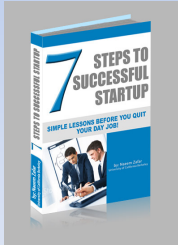


Essential Homework for All Entrepreneurs

Simple Lessons Before You Quit Your Day Job!



Naeem Zafar

Partner, Concordia Ventures

Haas B School at University of California Berkeley

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Personal Background

- Faculty at Univ of Calif Berkeley Haas business school
- Founder Concordia Ventures – advisory to entrepreneurs
- CEO of three companies (semiconductor & software)
- Worked in engineering, research, marketing & sales
- Experience at one large multinational & 6 startups
- One IPO (Initial Public Offering)
- Four acquisitions, One merger, two “wind-down”, One “restart”
- Raised over \$70M in multiple ways (VC, asset sale, debt, angel)
- Extensive experience in working with people from all cultures
- Traveled to 73 countries, lived in 3
- Brown University engineering 1981, Univ of Minnesota; Gold Medalist from Lahore
- Charter member of OPEN & TiE Silicon Valley
- Advised or mentors over 200 entrepreneurs

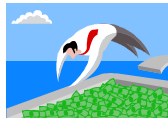
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Entrepreneurship

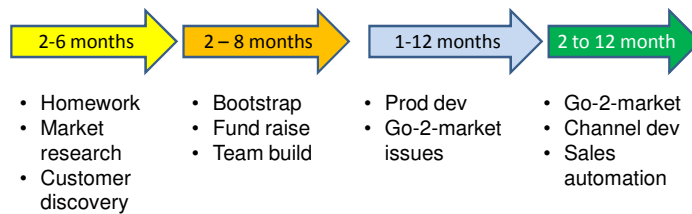
- Pursuit of business opportunity with the resources that you currently do not control



7-Step Process: Starting Your Business

1. Are you really an entrepreneur?
2. Market research- identify a big problem
3. Sustainable competitive positioning
4. Customer discovery: who has hair-on-fire?
5. Creating your unique positioning
6. Establish & validate business model
7. Do you have the right team?

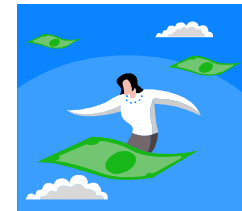
How Long Does it Take?



It takes ~6 months to 3 years to build a company
– are you ready for the hard work ahead?

1: Why Start?

- Profile of an entrepreneur
- Tremendous rewards
 - Sometimes financial
 - Always personal
- You make the rules



Have clarity on why you want
to be an entrepreneur!

Make up of an Entrepreneur

- Resilience, determination, perseverance!
- Must be creative & resourceful
- Strong conviction but very flexible in execution



Commonly Held Beliefs Among Novice Entrepreneurs

- I must keep my idea “secret” as long as possible
- I am working on a prototype and then I will start a company
- Investors are there to screw me

2: Finding an Opportunity

- Is there an unmet need?
 - Most important homework
 - Not just a solution looking for a problem
 - Observe people who claim there is a need



Finding an Opportunity

- Customer discovery
 - Ask many people to establish this
 - But peel the onion 2 or 3 levels
 - Observe people who claim there is a need



Sizing an Opportunity

- How big is market if we can fulfill this need
 - Do bottom-up & top-down analysis
 - Both numbers should jive
- How big a market should there be to start?
- What is wrong with smaller markets?



Size The Opportunity

- Market size = # of people who can buy
 - X price
 - X # of times they will buy per year

Market Research



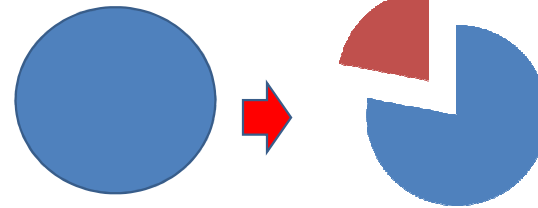
- Who should be interested in my product or service?
- How many such people are there
- Who needs me more than others
- How many can to reach easily
- Surveys, talk to people, group sessions

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Target Market



- Identify your target market

- Find a sliver who needs you more!

