The Anatomy of Silicon Valley UpStarts

From the eyes of a silicon valley entrepreneur
https://www.youtube.com/watch?v=XKocnAS345U
https://www.youtube.com/watch?v=T6MhAwQ64c0
Entrepreneurship
Entry to Exit (e2e)– Journey of the intrepid entrepreneur

Safwan Shah
Seminar for TIM 101

Baskin School of Engineering
April 9, 2015
If you do something and it turns out pretty good, then you should go do something else wonderful, not dwell on it for too long. Just figure out what’s next - *Steve Jobs*
Safwan Shah –

• Launched business with $36,000 in credit card debt [1999]
• Made the deals, alliances and mutations to survive …
• As an exec in a large company ran a >$200M P&L
• Laid off 5, 25, 100, 200, … that is all I remember …

Won, lost, won, learned.
At it again … Here to share.
1. The innovation system at Silicon Valley (using the Silicon Valley startup mindset)

2. Frameworks for analysis and learning to see beyond your own nose –
Dissecting the title

• Anatomy means basic framework and vocabulary
  – We will stay at outline level but it will get intense often

• Silicon Valley is self explanatory
  – It is the crucible, the primordial soup

• Innovation(s)
  – Products born in the crucible

• Entrepreneur, Intrapreneur
  – The captain of the ship.
Abstract

Silicon Valley is the source of practically all major technological innovations and trends that have been commercialized in the last 5 decades. Be it semiconductors, computers, software, networking, Internet, mobile phones, cloud computing ... the list goes on - a silicon valley connection is not too difficult to find. What is it that makes the valley invent, re-invent and relentlessly monetize? Why is it that most ideas become commercial realities here before being globalized? Most agree that the secret sauce is somewhere in the startup environment, culture, tradition and process.

In this unique presentation the speaker will deconstruct various aspects of the startup factory – from an entrepreneur getting to 'yes', going through frameworks for analyzing business ideas, building teams, writing a sales, marketing and financial plan, understanding the mind of investors, pitching for funding and launching a business. The primary objective is to share knowledge but a deeper interest is to encourage and inspire the creation of new startups by new innovators.
Abstract

Silicon Valley is the source of practically all major technological innovations and trends that have been commercialized in the last 5 decades. Be it semiconductors, computers, software, networking, Internet, mobile phones, cloud computing ... the list goes on - a silicon valley connection is not too difficult to find. What is it that makes the valley invent, re-invent and relentlessly monetize? Why is it that most ideas become commercial realities here before being globalized? Most agree that the secret sauce is somewhere in the startup environment, culture, tradition and process. In this unique presentation the speaker will deconstruct various aspects of the startup factory – from an entrepreneur getting to 'yes', going through frameworks for analyzing business ideas, building teams, writing a sales, marketing and financial plan, understanding the mind of investors, pitching for funding and launching a business. The primary objective is to share knowledge but a deeper interest is to encourage and inspire the creation of new startups by new innovators.
Silicon Valley – *California itus*

- October 1, 1891 – Stanford is founded to produce “useful” and “cultured” graduates.
- Foundation(s)
  - Unique university, geography, innovation and management culture, no traditions and structure, ...
- Entrepreneurial culture from products, to org structure, to compensation, to financing.
- Links to military (1940-1960 ...) – cost plus contracts -
  - HP, Varian, ...
- Agglomeration (everything nearby)
- Professional Venture Capital
  - Draper (1959). Arthur Rock
- Diversity
Entrepreneurship
What is entrepreneurship

The relentless and creative pursuit of opportunities with resources that you do not completely control.
What is a Silicon Valley Startup?
What

- Scalable
- Fundable (investors can get big returns 500x +)
- Technology based (preferably)
- Invents, Redefines or reinvents something
- Exit is possible
It Looks Like ...

This

Has needs like this

Safwan Shah 2014
... and functions like this

One Word – Teamwork

- 1+1 = 3
- Not a zero sum game

- Juggle and Run (Perform)
- Talk and sing (Rap)
- Make music on the fly (Jazz)

Teamwork – doing exactly what you are told as there is only one boss in a startup
A Typology of Company Founders

Founders Purpose

<table>
<thead>
<tr>
<th>Adaptive Capability</th>
<th>Short-term Financial</th>
<th>Long-term Institutional</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td>Short-lived company – (built for exit)</td>
<td>Long-lived company – (built to become)</td>
</tr>
<tr>
<td>LOW</td>
<td>Failed Company</td>
<td>Born-to-be acquired (fail)</td>
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Source - Adapted from Robert Burgelman lectures. GSB Stanford.
Defining Success

Is knowing what you want – ALWAYS
And being Relevant – OFTEN

![Diagram showing the relationship between Influence and Dependence with four quadrants: Indifference (Utopia), Sub-ordination, Dominance, and Interdependence. The diagram is labeled as DEPENDENCE.](image-url)
Why do it? [Is it about Dominance?]

