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 2-3

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AGENDA

The San Francisco Bay Area (SFBA)

Startups and SFBA

SFBA Ecosystem

CES – CONSUMER ELECTRONIC SHOW

- it is the world's gathering place for all those who thrive on the business of consumer technologies. It has served as the proving ground for innovators and breakthrough technologies for 50 years
- the global stage where next-generation innovations are introduced to the marketplace.
- CES showcases more than 4,400 exhibiting companies, including manufacturers, developers and suppliers of consumer technology hardware, content, technology delivery systems and more; a conference program with more than 250 conference sessions and more than 182,000 attendees from 160 countries
- Inside Ces *Eureka park*: 1200 startup from 30 countries

OVERVIEW

- Since the late 60s in USA, the setting up of new high tech rapid growth companies requiring large funds has been progressively pointed out and today it follows a well established pattern.
- His huge success has created hundreds of Venture Capital companies
- Especially in Silicon Valley, it was established:
  - ✓A leading class of managers and professionals skilled in setting up of new companies
  - ✓An infrastructure supporting all the technical, management, commercial and production aspects of startups

HOW TO DEFINE A STARTUP IN SV

- A «mechanism» to build a company to get early and successfully to exit;
- Exit is when the founders and the investors believe the experience is over and, if there was a success, «capitalise» it;
- However the most frequent exit (99%) is the closure of the company because they couldn’t kick-start it;
- If it was a big hit, the profit is at least 100 times the capital invested.

SUCCESSFUL EXIT STRATEGIES

- Traditional Initial Public Offering (IPO) or “go public”: this is the best option, the one with higher profit for the entrepreneur. After the Dot-com Bubble burst however those startups which follow this exit option are less and less.
- Merger & Acquisition (M&A): it consist of a merge with a similar size company or, more frequently, the acquisition by a bigger company. Very frequently the startup team could be also hired by the bigger company.
- 10 M&A per 1 IPO;
- The profit is usually used for a new entrepreneurial lead fueling a virtuous circle that seems to be never-ending.

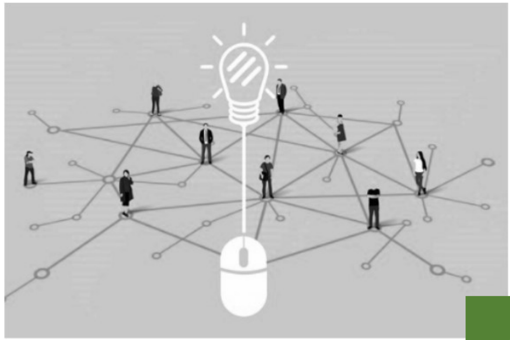
AQUI-HIRE

- it consist of a talents acquisition and occurs when the acquiring company has no interest in the startup product but it buy the startup because they are looking for qualified employees.
- This exit option is carried out in the early stages of the lifecycle, when the value of the company is low.
- Startup gain about 1 million per each member of the team (in cash and/or stock options).
- 'Angel.co' website according to some parameters (geographical location of the startup, University attended by the team, previous experiences, ecc.) gives automatically the evaluation.
- Way carried out by Facebook first and immediately followed by Twitter, Google, ecc.

SOME SURPRISES

- The big companies have significantly reduced their R&D Department.
- Because they know that almost certainly the new product or the new feature they want to put in the market is already in developement phase by some startup.
- They need to find it: every day in Silicon Valley there are dozen of parties and above all pitches. Not only: every opportunity is good to share what you are doing (or what you have in mind to do).
- Even the big companies don't care about new business plan, that's enougth be with ears open and they can discover brigth products already available and ready for the market. They are cheaper compared to the cost of the internal development of the same products.

MY CHALLENGE...

