff mem-

bers and we expect to be growing towards around 30 in a year from now. So far we have hired 25 people, but given the high turnover which is endemic to Nepali companies, the recruitment process has had somewhat of a two-step-forward-one-step-back character. Apart from software development, we have started delivering graphic (re)production services, such as drafting floor and building plans in CAD type applications. Finally, one more specialty worth mentioning is the fact that our “didi” (cook / maid) cooks the best (vegetarian!) lunches in corporate Kathmandu.

The wonder years

Since the Nepali company largely operates as an IT back office to the main branch in The Netherlands, the opposing wind during our infancy has been relatively mild. Sales and commerce activities have been carried out exclusively from the head office and mainly among an already established customer base. Even the third-party projects so far were all for customers already in the portfolio before the Nepali start-up. Financing was fully supplied by the main office, with a little help from occasional surpluses in the Nepali accounts, which helped against having nervous banks breathing in our necks. Nonetheless, gaining momentum was not easy, especially during the first year. Since both partners underestimated the level of difficulty of setting up a Nepali branch, growth and return on investment were considerably lower than expected. Glorious paper profits having been drafted before the start of the operation vanished in thin air with the passing of time. Commitment was not the problem: the team consists of young, enthusiastic, highly motivated and truly committed young professionals that work long hours if needed without any form of complaint. The main drawback however was the gap in developers skills compared to expectations. Although all of them were recruited from reputable Nepali universities, and their academic knowledge appeared to be satisfactory on paper, problem solving skills and the ability to apply theoretical knowledge in a practical context appeared below par. I personally attribute this to the roots of the school system as I will describe later on. Knowledge gaps and lack of experience often resulted in deadline pressure, leading to stress and quality problems, which in turn lowered customer satisfaction. During the second year, we have managed to largely overcome these problems, but they have not disappeared yet. Another problem contributing to this situa-

tion is the fact that almost every Nepali academic has only one target set out for him or herself, which is to leave the country and start a masters study abroad, preferably the United States. Time spent in a Nepali company after bachelor studies is considered merely gaining work experience required for the registration for international post academic programmes. Seldom do Nepali academic software developers spend more than two or three years in Nepal after obtaining their bachelor degree, after which they board a plane to the new world. Even if they would not consider leaving home themselves, then family and other peer pressure will ensure their change of mind over time. Companies like ours have to think of various, sometimes highly creative, retention schedules up to the extent of locking away salary components or diploma originals for several years.

Nepali roads

So did we encounter any pitfalls along the road? One had probably better ask which ones we missed. Let's just say that starting an IT company in a country like Nepal proved a lot more difficult than either of us would have imagined. It is often said that cultural differences are the root of all problems encountered in offshore constructions. Although by now a cliché, this is definitely true and sometimes even without being identified at the very moment of problem occurrence itself. In order to provide context to our business efforts, perhaps I should clarify a couple of outstanding properties of Asian culture as witnessed from my personal perspective. Asian cultures work a lot different from western ones. Many basic components of life are being perceived opposite to how "we" in the western world witness them. The most obvious ones are "time" and "truth": the western world usually recognizes a single accepted truth about almost everything and works within fixed timelines (what would be the real origin of the word deadline...?) while eastern cultures recognize many different truths in a setting where time is not one of them. A famous Nepali short saying is "ke garne", literally translated as "what to do" but meaning "there is not much we can do about that fact and certainly not within the time frame you suggest there". No wonder it is a popular response to missing a deadline, which happens frequently. After all, who invented that word in the first place? Other typical aspects of an Asian culture are the importance of the "group" rather than of the "individual" and the way a group deals with its problems. The group focus can show itself in

