

# THE TITANIC EFFECT

Successfully Navigating  
the Uncertainties that  
Sink Most Startups

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## CHAPTER 8:

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# THE ICEBERG INDEX

*“Measure what is measurable, and make measurable what is not so.”*

—Galileo Galilei

*“I want to be a billionaire so freakin’ bad.”*

—Travie McCoy

Over the last chapters, we have introduced and discussed in detail some of the debtbergs across the Human, Marketing, Technical, and Strategy Oceans that can damage or sink a *startup*. Now, it’s time to put all of these ideas together into a cohesive way to identify and assess the *hidden debt* that is lurking inside a startup. Allow us to introduce the Iceberg Index. The Iceberg Index is a tool to identify and measure hidden debt across Oceans.

First, we want to remind you that most startups and companies will take on many of the hidden debts that we’ve outlined in previous chapters. Just like people and companies take on financial debt in order to accomplish their goals, so too do startups take on hidden debts. Founders and investors should make *tradeoffs*—but intentionally and strategically. Our goal in creating this Iceberg Index is to make those hidden debts more visible. By knowing where debts have accumulated, startups will be better able to make plans to mitigate them.

Investors may want to complete Iceberg Index scores on current and potential portfolio investment companies. The Iceberg Index could be part of a *due diligence* process, and it can be a tool to help investors better guide founders as they navigate decisions while crossing these Oceans.

Let’s start with a few important points in using this tool. We have tried to create a measurement system in the Iceberg Index that simplifies some very complex areas

of *uncertainty* across areas of the firm. However, remember tradeoffs—simplicity can lack nuance and comprehensiveness. While our tables capture some of the more common debtbergs startups may encounter, we don't intend them to be complete and comprehensive. Revisit the core content chapters for more depth and nuance in each Ocean.

Each component in the Iceberg Index has a four-point scale. Decide which point best describes where the startup is on this continuum. Don't hedge your assessment—pick only one score for each component:

1. *Strong; smooth sailing.* This means the startup has fully addressed the debtberg.
2. *Some; rocky journey ahead.* The debtberg exists, but there is a plan to address it and minimize damage.
3. *Very little; need a navigation plan.* Without a plan to address it, this debtberg can damage or even sink the ship.
4. *Not at all; large debtbergs in sight.* Damage and failure are imminent, and immediate action is called for.

Second, the importance and threat of the debtbergs will shift over time. When a startup is in the first stage of uncertainty at all levels, while the founder still has the day job and has not raised any money, there is not much to sink. A low Iceberg Index rating is likely in the embryonic phase. The startup is still a rowboat that can turn quickly.

It is in the second and third stages—when the startup is hiring its first employees, moving from *MVP* to *Launch and Early Growth*, and growing a customer base—that strategy debt and other debtbergs accumulate powerful enough to sink the startup, immediately or in the next three years. The use of the Iceberg Index should evolve over time and be stage-appropriate for a startup, as you can see in Figure 1 below.

<p><b>Pre-Revenue: Developing Ideas</b></p> <ul style="list-style-type: none"> <li>• Be aware of taking on icebergs.</li> <li>• Use the Iceberg Index as a planning checklist.</li> </ul>	<p><b>MVP: First Customers</b></p> <ul style="list-style-type: none"> <li>• Move your Iceberg Index from a checklist to a more formalized set of metrics.</li> <li>• Track it across leadership teams and stakeholders.</li> </ul>	<p><b>Launch and Early Growth: Growing Customer Base</b></p> <ul style="list-style-type: none"> <li>• Completely implement your process for monitoring the Iceberg Index.</li> </ul>	<p><b>Scalable Product and Business Model: Exponential Growth</b></p> <ul style="list-style-type: none"> <li>• Continue to use the Iceberg Index to monitor debtbergs.</li> <li>• Create a risk-reduction plan for large debtbergs on the horizon.</li> <li>• Track improvement on the Iceberg Index.</li> <li>• New product extensions and new hires create new icebergs.</li> </ul>
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Figure 1: How startups can use the Iceberg Index


