Reality Check
The Irreverent Guide to Outsmarting, Outmanaging, and Outmarketing Your Competition

THE SUMMARY IN BRIEF

For a quarter century, in his various guises as an entrepreneur, evangelist, venture capitalist, blogger and guru, Guy Kawasaki has cast an irreverent eye on the dubious trends, sketchy theories, crackpot jargon, and outright foolishness and sloppiness of what so often passes for business today. Too many people frantically chase the Next Big Thing only to discover that all they’ve made is the Last Big Mistake.

Reality Check provides a tweaked, updated and supplemented collection of the best of everything Kawasaki has done and seen that pertains to starting and operating a great organization. He focuses on the stages of the creation and operation of an organization, but readers can apply the lessons to all stages of an organization’s life span.

Kawasaki offers readers a unique guide for starting and operating great organizations — ones that stand the test of time and ignore any passing fads in business theory. Reality Check collects, updates and expands the best entries from Kawasaki’s popular blog, and features his inimitable take on everything from the art of branding to how to be a great moderator to how to drive your competition crazy.

In this summary, you will learn the tools that can make a 21st-century organization soar.

IN THIS SUMMARY, YOU WILL LEARN:

• How to raise money to fund your business.
• The truth behind hiring and firing.
• Three keys to the art of branding.
• How to master five valuable principles of innovation.
• How to create a community around an innovative product or service.
The Reality of Starting

Flailing, grinding, thrashing and getting lucky are why companies succeed. Not knowing you’re doing something that’s “impossible” helps too.

It is unproven entrepreneurs who start the great world-changing companies such as Hewlett-Packard, Apple, eBay, Microsoft, Google, Yahoo and YouTube.

The Inside Story of Entrepreneurship

Successful entrepreneurs can’t be convinced that any other startup has their troubles, because they constantly compare the triumphant launch parties and revisionist histories of successful companies to their own daily struggles. Just so you know you’re not alone, here’s a top-five list of the realities of startups:

1. True believers go nuts at the slightest provocation.
   The best people at a startup care too much.

2. Good people need big projects. If you aren’t doing something worthwhile, you can’t get anyone worthwhile to work on it.

3. Startups are freak catchers. To join a startup, to leave a Microsoft, you have to be fundamentally unhappy with the way things are and unrealistic enough to believe the world can change.

4. Good code takes time. To make something elegant takes time, and the cult of speed sometimes works against that. “Make haste slowly.”

5. Everybody has to rebuild. Don’t get discouraged or shortsighted. Just rebuild it. This is simply how things work.

Starting an organization is a wonderful experience, but it’s also a difficult and scary one. If it were easy, more people would do it, and that would mean more competition. Also, only the things that scare you make you stronger.

The Reality of Raising Money

The closest real-world analogy to raising money, whether you are seeking it from venture capitalists, angel investors or the three F’s (friends, fools and family), is speed dating. That’s right: In five minutes, people decide if they are interested in you, just as in bars and nightclubs. This isn’t right, and it isn’t fair, but it’s reality.

The Investor Wish List

You may never try to raise money from a venture capitalist, but you’ll probably have to raise money from someone to fund a business. Two pieces of advice before you begin:

- First, don’t confuse fundability with viability. Only a few thousand companies a year raise venture capital. These companies are “fundable” in the sense that they have fooled a venture capitalist into believing that they can achieve sales of at least $100 million per year within five years. Thousands of other companies failed this fundability test — or, more likely, didn’t bother trying to raise venture capital.

- Many of these companies are perfectly viable; they simply aren’t fundable, because they probably won’t achieve sales of $100 million/year,
which is what venture capitalists are looking for. This applies to restaurants, bookstores, consultancies, blogs and design firms. Venture capitalists are trying to fund the next Google, Apple, Microsoft, Cisco and YouTube. Venture capitalists are not trying to help you build a nice $10 million business. However, angels, friends, fools and family might think this a whopping success.

• Second, don’t ask any potential investor to sign a nondisclosure agreement (NDA), because asking him/her to do so will make you look clueless. Venture capitalists and angel investors are often looking at three or four similar deals, so if they sign an NDA from one company and then fund another, they expose themselves to legal action.