various faces, either in business life or through the utmost importance of the concept of "family". For instance, solutions are normally being developed group wise, which is a good thing in itself. However, if the group fails to solve the problem, it is rare for an individual in the group to take the lead and solve the problem in his or her particular way. Rather present the inability to solve the problem group wise than let the individual take the risk of losing face in case of a repeated failure. This often leads to problems being avoided and bypassed for a very long time, instead of allowing a group section or individual to adopt the problem. This is clearly expressed in the school system as well. From a young age onwards, students are being drilled in a tough group discipline, with little or no room for self expression or incentive for taking initiative. Young Nepali school children are well behaved and very disciplined, but 70 students in a class room synchronously rising to sing the Nepali hymn, before collectively sitting down again and be quite as a mouse, does not necessarily contribute to becoming a sharp software developer with a natural inclination to identify and solve problems autonomously. A third difference between eastern and western cultures is the focus on "shame" (east) versus "blame" (west). If something goes wrong in a western setting, we are all too quick to identify the culprit, mostly not being ourselves, and ventilate our discontent with his or her wrong doings. We take great pride in finding and executing the right punitive measures and elaborate on how to prevent the mishaps in the future. In an eastern context, when something goes wrong or continues to be wrong, the obvious response is to hide the mishap from being seen by the outside world. Covering up the mistake, (self) hiding of the culprit and a total moratorium on any communication around it are the usual movements to be observed. The three properties described above combined can provide re-occurring obstacles in delivering western quality products within western timelines. During a software development project, the shortest and most obvious way from A (requirement) to B (solution) may be clear to us ("truth") but not always to the developer and certainly not within our deadlines ("time"). The solution will normally be concocted together with colleagues ("group") and if the developer and his colleagues cannot find the solution ("problem"), they will continue to search for it in silence ("communication") and out of sight of the management ("loss of face"). If this situation lingers on for a long time ("shame") and the management is not timely aware of it, the project may derail unnoticed. My personal experience is one of the need for having "eyes in the back of

my head“ and for constant awareness that what seemed to be on the right track one hour ago may have already derailed this very minute. . .

The future

Notwithstanding the ongoing challenges as described above, our company certainly has good perspectives, provided we stay fully focused on our resourcing processes. The market for IT offshoring in Nepal is still in a pioneering phase, with lots of room for new kids on the block and little or no competition on the commercial side. However, the competition on the recruitment side is quite substantial. Nepal does not produce an infinite amount of IT bachelors annually and all IT companies fish in the same small pond, one party being financially considerably more powerful than the other. In this environment, we aim to be a small to mid size niche player, competing through technology rather than volume or price, and offering a typical Dutch cultural blend of flat hierarchy and straight talk. The competition in Nepal ranges from 5 to 150 staff members, our optimum operation size will likely end up around 30 employees. Recently, we have started a diversification process, whereby we now offer graphic reproduction services besides software development. This is a new market, with new challenges on the resourcing side, but offering great growth potential and more security for our operation as a whole. As far as my role in this fu-

ture is concerned, managing a small company in a dynamic and diverse environment as this one is a multi fold operation. Name anything ending on management and you will find it on my task list, whether it is general (overlooking the day to day operation of the company), personnel (hiring, firing and contracting of Nepali staff) or administration management (all accounting, auditing, suppliers, government and tax related activities). I am directly involved in design activities (requirements analyses, functional designs), customer communication (progress meetings with Dutch customers) and documentation, ranging from manuals to sales presentations. My translation skills have dramatically improved, since being the only Dutch speaking person in a company that works exclusively for Dutch customers brings about a work load of its own. Last but not least, the most intense and tedious responsibility of them all is quality assurance, whereby I supervise everything related to test management, release procedures and monitoring of online bug and project management tools. For the near future, pending actual growth and long term forecasts, I foresee the involvement of an operational (or senior project) manager directly under me, which would allow me to diversify more towards a consultative type of management and focus on new business. Besides, the future will naturally also depend on our personal timelines regarding the remaining duration of our stay in Nepal.

Would you like to comment on this article? Mail the author at martinschoenmakers-it.com.

