

Sleep Stages

People typically pass through various stages of sleep during the night. These include wake, light sleep, rapid eye movement (REM) sleep, and deep sleep. A person normally experiences repeated cycles of these phases during the night.

Light Sleep: Takes place between the transitions to the other phases of sleep and wakefulness. Usually accounts for the longest phase of the sleep cycle.

REM: Necessary for consolidating memories, learning, creativity, problem solving, and emotional well-being. A time when dreams occur.

Deep Sleep: Restorative phase in which the body secretes a growth hormone needed for development and physical repair. People generally feel most groggy when awakened from deep sleep. According to cognitive tests, they may experience impaired mental performance for up to 4 hours when abruptly awakened from deep sleep.

Early Financing

Many people responded affirmatively to the SmartWake™ concept. Eric recalls how he would talk about the project in the campus cafeteria. "Bystanders started to say, 'That's a great idea. Can I invest in your company?'" And many of them did in small amounts. This in turn led Eric to seek out private investors in the community, who invested larger amounts. Ultimately this allowed the group to get more serious efforts underway with a small seed round. In the very beginning, other non-dilutive funds were also sought:

- A \$9,000 grant from the Slater Center of Rhode Island
- An \$18,000 grant from the National Intercollegiate Inventors and Innovators Alliance
- \$10,000 in cash and \$10,000 in services from the Brown Entrepreneurship Program Business Plan Competition
- \$25,000 in cash and \$35,000 in services from winning the State of Rhode Island Business Plan Competition

By mid-2005, all three founders had graduated from Brown and were working full-time in the company, which needed more money. Their fundraising efforts shifted exclusively to angel investors. Responsible for fundraising efforts, Eric pitched to angel groups and individual investors all over southern New England, as well as within the Rhode Island business community and Brown University alumni. "This was hard to do," he says, "given our ages." Each rejection, however, encouraged him to dig for reasons and to refine his presentation. By the end of this 10-month period, with a second oversubscribed round, the company had raised a total to date of over \$1 million from several groups and individuals.

Among Zeo's early investors was Sean Glass. Like the Zeo founding team, Glass had joined with other classmates (in his case, years earlier at Yale) to start a successful business while still an undergraduate. He learned of Zeo through a fellow angel investor, a Brown graduate who had already taken a small stake in new enterprise. Glass thought the company had a strong concept since there were few credible products in the consumer sleep market; as he put it, "People will go to great lengths to solve their sleep problems." Glass also saw a bit of himself and his company's co-founders in the Zeo team. And he liked what he saw. "Eric, Jason, and Ben had different personalities, but they clearly trusted each other in their roles. All were very well organized and open to learning."

Glass invested in 2005 as a member of an angel group. Still, he perceived some difficult hurdles ahead. "They would have to convince people that their product was scientifically valid, and that it really worked. It would also need to be priced right." And from the user's perspective, the headband monitor they were working on had to be comfortable and look good. Otherwise, "how many people will get into bed with their spouses wearing a weird-looking contraption on their heads?"

Advice and Credibility

Sleep science is a relatively new field. Research on the subject only began in the 1950s. As a result, the community of sleep specialists is small, and communication and collaboration is commonplace.

From the outset, the venture team understood the importance of tapping into this scientific community, drawing on its expertise, and gaining credibility by allying with key members. Most of the responsibility for this task fell to Ben Rubin, who, beginning at Brown University, cold-called key people, introduced himself and Zeo, and solicited their advice and support.

To his surprise and relief, these specialists did not automatically show him the door. Most, in fact, expressed genuine interest in the goal Zeo was pursuing. They were intrigued by the potential benefits that an inexpensive, self-administered measuring and monitoring system would bring to the millions of people who suffered from nonmedical-related sleep difficulties.