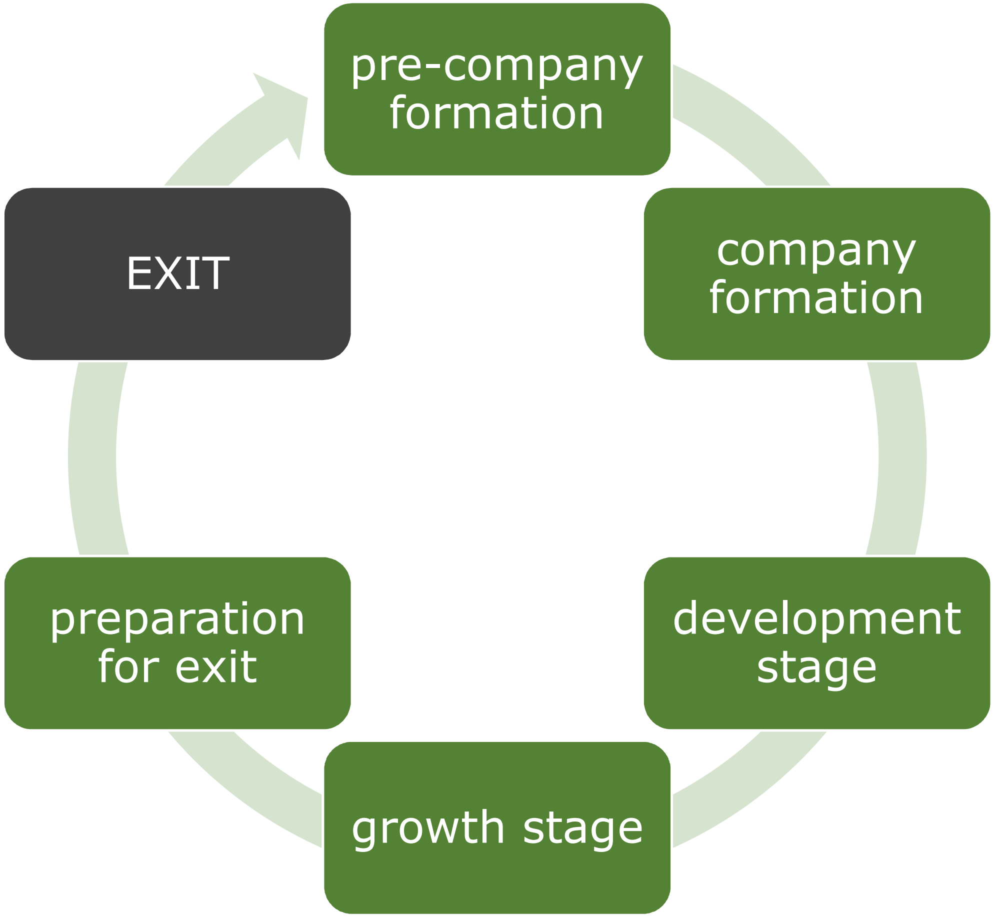


The SFBA startup network is probably the biggest R&D Lab in the world.

SOME NEW PHENOMENONS

- Some startups are built and invest a lot of money to carry out products designed specifically for a big company without any preliminary agreement. When the prototype is ready, they contact the company and the chance of success is rather high.
- Dark acquisition: acquisition of a startup seemingly without any reason. The startup might give trouble. It is purchased and immediately closed keeping the IP (Intellectual Property).

STARTUP LIFECYCLE



BUSINESS IDEA (1/2)

First step to launch a new startup is to define **a business idea** to develop a business model;

Identify a **customer need** so that it will be clear which problem will be solved by the product or service offered by the startup;

An essential aspect lies in the fact that the idea should be an **advantage** for the customer;

BUSINESS IDEA (2/2)

The key to success is not to create an excellent product but to **satisfy customers' needs;**

The idea must be innovative, unique and above all must have a **clear focus;**

Initially, the business concept has **no market value**, no matter how brilliant it is;

The idea assumes a **commercial value** only when it is accepted by the market.