 <b>Founding Team Sea</b>		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Icebergs In Sight
<b>MISGUIDED MOTIVATION AND EXPERIENCE</b>	The founding team includes people with the characteristics to succeed:				
	• has passion for solving this problem	○	○	○	○
	• brings prior experience with the problem	○	○	○	○
	• shows persistence to overcome hurdles	○	○	○	○
	• is willing to listen to feedback	○	○	○	○
<b>INEQUITABLE EQUITY</b>	The founders' vesting plan is strategic and encourages long-term participation:				
	• allocates equity over time	○	○	○	○
	• is based on contribution	○	○	○	○
	• has a pool of equity set aside for future allocation	○	○	○	○
<b>DEARTH OF DIVERSITY</b>	The founding team members have diverse perspectives:				
	• bring experience from various industries	○	○	○	○
	• offer technological competence	○	○	○	○
	• come from different functional backgrounds	○	○	○	○
	• come from different cultural backgrounds	○	○	○	○
<b>LACK OF TIME AND SUPPORT</b>	Members of the founding team are committed:				
	• have adequate time	○	○	○	○
	• can find financial and familial support	○	○	○	○

Figure 2: The Human Iceberg Index in the Founding Team Sea


Investor/Advisor Sea					
		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Debtbergs In Sight
<b>RESOURCE IMBALANCE</b>	The startup has access to knowledgeable people:				
	• consults an appropriate number of advisors	○	○	○	○
	• chooses advisors who are engaged but not overbearing	○	○	○	○
<b>INAPPROPRIATE INVESTOR/ADVISOR ROLES</b>	Investors/advisors can help move the startup forward:				
	• know and understand the business and industry	○	○	○	○
	• have startup experience	○	○	○	○
	• include diverse perspectives	○	○	○	○
	• have more ability to invest	○	○	○	○
	• can network to customers and/or investors	○	○	○	○
<b>ELUSIVE EXPECTATIONS OF BEHAVIOR</b>	Investors/advisors understand the nature of startups:				
	• respond to requests for help	○	○	○	○
	• meet regularly but not too frequently	○	○	○	○
	• have reasonable expectations for returns	○	○	○	○
	• do not monitor too closely	○	○	○	○
	• can support future growth through funding or other means	○	○	○	○

Figure 3: The Human Iceberg Index in the Investor/Advisor Sea


Employee Sea					
		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Debtbergs In Sight
<b>INAPPROPRIATE TALENT VS. COST TRADEOFFS</b>	The startup balances talent against cost:				
	• hires staff with enough experience	○	○	○	○
	• does not overpay for talent	○	○	○	○
	• inspires commitment in employees	○	○	○	○
	• chooses employees who can flex between roles or “wear multiple hats”	○	○	○	○
	• keeps productive employees	○	○	○	○
<b>CRAZED CULTURE</b>	The startup has a plan to manage culture:				
	• helps employees understand and buy in to vision and values	○	○	○	○
	• hires based on cultural needs and fit	○	○	○	○
	• relies on mission and values to guide decision-making	○	○	○	○
	• works to establish cultural norms	○	○	○	○
	• has plans to evolve how culture manifests	○	○	○	○
<b>REACTIVE EMPLOYEE RESOURCE TYPE</b>	The startup uses different kinds of employee types that are stage-appropriate:				
	• leverages outsourcing	○	○	○	○
	• brings required skills in-house	○	○	○	○
	• plans whom and when to hire	○	○	○	○

Figure 4: The Human Iceberg Index in the Employee Sea

Segmentation Sea		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Debtbergs In Sight
<b>LOW-QUALITY SEGMENTATION</b>	The startup has a robust segmentation scheme:				
	• uses multiple bases	○	○	○	○
	• includes functional needs	○	○	○	○
<b>POOR PRIORITIZATION</b>	The startup has a segment prioritization plan:				
	• only one segment to start	○	○	○	○
	• a list of subsequent segments to target	○	○	○	○
<b>POOR IMPLEMENTATION</b>	The startup has a deep understanding of customers by segment:				
	• personas	○	○	○	○
	• product needs	○	○	○	○
	• pricing	○	○	○	○
	• messages	○	○	○	○

Figure 5: The Marketing Iceberg Index in the Segmentation Sea



Positioning Sea		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Debts In Sight
MARKET CATEGORY NOT ESTABLISHED	The startup has established a frame of reference to launch into:				
	• only one category	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• points of parity are known by customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
WEAK DIFFERENTIATION	The startup has strong differentiation:				
	• can say how the product is better than competitors' products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• the advantage over competitors is meaningfully better	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• this advantage is easy to communicate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• this advantage is important to customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
INCONSISTENT USE	The startup communicates its POD consistently:				
	• across media	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• over time	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• through all tactical implementation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Figure 6: The Marketing Iceberg Index in the Positioning Sea