Startup Valuation: Top Ten Techniques

Martin Zwilling

CEO & Founder, Startup Professionals



Once you have a potential investor excited about your team, your product, and your company, the investor will inevitably ask “What is your company’s valuation?” Many entrepreneurs stumble at this point, losing the deal or most of their ownership, by having no answer, playing coy, or quoting an exorbitant number that convinces the investor that they don’t understand basic economics.

Lets consider a hypothetical example. Two founders of a new health-care web site company named NewCo have spent \$200K of personal and family funds over a one year period to start the company, get a prototype site up and running, and have already generated some “buzz” in the Internet community. The founders now need a \$1M Angel investment to do the marketing for a national NewCo rollout, build a team to manage blogs and other resources, and maybe even pay themselves a salary.

How much is NewCo worth to investors at this point (pre-money valuation)? What percentage of NewCo does the investor own after the \$1M infusion (post-money ownership percentage)? Well, if the parties agree to a pre-money valuation of \$1M, then the post-money investor ownership is 50% (founders give up half interest, and lose control). On the other hand, if the pre-money valuation is \$4M, the founders ownership remains at a healthy 80% level.

So what magic can the founders use to justify a \$4M valuation (or even the \$1M valuation) at this early stage? Here are the techniques and rules of thumb that I recommend to every startup:

1. Place a fair market value on all physical assets (asset approach)

This is the most concrete valuation element, usually called the asset approach. New businesses normally have fewer assets, but it pays to look

hard and count everything you have. Be sure to include computer equipment, office equipment, furniture, tools, and the value of inventory or prototype products, including development costs. NewCo might be able to pick up an initial \$50K valuation on this item.

2. Assign real value to intellectual property

The value of patents and trademarks is not certifiable, especially if you are only at the provisional stage. NewCo has filed a patent on one of their software tool algorithms, which is very positive, and puts them several steps ahead of others who may be venturing into the same area. A “rule of thumb” often used by investors is that each patent filed can justify \$1M increase in valuation, so they should claim that here.

If you are incorporated, then your company name is also protected. If you have acquired a marketing-oriented Internet domain name, and some trademarks, these also give you a competitive head start. You should make the case that these together are also worth as much as the real assets in the valuation process. Another \$50K for NewCo.

3. All principals and employees add value

Assign value to all paid professionals, as their skills, training, and knowledge of your business technology is very valuable. Back in the “heyday of the dot.com startups,” it was not uncommon

to see a valuation incremented by \$1M or every paid full-time professional programmer, engineer, or designer. NewCo doesn't have any of these yet.

Don't forget to include the "sweat equity" for unpaid efforts of founders and executives. NewCo's two founders have been working for a year each on this company, and that fact can be factored in as if they had been paid a conservative salary of \$100K each per year.

4. Early customers and contracts in progress add value

Every customer contract and relationship needs to be monetized, even ones still in negotiation. Assign probabilities to active customer sales efforts, just as sales managers do in quantifying a salesman's forecast. Particularly valuable are recurring revenues, like subscription amounts, that don't have to be resold every period. This one doesn't help NewCo just yet.

5. Discounted Cash Flow (DCF) on projections (income approach)

In finance, the income approach describes a method of valuing a company using the concepts of the time value of money. The discount rate typically applied to startups may vary anywhere from 30% to 60%, depending on maturity and the level of credibility you can garner for the financial estimates. NewCo is projecting revenues of \$25M in five years, even with a 40% discount rate, the NPV or current valuation comes out to about \$3M.

6. Discretionary earnings multiple (earnings multiple approach)

This approach is usually applied to a more mature startup than NewCo—one that has at least a couple of years of full operation, and has already passed the breakeven point. If you are still losing money, skip ahead to the cost approach.

If you are doing well, you can estimate your company's valuation by multiplying earnings before interest, taxes, depreciation and amortization (EBITDA) by some multiple. A target multiple can be taken from industry average tables, or derived from scoring key factors of the business. If you have no better info, use 5x as the multiple.