Every success is possible. What you can't do, others could do for you if you could influence them ...

Right?

Is knowing what you want – ALWAYS
And being Relevant – OFTEN

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Triple Package Study

• Superiority complex
• Insecurity,
• impulse control

Is it about inadequacy?
What are the Pillars

- Developing the mindset
  - Getting to ‘Yes’
- Building a founding team
- Identifying and dissecting an opportunity
- Building the narrative and numbers
- Pitching the story
- Understanding the investor mindset
  - Getting funded
- Knowing the variables
  - Strategy
  - Team
  - Culture
  - Innovation
  - Finance
- Am I an innovator/entrepreneur?
- Repeat
Getting to YES

• To start the entrepreneurial journey, “getting to YES” is the first step

• Overcoming your own fear becomes the biggest obstacle to “... yes”- It stems from -
  – Fear of the ‘unknown’
  – Fear of failure, lack of conviction, inability to sell and persuade others, ... etc.
Getting to “Yes”

• Ultimately (this is what it takes)
  – Desperation (perhaps a sense of inadequacy)
  – Inspiration
  – Execution (perspiration, hard work)
Building an entrepreneurial team

The Team
Team

- You
- Co-founders
- Family
- Friends
- Partners
- Angels
- FoF’s
- Hires
- Advisors
- Consultants
- Moonlighters
- VC’s
- ...

Safwan Shah 2013
Methods are different

• Mature company
  – Operations and Execution ability. Hire for function

• VC Funded
  – Objective. Recruit for accelerating results

• Bootstrapped
  – Subjective. Recruit for cash flow

• Pre Funding
  – Emotional. Self reinforcement
It is Both an Art and Science

It is an art and also a science

Before you hire or pitch

• Learn the art of story telling.
• Learn to project a “strawman” and align folks around it.

Safwan Shah 2011
Understand what motivates people?

MALCOLM GLADWELL
1963 -

Books:
Tipping Point
Blink
Outliers

Dan Pink
1964 -

Books:
Drive

- Fair balance between Effort and Reward
- Autonomy
- Complexity
- Mastery
- Autonomy
- Purpose

Safwan Shah 2013
Recognize deep motivators

• 2 year rule. People see a 2 year horizon as a safety net.
  – How do you change the present?
Recognize Body Language

1. What is said 7%
2. Tone used 38%
3. Body Language 55%

Safwan Shah 2011
Resume Dissection – My Lessons

- **Education**
  - Overrated (often)

- **Experience (X Factor)**
  - Focus on where the person started. Measure inventiveness from life experiences, Survival instinct

- **Entropy (Chaos)**
  - Handling of intrinsic and extrinsic chaos

- **Ego (PQ)**
  - Pride Quotient (PQ). It underlies pursuit of excellence

- **EQ, Ecstasy and Eros (Attitude)**
  - Collaboration index / CI is a f(attitude, self-ignition, ...)

- **Embrace**
  - Diversity in ideas, gender, thinking, etc.

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Experience is the name everyone gives to their mistakes – Oscar Wilde

Safwan Shah 2013
Kawasaki on Recruiting

Guy Kawasaki was rejected by GSB and is a law school dropout

Use all your tools:

• Vision
• Team
• BOD, Advisors, Investors
• Resume building potential

Interpret the Lies
Ignore the Irrelevant

Ignore the lack of a perfect/relevant background and presence of it too. What is in between matters.

Safwan Shah 2011
Identifying and Dissecting Opportunities
Key questions to ask and answer

• Is there an unmet need?
• Is the market size big enough to be interesting?
• Is the business model scalable?
• Is it competitively differentiated?
• Why us?
• Why now?
Your Lens – to dissect any business

- Unmet Need
- Target Market
- Market Dynamics and Competition
- Value Prop and Competitive landscape
- Product/Service Mechanics
- Pricing and Unit Economics
- Go to Market Strategy
- Team Structure
Pictures that you must be able to make.

