

# To Cover or Not to Cover: A Business Journalist's Cheat Sheet for Evaluating Start-ups

by Spencer E. Ante

There are thousands of start-ups to write about. But which ones do you choose to cover? Over the last twelve years of covering Silicon Valley and the global entrepreneurial community, and after writing a book on the history of venture capital, I've come to rely on these four guideposts when evaluating a new company.

- 1. Quality of Management.** Management talent is the most important factor of success. But it's also the hardest to measure. Startups often change their business models several times before a company succeeds, so quality of management is especially important. Managers, Georges Doriot once wrote, should be "competent in their specialty and dedicated to the purpose of building a successful young company, even if inexperienced in many facets of business administration." The best managers have "technical creative competence," a "drive for recognition or monetary reward," and a strong work ethic "supplemented by a balanced personal life." Always review the education and background of the management team. For more experienced managers, review their track record. Have they ever worked for or led a successful company? If not, that's a red flag.
- 2. Level of Innovation.** Is the product or service of the new company a breakthrough or is it just a better mousetrap? Does the product or service meet a real human need? Even better, is the product meeting an unmet need? The more unique and valuable a product or service is, the more likely it is to succeed. While a Web-based pizza delivery service may sound innovative at first, when you think about it, such a service is doomed to fail. Google, on the other hand, created an entirely new way of enabling companies to market their goods and services. Even better, the new way is superior to the old way. Sounds like a great business to me.
- 3. Company It Keeps.** It's hard to measure character but one way to get close is to analyze the investors, customers and business partners of a company. If a top-name venture capital firm invested in the company, that's equivalent to a good housekeeping seal of approval. VCs don't put money in the game without kicking the tires. Big name customers are always a positive sign—especially if they are leaders in their respective segments. If a company signs up Proctor & Gamble as a customer, for example, that's a huge plus because P&G is seen as a leader in their industry. Where P&G goes, other companies usually follow.
- 4. Evolution of Business Model.** At some point, all companies have to make money. Even Internet companies. If the company is public, scrub the financial figures of their SEC filings. If is private, see if the company will tell you its financials (sales, profit and margins). Take them on background if necessary. I always feel safer writing about a company when it has reached a break-even point in its business model. But it's OK to write about companies that haven't as long as they are on a path to profit. For me, that means they are on track

to turn a profit in less than a year. But some companies are so innovative and important that you have to write about them: Think Napster or Facebook.

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