7. Calculate replacement cost for key assets (cost approach)

The cost approach attempts to measure the net value of the business today by calculating how much it could cost for a new effort to replace key

assets. Since NewCo has developed 10 online tools and a fabulous web site over the past year, how much would it cost another company to create similar quality tools and web interfaces with a conventional software team? \$500K might be a low estimate.

8. Find "comparables" who have received financing (market approach)

Another popular method to establish valuation for any company is to search for similar companies that have recently received funding. This is often called the market approach, and is similar to the common real estate appraisal concept that values your house for sale by comparing it to similar homes recently sold in your area.

Usually you can find online investor sites with the relevant information on recent funding activity. If you can't find the relevant information in the public domain, you may need to ask your business advisors to query their investor friends. There are also professional valuation consultants who can certainly help you in this regard, for a price.

From my experience, it's reasonable to assert that many website startups at a similar stage to NewCo have been able to sustain a \$4M valuation for funding, so let's use that for backup here.

9. Look at the size of the market, and the growth projections for your sector

The bigger the market, and the higher the growth projections are from analysts, the more your startup is worth. For this to be a premium factor for you, your target market should be at least \$500 million in potential sales if the company is asset-light, and \$1 billion if it requires plenty of property, plants and equipment. Let's not take any credit here for NewCo.

10. Assess the number of direct competitors and barriers to entry

Competitive market forces also can have a large impact on what valuation this company will garner from investors. If you can show a big lead on competitors, you should claim the "first mover" advantage. In the investment community, this premium factor is called "goodwill" (also applied for a premium management team, few competitors, high barriers to entry, etc.). Goodwill can easily account for a couple of million in valuation. For NewCo, the market is not new, but the management team is new, so I would not argue for much goodwill.

Even if a given investor excludes some of the

above components of value from consideration in your case, your credibility will be bolstered by the fact that you understand his business as well as yours. In any case, the analysis will prepare you for the heavy negotiation to follow

Remember that precision is not the issue here the task for the entrepreneur is to build a company that is worth at least \$50M before thinking about an exit – no investor wants to spend more than five minutes arguing the fine points of the last valuation dollar.

So what is a reasonable valuation for a company like NewCo? My advice for early-stage companies like this one is to target their valuation somewhere between \$1.5M and \$5M, justified from the elements above. A lower number suggests that the founders are giving away the company, while a much higher number may suggest hubris or lack of reality on the part of the owners.

Of course, we have all read about the “new” company with \$100M valuation, but I haven’t met one yet.



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You can also apply online by visiting our careers page on our website **fei.com**



The Start of High-Tech Company TIOBE

Paul Jansen

Tiobe



“Could you automate some coding standard rules that we have?” asked René Krikhaar after we had played a game of tennis. René was a friend of mine who was a software architect at Philips Healthcare at that time. This happened in 2001, more than a year after I had founded TIOBE Software.

“Yes,” I said, “we have the skills and we have the capacity to deliver.” At that moment I didn’t realize that this “yes” was the actual start of my company. Now, 8 years later, we are still in that same business of measuring software code quality automatically, serving customers such as TomTom, Philips Healthcare and Océ Technologies worldwide. We are even market leader in the Netherlands for the embedded software industry. With our technology we inspect nowadays more than 100 Million lines of industrial source code every night in search of possible software errors.

What were the critical success factors in this process? Why are we still alive, whereas most other high-tech startups fall apart within 5 years? Thinking about it in retrospective, I have come to the conclusion that there are four leading principles that certainly helped. I am not saying they will work for you, but they definitely worked for me!

The most important principle is “don’t start your own company right from the start.” If you just graduated from university you probably know how to put a pizza in the oven and you certainly will have a theoretical tool set to interpret the world, but you don’t know what business is about.

I started my career at Philips Research and I am glad I did. My wife called it a “playground for adults,” which was true to a certain extent. I could experiment with technology and transforming weird ideas into business opportunities with-

out losing any money. I made a lot of business friends like René that would help me sooner or later. Moreover, I experienced what it was like to find your way in a large organization without drowning into its bureaucracy.

