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
Types of Companies

- High Tech versus Low Tech
- Product companies versus Services companies
- Business customers versus Consumers as customers
- High Growth versus “Mom & Pop”
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: An NU Tradition

Leading NU Ventures

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

And their Financial Backers

• Northbridge Venture Partners
• Zero Stage Capital
• Reed Elsevier Ventures
Five Keys to Success
Working Smart

• Know your customer

• Know your team

• Know how you make money

• Know your product or services.

• Know how much money you need and where to get it.
Keys to Success for the Venture …. #1

FOCUS on a NICHE in a ROBUST, GROWING MARKET

• Market segmentation & YOUR OWN FOCUS or NICHE
  Example to follow …

• Customer needs analysis & YOUR OWN STRONG INSIGHTS
  FOCUS ON LATENT NEEDS!
  Example to follow …

• Competitor research & YOUR OWN CLEAR COMPETENCE

  You must differentiate.
  Few ventures win through just the same product, lower price.
Honda
Persistant Innovation with Rapid Fire Execution

The Element
Endless Summer Concept Translated into a Fun, Practical SUV
Latent Needs
Elegance: Power, Simplicity, Cost
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?  (Show a P&L and describe key elements)

• Sell something that people are used to paying for.
• Don’t give away business to get the sale. Pay attention to operating margins.
• For Venture Funding companies, 25% of a niche within a robust market, leading to $50m in 5 yrs
  Clear path to profitability in 2 to 3 years

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!
# A Bottled Drink P&L

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Total Sales</th>
<th>Cost of Goods</th>
<th>Gross profit</th>
<th>Operative profit / loss</th>
<th>Corporate tax</th>
<th>Profit after tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>65,000</td>
<td>$975,000</td>
<td>$650,000</td>
<td>$325,000</td>
<td>-$262,000</td>
<td>$0</td>
<td>-$262,000</td>
</tr>
<tr>
<td>2</td>
<td>213,000</td>
<td>$3,195,000</td>
<td>$2,087,400</td>
<td>$1,107,600</td>
<td>$34,200</td>
<td>$0</td>
<td>$34,200</td>
</tr>
<tr>
<td>3</td>
<td>377,000</td>
<td>$6,032,000</td>
<td>$3,581,500</td>
<td>$2,450,500</td>
<td>$771,900</td>
<td>$154,380</td>
<td>$617,520</td>
</tr>
<tr>
<td>4</td>
<td>640,000</td>
<td>$10,240,000</td>
<td>$5,952,000</td>
<td>$4,288,000</td>
<td>$1,764,000</td>
<td>$352,800</td>
<td>$1,411,200</td>
</tr>
<tr>
<td>5</td>
<td>1,250,000</td>
<td>$20,000,000</td>
<td>$11,375,000</td>
<td>$8,625,000</td>
<td>$4,250,000</td>
<td>$850,000</td>
<td>$3,400,000</td>
</tr>
</tbody>
</table>

