

Funding and Financing

Lecture 11
GSL Peru 2014

Housekeeping

- Please turn in your High Level Product Specification
- Do not forget to interview 5 people that meet your persona

- Demo Day
 - computing resources?
 - other resources?

Housekeeping

- Video Crews in this Wednesday (afternoon) and Thursday, 23th and 24th
- Guest speaker, Giancarlo Falconi Canepa, Wayra.
- No Labs Thursday afternoon

- No classes on holiday next Monday 28th and Tuesday 29th

Money you raise buys...

- Time
- Resources
- Relief from sleepless nights
- Survivability
- Success!



Fund Raising Odds <5%

Why so low? New teams make mistakes!

- Poor hiring
- Can't execute
- Won't commit to the plan
- Product delays
- Poor product/market fit
 - No market –Segway personal transportation
 - Too early –Palm Treo smartphone
 - Too late –Microsoft Zune mp3 player

What VC's look for

- Companies that will make money!
- Teams
 - Swerve away from avoidable mistakes
 - Understand their domain
 - Street-smart
 - Can sell
- Ideas that can scale

How Important is the Market?

“When a great team/product meets a lousy market, the market wins.

When a lousy team/product meets a great market, the market wins.

When a great team/product meets a great market, something special happens.”

-Andy Radcliff, Benchmark

Market Mistake #1

Going after too small a market

What characteristics define a great market?

A great market pulls a product out of a startup by

- Size of overall market (TAM)
- Growth rate
- Number of users in a given market

Market Mistake #2

Boiling the Ocean

As a Startup, you do not have the resources to go after everything.

You will burn through cash and never complete the task.

(Persona, Beachhead market)

Market Mistake #2

Avoid the mistake by:

- Start small, focus on a single opportunity and grow from there
- Create a viable niche and get established

Market Mistake #3

Not understanding the customer

- Most tech companies understand their product way better than their customer
- How can we understand the customer better?
 - Ask lot's of questions
 - Have a great product marketing person
 - Identify a collection of target customers and do a real beta program

Market Summary

- Do not confuse market size with focus
- Large markets are great
- You need a niche to start

Product Mistakes

- Falling in love with your technology and not understanding the business
- Under-estimating how long it takes to get a product to release state/date.
- Not getting a product out the door
- Too much focus features and perfection

Product Mistake #1

Falling in love with your technology

- If you never see your baby as ugly, then you will never be able to make changes and adapt to customer need
- How can you avoid falling in love with your technology?
 - Have a very critical eye for engineering-driven features
 - Make sure every new feature is critical to a customer need
 - Understand and question assumptions

Product Mistake #2

Underestimating how long it takes

- Peter's rule: "It takes double the time and double the money to release a product from first estimates"
- Things always go wrong
- You will never release on-time
- How do you minimize delivery risk?
 - Plan ahead, understand dependencies and risks
 - Close the gap up-front, as much as possible

Product Mistake #3

- **Not getting a product out the door**
- There are no perfect first releases
- What can you do to get a product released?
 - Deliver MVP –“Minimal Viable Product”
 - Do not fall victim to feature creep
 - Set a Delivery date and drop features, if necessary
 - Teaches your organization to deliver
 - Allows you to understand customer need

Product Mistakes Summary

- Get a product out the door
- Don't become blinded by love for your product
- Close the delivery risk up front

Execution Mistakes

- Ramping sales too soon
- Raising too much money, not raising enough money
- Not sticking to the plan
 - Yet you must be agile to change

Execution Mistakes #1

Ramping sales to soon

- Many startups build out a large sales force before they understand the market
- How do you avoid this?
 - Employ a very small sales staff first
 - Learn the customer, market and sales cadence
 - Grow into demand and knowledge

Execution Mistake #2

Raising too (much/little) money

- If you raise too much money, you will spend too much too soon
- If you raise too little money, you will not meet the next funding milestone

Execution Mistake #2

How do you get this right?

