

LIUC – Università Cattaneo

Laurea Magistrale in Economia Aziendale e Management

Course: Entrepreneurial Ecosystems

# San Francisco Bay Area Ecosystem for startup

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## Lesson 4-5

27 marzo/3 aprile 2019

# AGENDA

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The San Francisco Bay Area  
(SFBA)

Startups and SFBA

**SFBA Ecosystem**

## SFBA ECOSYSTEM (1/2)

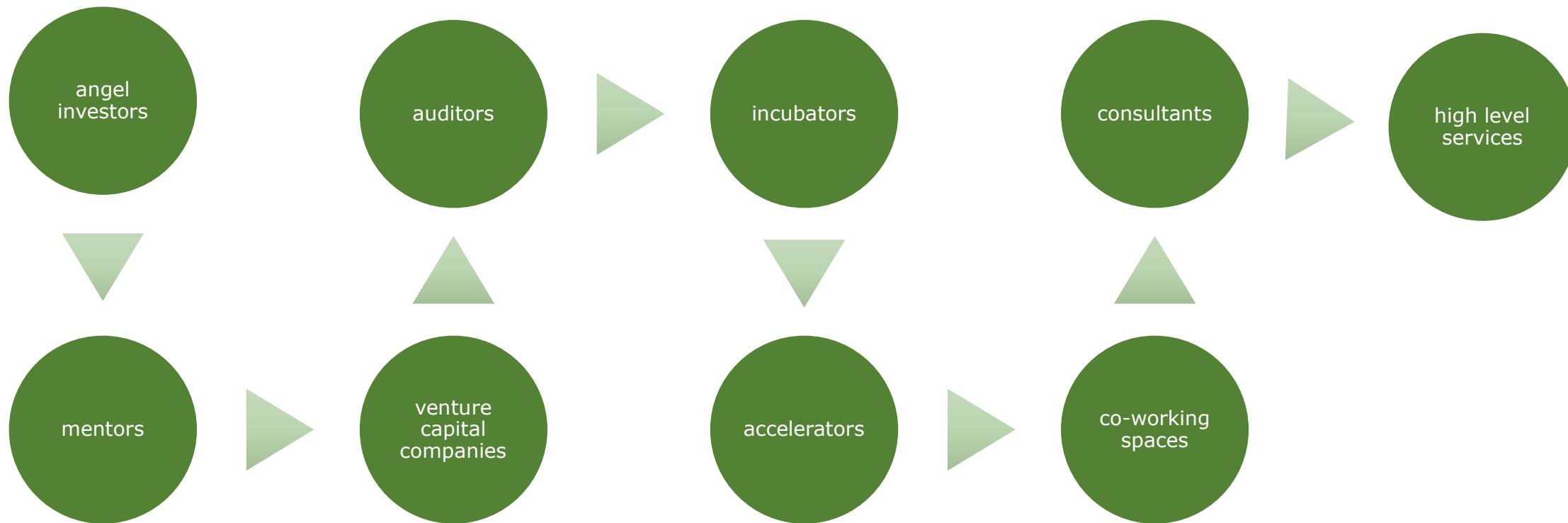
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It's based on:

- a system of multicultural individuals, they are highly skilled and motivated;
- scientific infrastructures, universities and initiatives aimed at supporting businesses of all sizes;
- a culture devoted to experimentation and learning from failure;
- a financial system which promotes innovation;
- venue of worldwide companies «hungry» of products and services at top of innovation.

## SFBA ECOSYSTEM (2/2)

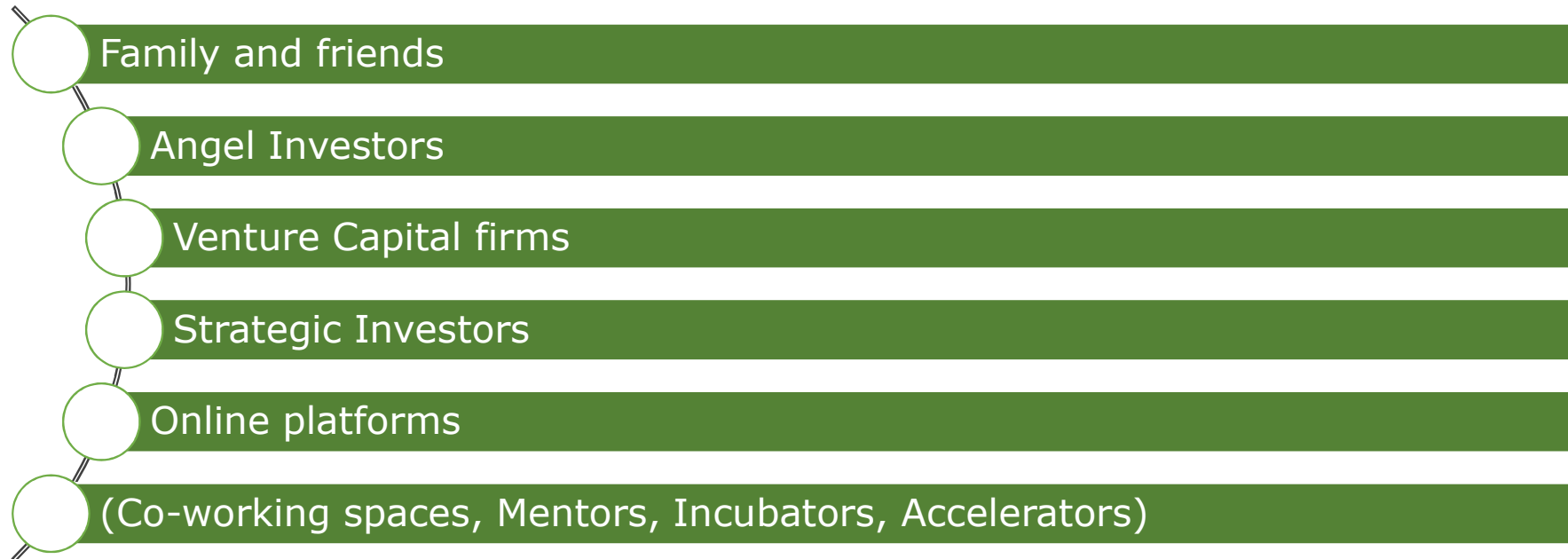
A strengthened network of huge networks that allows the startupper to attempt their adventure:



*Often startupper are very young with a low level of education and come from far away.*

# INVESTORS

- Money is abundant in Silicon Valley. Actually, this region concentrates more than 40 percent of the venture capital dollars invested in the United States.
- Investors categories:



## "FAMILY AND FRIENDS"

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- Many startups in the Valley begin their journey with money from non-professional investors: the so-called **family and friends** investment. It's the first option for startups looking for cash.
- Investments are usually made on friendly terms at the idea stage due to a relationship of trust between the entrepreneur and investors. The amount invested may range from a few thousand to some millions of dollars depending on how rich they are. Family and friends should not try to exercise any kind of control over the startup unless they are founders.

# ANGELS

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- Angel investor is a term used to refer to a wealthy person who is generally a former or current executive or entrepreneur. This person allocates money to a startup in its early stages of formation in exchange for equity;
- Angels in Silicon Valley are experienced investors who add value to the business with networking and advice. The majority of them never try to exert control over the companies invested and are deemed to be “smart money”;
- Angels put their own money (on the contrary of Venture Capitalist that put other people’s money);
- They could be “time only”, “money only”, “money-time”.



## VENTURE CAPITAL FIRMS (1/2)

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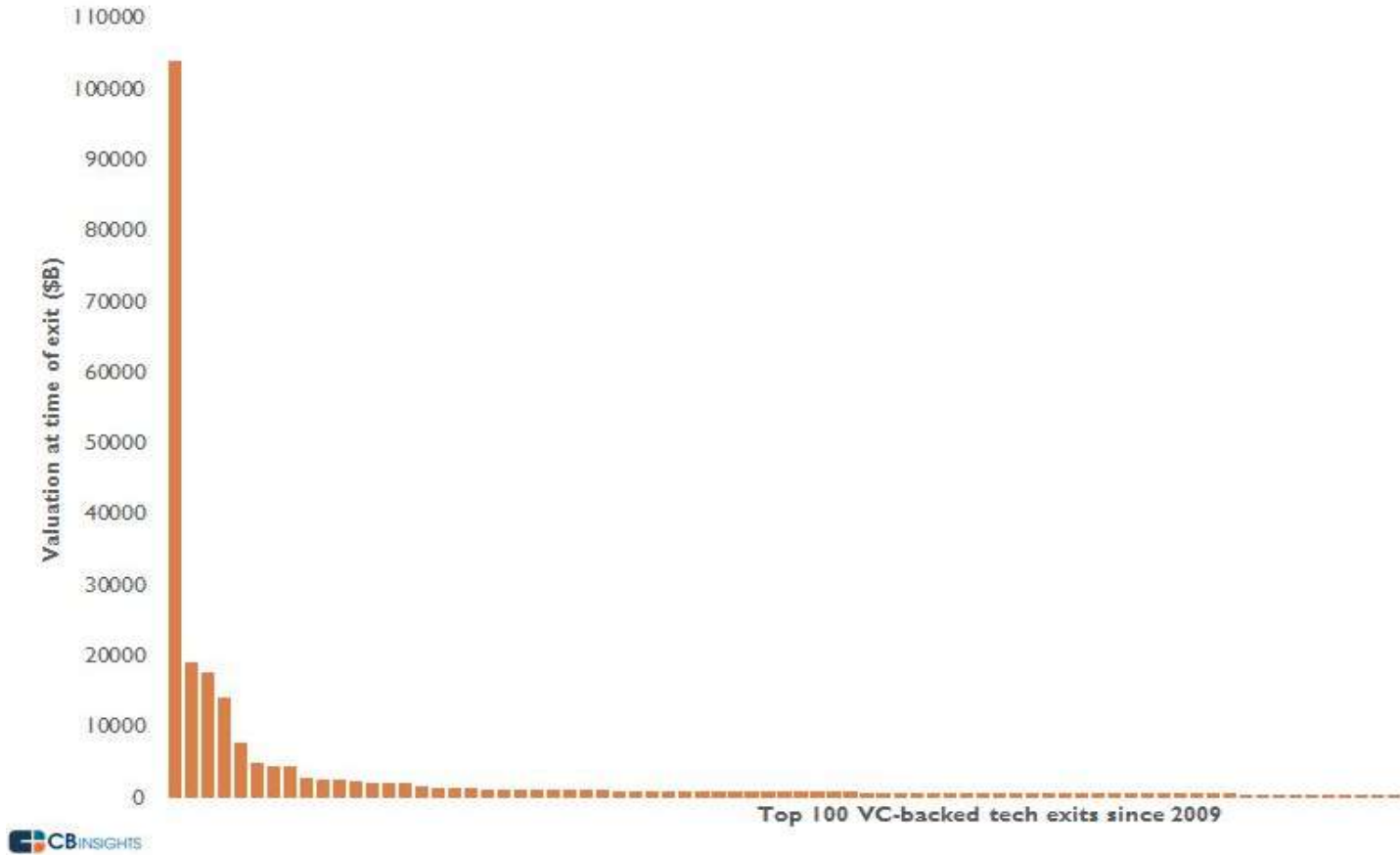
- Companies founded with the specific goal of investing someone else's money into startups;
- Venture capital firms manage money raised from external investors, called Limited Partners, which is then put into one or several venture capital funds. LPs can be wealthy individuals, family offices, pension funds, universities' endowments, banks, governments or even private companies;
- Large VC firms such as Andreessen Horowitz, Sequoia, and Accel Partners may manage several funds ranging from millions to billions of dollars. It all depends on each fund's investment profile and strategy.