Each contact produced leads to other notables in the U.S. sleep science community. Before long, Ben and the team had assembled an informal group of sleep health advisers from several of the nation's leading medical institutions. In addition to this group, a key consultant, John Shambroom, joined Ben's development efforts. John brought a unique scientific and engineering background to the team, which included extensive experience in tracking brainwave patterns, critical to ongoing development. This initial group contributed invaluable technical guidance and gave the start-up venture much needed credibility in the eyes of potential investors. John would later join the company and expand this group into a formal board with semiannual meetings. Board members would represent the broad scope of sleep science: a psychologist, a specialist in circadian rhythms, a leading researcher, a clinical practitioner, and so forth (Exhibit 6.1).

EXHIBIT 6.1

Zeo Advisory Board

Chair: Kenneth P. Wright Jr., PhD
Director, Sleep & Chronobiology Lab,
University of Colorado, Boulder

Michael J. Breus, PhD
"The Sleep Doctor," author, WebMD® sleep
expert and AOL® wellness coach

Phyllis C. Zee, MD, PhD
Professor of Neurology and Neurobiology and
Physiology Director,
Sleep Disorders Center
Northwestern University Medical School

Daniel Aeschbach, PhD
Assistant Professor of Medicine,
Harvard Medical School

Charles A. Czeisler, MD, PhD
Director, Division of Sleep Medicine,
Harvard Medical School

John W. Winkelman, MD, PhD
Assistant Professor of Psychiatry,
Harvard Medical School and Medical
Director, Sleep Health Center of Brigham
and Women's Hospital

The team also sought business advice. It made a list of pioneers in fields related to Zeo, then approached each in turn. "It usually took a few calls to get through," says Eric, "but once we got past the gatekeepers, most of these people were very approachable."

I'd tell them that we were students who had started a company, that we admired what they had accomplished, and that we would appreciate their advice. I'd then ask, 'Could we meet with you for just a half hour or so?' This is how we met Colin Angle, founder of iRobot, and Sherwin Greenblatt, former president of Bose. Colin had started his company while a graduate student at MIT. We maintained an advisory relationship with these business leaders for over two years, then asked them to join our board, which they did.

A Coach/CEO

The three founders wanted to launch a consumer product company, first nationally and then internationally, and knew that they wouldn't have the best chance of success doing this on their own. Recognizing that they had never done this before, they wanted to find an expert who could help them achieve greater success, and from whom they could learn. So, with the proceeds of the final angel round closed in the summer of 2006, they set out to find an experienced person who could guide them through the important stages of final product development, launch, and growth. An executive search firm with an affinity for start-ups was engaged and asked to find qualified candidates for the CEO position. That firm's consultant met with the three founders and interviewed each extensively. What qualities and experiences were they looking for in a candidate? How would they describe their ideal candidate? How did they expect the person to work with them?

Eric, Jason, and Ben were of one mind. They wanted a CEO with an entrepreneurial outlook and a successful record in marketing consumer-health products. More than that, their ideal candidate would be a coach and mentor, helping each of them to develop his business and management skills. As they saw it, Zeo was growing from a small start-up into a real business; each founding member wanted to grow quickly into the new roles that operating such a business demanded.

Finding a person with the desired combination of experience and personal qualities was a tall order, but after several months of searching, the recruiter presented the team with several qualified candidates. The candidate they selected was Dave Dickinson, a man roughly twice their ages.

Dickinson's life path had been much different than those of Zeo's founders. As a teenager he had learned something of how entrepreneurial businesses work, and how they differ from bureaucratic organizations. His father had joined with former IBM veterans to develop a small company, and his work experiences were a frequent topic of conversation in the Dickinson household. Dave knew and admired the president of his father's new company.

I remember playing basketball with him when I was a junior in high school. And I still recall how much I wanted to be like him—to know everyone who worked for the company, to know their families, and to enjoy the freedom to get things done without dealing with committees and layers of bureaucracy. How many big company presidents play basketball with their employees' kids?

Despite his youthful attraction to small business life, Dickinson's career path went in the opposite direction. Armed with an MBA in marketing from Northwestern University, he worked for several giant consumer-health product companies: Procter & Gamble, Johnson & Johnson, Arm & Hammer, and Mead Johnson. In 1995, however, his entrepreneurial instincts were given a chance to express themselves. Dickinson's boss at Mead Johnson asked him to