The Anatomy of a Silicon Valley Startup

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Abstract

Silicon Valley is the source of practically all major technological innovations and trends that have been commercialized in the last four 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 entrepreneurs.
In addition to being associated with UC Santa Cruz as adjunct faculty, Safwan is a Venture Partner in Adventure Capital, which specializes in early stage venture investing in Australia. Safwan is currently in the process of launching his latest Silicon Valley startup called PayActiv™. In this latest venture, the focus is on alternative payments using a disruptive new technique called BFY – Borrow From Yourself (sm). Until 2010, Safwan was the President of Infonox, a company he founded and led for 9 years before its 2009 acquisition by Total Systems, Inc., (NYSE:TSS). Infonox was a highly successful business in the payments industry with customers including Global Cash Access, GE Consumer Finance, Bank of America, Capital One Bank, Verizon Wireless, Western Union and others. On an annualized basis, Infonox processed over $20 Billion in transaction volume and served over 100 million consumers in the banking, gaming and retail markets. In his past life, Safwan was at BioServe Space Technologies, a NASA Center for commercial development of space and worked on experiments that were part of several space shuttle missions. To date, he considers that his most respectable accomplishment.

Safwan Shah has an MS/PhD from University of Colorado at Boulder and is a graduate of GSB Stanford University through the Stanford Executive Program. Safwan is also a faculty mentor at Haas School of Business at UC Berkeley where he is associated with classes in Entrepreneurship, Innovation and Venture Finance. Safwan has several patents, published papers and assorted awards and commendations.
The Anatomy of a Silicon Valley Startup

From the eyes of a silicon valley entrepreneur
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

• Startup
  – Products born in the crucible

• Entrepreneur
  – The narrator. The captain of the ship.
Deep Thought

It is not the size of the dog in a fight, it’s the size of the fight in the dog.

Mark Twain
Roadmap

- What is Entrepreneurship
- What is a Startup and Startups exposed
- Startup details
- Pictures you must learn to make
- Demystifying investors
- Exits
- Summary guidelines or nuggets
- Building your team
- Finding your version of answers
- Where to look when lost
- Have a world view
- Understand trends
- Test yourself
What is Entrepreneurship?
What is Entrepreneurship?

Two Minutes and Nineteen Seconds

http://www.youtube.com/watch?v=T6MhAwQ64c0

Definition of Entrepreneurship –

The relentless and creative pursuit of opportunities with resources that you may not currently control.
What is an entrepreneur?

- Entrepreneurs solve problems
- Entrepreneurs can say it (communicate)
- Entrepreneurs repeat success
- Entrepreneurs have followers
- Entrepreneurs are realists
- Entrepreneurs influence others
- Entrepreneurs don’t give up easily
- Entrepreneurs often succeed through failures
- Entrepreneurs help teams win
- Entrepreneurs connect dots

As you do more, probability of success increases.

In coin tosses, the probability does not change.

The greatest challenge of entrepreneurs is how to go beyond their current success. How to recompile and reboot at runtime.
What is a Startup?
What is a Silicon Valley Startup

- Scalable
- Fundable (investors can get big returns 5x+)
- Technology based (preferably)
- Invents, Redefines or reinvents something
- Exit is possible
1 in 10 or 16 of VC funded companies become successful.
Startup Details
Startup Life

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

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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
T-1 - Key Questions to Answer

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

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

Each picture requires days and weeks of work.
The key pictures

Target Market

Find a Sliver that needs you
Your Market

Cash
$0

Time

You

You
Business Model

Customer Acquisition

CAC $4.00

User

The Business

$9.00 per user

Profit

Cost of Sales $7.00

To Vendors

User Paying $20/user Revenue

$ In

$ out
Statements

Millions of Cash Flow

Break-even in Year 4

Dynatronics Corp.

AlterG

Head count

15 24 45 70 110
Demystifying Investors

Understand how VCs view entrepreneurs & how the process of seeking investment works
What You Need

• Business Plan
  – 15 to 25 pages

• Exec Summary
  – 1 page

• Financials
  – P&L by month for year 1 and 2
  – By quarter for years 3-4
Financials

• Financial plan (2-5 page WORD + Excel document)
  1. Key financial assumptions
  2. KPI
  3. 5 year P&L statement
  4. Proxies to justify
Funding Process

- Homework: 3-6 months
- Pitch: 2 to 4 months
- Due Diligence: 1 to 3 months
- Term Sheet: 
- Legal: Closing!

Approximate Timeline:
- Homework: 3-6 months
- Pitch: 2 to 4 months
- Due Diligence: 1 to 3 months
Example of a VC Template
Example of Termsheet
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
Exits – M&A

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

One man’s buying is another man’s selling -
Some basic guidelines
What are the Pillars of a Startup

• **Strategy is the roadmap**
  – It is NOT what we say. It is what we do. It is not what we plan. It is what we share.