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3: Customer Discovery Process

- You must understand & be clear on who is your customer
 - Age
 - Gender
 - Title
 - Income level
 - Buying habits
 - Decision making process
- **ALL this before you have a product!**



Customer Discovery

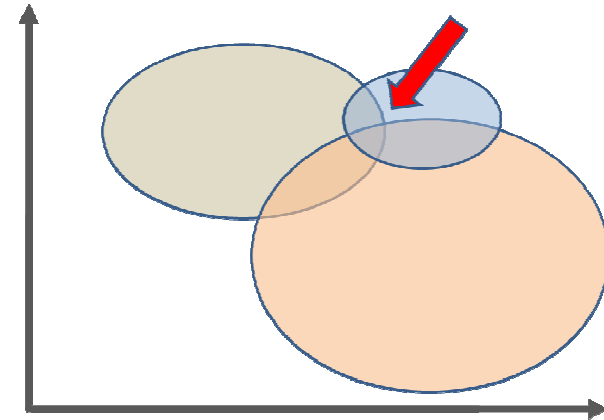
- Persona of your customer
- Interviews
- Online surveys
- Pitch your idea and:
 - Understand their alternatives
 - Price points
 - Feedback must be heard and noted
 - Ask open ended questions and not leading questions
- Carry a note book at all times



Customer Discovery

- Create a “product brochure”
 - See what people’s reaction is
 - Google Adwords to gauge customer interest
 - “write a press release”
- You should have an extremely good idea why your customers would buy your product before you even start the company
 - Not like my first startup

Market Segmentation



4:Creating Differentiated Positioning

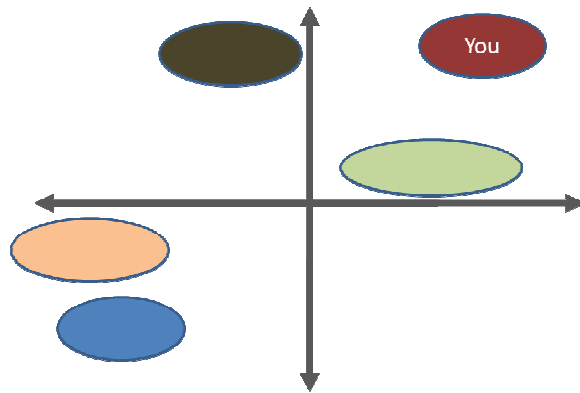
- Positioning = *“what do you do?”*
- Who else is doing anything close to what you are trying to do and...
- How do you appear different to customers that they do?



Positioning

- Positioning statement must be simple & self explanatory
- Make it specific
 - Bad: *“increase website security”*
 - Good: *“cuts fraud in online transactions for commercial banks”*
- Core: must connect with core competency

How Will You Appear Different to Your Customers



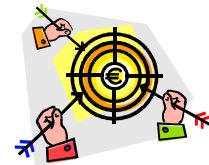
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5: Define Business Model

- How do you make money?
 - who pays you
 - what channels
 - what gross margins

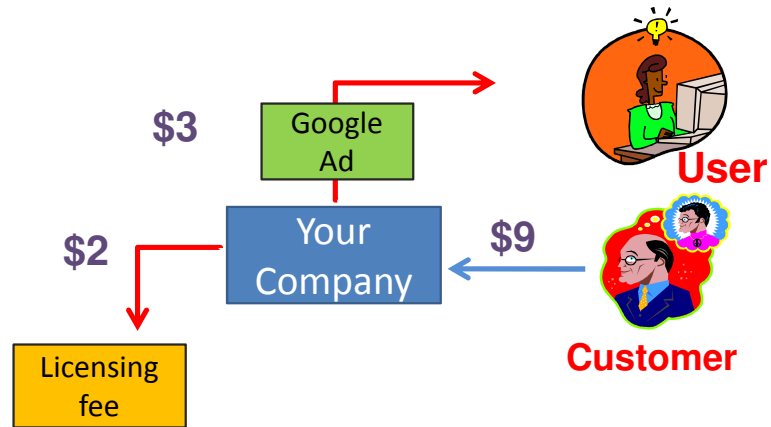


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Business Model Drives Clarity