Tactical Sea		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Debtbergs In Sight
CUSTOMER VALUE VOID	The product offers value to customers:				
	• addresses an unmet need	○	○	○	○
	• is a good solution to the problem	○	○	○	○
PRICE/VALUE MISMATCH	The startup can secure the value it offers through pricing:				
	• can price appropriately relative to competitors' products	○	○	○	○
	• can use value-based rather than cost-based pricing	○	○	○	○
SALES PROCESS NOT SCALABLE	The startup can create efficiency in sales:				
	• knows the buying process	○	○	○	○
	• has created a buying process that is repeatable	○	○	○	○
	• knows how to close sales	○	○	○	○
INCOMPLETE PROMOTIONAL PLAN	The startup can create efficiencies in promotion:				
	• has a strong website with SEO	○	○	○	○
	• developed a well-formed inbound advertising plan	○	○	○	○
	• developed a well-formed outbound advertising plan	○	○	○	○
	• has budget for outbound ads	○	○	○	○
	• aligns its marketing process through sales and marketing	○	○	○	○

Figure 7: The Marketing Iceberg Index in the Tactical Sea


Validation Sea					
		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Debts In Sight
<b>FALSE HOPE</b>	Founders check their assumptions:				
	• don't present solutions prematurely	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• seek negative feedback	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• secure non-binding agreements to buy from potential customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>UNNECESSARY SOLUTION</b>	The founders know the solution is needed:				
	• understand current alternative solutions to solve the problem	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• understand why past solutions were unsuccessful	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• monitor a broad set of competitors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>OVERDO AND OVERSPEND</b>	The startup does not waste resources in validation:				
	• avoids rushing to design before validating the customer problem	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• is willing to accept a less-than-perfect product	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	• resists A/B testing every feature	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Figure 8: The Technical Iceberg Index in the Validation Sea

Design Sea		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Debtbergs In Sight
<b>MISSING MOCKUPS</b>	The startup seeks feedback:				
	• develops a prototypes/wireframe prior to the MVP	○	○	○	○
	• gets customer feedback on these mockups	○	○	○	○
	• uses low-fidelity, manual tests where viable, before investing in technology	○	○	○	○
<b>IVORY TOWER “INSIGHTS”</b>	The startup maintains realistic focus:				
	• gets real user feedback on early versions of the MVP	○	○	○	○
	• gets founders directly involved in market tests	○	○	○	○
	• stays the course through the design process and doesn't pivot too often	○	○	○	○
<b>SHORTSIGHTED SCOPING</b>	The product design has flexibility over time:				
	• the startup designs first and iterates after	○	○	○	○
	• the design considers user experience	○	○	○	○
	• the base design includes all core features but not features unnecessary for the MVP	○	○	○	○

Figure 9: The Technical Iceberg Index in the Design Sea

Development Sea		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Debtbergs In Sight
<b>MUSHY PROCESS</b>	The startup has set up a strong development process:				
	• creates a development team rather than relying on just one person, even if part of the team is outsourced	○	○	○	○
	• uses recruiting experts who can assess developers' skills	○	○	○	○
	• maintains a development backlog	○	○	○	○
<b>POOR PRODUCT FOUNDATION</b>	The startup maintains a strong product foundation:				
	• performs regular quality checks	○	○	○	○
	• has a plan to manage adding people to the development process	○	○	○	○
	• develops a build versus buy plan	○	○	○	○
<b>FOGGY WATERS</b>	The company is planning for long-term development:				
	• plans for managing changes over time	○	○	○	○
	• plans for continuous improvement	○	○	○	○
	• monitors user metrics	○	○	○	○
	• incorporates feedback from customer service	○	○	○	○