• **Culture is the control system**
  – It is the thermostat in our hand. It eats strategy for breakfast.

• **Innovation is the hygiene**
  – It is what gives us survival instinct.

• **Finance is the oxygen**
  – It is what keeps us alive.
Strategy

• Is the winners action plan/roadmap
• Is Real when you say YES or NO. Consequential
• What you DO - NOT what you SAY
• What happens on frontlines (not closed rooms)
• Related to Intuition and Vision. Intuition makes you be faster.
• Helps gain and maintain control of your destiny
  – Removes the “If” from Life. The “no” from Innovation.

Is nothing without Execution. Powerless without Culture.

Strategy helps deal with temptation. Strategy can be your compass.
Culture

• Culture can demolish any strategy
• It is the control system
• Culture is the selection environment
  – Culture is what you use to organize for innovation
• Culture is the common language or the silence
• Culture starts from the top
• Culture includes “cult”
• Culture needs diversity to create innovation
Innovation

- Innovation = Entrepreneurship
- Feeds on diversity and crisis
- Depends on execution
- Can be Incremental, Asymmetric, Discontinuous
- Is a team sport

Has a NO in it

Gets you out of trouble
Excites you. Thrills you.
Finance

- Is not accounting
- It builds a business more than create it
- It can bring focus (debt)
- It can cause devastation and distraction
- It can make strategy powerless
- This is what the Market looks at

A cynics view - In business there is only one thing – FINANCE –Rest of it ... Strategy, Culture, Innovation, ... is no more than ROMANCE.
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 minute (slide zero)
- Most important word “Why?”
- Say it with conviction
- 10/20/30 – slides/minutes/font
Understand these terms

• **Gross Margins**
  – GM = (Price – Cost)/Price

• **Customer Acquisition Plan and Cost**
  – This about cost of acquiring customers and unit economics – can money be made?
    • Widget cost = $3 and you plan to sell for $7
    • Google ads per click cost $0.5 and conversion is 10%
    • What is cost to sell 2500 widgets?
      – $12500 goes to Google so it adds $5 to each widget!!

• **Unit Economics**
  – Net Cost + CAC < Net Revenue
    • Net Cost is what is costs including shipping, returns etc.
    • Net Revenue is net of commissions, fees, royalties
Go to Market Strategy

• How will you get your first n customers
  – n for B2B is 3 to 5
  – n for B2C is in 10K plus

• Main decisions
  – Low hanging fruit
  – Alliances
  – Initial pricing
  – Business model
  – What channel
  – Branding
Find your mojo - To be or not to be be

- CEO – do what you say
- Sales – say what you do
- CFO – prove what you do
- Marketing – show what you can do
- CTO – build what you say
- Leaders – make others do what they wouldn’t otherwise
Building a Team
Startup team

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

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Recruitment methods are different

- VC Funded
  - Objective. Recruit for accelerating results
- Bootstrapped
  - Subjective. Recruit for cash flow
- Pre Funding
  - Emotional. Self reinforcement
Art or Science I

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Art or Science II

It is both 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.

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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

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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%

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Resume Dissection – My Lessons

• **Education**
  – Overrated

• **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, ...)

Experience is the name everyone gives to their mistakes – Oscar Wilde
Managers are people who do things right, while leaders are people who do the right thing. - Warren Bennis

Teams tend to go through three main stages - chaotic to formal to skillful.
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.
Go forth –
Find your own answers
Getting to “Yes”

- Ultimately (this is what it takes)
  - Desperation (sense of inadequacy)
  - Inspiration
  - Execution (perspiration, hard work)
When you are lost –
Where to look for answers?
Where to look and learn

Psychology  Philosophy  Technology  Neurobiology  Cardiology  Epidemiology

Here you will find the Netscape, Google, Webvan, IBM, Apple, Exxon, ... of yester years ...

Greeks  Ottomans  Romans  Tudors
Define your version of success
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
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.

A new class of entrepreneurs is needed ... universities create them most efficiently.

We must prepare to win in this future and that is how we will change our present ...
Test yourself
Top 10 reasons to NOT become an Entrepreneur

10. Your resume is great
9. You have a great idea
8. You are an MBA
7. You live to win
6. You look down on sales
5. You bring order to chaos
4. You miss your other half after 9 pm every day.
3. You are smart enough to know some things are impossible
2. You can get an investor

IF any 3 are ✔ Then STOP

1 - You think you can change the world.

Top 10 reasons to become an Entrepreneur

10. Your resume sucks
9. Your friends have great ideas
8. You can hire MBA’s
7. You are not afraid to lose
6. Selling is second nature
5. You exploit chaos
4. You get energized to do more work after 9 pm
3. When you hear impossible you think I’m possible
2. You can get a paying customer

IF any 7 are ✔ Then GO

1 - You believe in yourself, not scared to adapt and change for the world.
Thank You

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

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