Imagine I had not worked for Philips first. Starting a business being happy to have some small local companies as my most important customers, because I did not have contacts at the large companies or even had the slightest idea how to handle prospects of this size. I would have ended proudly yelling that I managed to have a contract signed with “Gemeente Nuenen”. No, not for me.

Suppose you have followed the first principle, then there is still no guarantee that you will survive because you also need to apply the second most important principle. This is “make sure you are an expert in a field which is in demand.” If you can do something others can’t do and there is a need for it, you have business.

For me and my business partner Bram Stappers (an OOTI by the way) this was the field of compiler construction. This is technology you can use to make compilers of course, but also automated translations between programming languages and, guess what, you can also use it to analyze software programs to identify bad code smells. We could and still can deliver state-of-the-art solutions in this area. Our field of expertise is just an example. There are many other fields that are equally promising. Think of being able to op-

timize IC designs or improving the yield of solar energy systems.

Most people think that it is important to have some unique idea or product to start a business. So did I. I was so occupied with finding the product we should put into the market that I was surprised that somebody asked me "Who is your launching customer?" And he was right to ask. There are so many opportunities for businesses at every customer site that there is no real reason why you should focus upfront to define a unique product. Creating products costs a lot of money. Either you go to a bank or venture capitalist to sponsor it (not my idea). Or, you create one as a side effect of helping your customers. The advantage of the latter is that you remain independent and you know you have something for which at least one customer is willing to pay. So this is my third principle: "You don't need a unique idea, you need a customer."

Once you have found a solution for a customer, try to sell the same solution or a slight modification to others. It is very tempting to run into every business opportunity, but keeping focus is king. I always use the comparison with Dutch salvage company Smit Internationale. Wherever in the world a ship sinks one calls Smit to raise the wreck. If you think about "sinking ships" you think about Smit. This is I think the ultimate goal a company can reach.

Once there was an exception for Smit though. That was back in 2000, when Russia asked an-

other Dutch company Mammoet to raise the submarine Kursk after a fatal explosion. Funny enough, Mammoet didn't manage to finish the job alone, so they needed to ask help from... Smit Internationale.

At TIOBE we are trying to achieve the same. Being a company one associates with coding standards and software product quality. If you type in "C# coding standard" in Google you will see we are first, for instance. This helps to get business come to you instead of being forced to put much effort in sales. And this is my fourth principle: "Stick to the same company mission for a long time."

Let's summarize the 4 principles:

1. Don't start your own company right from the start
2. Make sure you are an expert in a field which is in demand
3. You don't need a unique idea, you need a customer
4. Stick to the same company mission for a long time

If you apply these 4 guidelines consistently, chances are high you will survive the first few years. But what is next? How to transform from little dwarf into recognized market leader? This is a process we are currently in. I can't share the end results with you yet, but I have some ideas. Let's discuss these in the next issue of XOOTIC MAGAZINE.

Advice from a seasoned entrepreneur

Eric Hak



Eric's enthusiasm for everything he does is contagious. He runs several successful businesses. He has a passion for automotive affairs and classical motorbikes. He even manages to combine his busy life as an entrepreneur with several board memberships of automotive and motorbike-related organizations. Eric's story is littered with very valuable advice to anyone starting and growing a company.

How it all started

From the age of 17, Eric wanted to be an entrepreneur. He loves automobiles, and worked for the Dutch automotive association RAI. However, he quickly discovered that being a car dealer meant hard and low-paid work, being highly dependent from importers. He decided to do something else.

He graduated his studies at IVA (Instituut voor Autobranche en Management) in 1983. After a short career in repatriation activities, he became a policy and project manager at RAI Association Amsterdam, in which he looked after the interests of car manufacturers and importers in the Netherlands. He became responsible for the developments around ODETTE standardization. ODETTE (Organisation for Data Exchange by Tele-Transmission in Europe) was set up by the European automotive industry, in response to the Japanese car manufacturers large gains on the European market. The objective was to improve supply chains and production quality through the use of standardized IT techniques. The ODETTE protocols are still in use in many European automotive companies today.