## VENTURE CAPITAL FIRMS (2/2)

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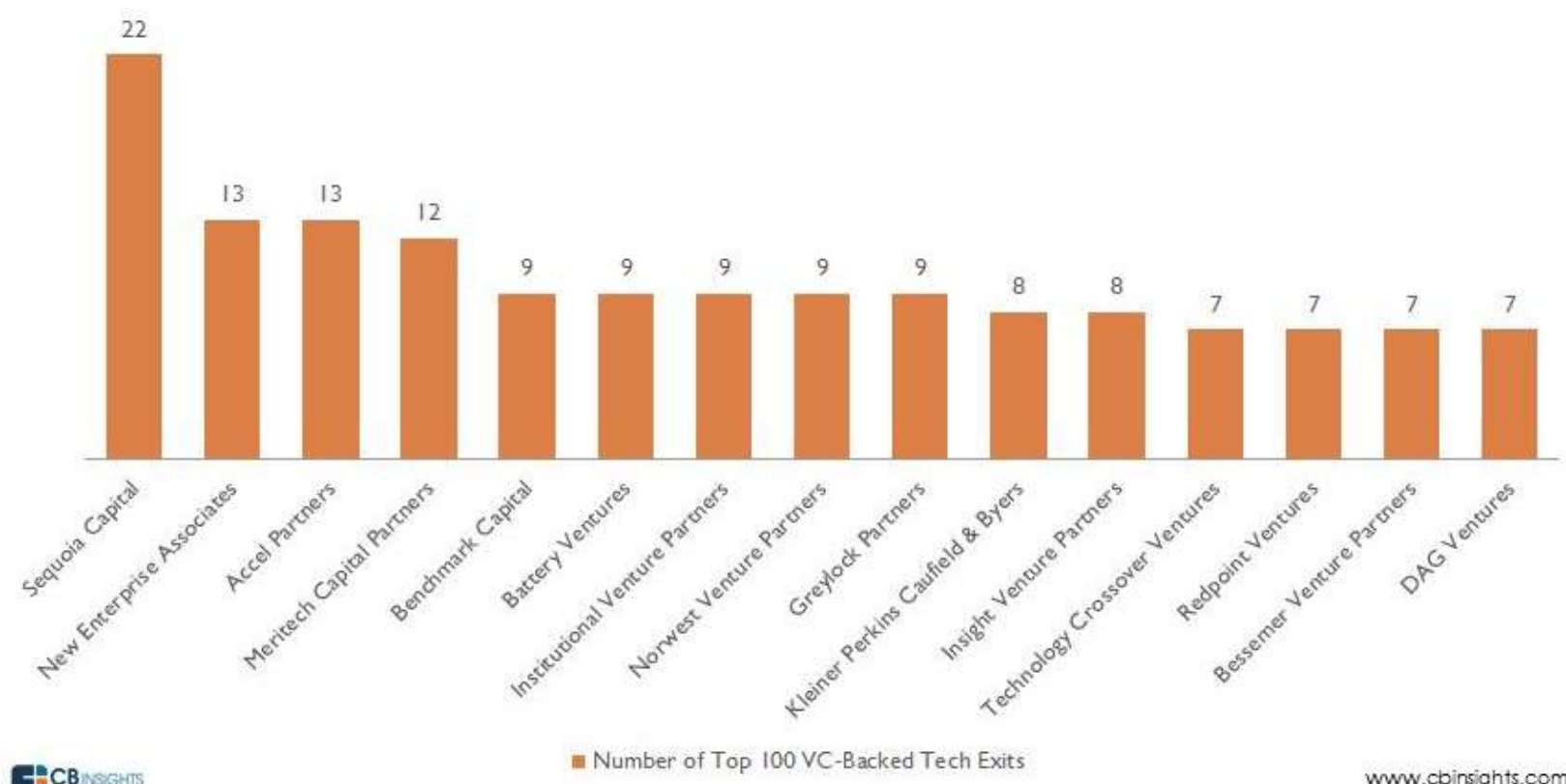
- Venture capital firms are managed by General Partners (GP) who decide on which startups to invest. GPs are like the founders of a VC firm. They are paid with a salary and a percentage based on the funds' profits;
- Venture capital funds are a very risky investment for LPs and not so much for the General Partners who manage each fund. GPs have an average of 10 years to prove they can multiply the money before being considered a failure;
- First VC were running military funds, but after '68 it was no more acceptable and VC turned to pension funds.