BUSINESS MODEL (1/2)

- *"A single diagram that describes your business« (*Steve Blank);
- It points out the way the entrepreneur intends to generate revenue and profits and how he plan to deliver his product to the customer.
- It includes:
  - *market identification;*
  - *the definition and differentiation of products or services;*
  - *the ways of acquiring and retaining customers;*
  - *the marketing and sales procedures;*
  - *the resource management;*
  - *the ways of monetization.*

BUSINESS MODEL (2/2)

- Allows to quickly identify any potential problem in key aspects of business activities and those which could affect the company profitability;
- The analytical model most widely used is the Business Model Canvas, developed by Alex Osterwalder;
- It is a visual chart with elements describing a firm's or product's value proposition, infrastructure, customers, and finances. It assists firms in aligning their activities by illustrating potential trade-offs;
- In addition to the Canvas, a sentence of no more than ten words should be studied describing the company purpose.
- With this sentence, the entrepreneur tries to focus on the business idea.

The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partners

Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

MOTIVATIONS FOR PARTNERSHIPS
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

CATEGORIES
Production
Problem Solving
Platform/Network

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

TYPES OF RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

Value Propositions

What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

CHARACTERISTICS
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

Customer Relationships

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

EXAMPLES
Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

Channels

Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

CHANNEL PHASES
1. *Awareness*
   How do we raise awareness about our company's products and services?
2. *Evaluation*
   How do we help customers evaluate our organization's Value Proposition?
3. *Purchase*
   How do we allow customers to purchase specific products and services?
4. *Delivery*
   How do we deliver a Value Proposition to customers?
5. *After sales*
   How do we provide post-purchase customer support?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

IS YOUR BUSINESS MORE
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

Revenue Streams

For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

TYPES	FIXED PRICING	DYNAMIC PRICING
Asset sale	*List Price*	*Negotiation (bargaining)*
Usage fee	*Product feature dependent*	*Yield Management*
Subscription Fees	*Customer segment dependent*	*Real-time-Market*
Lending/Renting/Leasing	*Volume dependent*	
Licensing		
Brokerage fees		
Advertising		

WHY PUT MONEY IN A STARTUP?

1. The new company has concrete chances to become leader in his market;
2. His market is not yet competitive and there is general expectations for a big growth; or a big market already exists and the new idea shows a significant improvement of the cost-effectiveness ratio;
3. The idea can be outdated but protected by patents or trade secret;
4. The new company aims to be present in the world biggest markets and shall have an excellent team and great relationship;
5. The new company has a clear and well defined exit strategy.

INVESTMENT PHASES (1/4)

Angel

- An angel round is typically a small round designed to get a new company off the ground. Investors in an angel round include individual angel investors, angel investor groups, friends, and family

Pre-Seed

- A Pre-Seed round is a pre-institutional seed round that either has no institutional investors or is a very low amount, often below $150k

Seed

- Seed rounds are among the first rounds of funding a company will receive, generally while the company is young and working to gain traction. Round sizes range between $10k–$2M, though larger seed rounds have become more common in recent years. A seed round typically comes after an angel round (if applicable) and before a company's Series A round..

INVESTMENT PHASES (2/4)