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Unit Economics

- What is my customer acquisition cost
- What is my revenue per customer
- What KPIs will I track

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6: Why us: The Team

- Are you uniquely qualified to do this?
- What is a good team?
 - The only common thread among successful teams: deep mutual respect
 - People who share your vision
 - People whom you have worked with
 - Complementary skills
- *Four goal-keepers do not make a good team!*



7: Why Now

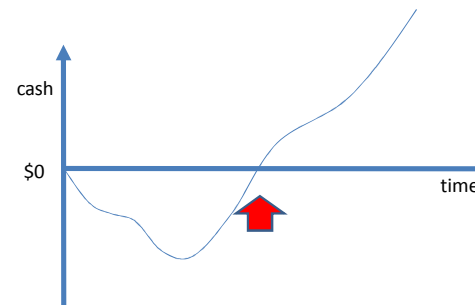
- This question will be on investors mind
- What has changed:
 - New regulation?
 - New technology or platform?
 - New pricing opening new doors?
 - Demographics?
 - Some invention?



Raising Capital

Capital Needs

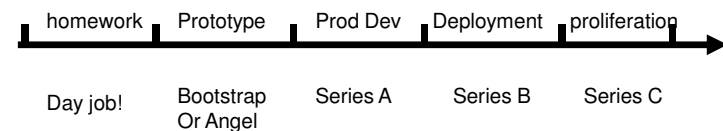
- You must be able to draw this picture



Raising Capital is Hard!

- Sources:
 - Friends, family and fools
 - Angels
 - Venture capitalists
 - Strategic investors

Typical Phases in Fund Raising



- A typical startup goes through these phases
- Each funding has some common expectations

Raising Capital is Hard!

- Sources:
 - Friends, family and fools
 - Angels
 - Venture capitalists
 - Strategic investors

How to Reach Investors

- Get an intro
 - Other investors
 - Accountants and lawyers
 - Other entrepreneurs
 - Professors
- Use websites to find connections & current investments



What Investors Look For

- Traction is most important
 - Sales, customers, revenues
- Hierarchy of traction
 - Sales
 - Field testing or pilot sites
 - Agreements for beta testing, pilots, field trials
 - Establishing a contract for pilot, field testing
 - Potential customer testimonials



VC Criteria

- How to reduce VC risk
 - Market risk
 - Execution risk
 - Technology risk

Demystifying Venture Capitalism

- People with financial & operating experience that invest other people money in high risk, high reward ideas
- Money collected from “Limited Partners”
- Managed over a 5 to 7 years period by “General Partners” by investing in companies
- Profits returned to LP as companies exit (merger, IPO)

Role of Venture Capitalists

- Nurture fragile companies
- Provide guidance
- Open doors
- Help with recruiting
- Profile of VC
 - Ex-CEO, investment bankers, MBAs
 - Managing partners, General partners, principals, associates

Stories Already Heard by VCs

- Our projections are conservative
- Gartner (Forrester etc.) say that our market will be \$50B in 5 years
- Boeing is signing our contract next week
- Key employees will sign us as soon as we get funded
- Several investors are already in due-diligence
- P&G is too big, dumb, old or slow to react to us
- Patents make our business defensible
- All we have to do is get 1% of market share
- We have first moved advantage
- We have a world class proven team

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Angel Funding

- Don't underestimate them
 - May be not all about financial returns but still no suckers – approach them like VC
- Understand their motivations
 - Most want to pay back society, then make money
 - Or help younger entrepreneurs get a start
 - Enable them to live vicariously thru you
- Make your story comprehensible to their spouse
- Be a nice person