# TOP 100 U.S. VC-BACKET TECH EXITS Since 2009



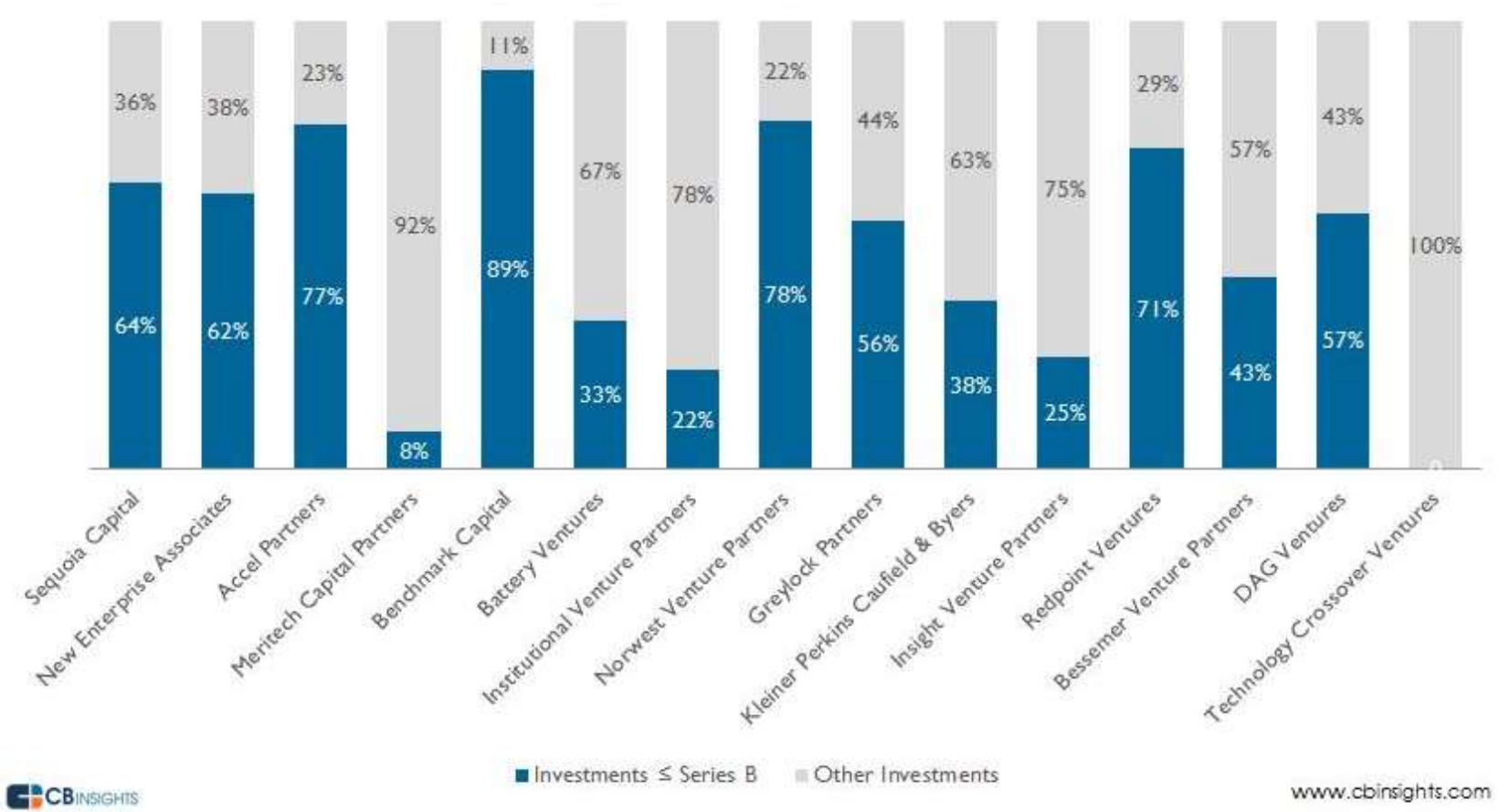
By Valuation at the Time of Exit, 1/1/2009 – 2/24/2014

# TOP 100 U.S. VC-BACKET TECH EXITS Since 2009



By VC Firm in Highest Numbers of Exits, 1/1/2009 – 2/24/2014

# TOP 100 U.S. VC-BUCKET TECH EXITS Since 2009



*By First Stage of Investment, 1/1/2009 – 2/24/2014*

## STRATEGIC INVESTOR

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- Are large companies' divisions which have the mandate to invest corporate money into startups complementary to their core businesses (i.e. Samsung Next, Intel Capital);
- Some companies, like Alphabet (Google's parent), prefer to have their venture capital arm totally independent from the holding. Google Ventures' mandate is to simply make money. It allows, for instance, investment in competitors or businesses that have nothing to do with the Internet such as biotech or energy.

## ON LINE PLATFORMS

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- Spearheaded by AngelList, they allow innovative ways for ordinary people to participate in the startup ecosystem. AngelList created a product called investment syndicate, in 2013, which is disrupting smaller VC firms;
- A syndicate is basically a private VC fund created to make a single investment;
- **Crowdfunding** is a form of micro-financing for startups with money provided from small private investors. This kind of operation has been made through regulated online platforms.