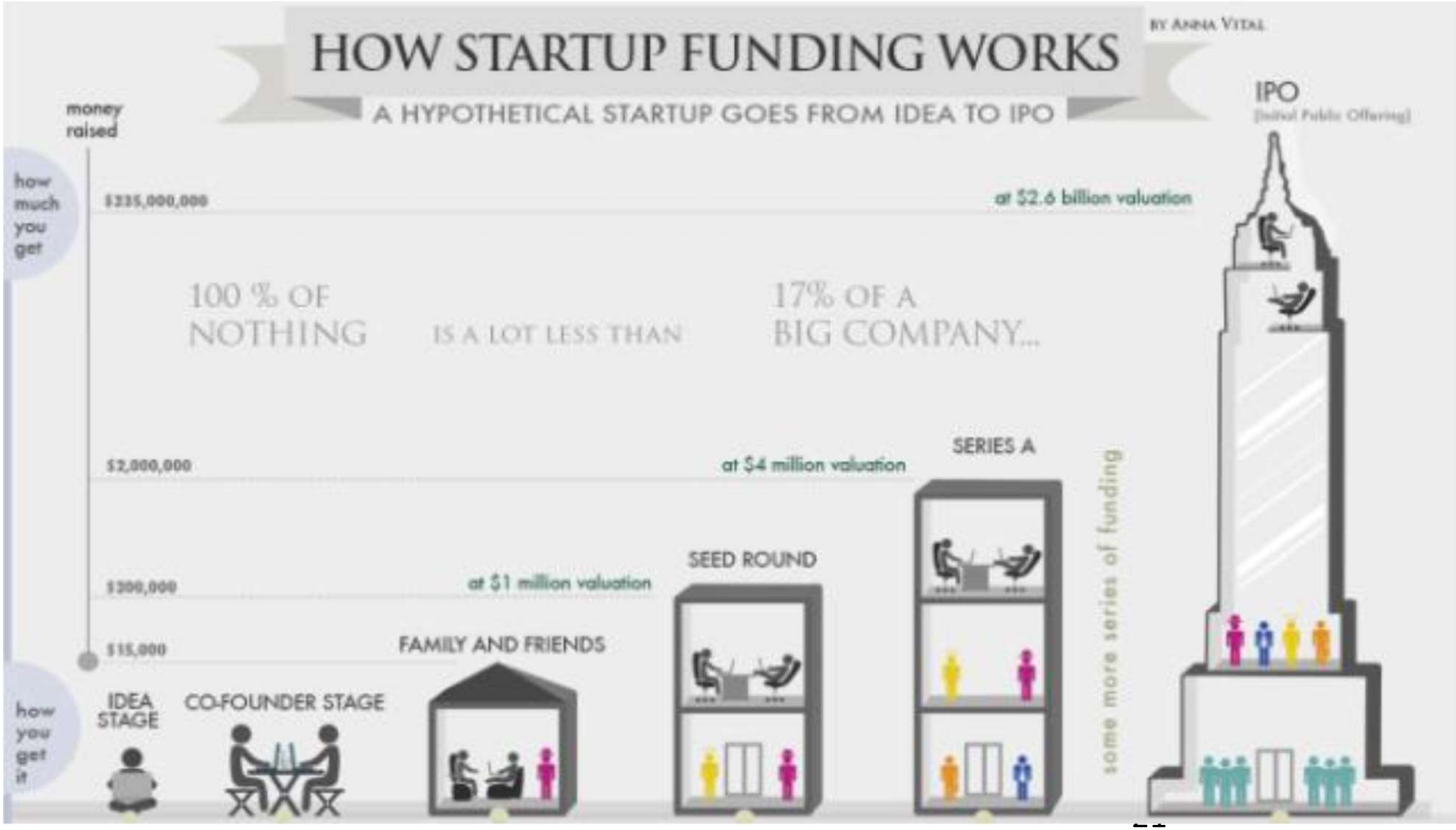
Series A & Series B

- Series A and Series B rounds are funding rounds for earlier stage companies and range on average between $1M–$30M.

Series C

- Series C rounds and onwards are for later stage and more established companies. These rounds are usually $10M+ and are often much larger.

INVESTMENT PHASES (3/4)



INVESTMENT PHASES (4/4)

Equity Crowd-funding

- Equity crowdfunding platforms allow individual users to invest in companies in exchange for equity. Typically on these platforms the investors invest small amounts of money.

Product Crowd-funding

- In a product crowdfunding round, a company will provide its product, which is often still in development, in exchange for capital. This kind of round is also typically completed on a funding platform.

Private Equity

- A private equity round is led by a private equity firm or a hedge fund and is a late stage round. It is a less risky investment because the company is more firmly established, and the rounds are typically upwards of $50M.

STOCK AND SHARE(1/2)

- Common stock (or common shares) for the shareholders, preferred stock for stakeholders;
- A preferred stock is a class of ownership in a corporation that has a higher claim on its assets and earnings than common stock. Preferred shares generally have a dividend that must be paid out before dividends to common shareholders, and the shares usually do not carry voting rights;
- Preferred stock combines features of debt, in that it pays fixed dividends, and equity, in that it has the potential to appreciate in price. The details of each preferred stock depend on the issue.