In the mean time, the non-profit ODETTE Benelux organization was set up. At this point, Eric started helping companies implement the protocol and associated tools. Meanwhile, he continued to represent the interests of the sector and kept maintaining and extending the ODETTE standard.

OMS International

In 1991, in order to streamline the process of implementing ODETTE, Eric founded OMS International, a dedicated commercial company with the mission to implement the results of ODETTE standardization on a commercial basis. The business enjoyed full support from RAI, which was very important in the early stages. As usual however, banks did not give a loan easily.

I would qualify the initial phase of the company as messy. We spent a lot of effort getting a bank loan. Bank employees were hard on our case and wanted all sorts of guarantees. Of course, it was good to keep both feet on the ground and they pointed out that one would need a good business plan with proper analysis of strengths, weaknesses, opportunities and threats (SWOT analysis). We got the loan, but we ended up never needing the money. Due to some good arrangements, the company made a flying start.

Today, OMS is a more general ICT services company. It generates business from its products and know-how on ODETTE. OMS provides integration of data, knowledge, and standard ICT solutions. It has customers in very diverse branches, such as automotive companies, tax department, banks, and office supplies.

Two and a half years ago, Eric started the MA-Groep. MA-Groep invests in setting up modern and innovative pharmacies. It buys, deploys, distributes, and integrates standardized pharmacy and home physician back office systems, while

taking the regulations and incentives (as stipulated by insurance companies and government) into account. It creates opportunities for medical practitioners, while improving service to patients.

The business model revolves around setting up efficient pharmacies in cooperation with a new health center. The pharmacy is one of the driving forces behind efficiency and innovation in first-line medical care. These pharmacies benefit from the large patient bases of these health center and produce a good profit. The pharmacist will have a financial stake in the pharmacy and will have the opportunity to buy himself out after a certain period of time. This will release funds into MA-Group for further investment.

The future of OMS International is bright. We are a niche player. We do not really have the ambition to grow very much. The competitors are embedded in some very large software companies, such as Infor (previously SSA BAAN), Oracle, and SAP. We do not need to spend resources on marketing. Our customers know where to find us and we are not being played out against our competitors. That is probably the clearest sign that we do our job well and that our prices are competitive.

MA Groep has some competitors, that started as large pharmaceutical distributors and added pharmacy concepts and franchise formulas. MA-group is looking to expand its business by setting up more cooperative pharmacies. As the competitors are currently hardly active in starting new projects, MA Groep is only competing for projects with private pharmacies that are forming cooperations to start new projects.

Eric's tips for key aspects to success

If you ask me about the pitfalls for young entrepreneurs, I do not need to hesitate about the most important aspect of being in business: **focus**. For example, in the initial phases of OMS, we thought that it would be a good idea to start an electronic product guide, next to our EDI activities. This seemed logical from the point of view that EDI systems already contained a lot of relevant data. However, we had to conclude that electronic product guides were not our core business. We could not make enough progress. The project dwindled and we had to abandon the activity.

From above description of my activities, you may conclude that in saying this, I'm contradicting myself. After all, I'm active in several very different

domains. However, engaging in diverse activities does not mean that you are not focused. When starting a new activity, it is generally a good idea to do this within a new and dedicated business. Often, you will do this together with new partners with expertise in that domain.

Another pitfall is **fleeing forward**. I tend to phrase this as hope is postponed disappointment. Many young companies try to hide their inability to sell products by portraying all the new products they are developing as realities. They hope that these new products will be available in time to save the company. However, this kind of product development, without regard for selling current products, distracts attention from the continuity of the company.