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New Terminology

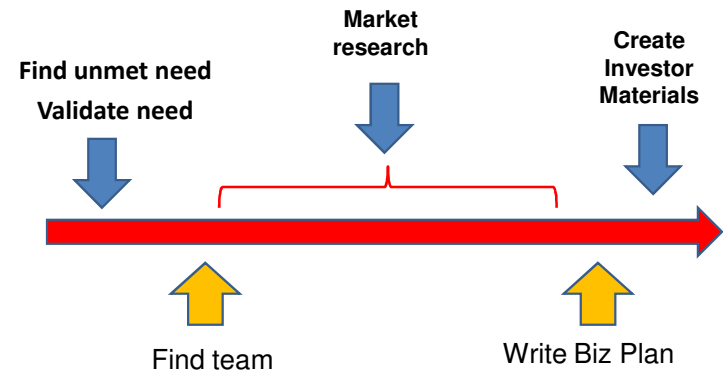
- Cap table
- Vesting
- Employment contracts
- IP (intellectual property)
- Common vs. preferred shares
- Board of Directors
- Controlling interest

Business Plan

Biz Plan

- Who should write it?
 - Consultant?
 - Founders?
 - Software template?

Steps for Starting Up



Purpose of Business Plan

- “In battle, the plans are useless But the planning was indispensable”

» General Dwight D. Eisenhower



Why Write a Business Plan

- To organize, debate & validate reasons to start a business
- To **convince yourself**, and others, why this business will make money
 - (hence worth an investment)

What Will Investors Require?

- Not a business plan
 - Perhaps later in the process a junior associate will ask for it!
- **Executive Summary**
- **10-15 slide presentation**

Newsflash!

- You cannot write an executive summary until you have **thought through** the business plan
 - You might as well write it!

Anatomy of Business Plan (I)

Section	# of pages
Executive summary	2-3
The unmet need	2-3
Market size	1-2
Competitive landscape	1-2
Your idea (with magic sauce!)	2-5
Positioning	1-4
Business model	1-3

Anatomy of Business Plan (II)

Section	# of pages
Your Team	2-4
Go-2-Market Strategy	3-6
Key financial assumptions & KPI	1-2
Financial projections	2-3
Use of funds	1-2
Status timeline and traction	1-4
Supporting data, research, resume, proxies	5-15

Total number of pages → 23 to 58

How to Approach Biz Plan Creation

- Starting a business is a lot of work
 - Even more if you have to do it while holding down a job!
- **Get a team!**

Team Issues

Where to Find a Team

- Where **not** to find a team?
- Who is on a team?
 - Not just your founders!



Team

- Co-founders
- Advisory board members
- Strategic consultants
- Professionals
 - (Law firm, accounting firms, Professors)



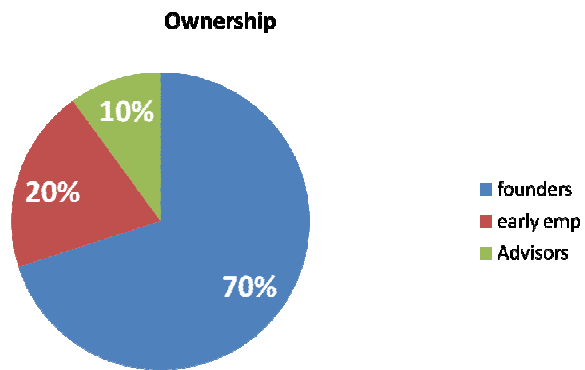
Co-Founder vs. Early Employees

- Difference is in:
 - Mind set
 - Expected contribution
 - “halo factor”
 - Shared vision

Co-founder vs. Employees

- Owner mindset
 - Thought leader, do what it takes, risks & rewards
- Employee mindset is of entitlement
 - Salary, vacation, job description

Team Equity Divide



Ideal Advisory Board

- Market Guru – Domain expert
- Technical guru
- Personal coach
- The connector
- The celebrity

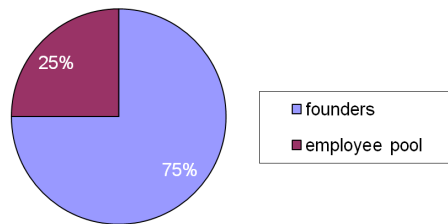
Strategic Advisors & Experts

- Financial models
- Market research
- IP experts
- Licensing
- Off shore
- Manufacturing