STOCK AND SHARE(2/2)

- When investing in companies, private equity investors typically prefer **convertible preferred stock** to common stock for the various rounds of financing because of the special features of the security.
- Convertible preferred stock is preferred stock that includes an option for the holder to convert the preferred shares into a fixed number of common shares, usually any time after a predetermined date. Most convertible preferred stock is exchanged at the request of the shareholder, but sometimes there is a provision that allows the company, or issuer, to force conversion. The value of convertible preferred stock is ultimately based on the performance, or lack thereof, of the common stock.

«A» ROUND FINANCING

- “A” round financing allow for more expansion of the startup’s team, further investment in the development of the business idea to bring it closer to market and to cover expenses of the growing operation;
- Receiving “A” round financing may be taken as an early vote of confidence from venture capitalists that the startup’s concept is worth pursuing.

BUSINESS PLAN (1/2)

- While a business plan for an already established company may have a specific purpose (targets definition, new products or technologies evaluations), a business plan for a startup is a description for its creation and its success;
- The business plan contains all the strengths and weaknesses and reveal how the business will be developed;
- Drawing up a business plan takes time, efforts and money. It may seen like an impediment to the opening or to the growth of the company, but it was essential as a gateway into the world of Silicon Valley.

BUSINESS PLAN (2/2)

- Often the fonder writes the business plan himself because he knows every aspect of his business and he knows the items to be included to make the best presentation;
- Over the past few years, some startuppers decided not to write a real business plan to remain flexible to change their business according to market changes.

BUSINESS PLAN FORMAT (1/3)

Executive summary

summarizes the business's key elements.

General company description

essential to introduce the company concept, it includes corporate vision and mission as well as business goals and philosophy.

Industry analysis

provides an image of the company and its position in his market sector.

Market and competition

used to evaluate the potential market share.

BUSINESS PLAN FORMAT (2/3)

Strategies and goals

market and competitors analysis allows the entrepreneur to determine the best strategies to maximize its company position in the defined market.

Products or services

includes products or services descriptions and how they contribute to the targets achievement.

Marketing and sales

related to the distribution procedures and sales forecasts.

Management and organization

includes business management mode. This section could be divided into two parts in case of complex societies.

BUSINESS PLAN FORMAT (3/3)

Operations

indicates how to manage business processes, location and machinery.

Financial pro formas

forecast financial performance of all business activity. Includes income and expenses projections for a specific period and a breakeven plan.

Investment needs

consist of investment estimation for the entire business based on the previous sections. If the business plan is written to obtain financing, this section can be adapted as either a loan request or an investment-offering proposal.

BUSINESS PLAN vs BUSINESS MODEL

- The main difference between business plan and business model consists of the difference between the lengths of them: the first one is a 30-40 pages length document while the second one is no longer than 2 or 3 pages.
- Business model must answer this question: *"how my customers can make or save money"*
- Business plan must start with the answer to the question: *"which is the real problem solved by my business idea?"*

HOW TO CHECK BUSINESS IDEA AND BUSINESS MODEL

- Every day startuppers have dozen of opportunities to share their ideas with a lot of very qualified people, listen to their remarks, try to change their approach and set up a network of prospective customers, testimonials and opinion leaders.
- There are dozen of web site, i.e Founders Space, where daily they can find invitations to events designed for this purpose.
- Usually the idea is changed several times (pivoting)
- Traction

TRACTION

- Many startupper still use business plan, although they know that each investor has hundreds of business plan in his drawer.
- Recently some of them stopped making that; also because they are not able to do it and it cost a lot of time and money.
- They prefer traction: if it is possible, i.e. app, they put the product online and try to persuade as many people as possible to test it.
- Traction must last! Investors monitor the product for 3/6 months to check if there is a good percentage of constant users. A good percentage is if the monthly user shall include at least 30% of the download of the previous month.

NO TRACTION NO FUNDING (1/2)

TRACTION means validating your product or business model.