The Art of Executive Summary
Your executive summary is probably the most important document you will write for your company. You send it to the investor after the introduction in order to get a meeting and to determine if there is any investor interest. If it works, the potential investor will contact you to set up a meeting. The components of an effective executive summary are:

1. Problem. What pressing and important problem are you solving or opportunity are you addressing?
2. Solution. How are you solving this problem or tapping this opportunity?
3. Business model. Who are your customers and how will you make money?
4. Underlying magic. What makes your company special?
5. Marketing and sales strategy. What is your go-to-market strategy?
6. Competition. With whom do you compete? What can you do that they can’t? What can they do that you can’t?
7. Projections. What are your financial projections for the next three years? What are key assumptions and metrics to achieve these projections?
8. Team. Who is on your team? Why are they special?
9. Status and timeline. Where are you now and what are the major, close milestones?

Your executive summary should not exceed two pages in length, because its purpose is to sell, not describe your company. Indeed, if it takes you more than two pages to sell your idea, your idea isn’t very good.

Spend a good couple of days on this, because your executive summary is the foundation of a successful fundraising campaign.

The Reality of Planning and Executing
If you think that raising money is the hard part, you’re in for a surprise. Raising money is easy and fun. The real work begins when you have to deliver the results that you promised. Execution separates great companies from great ideas.

The Zen of Business Plans
In order to effectively write a business plan, you need to learn the Zen of writing business plans. This includes:

• Focus on the executive summary. This is the most important part of a business plan.
• Write for all the right reasons. The business plan should force the management team to solidify the objectives (what), strategies (how) and tactics (when, where, who).
• Make it a solo effort. One person, ideally the CEO, should do the actual writing of the plan.
• Pitch, then plan. The correct sequence is to perfect the pitch and then write the plan from it.

The Art of Execution
In the movie The Candidate, Robert Redford’s character mouths “Now what?” after he gets elected. Most entrepreneurs ask the same question after they get funded. The answer is “Now you have to deliver.” And the next question is “How do we deliver?” This is where the art of execution comes in:

• Create something worth executing. If you and your team are having a hard time executing, maybe you’re working on the wrong thing.
• Set goals. Not just any kind of goals, but goals that embody these qualities: measurable, achievable, relevant and rathole resistant. Ensure that your goal encompasses all the factors that will make your organization viable.
• Postpone, or at least de-emphasize, touchy-feely goals. As soon as you start missing the measurable goals, all the touchy-feely stuff goes out the window.
• Communicate the goals. For goals to be effective, they have to be communicated to everyone.
The Reality of Innovating

Many people think that innovation is easy: You sit around with your buddies and magical ideas pop into your head. Or your customers tell you what they need. Dream on. Innovation is a hard, messy process with no shortcuts. It starts with making something that you’d like to use that has meaning, and it gets both easier and harder from there.

The Art of Innovation

Management guru Peter Drucker wrote, “Innovation is the specific instrument of entrepreneurship…the act that endows resources with a new capacity to create wealth.” He was right: Innovation is what creates wealth. Innovation had better create wealth, because it’s so damn hard to do. Here are several principles of innovation learned in the trenches:

1. **Build something that you want to use.** People start companies because they want to use the products or services that they are creating. So if you want to be innovative, create what you want to use.

2. **Make meaning.** Great innovations enable people to do old things better, do things they always wanted to do and do things they never knew they wanted to do.

3. **Jump to the next curve.** True innovation occurs when companies jump to the next curve — or better still, invent the next curve.

4. **Don’t worry, be crappy.** Don’t worry about shipping an innovative product with elements of crappiness. If a company waits until everything is perfect, it will never ship and the market will pass it by.

5. **Churn, baby, churn.** The last thing employees want to deal with is complaints about their perfect baby. Innovation is not an event. It’s a process.

These are five cornerstones of innovation, but innovation can be boiled down to one challenge: Do not rest until you make meaning and jump curves.

The Sticking Point

When asked “What separates ideas that stick from those that don’t?” Chip and Dan Heath, co-authors of *Made to Stick*, explained, “We found that there were six principles (SUCCES) that link sticky ideas of all kinds. Sticky ideas won’t always have all six, but the more, the merrier.”

“For example, JFK’s idea to put a man on the moon in a decade had all six of them.” Here’s how:

a. **Simple.** A single, clear mission.

b. **Unexpected.** A man on the moon? It seemed like science fiction at the time.

c. **Concrete.** Success was defined so clearly — no one could quibble about man, moon or decade.

d. **Credible.** This was the president of the United States talking.

e. **Emotional.** It appealed to the aspirations and pioneering instincts of an entire nation.

f. **Story.** An astronaut overcame great obstacles to achieve an amazing goal.

The Reality of Marketing

Everybody wants to be the vice president of marketing, because you get to do the fun stuff: shuck and jive with the beautiful people, create fun marketing campaigns, drive German cars and pierce parts of your body. If only this were the reality of marketing. More accurately, marketing is the process of convincing people they need your product or service. That’s not so easy.

