Stanford eCorner

Keeping a Financial Focus

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Worthington warns that a lot of entrepreneurs get so caught up in the technology or science behind their product that they forget to focus on the business metrics which drive success. It is essential to pay attention to the margins and avoid price erosions.

Transcript

So, there's more data here.. Our customer base grew nicely.. Reorders.. This is important.. You get a product out there, and it's one thing to get a product out and have a couple of people buy it.. It's another thing to get reorders, which is really a sign that what you have is valuable.. Indeed, our model is, you get a system out.. The chip here is consumable.. So, unlike an integrated circuit for electronics, I guess you can argue that all integrated circuits or electronics are consumables too, we just consume them over the course of a year.. These are consumed every time you run an experiment..

And it turns out that we figured out how to manufacture these things better than I had thought.. I would not have expected by the end of 2003 that we'd be dealing nearly 70 points of margin.. These last three slides are obviously not technology, but the trap that I think a lot of high tech entrepreneurs fall into is to be so obsessed with the technology, be so obsessed with the science that you lose focus on the primary business metrics which drive success.. It's an easy thing to do because if you're a technology person, like certainly I am, and I'm sure most of you are, you can't help yourself but to think about this stuff and want to get in there in the lab and twiddle and all that kind of stuff.. If you don't pay attention to reorders, if you don't pay attention to margins, if you don't pay attention to average unit's price erosion, a lot of mundane things that are not nearly as cool as the next level of density in valves, you'll stumble or you won't get there at all.. In my experience with other entrepreneurs, that is definitely a pitfall.. You have to get away from being obsessed with the technology and become obsessed with numbers like these, which are not nearly as interesting in a lot of respects but are really the fundamentals about what makes a good business.. So we got people like GlaxoSmithKline who adopt our product in a big way.. Then, I'm going to tell you this is one of the things that was unexpected and it was one of the neatest things that's happened to the company in a long time.. We got an email from somebody at Scientific American saying congratulations for this weird thing..

At first I thought it was a hoax and I actually didn't even read it.. I just deleted it because I get a lot of junk like the rest of you.. Then a few days later I got a phone call saying, "This is the editor of Scientific American.. Why didn't you reply to my email?" I'm like, "Sir, Excuse me?" He said, "Yeah.. You've been selected as one of Scientific American's 50 annual companies, people and policy makers.. There were 13 companies in this list of 50.. The thing that I like the most about this is, we had been recognized for technology before, not like in Scientific American, but definitely we've been hailed as a technology company and all that kind of stuff.. Well, when you start worrying about things like margin and reorders and all that kind of stuff, you get tired of that because what you want to be bothered is a real company.. You want to be recognized for customer satisfaction, or, say, manufacturing, which is what we got recognized for here.. That was delightful..

The second thing that I really liked was they characterized us as, "A company that built microscopic channels, pumps and valves that will create the fluidic equivalent of microchips." That is what we've been saying we would do for four years now and to have somebody like Scientific American, without our prompting, say it better than I could was really delightful...