- Validating means proof, not by what you say or predict, but by what is actually happening with your users/customers;
- How do you know your product works? The more people that use it successfully, the higher your traction;
- How do you know that your product is in demand? The more people that use it, the higher your traction;
- How do you know that you can make money? The more people that pay you for what you do, the higher your traction.

NO TRACTION NO FUNDING (2/2)

- **CUSTOMERS** want to see that you have enough traction so that there is little risk for them to adopt your product. No customer wants to be your first customer;
- **INVESTORS** will often decline to finance your business if they don't see enough traction. How much traction varies by the investor. Some investors believe in the idea and the team enough to invest before there is much traction, but most investors want to see quite a bit of traction. The more traction you have, the more investors you will attract. Most investors want to give you fuel (money) for the fire (traction) you **already started** … they don't want to give you fuel **to start** the fire (because they worry that you may not be able to start it).

TEAM (1/2)

- It is essential when establishing a new company to own a strong and efficient team; initially just CEO, CFO and CTO may be enough. The values of a successful team are in problem solving ability, motivation, work habits, organization, leadership and relationship;
- Although in SV there is the greatest concentration in the world of intellectual capital, the professional staff recruitment is hard because of «skill shortage”: 500.000 specialists;
- The turnover is very high. The best professionals want to work in the best companies and are the people (the best) who choose the company and not viceversa.

TEAM (2/2)

- It is estimated that the team (and staff) quality represents the 80% of the total value of the startup;
- The hiring of the staff requires rigorous interviews by all the partners and/or managers. The interviews must be established in advance between the members of the management through a detailed and clear program;
- Before hiring a person it must be reviewed and approved by the team manager; is also recommended to do several interviews before hiring to verify that the stated skill is true: this is very important because you should never think that we can change people. You can shape the vision but not the people;
- Once hired staff, it is necessary to transmit him the Corporate Vision and the Corporate Mission.

TO DO (1/2)

Second-guess yourself

- One of the biggest mistakes is think that a business idea can automatically develop into a workable business model.

Think about funding

- The self-financing guarantees the ownership of 100% of the company; there are few occasions where capitals requested are low enough because this is feasible. It is therefore necessary that the entrepreneur convinces the angels and venture capitalists that his business idea is worthy of funding in order to carry on its business objective.

TO DO (2/2)

Be flexible with your idea

- The initial idea should not be the point of arrival but the starting to readjust to the demands of the market.

Recruit and hire the best people

- The right team can make all the difference in the development of a startup.

Have an exit plan

- The startup should be created to meet the exit strategy.

Delegate everything

NOT TO DO (1/2)

Don't be afraid to fail, be afraid not to try

- The fact that most startups are not successful should not be an excuse not to try to develop your own business.

Don't wait for the perfect idea

- A revolutionary idea that is not being developed has no value.

NOT TO DO (2/2)

Don't build something nobody wants!

- Before being developed, idea must have a clear potential market; its absence makes it impossible to generate profits.

Don't hire ineffective friends!