## ANGEL-LIST

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- Website for startups, angel investors, and job-seekers looking to work at startups. Created in 2010 by serial entrepreneur Naval Ravikant and Babak Nivi, the platform has a mission to democratize the investment process and to help startups with their challenges in fundraising and talent discovery;
- It started as an online introduction board for tech startups that needed seed funding. Using the traction from the Venture Hack blog on entrepreneur financing, Naval and Babak started a list of 25 investors with whom they would share interesting companies to invest in. They announced the list as “AngelList” in 2010, with the subscription of 50 investors;
- Since 2015, the site allows startups to raise money from angel investors free of charge.



## CAP TABLE

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- Ledger that tracks the equity ownership of a company's shareholders;
- However, the term can refer to the way in which any company keeps track of all of the relevant information related to all of its stakeholders (including debt, convertible debt, option, warrant, and derivatives holders) and their claims on the company;
- Cap tables are widely used by entrepreneurs, venture capitalists, and investment bankers to model and to analyze events such as ownership dilution, issuing employee stock options, or issuing new securities. After several rounds of financing, a cap table can become highly complex.

# CONVERTIBLE NOTES

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- A convertible note is an investment vehicle often used by seed investors investing in startups who wish to delay establishing a valuation for that startup until a later round of funding or milestone;
- Convertible notes are structured as loans with the intention of converting to equity;
- The outstanding balance of the loan is automatically converted to equity at a specific milestone, often at the valuation of a later funding round;
- In order to compensate the angel investor for the additional risk of investing in the earlier round, convertible notes will sometimes have additional clauses, such as caps, and or discounts.

# MENTORS

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- Professional figures able to manage and help young and unskilled startupper during the launch of their entrepreneurial activities and projects, but more in general during their career path;
- Mentors are those who already experienced the troubles and difficulties of launching a new company and, if the relationship with the startupper is good, they will transmit all their knowledge to them in order to reach the goal in the fastest and more successful way;
- Mentors work without a direct compensation but they receive shares or stock options.
- *"No mentors =no money raised when you need to scale"*

# INCUBATORS

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- An incubator firm is an organization engaged in the business of fostering early-stage companies through the developmental phases until the companies have sufficient financial, human and physical resources to function on their own;
- Can provide assistance via any or all of the following methods:
  - ✓ Access to financial capital through relationships with financial partners;
  - ✓ Access to experienced business consultants and management-level executives;
  - ✓ Access to physical location space and business hardware or software;
  - ✓ Access to informational and research resources via relationships with local universities and government entities.

# ACCELERATORS

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- A cross between a venture capital and an incubator. They are set up with the specific purpose to accelerate the chances of success of startups. The top accelerators invest around \$120,000 for less than ten percent equity in each company;
- Startups from all over the world can apply to accelerators in Silicon Valley, but the selection process is more competitive than applying to Stanford or Harvard. If a startup is selected, its founders need to move to the Bay Area for three months and follow the activities in the program;
- Dozens of accelerators have been popping up everywhere, some of them promising shady benefits and others offering terrible advice. One of the most successful accelerator in the Valley (and in the world) is Y Combinator, which propelled to stardom several billion dollar companies such as Airbnb, Dropbox, Instacart, Machine Zone, Stripe, and Twitch.

## SOME POPULAR ACCELERATORS IN SV

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1. Y Combinator
2. 500 Start-up
3. Plug&Play Tech Center
4. Rocket Space
5. Matter
6. Upwest Lab
7. Parisoma
8. Sandbox Suites
9. Angel Pad
10. Tech Liminal
11. Sudo Rooms
12. Founders Space

## CO-WORKING SPACES (1/2)

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- Co-working spaces became really popular in Silicon Valley in the last ten years when the app based economy took off. They are shared offices where you can rent a desk or a small office to start your company;
- Co-working spaces offer snacks, amenities, internet, services (accounting, legal assistance), and meeting rooms in an environment where you can easily meet other entrepreneurs and participate in events to network and inform yourself about what is going on.

## CO-WORKING SPACES (2/2)

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- The best advantage of locating your company at a co-working space is the networking they provide. In powerful entrepreneurial ecosystems such as Silicon Valley meeting great people today can be very valuable tomorrow;
- Many co-working spaces also raised venture capital funds to invest in startups hosted at their spaces;
- Although startupper are very close they don't copy.....



## STOCK OPTIONS (1/2)

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- In general stock options are sold by one party to another, that give the option buyer the right, but not the obligation, to buy or sell a stock at an agreed-upon price within a certain period of time;
- They are used to attract, retain and reward employees (or managers) that contribute to the success of a start-up, and they are used to incentivate and increase their productivity.

## STOCK OPTIONS (2/2)

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- Employee Stock Options (ESOs) are options (normally for a 4 years duration) that give the right to buy a certain numbers of shares of a company, at a specified price;
- Typically the employee must remain in the company at least one year to have the right to buy the first quarter of the shares (they are called *vested shares*);
- After first year, the shares can be redeemed monthly. If the employee resigned before 4 years he can buy only the accrued shares and lose the rest.

## STOCK OPTIONS - AN EXAMPLE

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- An engineer is hired when a startup is launched receiving an option of 50.000 shares at 0.2\$ each;
- After 4 years he can buy as much as 50.000 shares at the same initial price if he is still employed by the same company;
- If the startup is successfull, the share price can increase up to \$20/\$40 and the engineer can make up to 1/2 million \$.