The Art of Branding

In the real world, you don’t have infinite resources, you don’t have a perfect product and you don’t sell to a growing market without competition. You’re also not omnipotent, so you cannot enforce what people think your brand represents. Under these assumptions, most companies need all the help they can get with branding. Here are three keys to this mysterious process:

- **Seize the high ground.** Establish your brand on positive conditions like “making meaning,” “doing good,” “changing the world” and “making people happy” — not doing in your competition.

- **Create one message.** You can pick one message, stick with it for at least a year if it appears promising and then try another. But you can’t try several at once or switch every few months.

- **Speak English.** Not necessarily English, but don’t speak in jargon. A good test is to ask your parents if they understand what your positioning means.

Frame or Be Framed

George Lakoff is a professor in the linguistics department of the University of California, Berkeley and the author of *Don’t Think of an Elephant.*

There’s a good marketing lesson in Lakoff’s work: You either frame your product or someone will frame it for you. And you are not in control if someone frames it for you. For example, an online music-sharing service is either “piracy” or “a music-listeners’ revolution.” Using the word “revolution” implies that record companies are
unfairly ruling people who listen to music. This beats “piracy,” and the company that provides relief from this oppression is logically a hero of the people. This is how to control the frame:

- **Be true to yourself.** A frame should represent what you stand for — as opposed to what market research might tell you to stand for.

- **Avoid the frontal assault.** When framing the competition, the goal is to frame your competition in a way that isn’t harshly critical, but clever and damning.

- **Align with core values.** In America, circa 2008, this means concepts with positive connotations, like democratization, liberation, independence, efficacy and freedom.

- **Draw first blood.** It’s better to fire the first salvo that frames both your competition and your own product or service.

Framing is one of the most powerful and enjoyable marketing functions.

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**The Reality of Selling and Evangelizing**

Sales fix everything. This is because as long as you have sales, cash will flow, and as long as cash is flowing, (a) you have the time to fix your team, your technology and your marketing; (b) the press won’t say much, because customers are paying you; and (c) your investors leave you alone, because they don’t want to jinx your success. Evangelism is grouped with sales because it is the purest form of selling — that is, getting people to buy into your product or service.

**The Art of Selling**

The acronym ABC stands for Always Be Closing. That is, you should always be trying to make a sale. You can overdo this — or more accurately, you can lack subtlety and make people resent your efforts. Indeed, the best sale is a long-lasting and repeating one, but don’t kid yourself: You either make a sale or you don’t. Here are three tips:

- **Sell, don’t enable buying.** The products and services of most organizations are sold, not bought. If you don’t have an iPod-like product, you need face-to-face, personalized and intense contact. The best lead-generation methods are seminars, presentations by company executives and schmoozing.

- **Find the key influencers.** They have humble titles like secretary, administrative aide, database administrator or customer service manager. They usually do the real work, so they know what products and services are needed and the CXOs ask them for their recommendations.

- **Make prospects talk.** If prospects are open to buying your product or service, they will usually tell you what it will take to close the sale.

**The Art of Evangelism**

Another reality is that you can’t do everything by yourself, so it’s great when your customers become evangelists and help you spread the good news. You can blow all the smoke that you like about partnerships, brand awareness and corporate image, but you either attract believers or you don’t.

The key to great evangelism is great innovation. It is easy — almost unavoidable — to catalyze evangelism for a great product. It is hard — almost impossible — to catalyze evangelism for crap. The important question is, “What are the characteristics of an innovative product or service?” The answer is to think DICE:

- **Deep.** A great product doesn’t run out of features and functionality after a few weeks of use.

- **Intelligent.** A great product screams that someone was thinking when she created it.

- **Complete.** A great product is more than a physical thing. Documentation counts. Customer service counts. Tech support counts.

- **Elegant.** A great product has an elegant user interface. Things work the way you’d expect they would.

- **Emotive.** A great product incites you to action. It compels people to tell others about it.

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**The Reality of Communicating**

Entrepreneurship is an outward-focused activity. It requires that you communicate with others, using e-mails, presentations, speeches, panels and blogs. Every one of these modes of communication is a skill that entrepreneurs need to master. You do not need special training to master these skills. All it takes is reading these tips and practicing for 20 years.

**The Effective E-Mailer**

E-mail is the most commonly used form of business communication. Here are five ways to make e-mail more effective and efficient:

- **Craft a subject line.** The subject line is the window into your message’s soul.
• **Limit your recipients.** The more people to whom you send an e-mail, the less likely any single person will respond to it, much less perform any action that you requested.