Example

- 3 people start a company
 - 10M shares issued
 - Each founder has 25%, reserve 25% for employees
 - Price \$0.01 (resulting in company valuation of \$100K)

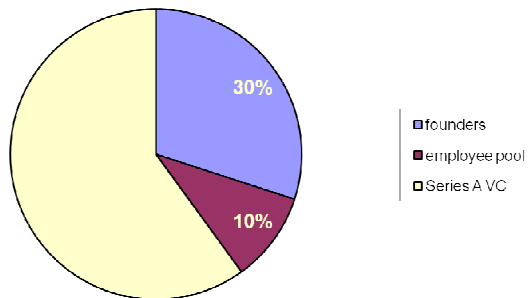
Equity Ownership



Example

- 1st round investment (product development)
 - **Pre-money** valuation ~ \$2M
 - Per share price = \$2M/10M shares = \$0.20
 - Investors put in \$3M (buy shares at \$0.20) → 15 M new shares will be issued
 - **Post money** is \$5M (investors own 60%)
 - Total number of shares = 25M

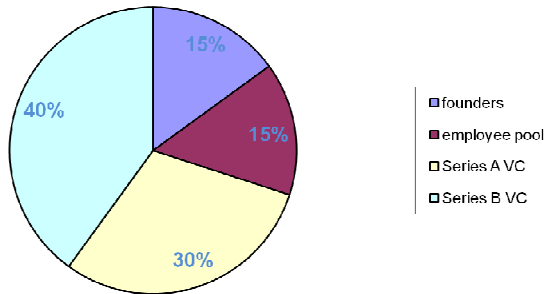
Equity Ownership



Example

- 2nd round investment (Series B)
- Series B =Product deployment
 - Pre-money valuation ~ \$10M
 - New share price = $\$10\text{M}/25\text{M shares} = \0.40
 - Investors put in \$8M (buy shares at \$0.40)
 - New 20M shares issued
 - Total 45M shares
 - Post money is \$18M– everyone get diluted
 - But gets smaller share of a bigger pie
 - Added 5M to ESOP (Employee pool)
 - Total shares = 50M

Equity Ownership

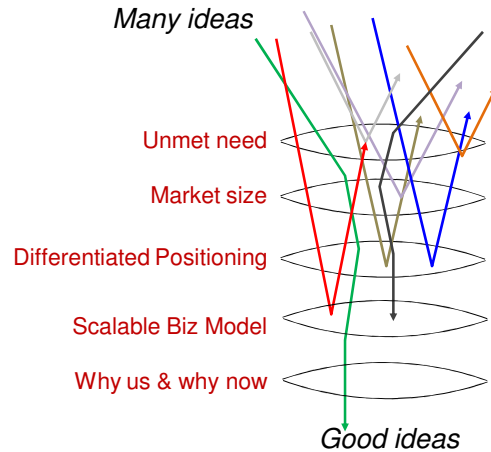


Founders' Wealth

	shares	Price	ownership	value
Founding	7,500,000	\$ 0.01	75%	\$ 75,000
Series A	7,500,000	\$ 0.20	30%	\$ 1,500,000
Series B	7,500,000	\$ 0.40	15%	\$ 3,000,000
Series C	7,500,000	\$ 1.00	12%	\$ 7,500,000
at IPO	1,500,000	\$ 7.70	10%	\$ 11,550,000

Summary: Essential Homework

1. Self analysis
2. Essential homework
3. Get organized (timeline)



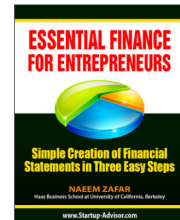
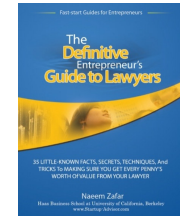
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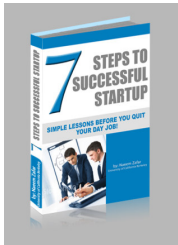
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Epilogue

*it is my mission to encourage
entrepreneurship everywhere in the world and
create a network of mentors that can help
entrepreneurs make their dreams come alive*



Join me & join the Network

naeem@ConcordiaVentures.com

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