



Small Business Innovation Research

The Path to Capital Formation

Business Failures

FLORIDA Survival Rates of Establishments



Source: ²U.S. SBA, Office of Advocacy,
Florida Small Business Profile 2014

90
percent fail for
one of two reasons

- **Lack of Knowledge**
- **Lack of Experience**

Top Business Challenges



Top Business Challenges

- **Market Development** (expanding new or existing markets, doing business internationally or with government)
Customer Development
- **Accessing Capital/Financing** (identifying sources of capital, applying / qualifying for loans)
Proven Financial Models
- **Access to Knowledge** (professional advisors, research resources, competitive intelligence)

Source: Florida SBDC Network, 2014 annual survey (2458 respondents)

Business Model Canvas

Key Partners	Key Activities	Value Proposition	Customer Relations	Customer Segments
		BMC		
	Key Resources		Channels	
				
Cost Structure		Revenue Streams		
				



Venture Capitalist

65 Questions

Overview of the Company

- What does your company do? → Value Proposition
- What is unique about the company? → Key Activities – Value Proposition
- What big problem does your company solve? → Value Proposition
- How big is the market opportunity? → Customer Segment
- Where are you headquartered?
- How big can the company get? → Revenue Streams (scalability)

Source: Richard Harroch, Forbes

Market

- What is the actual addressable market
- What percentage of the market do you plan to acquire over what period of time
- How did you arrive at the sales of your industry and its growth rate
- Why does your company have high growth potential

Customer Relationships, Customer Channels, Customer Segments

Founders and Team

- Who are the founders and key team members? → Key Partners
- What relevant domain experience does the team have?
- What key additions to the team are needed in the short term?
- Why is the team uniquely capable to execute the company's business plan?
- How many employees do you have? → Key Resources
- What motivates the founders? → Key Activities
- How do you plan to scale the team in the next 12 months?

Products and Services

- Why do users care about your product or service?  Pains/Gains
- What are the major product milestones?
- What are the key differentiated features of your product or service?
- What have you learned from early versions of the product or service?
- Provide a demonstration of your product or service.
- What are the two or three features you plan to add?
- MVP (Minimum Viable Product)

Competition

- Who are the company's competitors?
- What gives your company a competitive advantage?
- What advantages does your competition have over you?
- Compared with your competitors, how do you compete with respect to price, features, and performance?
- What are the barriers to entry?

Market and Customer Acquisition

- How does your company plan to market its products and services?
- What is the company's PR strategy? (Public Relations)
- What is the company's social media strategy?
- What is the cost of customer acquisition?
- What is the projected lifetime value of a customer?
- What advertising will you be doing?
- What is the typical sales cycle between initial customer contact and closing of a sale?

Traction

- What early traction has the company gotten (sales, traffic to the company's web site, app downloads)?
- How can early traction be accelerated?
- What has been the principal reason for the early traction?

Risk

- What do you see are the principal risk to the business?
- What legal risk do you have? (intellectual property, source codes)
- Do you have any regulatory risk?
- Are there any product liability risk?

End Game

- What is the likely exit – IPO or M & A?
- When do you see the exit happening?
- Who will likely be the acquires?
- How will the valuation of an exit be determined given market comparable companies?

Intellectual Property

- What key intellectual property does the company have (patents, patents pending, copyrights, trade secrets, trademarks, domain names)?
- What comfort level do you have the company's intellectual property does not violate the rights of a third party?
- How was the company's intellectual property developed?
- Would any prior employers of a team member have a potential claim to the company's intellectual property?

Financials

- What are you company's three year projections?
- What are the key assumptions underlying your projections?
- How much equity and debt has the company raised; what is the capitalization structure?
- What future equity or debt financing will be necessary?
- How much of a stock option pool is being set aside for employees?
- When will the company get to profitability?
- How much burn will occur until the company is profitable?

Financing Round

- How much is being raised in this round?
- What is the company's desired pre-money valuation?
- Will existing investors participate in the round?
- What is the planned use of proceeds?
- What milestones will financing get you to?