## STOCK OPTIONS PLAN (1/2)

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*It's up to the Payroll and Compensation Committee, which makes decisions about:*

**The amount** of options granted to the management team:

this decision must take into account the maximum amount of dilution that shareholders are willing to bear the greatest burden;



**Duration of the vesting period**

the period between the grant date of the options and the exercise of the same, in which the options cannot be exercised.

# STOCK OPTIONS PLAN (2/2)

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## Duration of the exercise period

Each plan shall establish the beginning and end of the period in which you can exercise the right of option;



## Exercise Price



## Recipients of the transaction



## Number of shares awarded to each beneficiary

and goals / targets to be achieved.

## KINDS OF STOCK OPTIONS

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- The Incentive Stock Options (**ISO**) that are reserved for employees, they have a favorable tax treatment, as they are taxed as a capital gain in the case of exercise, so with a tax lower than tax income rate. They are usually taxed at 20% on last life period, called "sale";
- The Non Qualified Options (**NSO**) have less favorable tax treatment but may also be issued to non-employees (consultants and administrators), are taxed as ordinary wages;
- And others: Stock index options, Performance-vested stock options, Purchased options.

## TERM SHEET

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- It is a nonbinding agreement setting forth the basic terms and conditions under which an investment will be made. A term sheet serves as a template to develop more detailed legal documents. Once the parties involved reach an agreement on the details laid out in the term sheet, a binding agreement or contract that conforms to the term sheet details is then drawn up;
- Thereby precluding the possibility of a misunderstanding and lessening the likelihood of unnecessary disputes. It also ensures that expensive legal charges involved in drawing up a binding agreement or contract are not incurred prematurely.

## ADVISORY BOARD (1/2)

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- His function is to offer wide assistance to enterprises, from marketing to human resources management, to influencing the direction and the decisions of the company. Advisory boards are composed of accomplished experts offering innovative advice and dynamic perspectives. Meeting quarterly or biannually, boards can provide strategic direction, guide quality improvement, and assess program effectiveness;
- **board of directors** is a group of people who jointly supervise the activities of an organization, which can be either a for-profit business, nonprofit organization, or a government agency. Such a board's powers, duties, and responsibilities are determined by government regulations and the organization's own constitution and bylaws. These authorities may specify the number of members of the board, how they are to be chosen, and how often they are to meet.