*Profit margin:* 33%, 35%, 41%, 42%, 43%
## A Software P&L

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products</td>
<td>710,000</td>
<td>1,657,500</td>
<td>9,475,000</td>
<td>20,600,000</td>
<td>26,780,000</td>
</tr>
<tr>
<td>Services</td>
<td>60,000</td>
<td>120,000</td>
<td>180,000</td>
<td>200,000</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>Total Sales</strong></td>
<td>770,000</td>
<td>1,777,500</td>
<td>9,655,000</td>
<td>20,800,000</td>
<td>27,080,000</td>
</tr>
<tr>
<td><strong>COST OF GOODS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packaging, Shipping</td>
<td>7,100</td>
<td>16,575</td>
<td>94,750</td>
<td>206,000</td>
<td>267,800</td>
</tr>
<tr>
<td>Net Sales</td>
<td>762,900</td>
<td>1,760,925</td>
<td>9,560,250</td>
<td>20,594,000</td>
<td>26,812,200</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>99.08%</td>
<td>99.07%</td>
<td>99.02%</td>
<td>99.01%</td>
<td>99.01%</td>
</tr>
<tr>
<td><strong>EXPENSES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>705,000</td>
<td>975,200</td>
<td>1,337,084</td>
<td>1,738,883</td>
<td>2,228,272</td>
</tr>
<tr>
<td>Marketing</td>
<td>175,000</td>
<td>207,500</td>
<td>247,000</td>
<td>295,138</td>
<td>353,948</td>
</tr>
<tr>
<td>Offices</td>
<td>473,900</td>
<td>606,363</td>
<td>766,981</td>
<td>922,341</td>
<td>1,154,393</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>1,353,900</td>
<td>1,789,063</td>
<td>2,351,065</td>
<td>2,956,362</td>
<td>3,736,613</td>
</tr>
<tr>
<td>Monthly burn rate</td>
<td>112,825</td>
<td>149,089</td>
<td>195,922</td>
<td>246,363</td>
<td>311,384</td>
</tr>
<tr>
<td><strong>PROFIT BEFORE TAX</strong></td>
<td>(591,000)</td>
<td>(28,138)</td>
<td>7,209,185</td>
<td>17,637,638</td>
<td>23,075,587</td>
</tr>
<tr>
<td>Profit Margin %</td>
<td>-77%</td>
<td>-2%</td>
<td>75%</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td><strong>INCOME TAXES (35%)</strong></td>
<td>(206,850)</td>
<td>(9,848)</td>
<td>2,523,215</td>
<td>6,173,173</td>
<td>8,076,456</td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td>(384,150)</td>
<td>(18,290)</td>
<td>4,685,970</td>
<td>11,464,465</td>
<td>14,999,132</td>
</tr>
</tbody>
</table>
**Keys to Success for the Venture … #4**

Innovate & Build a Product Line, rather than a Product

**Platforms, Points of Leverage**

- a drink of snack concept, with multiple sku’s
- a chain of stores or restaurants
- a family of software, with lots of plug-ins
- a range of professional services

**Whole Product: For Software Companies**

- If you need services to go along with the product, do it! VCs think about multiples on product companies versus services, but ignore them! Build a good business.
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.

• EXIT: Most often, through acquisition as a multiple of sales.

• SEED STAGE: Raise enough to launch the first product and build initial sales. STILL MOSTLY 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.
## Rounds of Financing & Exit
(Example of a Software Company)

<table>
<thead>
<tr>
<th></th>
<th>Series A</th>
<th>Series B (5x sales)</th>
<th>Acquisition</th>
<th>IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation</td>
<td>5,000,000</td>
<td>20,000,000</td>
<td>50,000,000</td>
<td>200,000,000</td>
</tr>
<tr>
<td>Sales</td>
<td>0</td>
<td>4,000,000</td>
<td>10,000,000</td>
<td>40,000,000</td>
</tr>
<tr>
<td>Profits</td>
<td>0</td>
<td>-500,000</td>
<td>2,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Founders</td>
<td>50% 2,500,000</td>
<td>38% 7,500,000</td>
<td>38% 18,750,000</td>
<td>28% 56,250,000</td>
</tr>
<tr>
<td>Employees</td>
<td>10% 500,000</td>
<td>8% 1,500,000</td>
<td>8% 3,750,000</td>
<td>6% 11,250,000</td>
</tr>
<tr>
<td>Board Members</td>
<td>5% 250,000</td>
<td>4% 750,000</td>
<td>4% 1,875,000</td>
<td>3% 5,625,000</td>
</tr>
<tr>
<td>Investment Group 1</td>
<td>35% 1,750,000</td>
<td>26% 5,250,000</td>
<td>26% 13,125,000</td>
<td>20% 39,375,000</td>
</tr>
<tr>
<td>Investment Group 2</td>
<td></td>
<td>25% 5,000,000</td>
<td>25% 12,500,000</td>
<td>19% 37,500,000</td>
</tr>
<tr>
<td>Investment Group 3</td>
<td></td>
<td></td>
<td></td>
<td>25% 50,000,000</td>
</tr>
</tbody>
</table>
Legal Type of Corporation Affects Financing, Liability, and Bookkeeping

- Corporations versus Sole Proprietorships versus Partnerships
- Subchapter S Corporations ("C Corp" variation)
- Limited Liability Corporations (Partnership variation)
- Franchises
Let’s Hear Your Ideas!

- Market
- Solution
- Team