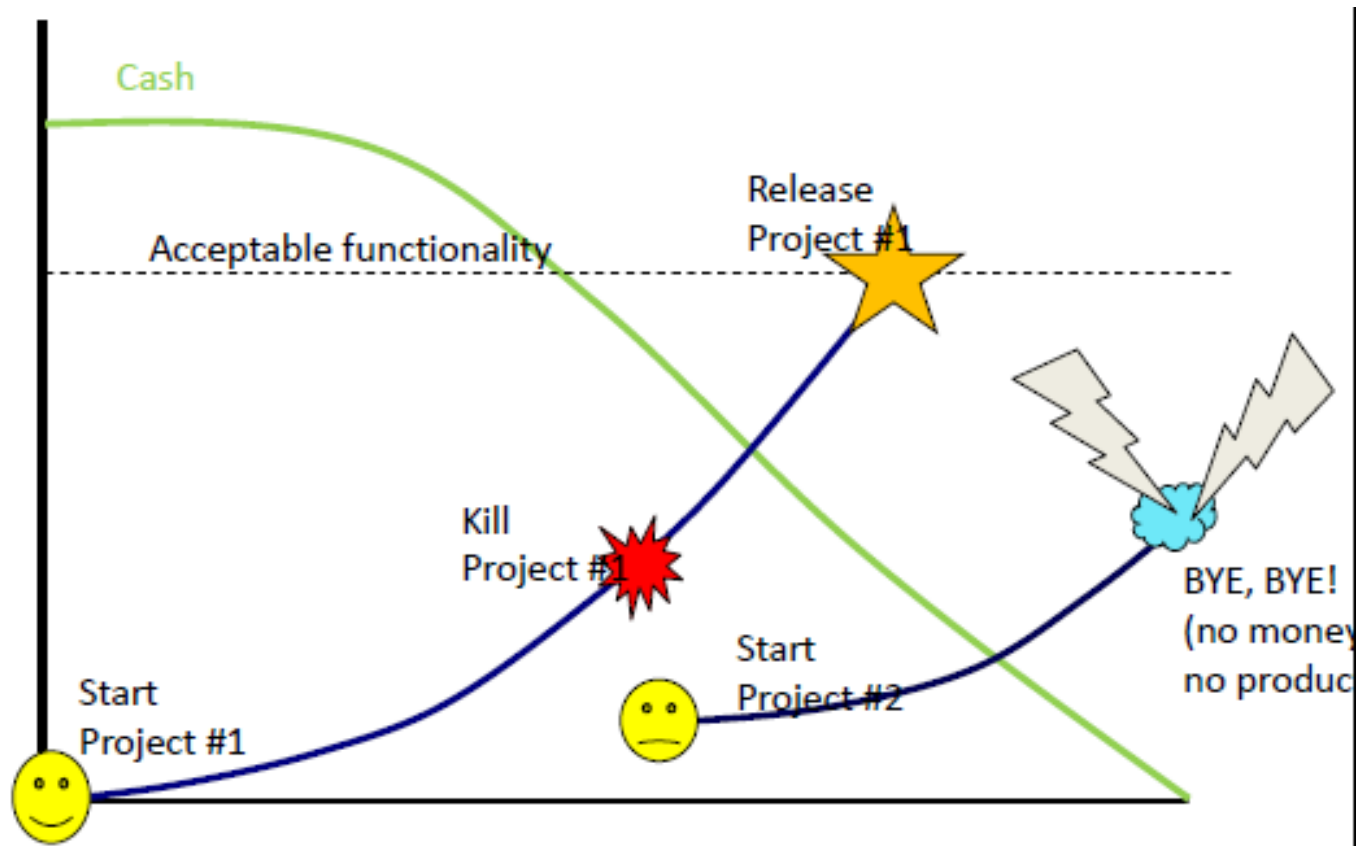
- Plan for funding milestones and build in only enough to get there
 - This also creates better “staged value”
- Control spending as if all the money is your own
 - Frugality is best accomplished when you don’t have a lot in the bank

Execution Mistake #3

Not Sticking to the plan

- The Grass is not greener on the other side of the fence
- Do not wander from green pasture to green pasture
- However, you may need to change...
- Understand original assumptions if making a change
- "Graceful Iteration"