Each picture requires days and weeks of work.
Key pictures: Cash Flow

“How much cash is needed”

Cash

$0

Time

Cash Needed
What is a Business Model

It is how you make money
Business Models

Two Tests

- Narrative
  - That is compelling

- Numbers
  - That make sense ($$)

Components

- Customer Value Proposition
- Technology and Ops Management
- Go-To-Market Plan
- Profit Formula (Unit Economics)

- Peter Drucker -
A good business model answers these two questions:
1. Who is the customer?
2. And what does the customer value?
Summary: The Process of Starting Up

1. Identify Opportunity
2. Research to validate PPP (Proposition/Price/Position)
3. Construct business model
4. How to get to market (Go To Market Strategy)
5. Sales & customer acquisition plans
6. Attract talent and build a team
7. IP and legal issues
8. Raise Funds
9. Financial plan
10. Go to investors
Pitching your story –
Be a Storyteller
Four Truths of the Storyteller

- **Teller**: Be vulnerable. Reveal yourself.
- **Audience**: Understand the needs of listener.
- **Mission**: People want to be part of something big, bigger than themselves.
- **Moment**: Tailor the story to the moment.

Peter Guber
Telling Your Story

• It is not about the Powerpoint
• Medium (You) are the message
• Use props
• Be crisp and clear
  – Brevity, Levity and Repetition
• Explain yourself in first 30 seconds (slide zero)
• Most important word “Why?”
• Say it with conviction
• 10/20/30 – slides/minutes/font
Storytelling moves the world ...  

Look at the persuasive leaders. Each one, a storyteller ...

Someone's sitting in the shade today because someone planted a tree a long time ago.

I think death is the most wonderful invention of life. It purges the system of these old models that are obsolete. (Playboy 1985)

Republicans believe every day is the Fourth of July, but the Democrats believe every day is April 15.

Gravitation is not responsible for people falling in love.

The gem cannot be polished without friction, nor man perfected without trials.

VC quote – it is true that the way an idea is pitched can change valuation 10x
Toolkit (contd.)

- Practice beforehand
- Know the Setup
- Know your audience
- Start with a grabber
- Relax and visualize your success
- Speak with intent
- Pause for thought
- Don’t apologize
- Keep practicing

Ref: Brian Leggett and Conor Neill
Remember

• People think associatively, metaphorically and casually NOT statistically. We must speak metaphorically and cause associations in listener. *(Nassim Taleb, Black Swan and Antifragility)*
Demystifying Investors

Understand how VCs view entrepreneurs & how the process of seeking investment works
Six Stages of Growth (Jargon vs Reality)

Conceive Idea + Biz Model
Build Product
Launch Product + Customer Validation
Build Team + Repeatable & Scalable
Scale Company + Make Profitable

Growth Stage
Bootstrap
Friends & Family
Angels
Seed Stage Incubators
Early Stage
Mid & Late Stage
Strategic

Time
Exits

Private Equity, M&A Process
One man’s buying is another man’s selling -

**Why Sell**
- Need for Strong Sales & Marketing Channels
- Need for Additional Technologies
- Need for Investor Liquidity/Near-Term IPO Unlikely
- Lack of Funding
- Economic Considerations Before Funding Round

**Why Acquire**
- Growth/Expansion
- Time-to-Market
- Integration
- Outsourced R&D
- Leverage Technology/Synergies
- Defensive Reason
Conclusion

• Silicon Valley Innovation system is a function of
  – Agglomeration
    • Strategy, Culture, Finance .... Innovation
      – Strategy – Compass
      – Culture – Thermostat
      – Finance – Oxygen
      – Innovation - Hygiene
  – Diversity
  – Tolerance of failure
Topic 2

1. The innovation system at Silicon Valley (using the Silicon Valley startup mindset)

2. Frameworks for analysis and learning to see beyond your own nose –
What experts say

• Five skills of disruptive innovators:
  – Questioning
  – Observing
  – Networking
  – Experimenting
  – Associational thinking

Innovation

http://www.youtube.com/watch?v=CHmSs7QOSgM
Some tidbits ...