This leads me to the third pitfall, namely insufficient focus on **getting your customers to pay** their invoices. In their flight forward, young entrepreneurs tend to forget to chase their customers for payments. It is vitally important to ensure that you always get your money. Not paying means no services delivered. Instead, young start-ups hope to charm their customers into paying more on the promise of all sorts of new product features. Additionally, when you run a services company, you should think twice whether to allow your customers to pressure you in reducing your rates. On products, you should also resist price erosion. Rather, you should consider giving some free days or throw in additional features. It is virtually impossible to get rates and prices up after you agreed to lower them. Especially when doing business with large companies, be prepared to deal with very seasoned purchasing departments. They know exactly what is for sale and at which price. For example, they will try to make you reduce your rates or prices, using the argument that they are taking a risk when hiring a young or small company. However, any company can go out of business. If you know that your product or service is of good quality and up to standards, there is no reason for your customers to pay less.

What you will also find is that your personnel will be less committed than you are. It is one of the realities of being an entrepreneur. It is OK to give your employees options. However, it is even better policy to supply options that they need to pay for. In that case, employees are more inclined to safeguard their investment. Also, you need to build in many checks and balances. For example, you need to regularly check with your customers to see whether they are still satisfied with the service they are getting. Else, problems at customers only reveal themselves when they stop

paying the invoices. Usually, by then it is too late. In the early days, I thought I could do everything on my own and would not need advice. This was a mistake. In fact, it is actually a good idea to have trusted counselors and experienced advisers. Even your direct business partners can often not help you when you need to talk about your real concerns. I found a very good coach. She asks the right questions and sees things objectively. This also deals with the art of letting go. When you are lying in your bed, there is not much you can do about issues at work. Think about everything that did work out well. Last but not least, be true to yourself. It is important to listen to your feelings and to couple those feelings to your rationale.

Regarding coaches, I like the ones that use the self-confrontation method of prof. H.J.M. Hermans of Radboud University. It is a very practical method, which focuses on quickly achieving tangible results.

Besides having a mental coach, it is also good to have a senior coach, someone who knows the ropes, e.g. has been through negotiations with purchasing departments. In my case, I happened to know a retired IBM manager who helped professionalize the whole commercial infrastructure of my company. He developed the quotation system and mentored discussions with difficult customers.

Seeking new opportunities

Lately, I again have an occasional feeling of dissatisfaction. On the one hand, I feel I need to act and search for something new. On the other hand, it makes no sense to force things. When you start actively searching for new opportunities, they often do not materialize. New, interesting and fun things will cross your path by themselves. You need to be prepared to grab them.

At this time, the pharmacies in The Netherlands are in a vulnerable position. This is caused by new rules from government and insurance companies, such that doctors can only prescribe the

cheapest equivalent of any medication. From a cost control point of view, this seems logical. However, it causes uncertainty with patients, every time they get a new medication with supposedly the same effect. Also, when, as a country, The Netherlands are frequently switching preferred medications, based only on pricing, the market is going to overlook the country when it comes to the introduction of new medication. Given that medication actually represents a relatively small part of the countries budget for medical care, this may turn out to be bad development on the long run.

It is actually the medical institutes (primarily the hospitals) that absorb most of the funds. Due to government and insurance regulations, hospitals and their specialists spend much energy on administrative issues. This results in expensive management layers, long waiting lists, miscommunication, and deadly incidents. Patients no longer feel they are being taken seriously. Medical incidents are reported in the news on a daily basis. The Slotervaart Hospital in Amsterdam does pose an interesting case of possible privatization. It was bought by a private investor. She took over control, replaced top management, and made the medical specialists have a financial stake in the hospital. Within a year, the financial situation of the hospital, which had been negative for decades, was turned positive.

Over the years, I learned a number of important lessons:

- One should not operate based on cost (reducing treatment fees). On the contrary, important stakeholders should have a financial position in the enterprise.
- Focus should be on the product (treatment) and the customers (patients).
- Make sure that people communicate.
- Measure people on their output and provide bonuses based on output.

Personally, I want to keep investigating new opportunities and business development, perhaps around medical topics or from a completely different direction, as long as it keeps the smoke coming from the chimney!