Consequences



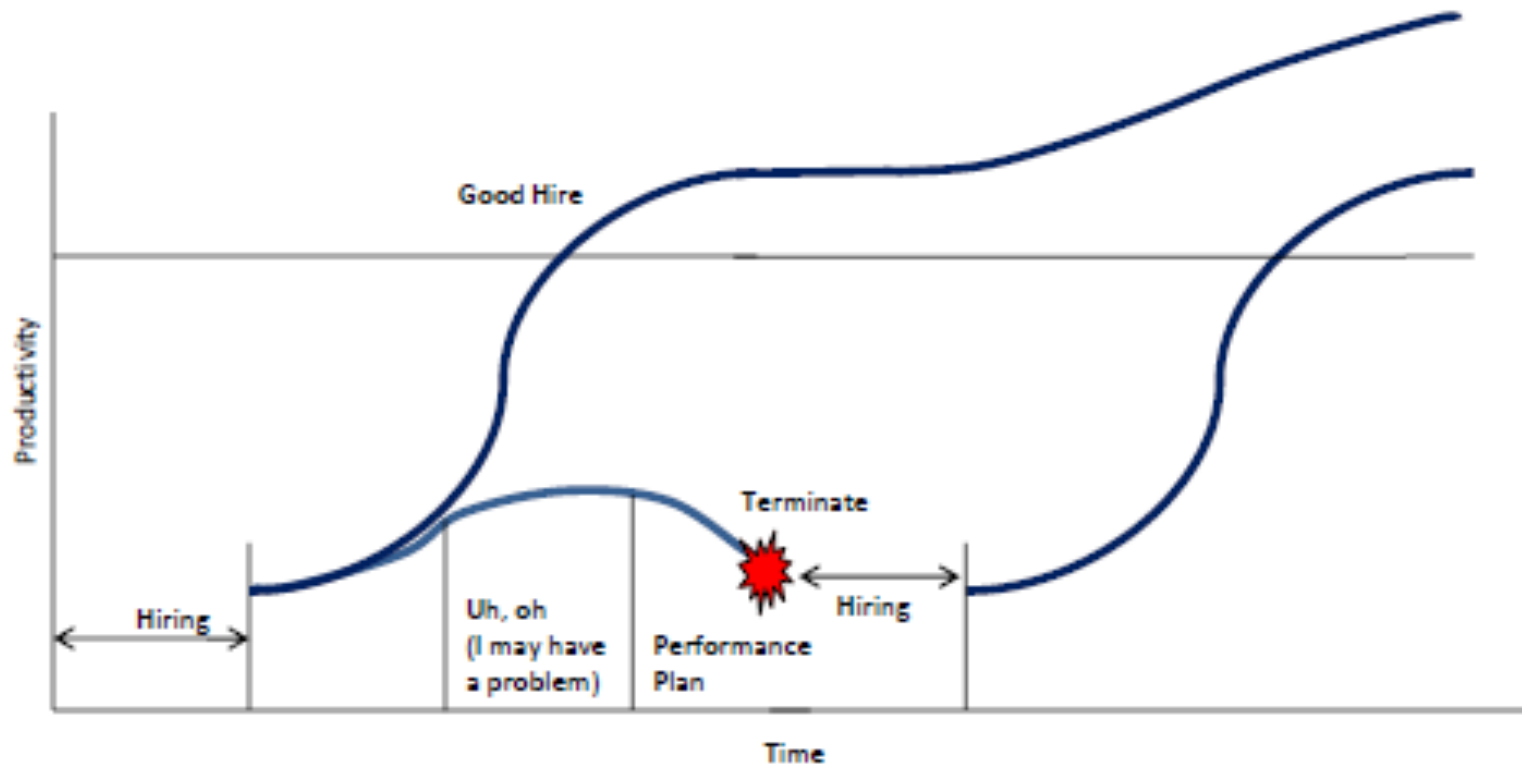
Execution Mistakes Summary

- Ramp sales slowly and learn the market
- Raise only enough money to get to the next milestone
- Be cheap on burn
- Stick to the plan and only change if initial assumptions are not correct