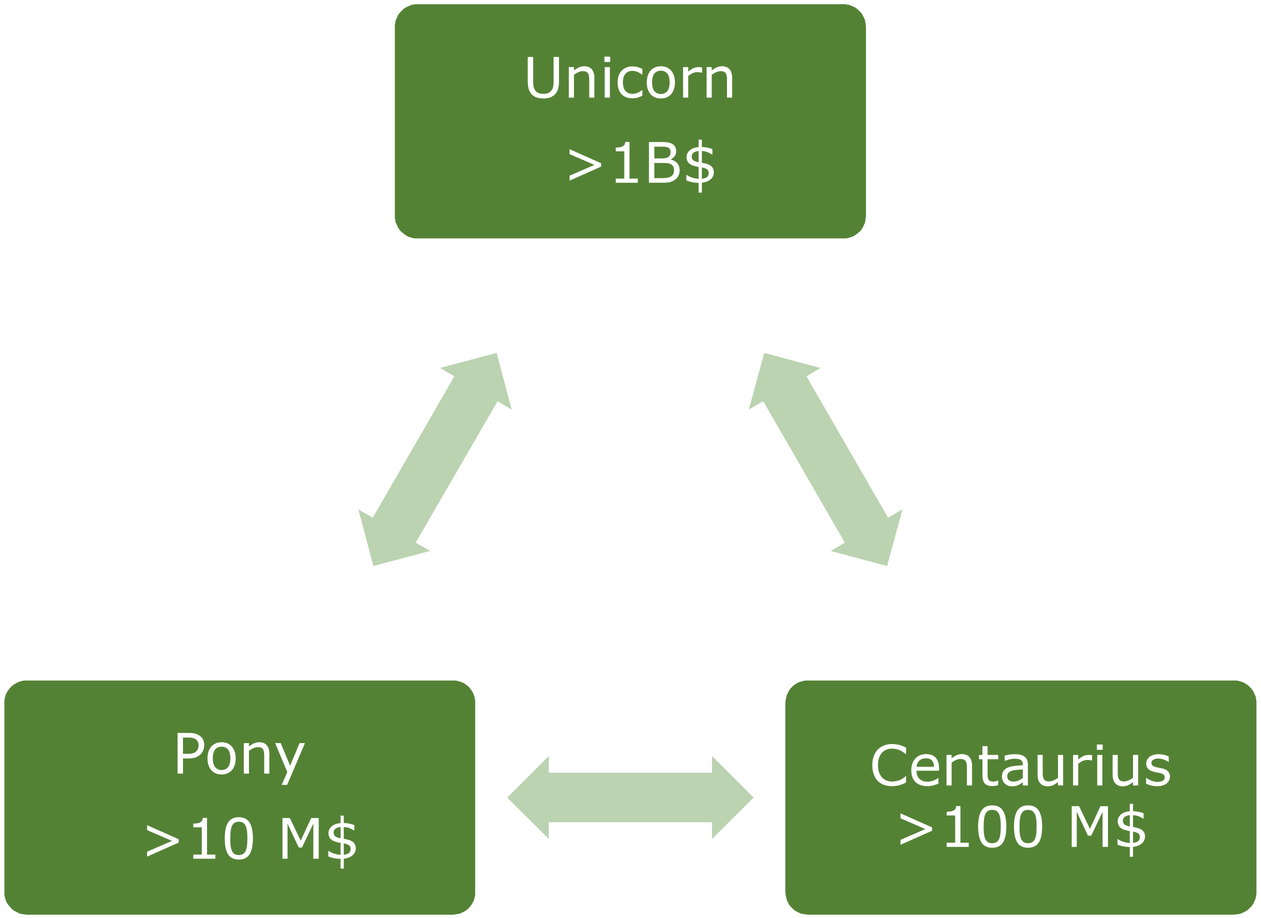
Don't ever lie!

Don't make business decision for non-business reasons!

MOST COMMON MISTAKES

1. Not spending enough time to define if the business idea is sustainable. Many startups fail because the hurry of the entrepreneur to start a business without verifying that the idea is actually viable;
2. A wrong estimation of potential market size, timing or underestimation of entry barriers;
3. Hiring too many employees and spend resources in auxiliary activities;
4. Focusing on sales volumes and company size rather than on profits;
5. The lack of clarity in long-term targets.

EMERGING COMPANIES RATING



AT THE END........

- **A startup must be scalable**

To transform a business such as a law or a consultancy firm into a scalable enterprise, you would need to automate the simplest and most repeatable processes through software and focus your business solely on them.

- **A startup must have a repeatable business model**

Startuppers must focus on having an engaging product where customers come back, potentially, every day. The more customers use your product, the easier it becomes to monetize

- **A startup must have a clear value proposition**

Simplicity is key to achieve both scalability and repeatability, hallmarks of a successful product from a Silicon Valley startup. The more a startup captures an existing trend or habit and makes it easier, faster or better, the more successful it becomes.

PART 2 REFERENCES

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