How to get funded

How to Get Funded. 2 Minutes to See Why
by steve blank



Customer Development
www.youtube.com/watch?v=xr2zFXblSRM



Introduction to the Value Proposition Canvas.mp4

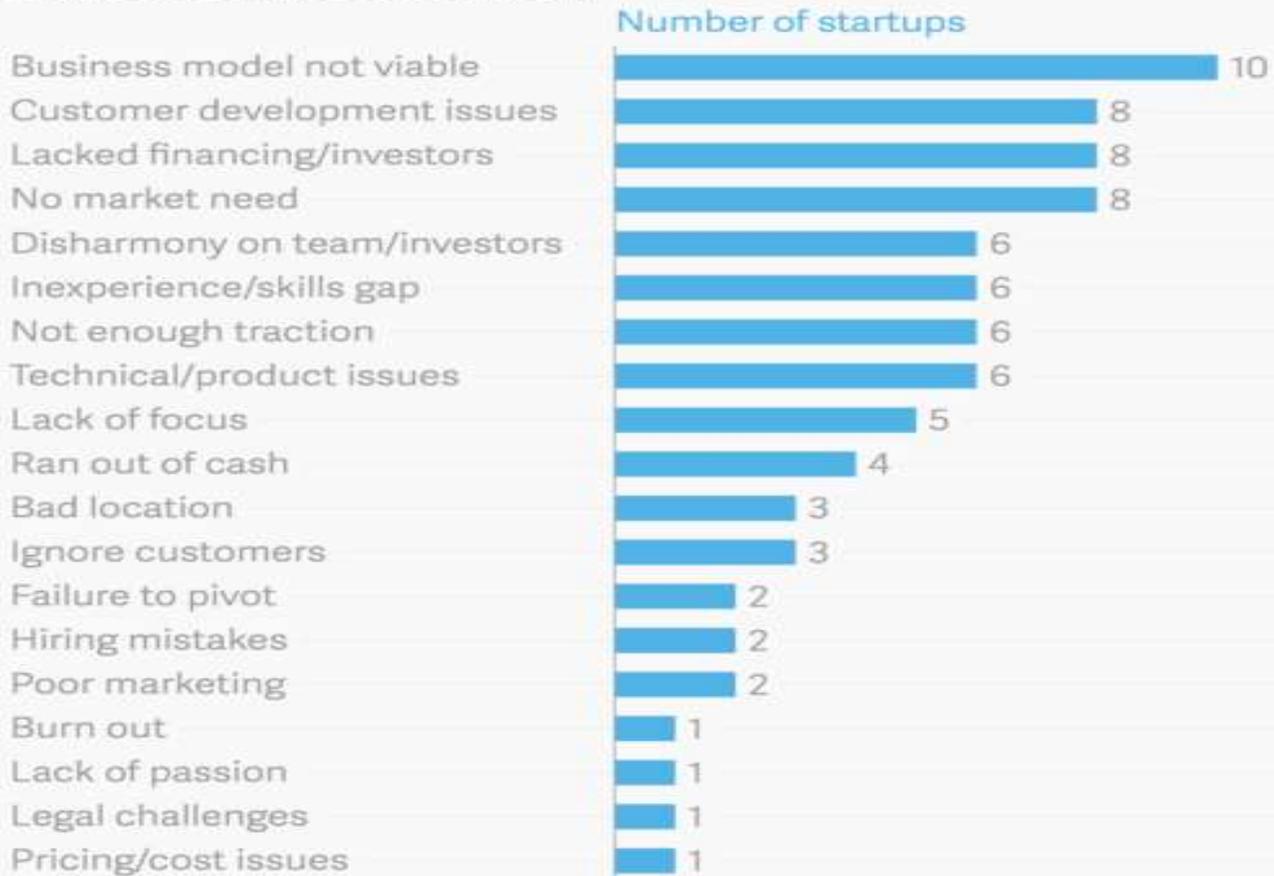
Why Companies Fail

- access to funding (in startups or established organizations) is often brought up as the key challenge in innovation or company building. However, The FRACTL **study shows that money isn't really the issue**. In fact, the findings show that funded ventures (including those that raised \$10 million USD or more) are more likely to run out of cash than bootstrapped ones. Why is that so? **Because you are more likely to risk building something that nobody wants when you have the money to actually build it. Renowned venture capitalist Vinod Khosla famously argued that “people who raise more money reduce their probability of success”.**
- Bootstrapped companies were also more likely to cite inexperience or a skills gap (not having engineers with the right expertise

Bootstrap Failures

The study shows that funded startups are more likely to run out of cash than bootstrapped ones.