• **Don’t use ALL CAPS.** Text in all caps is interpreted as YELLING in e-mail.

• **Keep it short.** The ideal length for an e-mail is five sentences.

• **Refrain from attaching files.** Now that lots of people are opening messages with smart phones, sending files when you don’t have to is a sure sign of cluelessness.

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**The Zen of Presentations**

Garr Reynolds, author of *Presentation Zen: Simple Ideas on Presentation Design and Delivery* (Voices That Matter), makes these recommendations for the optimal number of slides, length of presentation and font size when using PowerPoint: “It really depends on a great many things, but I’d probably recommend your 10/20/30 method — a pitch should contain 10 slides, last no more than 20 minutes and use no font smaller than 30 points. The audience should have no idea how many slides you have. Once they start counting slides, all is lost. As far as text goes, I say as little as possible on slides, but when text does appear, it should be large and serve to complement your words. People did not come to hear; they came to hear. Any speaker can read bullet points. The audience wants to hear your story, not read it.”

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**The Reality of Beguiling**

The word *beguile* has a bum rap. Most people think of it as using trickery, flattery or deception to get what you want. A better and more positive take on the term is “getting the job done by creating win-win situations.”

**The Psychology of Influencing People**

The best place to start learning to beguile people is the work of Dr. Robert Cialdini, a psychology professor at Arizona State University. His book *Influence: Science and Practice* is a must-read for anyone who wants to succeed. When discussing the ethical concerns surrounding the use of influence to get people to say yes, he explains: “Always be sure to influence another in a way that ensures that you haven’t damaged your ability to influence this person again in the future. In other words, the other person must benefit from the change you’ve created. We can do this by harnessing one or more of the six universal principles of influence.” Here they are:

• **Reciprocity.** People will give back to you the kind of treatment that they have received from you.

• **Scarcity.** People will try to seize the opportunities that you offer them that are rare or dwindling in availability.

• **Authority.** People will be most persuaded by you when they see you as having knowledge and credibility on the topic.

• **Commitment.** People will feel a need to comply with your request if it is consistent with what they have publicly committed themselves to in your presence.

• **Liking.** People will prefer to say yes to your request to the degree that they know and like you.

• **Consensus.** People will be likely to say yes to your request if you give them evidence that people just like them have been saying yes to it.

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**The Art of Creating a Community**

To create a community:

• **Create something worth building a community around.** The key to evangelism, sales, demo- ing and building a community is a great product.

• **Assign one “champion” the task of building a community.** A community needs a champion — an identifiable hero and inspiration — from within the company to carry the flag for the community.
• Give people something to chew on. This means your product has to be customizable, extensible and malleable.

• Welcome criticism. The more a company welcomes — even celebrates — criticism, the stronger its bonds to its community.

• Foster discourse. Your Web site should provide a forum where customers can engage in discourse with one another as well as with your company’s employees.

A community is a beautiful thing. It protects you from the heat and cold of a marketplace. It energizes your employees and resellers. It provides a talent pool and free sales, marketing and support.

The Reality of Competing

At some point, you will compete with other organizations. Actually, if you don’t compete with anybody for very long, it may mean that you’re trying to serve a market that doesn’t exist.

The Art of Driving Your Competition Crazy

If you are constantly innovating and serving your customers, you will keep your competition off balance. However, companies go astray when defeating the competition becomes more important than taking care of customers. When companies become obsessed with the pursuit of excellence, by contrast, they often reach new levels of greatness. Here’s how to avoid the former and achieve the latter:

• Know thyself. Before you can drive your competition crazy, you have to understand for what your own company stands.

• Know thy customer. The second step is to truly understand what your customer wants from you — and, for that matter, what it doesn’t want from you.

• Know thy enemy. The third step is to truly understand your competition.

• Focus on the customer. The key to driving the competition crazy is outinnovating, outservicing and outpricing it.

• Turn customers into evangelists. Create a great product or service, put it out there, see who falls in love with it, open up your arms to them and then take care of them.

The Reality of Hiring and Firing

Few people are trained for hiring — instead we are led to believe that companies never make hiring mistakes and always develop their employees properly, so you’ll never have to fire anyone. The reality is that hiring and firing are difficult processes.

The Art of Recruiting

Recruiting is an art. Here are four things it takes to excel at this art:

• Ignore the irrelevant. Often, a candidate’s education and work experience are relevant on paper but irrelevant in the real world. The flip side is also true: The candidate without the perfect background could be a diamond in the rough.