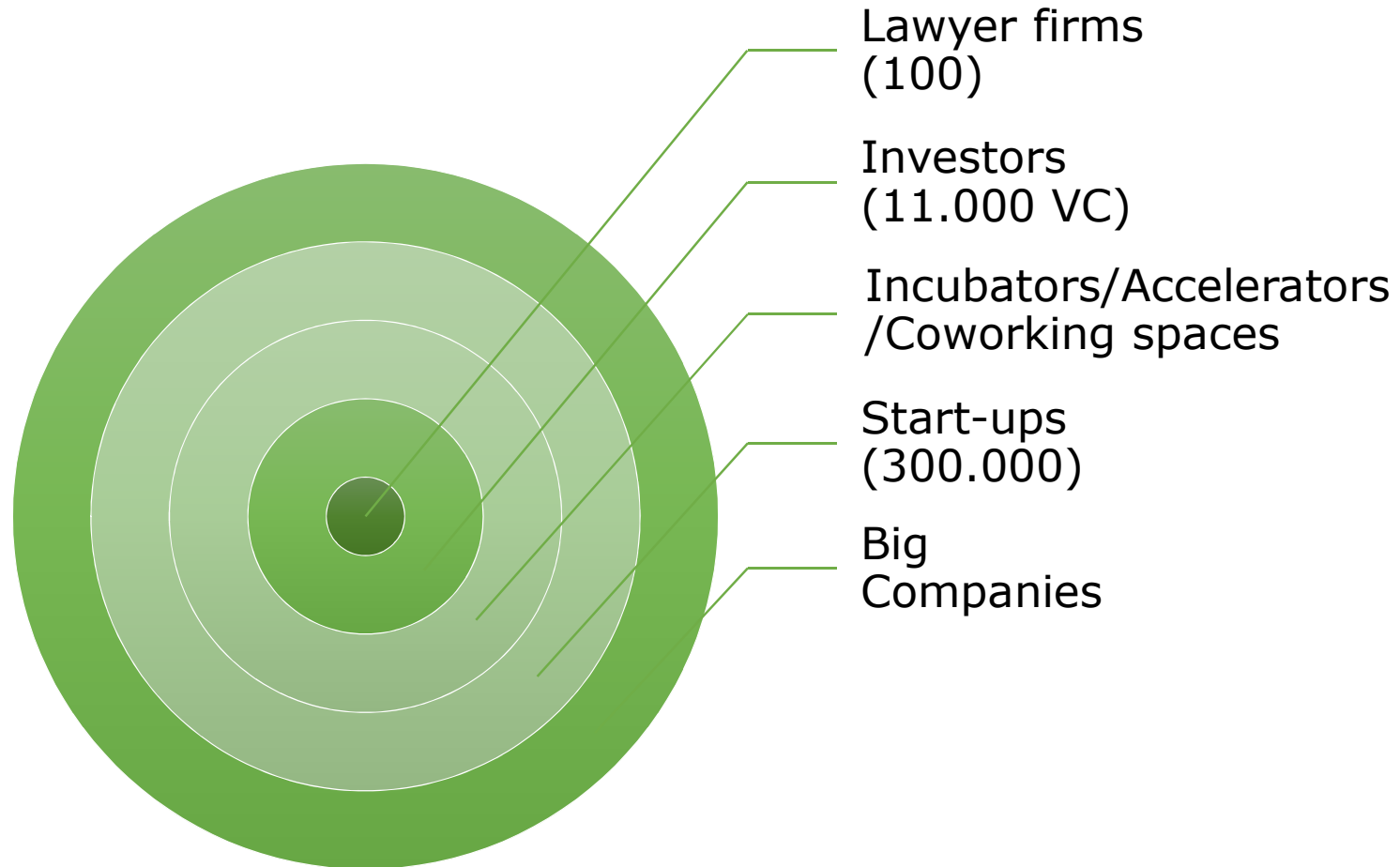


## ADVISORY BOARD (2/2)

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- Entrepreneurs, especially from startup companies or small business may not want to dilute their control of their business by establishing a board of directors with formal responsibilities and authorities. Thus, an advisory board may be a more suitable solution to entrepreneurs who want access to high-quality advice and network in the industry. Advisory board, as an external group, could also provide non-biased information and advice to entrepreneurs;
- The main reason to create an advisory board is to seek expertise outside of the company;
- Companies should seek advisory board members whose qualities complement the existing board of directors.

# SFBA ECOSYSTEM - A CHALLENGE



## LAWYER FIRMS

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- The role of a startup legal advice is very important in the Valley and very different than in Italy;
- They provide a strategic, long-term value proposition focused on smart growth and risk-management;
- A typical assignment arises when a business idea confronts the question: how can we do this legally? The answer generally falls into one of several categories: how to protect intellectual property; how to hire, fire, and compensate employees; how to hold regular board meetings and ensure company officials honor their duties to shareholders; how to advertise in compliance with federal rules; how to enter into agreements to partner with other companies; how to maintain user privacy; how to sell things online; how to respond to government requests for user data.

# HOW TO PRESENT YOUR IDEA TO THE INVESTORS

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- The business idea should be transmitted in few simple words and the presentation should not take more than 5\10 minutes;
- Very important is the ability of the entrepreneur to transmit his passion and his confidence about the success of his start up;
- “10-20-30 rule”.

## PITCHES (1/2)

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- Meetings with the participation of start-uppers, venture-capitalists and big companies representative;
- During the pitches, start-ups have few minutes to explain their value and let the investors know what they can bring on the table. In that moments, they risk everything in order to see their bank deposit going positive of several billions dollars;
- It is not easy to attire VC attention on their business idea in a short time; that's why mentors are very important in this phase. They have enough experience in order to help the entrepreneurs (young entrepreneurs, most of the times) to prepare and execute a well-done presentation.

## PITCHES (2/2)

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- One of the most frequent errors done by the startupperes when present their pitches is to spend too much time on the technology below the product and to not focus enough on the real benefits carried out by it. The first personal contact with the investors and the reputation of the startupper that the investor create in his mind may be more and more important than the technology itself;
- Sometimes we speack of “elevator pitch”, that is a presentation that should be done in an elevator ride;
- It comes from Steve Jobs custom to ask Apple employees just in an elevator ride about what were their objectives and what was their added value in the company, so that he could not fire them.

# PITCHES PRESENTATION (1/3)

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## PROJECT NAME (PLUS A BRIEF TAGLINE)

- Start with your name, the name of your project. an attention-grabbing opening, an anecdote, a dramatic fact, or a question for the audience.

## WHAT IT IS (BE BRIEF, SIMPLE AND CLEAR)

- What the project/product/service actually is. What does it do? How does it work in very simple terms.

## WHAT PROBLEM IT SOLVES (WHAT IT DOES & WHY IT MATTERS)

- Why this product/service is needed and provide some context for your project. Why is the problem worth solving?

# PITCHES PRESENTATION (2/3)

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## WHO IT SERVES (AUDIENCE/COMMUNITY)

- Who this project/service/product is aimed at. Is it for a particular geographic audience, or a particular demographic group?.....

## MARKETING (HOW YOU'LL BUILD AN AUDIENCE)

- how you'll raise awareness for this in a marketplace that is increasingly cluttered with all sorts of new products every day. What techniques/tactics/tools will you use...

## COSTS/REVENUE (HOW YOU'LL MAKE MONEY)

- How will you make ends meet? What do you expect your primary revenue streams to look like, and how long do you expect it might take for you to get to that point? Why will people pay for your product.



# PITCHES PRESENTATION (3/3)

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## TEAM/WHY YOU (YOUR RELEVANT BACKGROUND)

- What have you done in the past that has prepared you to take on this new challenge? How will others help you, and what relevant skills/experience will they bring?

## OTHER KEY POINTS...(COMPETITION... OBSTACLES... DESIGN...)

## LAUNCH PLAN/NEXT STEPS

## ASK (CONCLUSION)

- What amount of money, or what other kind of help would be helpful to you in advancing your project? How can people contact you afterwards to offer help?

# NETWORKING

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- It is "the creation of a group of acquaintances and associates" that has a regular communication for mutual benefit;
- It can be considered an essential condition to accelerate the growth of a start-up;
- For the network the most important thing is to *build your reputation*; you have to demonstrate that you have something special to offer and also to be able in one specific field and not in anything in general;
- With your network you can:
  - ✓ *validate or modify your idea*,
  - ✓ *gain traction for your product* (a strong feedback from the market)
  - ✓ *lead generation*.

