Introduction to Entrepreneurship

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If you like to read more ...

- **The Power of Product Platforms** (Free Press, 1997)

If you would like to talk ...

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What is an Entrepreneur?
What do people start Companies?

• To make money?
• To get away from their old boss?
• To do what their parents did?
• To be creative? To play with technology?
• To be independent, to control one’s own destiny?

In 2000,
47% of Americans want to own their own businesses
61% of these were under 30
Two Types of Startups ….

The Micro-business

- small, and stays small; less than 25 people, $500k annual revenue
- most often a service business
- In the US, 90% of all new jobs are created by firms with fewer than 100 employees
- independently owned and operated
- started with personal or family money
- often seek to pass the business on to children
- use banks rather than venture firms for financing
- rarely dominant in an industry, but can be strong local players.
Two Types of Startups ….

The Venture

- starts small, but grows fast; from $1 million to $100 million
- often technology intensive products and services
- also includes new retail and food chains concepts
- experience in an industry or advanced training in a technology
- Young engineers and experienced people leaving big companies
- Teams of 3 or 4 people with complementary skills
- Often venture backed.
- Try to dominate a national and even global niche.
- Goal to grow fast and create value by going public or getting bought.
Entrepreneurship is a Northeastern Tradition

Ventures

• EMC
• Analog Devices, Teradyne, LTX, Cognex
• Lycos
• Staples, Star Market
• Braintree Labs

And their Financial Backers

• Northbridge Venture Partners
• Zero Stage Capital
• Reed Elesevier Ventures
Five Keys to Success

• Know your customer
• Know your team
• Know how you make money
• Know the architecture of your products & services
• Know where you get the money you need
**Keys to Success for the Venture …. #1**

**FOCUS on a NICHE in a ROBUST, GROWING MARKET**

- Market segmentation & YOUR OWN FOCUS or NICHE
- Customer needs analysis & YOUR OWN STRONG INSIGHTS
- Competitor research & YOUR OWN CLEAR COMPETENCE

You must differentiate.
Very few successful, profitable ventures win through same product, lower price.
Keys to Success for the Venture … #2

Build a DIVERSE, CAPABLE, EXPERIENCED TEAM

- Industry experience
- Track record and ability to work together
- Know what they don't know, and therefore who to hire
- Strong board of external directors or advisors
- Founders’ disease. Be aware of it!

What are you good at doing? Who else do you need?
Keys to Success for the Venture … #3

A Clear Business Model that Generates Cash.

What is a business model?

• Sell something that people are used to paying for.
• Don’t give away business to get the sale. Pay attention to the various margins in the business
• 25% of a niche within a robust market, leading to $50m in 5 yrs
• Path to profitability shown in financial statements

A lot of “smart” people lost a lot of money this past year: the Path to Profitability is the #1 concern. Make it 2 or 3 years, not five or seven!
Keys to Success for the Venture … #4

Innovate & Build a Product Line, rather than a Product

Yes, Platforms:

- a chain of stores
- a family of software, with lots of plug-ins
- a range of professional services

Whole Product

- If you need services to go along with the product, forget about investors who only think about multiples on product companies versus services companies, or R&D managers who hate service. Go ahead and build and sell your services!
Keys to Success for the Venture … #5

MONEY for STARTUP AND GROWTH

• ROI: For every $1, investors want $2 in 2 yrs, $3 in 3 yrs, etc. Translates into a 35-40% ROI. Most often, through acquisition as a multiple of sales. No one wants to buy a “dog” anymore. Must have profits.

• SEED STAGE: Raise enough to launch the first product and build initial sales. STILL PRIMARY FAMILY, FRIENDS, ANGELS

• MENTOR CAPITAL: Always look for more than money …

• LATER STAGES: Far better if early round investors can and will be next round investors. Look at twenty to finally get one to say “Yes”.

• IN IT FOR THE MONEY: Professional investors require an “exit.” Plan and work towards an exit if you take professionals’ money.

The Power of Equity!

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