• “We do not innovate around products, but around a flow or well-being experiences...Our department of innovation is made up of almost 300 people here in Brazil...biologists, pharmacists, engineers, sociologists, psychologists.. We launch more than 100 new products a year.” - Victor Fernandes

• "The most important thing we do to encourage innovation is give people the freedom to fail...We really spend a lot of time upfront with our audiences...to really try and draw out from that what it is they would like to play...And if we disappoint their expectation, I think we are a very good learning organization, really digging deep into understanding why it didn't work.” - Robert Kotick, Activision Blizzard
My view

• The rewarded behavior is the culture of a company –
  
  – If innovation is rewarded, innovation will happen.
    • This means a failure or two or three have to be tolerated
    • Here are a few ?? From Apple ....
An Apple failure

And then some more ...
And then some *(many)* more ..
Innovation
Source of innovation

- Trial and error
- Intuition
- Connecting dots
- Failure
- Desperation
- Scarcity of resources
- Visionary leader
- Listening
What disrupts

• Significant customer dissatisfaction with status quo
• New technology or business model that provides significant Economic Vale Add
• Entry of an innovator
• Globalization
• Regulation, political, social change
• Exit of a large player
Impact of disruption

• Mobilizes entrepreneurial excitement
  – Venture funding accelerates
• Paralyzes incumbents serving the segment.
Innovators Dilemma

Clay Christensen – Innovators Dilemma

Value Delivered/Total Cost

Innovator/ New Entrant

Today  T1  T2  Time

Disruptive Trajectory

Current Product Service Evolutionary Trajectory
Business Lifecycle

Mature Business – Power through execution and operational excellence
Driven by operations. Focus on incremental tweaks. Buy to grow.

Growth Business – Business Building
Focuses on increasing market share.
Increase profitability. Invest to accelerate.

Emerging Business – Entrepreneurial
Focuses on new markets, disruptions. Invest to reduce uncertainty.
<table>
<thead>
<tr>
<th>Top 10 reasons TO NOT BE an Entrepreneur</th>
<th>Top 10 reasons TO BE an Entrepreneur</th>
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<tbody>
<tr>
<td>10. Your resume is great</td>
<td>10. Your resume is average</td>
</tr>
<tr>
<td>9. You have a great idea</td>
<td>9. Your friend has great ideas</td>
</tr>
<tr>
<td>8. You have an MBA</td>
<td>8. You can recruit MBA’s</td>
</tr>
<tr>
<td>7. You are afraid to fail</td>
<td>7. You are not afraid to fail</td>
</tr>
<tr>
<td>6. You dislike sales</td>
<td>6. Selling is second nature to you</td>
</tr>
<tr>
<td>5. You bring order to chaos</td>
<td>5. You can exploit chaos</td>
</tr>
<tr>
<td>4. You yearn for logic and sequence</td>
<td>4. You love stories. Love linking ideas to people to stories</td>
</tr>
<tr>
<td>3. You know some things are impossible</td>
<td>3. When you hear impossible you translate it - I’m possible</td>
</tr>
<tr>
<td>2. You can land a VC investor</td>
<td>2. You can land a paying customer</td>
</tr>
</tbody>
</table>

1- You think you can change the world

1 - You are not afraid to adapt as realities change.

Safwan Shah 2012
Have a world view
What is the world like?

Huge opportunity can only be tapped if we think in a global context ... like cultures, languages, ... etc. How to make money in this complex world?
Understand trends
The future is looking like this today.

We must prepare to win in this future and that is how we will change our present ...

A new class of entrepreneurs is needed ...
In the Organization

Become Ambidextrous

Innovate and Execute
The new world

\[ \sqrt{\text{n} \times \$\text{n}} \]

Pivoting

Crowdfunding

Popular Sectors

**HW is dead?** (solar, battery, wind, Semiconductor, comms)

Big Data as Driver!

Security, Bandwidth, Social, Cloud storage

**SaaS, PaaS, IaaS rules**

Mobile, apps, ...

**Age of Robotics**

Industrial, Consumer, Healthcare, Military
For any business
Answer these ...
1. Unmet Need
2. Growing market
3. Competitive differentiation
4. Scalable
5. Why me
6. Why now

Be Ambidextrous
Innovate and Execute

Pivoting

Adapt or perish

Stretch Dollars

1. Strategy is Compass or Roadmap
2. Innovation is Hygiene
3. Culture is Thermostat
4. Finance is Oxygen
Thank You

“ The applause of a single human being is of great consequence. ”
— Samuel Johnson

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Summary

• Founder mindset
  – Short-term or long-term. High or low adaptability

• Success definition
  – Know what you want. Stay relevant. Know what you don’t know

• Team is the cement
  – It is not just you but complementary collaborators with aligned focus

• Strategy is the compass
  – It is NOT what you say. It is what you do. Action with consequence

• Culture is the control system
  – It is the thermostat

• Innovation is the hygiene
  – It is what determines fitness

• Finance is the oxygen
  – It is what keeps you alive (possibly unfit)