Why bootstrapped startups fail



Web Van

- One of the largest IPO's failures of 2000, leading to the tech market crash
- Opened large warehouse structures in more than 6 locations
- Each facility cost over \$50 million
- Signed a construction contract with Bechtel for \$1 Billion
- Lost \$800 Million based on grow-big-fast strategy

Web Van

- **Mistake Number 1:** Strategy was: quality and selection of Whole Foods, convenience of home delivery, and pricing of Safeway
 1. Whole Foods is an upmarket strategy – not mass market strategy
 2. Safeway is a price sensitive market
 3. Home delivery is a much smaller market space
- **Mistake Number 2:** Complex Infrastructure Model
 1. Hundreds of engineers who built software algorithms
 2. Five miles of conveyors to transport 10,000 totes
 3. Real time inventory system powered by Palm Pilots

Web Van

- **Mistake Number 3:** Too Much Money, Expanded Too Fast
 1. Lacked a Minimum Viable Product
 2. Too much growth, too fast without customer discovery, customer validation, and sustained revenue model

Today, Instacart is successful in the home grocery delivery market – focused on convenience-oriented customers who are not price sensitive

Postmates focuses delivery economics that is central to overall unit economics – algorithm pricing is based on how expensive is the delivery

Iridium – Global Satellite Phone Company

- Spent \$5 Billion to build infrastructure to deliver worldwide wireless phone service
- At the time, 1999, one of the 20 largest corporate bankruptcies defaulting on \$1.5 Billion in debt

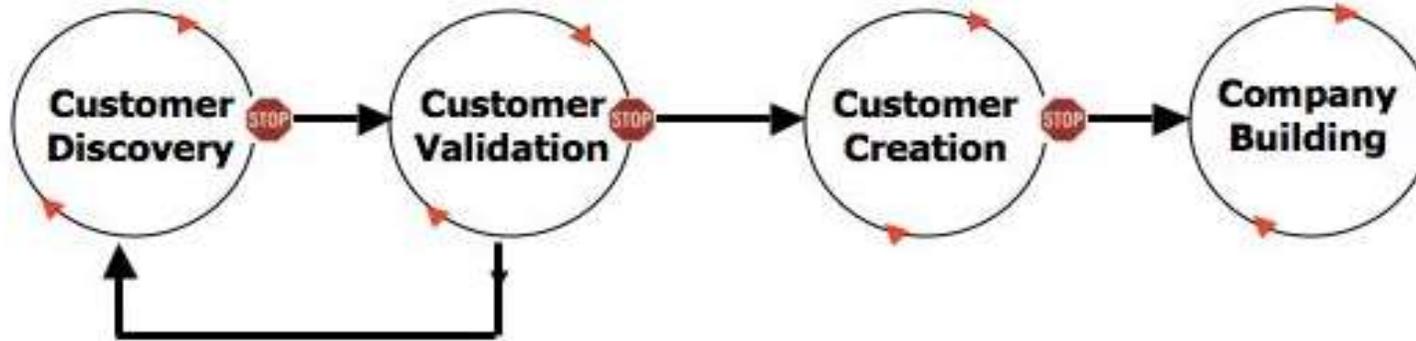
Iridium

- Customer Validation Failure – At the time of bankruptcy – 10,000 customers
- Forecast, within one year Iridium would have 500,000 customers
- Revenue Model validation failure – Handset cost \$3,000 plus \$5 per minute
- Minimum Viable Product – handset required line-of-sight between the phone and the orbiting satellite – did not work in moving cars, inside buildings, and urban areas.
- Cellular phone service infrastructure was taking hold in most developed countries.

4 Steps of Customer Development

Search

Execute



Step 1. Customer Discovery

- The process assumes that early ventures have untested hypotheses about their business model (who are the customers, what features they want, what channel to use, revenue strategy/pricing tactics, how to get/keep/grow customers, strategic activities needed to deliver the product, internal resources needed, partners needed and costs).

Minimum Viable Product

- The MVP allows entrepreneurs to gather feedback from early adopters to prevent pitfalls and avoid building unwanted products
- The MVP lets customers point out missing features and necessary changes
- The MVP allows startups to “iterate” (make insubstantial changes) or “pivot” (make substantial changes) and retest.



Customer Validation, Creation, and Building

- **Customer validation** tests whether the resulting business model is repeatable and scalable. If not, founders should return to customer discovery.
- **Customer creation** is the start of execution. It builds end-user demand and drives it into the sales channel to scale the business.
- **Company building** transitions the organization from a startup to a company focused on executing a validated model