• Hire infected people. Is the candidate infected with a love of your product? All the education and work experience in the world doesn’t matter if the candidate doesn’t “get it” and love it.

• Hire better than yourself. It takes self-confidence and self-awareness, but it’s the only way to build a great team.

• Double-check your intuition. Ask every candidate the same questions and take extensive notes.

The Art of Firing

Laying people off, while distasteful, is easier than firing people, because layoffs usually occur in bad times and they don’t single a person out. A firing, by contrast, can occur in good times as well as bad times, and it’s highly personal. Here are nine tips for firing:

• Consult impartial people.

• Get professional advice.

• Search your soul.

• Give people a second chance.

• Document everything.

• Do it yourself.

• Be firm. Decide and then implement.

• Show people the door. The day you fire someone should be the last day that person is in the office.

• Don’t disparage the victim.

Ideally, the situation should have never come to this. You should have created a reasonable job and hired the right person for it. You should have set and communicated the right goals. You should have provided course corrections, tools and training. Some of the fault probably belongs to you. It’s too late for the case at hand, but it’s not too late to prevent this from happening again, so take a good, long look in the mirror.
The Reality of Working

In the beginning, companies are like a clean sheet of paper, post-Zamboni ice or a groomed ski slope: nothing but opportunity and upside with a chance to make meaning and change the world. Then the reality of work sets in. Building a successful organization is hard — damn hard, actually. This is the non-fairy-tale, real-world version of work.

How to Not Choke

According to the Scientific American article “The Choke Factor: How Stereotypes Affect Performance,” if female students are told immediately before a math test that women are worse at math than men, they score lower on the test than a similar group not given the negative message.

The theory is that by making a group aware of the stereotype, you can introduce “enhanced cognitive load.” Intrusive and negative thoughts cause a load that interrupts and harms performance. What do you think will happen when (not if) you are told that you don’t know how to run a company? Entrepreneurs — like female math-test takers — should heed the scientific understanding of choking and the impact of negative stereotypes. Here are three ways to avoid choking:

- **Avoid negative people.** If you think about what people say about you, it can lead to becoming what people say about you, so simply avoid these folks. If you cannot avoid them, simply ignore them.

- **Invoke positive stereotypes.** Positivity can enhance performance, according to the article — it’s “fighting fire with fire,” as the saying goes. For example, entrepreneurs could invoke the positive stereotype that a couple of guys/gals who love technology and aren’t “proven” entrepreneurs can start companies like Apple, Yahoo, Google, YouTube and Facebook.

- **Frame, or reframe, yourself.** You can control with which groups you identify and the strength of that association.

The Reality of Doing Good

At the end of one’s life, you are measured not by how much money you made, how many houses you own or even how many books you wrote. Instead, you are measured by how much you’ve made the world a better place.

David Bornstein is the author of How to Change the World: Social Entrepreneurs and the Power of New Ideas.

The Reality Check Checklist

Guy Kawasaki’s 10 most important recommendations. Success isn’t as simple as this list, but it will put you on the right path for the journey.

1. Are you making meaning?
2. Does your product jump to, or create, the next curve?
3. Is your product Deep, Intelligent, Complete, Elegant and Emotive?
4. Do you have a mantra for what you do?
5. Do you have a 10-slide pitch with no font smaller than 30 points that you can give in 20 minutes?
6. Have you figured out a way to take your product to market with no budget?
7. Are you helping people who cannot help you?
8. Can you blow away any audience with a demonstration of your product?
9. Would you hire “imperfect” job candidates who love what you do, as well as people who are better than you are?
10. Are you only asking people to do things that you would do too?

When asked, “Are there fundamental differences between social and for-profit organization founders?” David Bornstein said: “The difference is really what the founder seeks to maximize. What is the primary motivation behind building your organization, whatever form it takes? Are you trying to develop drugs for diseases that afflict large numbers of poor people in the developing world, as Victoria Hale is doing with One World Health, or are you trying to dominate the world market for sneakers or fashionable jockey shorts? For-profit entrepreneurs build all kinds of things. Social entrepreneurs are primarily motivated by an ethical imperative. They seek to respond to urgent needs. The question of why is paramount.”

**Recommended Reading List**

If you liked Reality Check, you’ll also like:

1. *The Art of the Start* by Guy Kawasaki. Kawasaki takes you through every phase of creating a business, including all the basics.

2. *Be the Elephant* by Steve Kaplan. Kaplan shows entrepreneurs how to grow a business big enough to make an impact and remain financially healthy.

3. *The Search* by John Battelle. Battelle looks at how Google rose to power, and how it is transforming our culture and the way we all do business.