Figure 10: The Technical Iceberg Index in the Development Sea


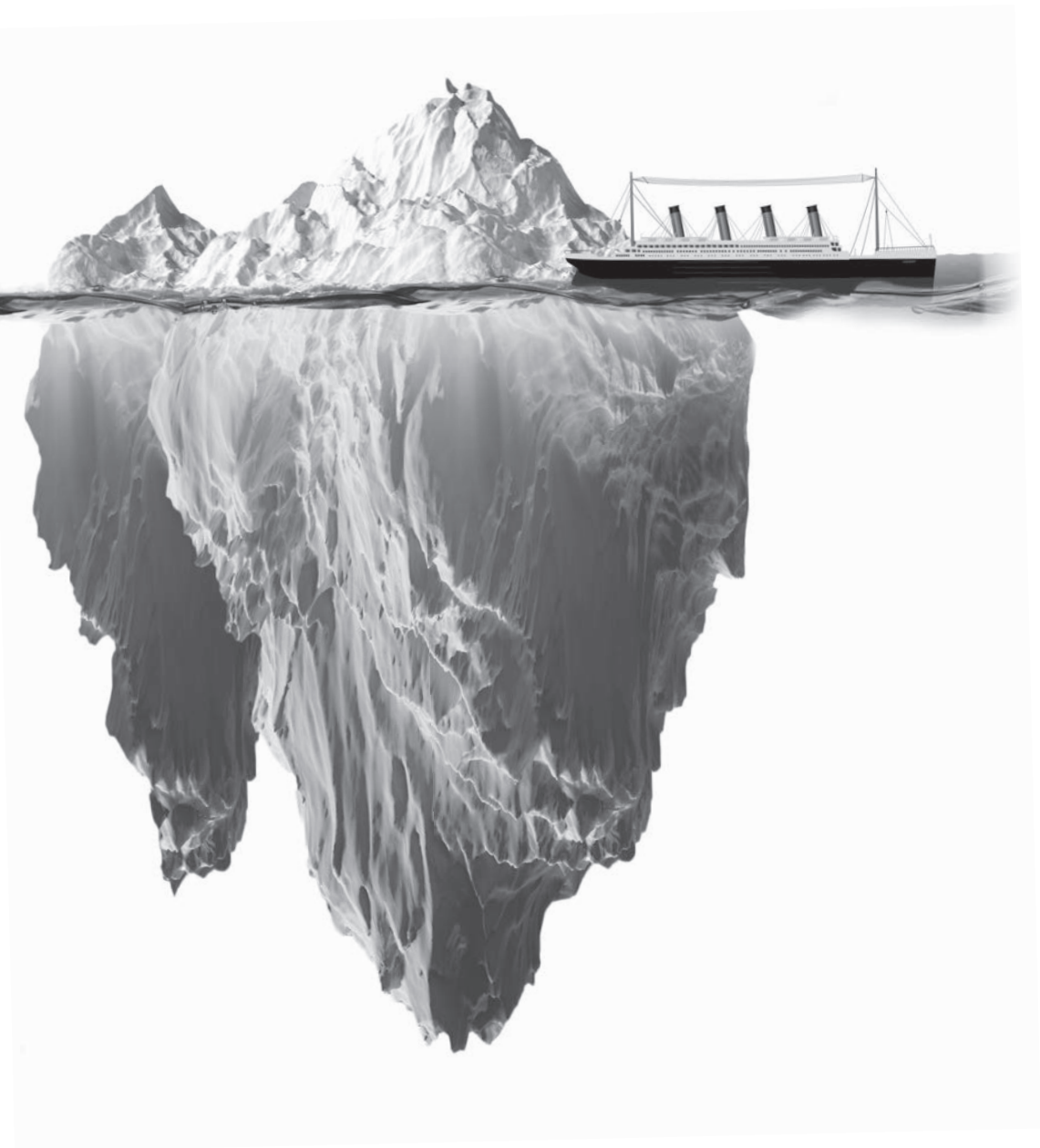
Strategy Ocean					
		Strong – Smooth Sailing	Some – Rocky Journey Ahead	Very Little – Need A Navigation Plan	Not At All – Large Debtbergs In Sight
<b>INCOMPLETE INTEGRATION</b>	The startup integrates activities across Oceans:				
	• coordinates activities across Oceans	○	○	○	○
	• balances activity across Oceans	○	○	○	○
<b>MEAGER MEASUREMENT</b>	The startup monitors performance:				
	• links metrics to performance	○	○	○	○
	• uses stage-appropriate metrics	○	○	○	○
<b>ANEMIC ACCOUNTABILITY</b>	The leadership team designates individuals accountable for key activities and metrics.	○	○	○	○

Figure 11: The Strategy Iceberg Index

Check out our online resources as our own Iceberg Index evolves at [www.titaniceffect.com](http://www.titaniceffect.com).





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