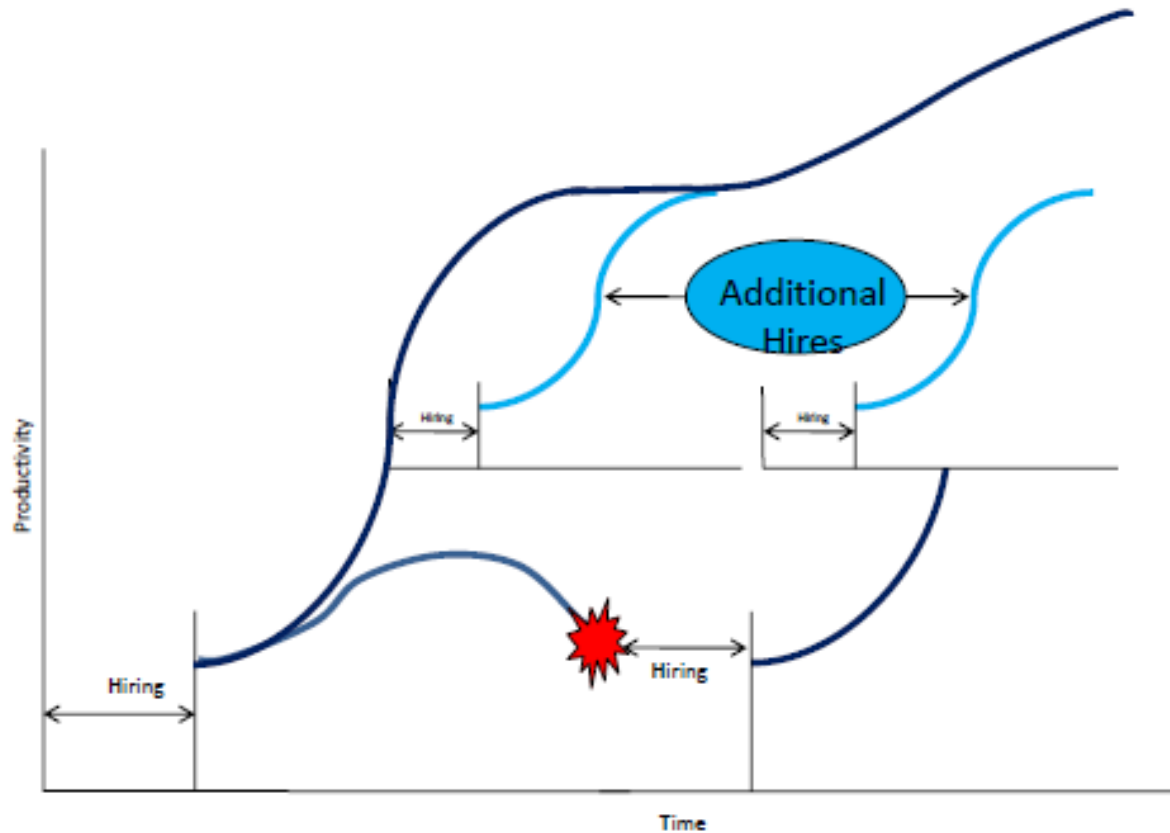
Team/People

- Hiring the wrong team
 - e.g. friends, unmatched skill set
 - Not firing fast enough
- Low on self-awareness
- Taking too much advice from the board

Expense of wrong hire



Expense of wrong hire



How to hire correctly

Experience matters

- You need to have hired and fired many people to know how to interview
 - Have a detailed job description
- Understand the real requirements of the job
 - Check references yourself
- Have candidates interview with several others in the company

Team Mistake #2

Low on self-awareness

- Very often ego gets in the way...
 - An entrepreneur may often not really understand their limitations
- What is the penalty for low self-awareness and how to mitigate?
 - Results in mis-hires and inability to scale
 - Manage your weakness and manifest your strengths
 - Having a good feedback loop is essential

Team Mistake #3

Taking too much advice from the board

- The board has hired you to run the business
- The board will have many opinions

Team Mistake #3

Taking too much advice from the board

- How do you avoid taking too much advice without seeming like you don't care?
 - Agree on a plan with objectives and milestones
 - Take feedback “under consideration”
 - Try not to make a commitment at the board meeting
 - “I need to talk with my team”
 - Use the board for financing, external contacts, longer term planning

Raising Money

How much risk do you take?

- Grow fast –Will you run out of money?
- Grow slow –Can you get to Break Even?
- Start slow, then scale?
- When do you add staff? Sales?



Financing Considerations

- Supports Your Overall Growth Strategy
- Money
- Value Add Partner(s)
- Capital Structure/Equity Distribution
- Terms and Conditions
- Positioning for Future

Doing Financing Right

- Financing is not the main thing – building a great company is!
- Financing decisions won't make you, but CAN destroy you
- Finance supports an overall strategy well-financed companies have a competitive edge
- Companies that get the wrong source of funding perform sub-optimally
- Proper equity structure aligns incentives to optimize performance
- It is a visible and lasting legacy of your skill as a CEO

Financing Sources

- Internal Sources
 - Founders
 - Employees
 - Retained Earnings
- External Sources
 - Customers
 - Research Funding
 - Debt
 - F3
 - Angels / Venture Capital
 - Strategic Partners



When?

- Before you need it - Get more than you THINK you need
- After you have hit a milestone
- Cash flow, not P&L – Do not forget taxes
- Cash needs –employees, capital equipment, programs, working capital
- Sizing and timing
- Not JIT Financing
- Sensitivity analysis is critical
- You may not have a choice...

Grading Finance Sources

<u>Type</u>	<u>Money</u>	<u>Value Add</u>	<u>Dilution</u>	<u>T&C's</u>	<u>Future</u>	<u>Comment</u>
Customers	B - limited	B - focus	A - none	B - minimal	B - free	validation
Gov Funding	B+ - still limited	D	A - none	C - paperwork	B - free	Good for right stage
Debt	C - need to repay	D	A	D - covenants	B - free	One of tools
F3	?	?	?	?	?	High risk
Angels	B	A-F	C	A-F	C	
Venture Capital	A - lots	A-C	D	D	A	Varies but less
Strategic Partner	A	B	C	C	?	Good for later

References

New Enterprises Lecture Notes - Bill Aulet

Disciplined Entrepreneur - Bill Aulet