# NETWORKING RULES

**BE INFORMAL!**  
no suits if you go to a meeting;



**BE HUMBLE!**  
base your discussion only to facts;



**BE FACTUAL!**  
be sure that what you are talking about it's true;



**BE READY TO HELP FIRST!**  
if you find a way to support the people are you talking with, it could be an interesting payback for your future.



**DON'T PRETEND!**

# HOW FIND THE RIGTH PEOPLE AND THE POWERFUL EVENTS

- *Meetup*: the world's largest network of local groups.
- Conferences and exhibitions.

	<u>Smes/Enterprises</u>		Startups	
	Lead Generation	Validate an Idea	Gain traction	Personal Reputation
Conference & Exhibition	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Meetup		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Social Life		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
<b>Payback Period</b>	<b>1 month</b>	<b>2 months</b>	<b>6 months</b>	<b>2 years</b>

## UNIVERSITIES AND STARTUPS (1/2)

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*U.S. Small Business Administration* points out important connections between education system and entrepreneurial performance: a good education can provide a greater supply of entrepreneurs and higher levels of entrepreneurial performance.

Three main issues are:

- Give student startups access to physical office space;
- Offer students a possibility to accelerate their ideas on campus;
- Integrate entrepreneurship education into the curriculum.

*The goal of American universities is to infuse the local startup community with student talent.*

## UNIVERSITIES AND STARTUPS (2/2)

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- Moreover universities offer students some opportunities to work directly with relevant industry partners in order to try to solve real industry problems;
- On the other hand universities bring industry experts to share their entrepreneurship experience and network connections;
- Many college-aged entrepreneurs are starting companies; indeed more colleges pay more attention to entrepreneurial subjects, but probably it's not enough;
- Example: if we consider the tech industry sector, some of the biggest revolution were founded by college-aged entrepreneurs; Mark Zuckerberg founded Facebook while he was at Harvard and Michael Dell founded Dell Computers in his dorm room at The University of Texas at Austin.

## CONSULAR AUTHORITIES

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- The Italian General Consulate in San Francisco proposes itself such a guide and support for the Italian business community for his internationalisation process;
- The task of our diplomatic-consular mission is to protect the interests of, and provide services to, Italians when not on Italian soil. The services must be offered on the basis of equality, impartiality, efficiency and transparency, for the purpose of protecting Italian citizens and promoting respect for human rights and freedoms;
- Services include assistance, for example, in cases of death, accident, serious illness, arrest or detention, acts of violence, assistance during serious crises (natural disasters, civil disorder, armed conflict, etc.) and the issuance of emergency travel documents in case of loss or theft.

## ITALIAN BUSINESS ASSOCIATION IN SFBA (1/2)

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- The Italian executive network in Silicon Valley is fundamental as a “bridge” between Italia and Silicon Valley;
- The Silicon Valley Italian Executive Council (**SVIEC**) is a special group of Italian and Italian-American technology executives who meet on an informal basis to network, socialize and update on the latest technologies, law and public policy;
- Some of the best SVIEC’s executives come from a wide range of companies and venture capital firms, including Logitech, Oracle, HP, Google, Intel, Cisco and so on.



## ITALIAN BUSINESS ASSOCIATION IN SFBA (2/2)

Baia (Business Association Italy America) is a non-profit, volunteer-based, independent association founded in San Francisco in 2006. It is an open business network created by and for Professionals, managers and entrepreneurs that operates between Italy and the United States.

The BAIA's mission is to offer opportunity to create network to its community, in addition to facilitate the open exchange of knowledge, business opportunities, relationships between the two countries and promotes a business ecosystem that fosters innovation. Some of the activities that BAIA promotes along the year:

- Organizing networking and content-rich industry events with the aim of let the Italian and Italian-American business community gather.
- Promoting, through many different kind of events, workshops and partnerships with institutions and organizations, the sharing of knowledge, best practices and a culture of innovation.
- Mapping the business activity between Italy and US. In fact, they have created a public and freely examinable business database containing all the valuable information on ITA-US trade.

# ISSNAF

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Italian Scientists and Scholars in North America Foundation

## BAC - Bay Area Chapter

- The hub of Italian scientists and scholars in the Bay Area;
- The Greater San Francisco Bay Area is home to some of the world top universities and leading research organizations, public and private, active in both theoretical and applied research;
- Over the years, it has been a magnet for researchers and scholars from all over the world, including a large number of Italians;
- BAC was established on September 9, 2017 to connect the talented pool of Italian researchers and scholars based in the Greater San Francisco Bay Area, promote their talents, and offer them opportunities and support;
- As of August 2018, it counts over 100 members.

## BAC ACTIVITIES

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- BAC members can be advisors to Italian undergraduate and graduate students and help them with career choices and networking;
- BAC members can be mentors to Italian scholars and researcher at the early stage of their careers;
- Work to establish BAC as the interface of choice for individuals and organizations in Italy interested in connecting with researchers and scholars in the Bay Area;
- Cooperation with Italian Consulate, government, and private organizations in the Bay Area (such as Istituto di Cultura, Comites, Leonardo da Vinci Society, Aster) to organize cultural and networking events benefitting researchers and scholars in the Bay Area.

## PART 3 REFERENCES (1/2)

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## PART 3 REFERENCES (2/2)

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