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DECISION-MAKING IN

EARLY-STAGE STARTUPS



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Opinions here are not my employers'

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AGENDA

Part 1: Starting up a Company

- Startups tend to fail
- Stages of starting up
- Great filters
- Exit plan

Part 2: Case Studies

- Bad ideas
- Fundraising
- Customer Discovery
- Early Growth
- Maturity

Part 3: In Summary

- Collected Advice
- Should I build a startup?

(This is an abridged lecture, omitting issues specific to SaaS and AI startups.)

STARTING UP A COMPANY

Starting a company is like staring into the abyss and eating glass.

— Elon Musk

STARTUPS TEND TO FAIL

1 year 20%

3 years 39%

5 years 50%

10 years 65%

because

38% Financial Issues

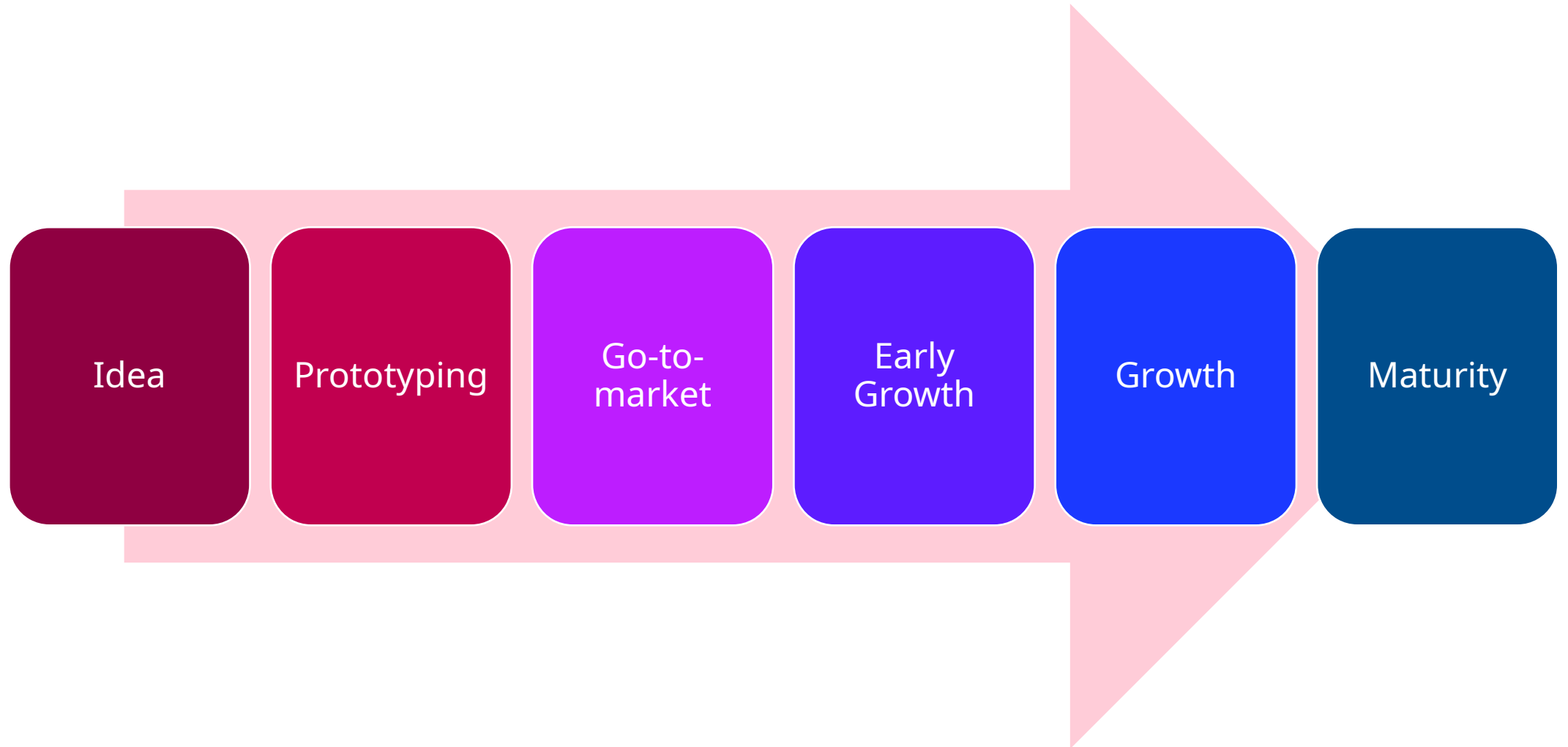
35% Lack of Market Need

20% Competition

19% Business Model

18% Legal Challenges

STAGES OF STARTING UP



STAGES OF STARTING UP

Idea

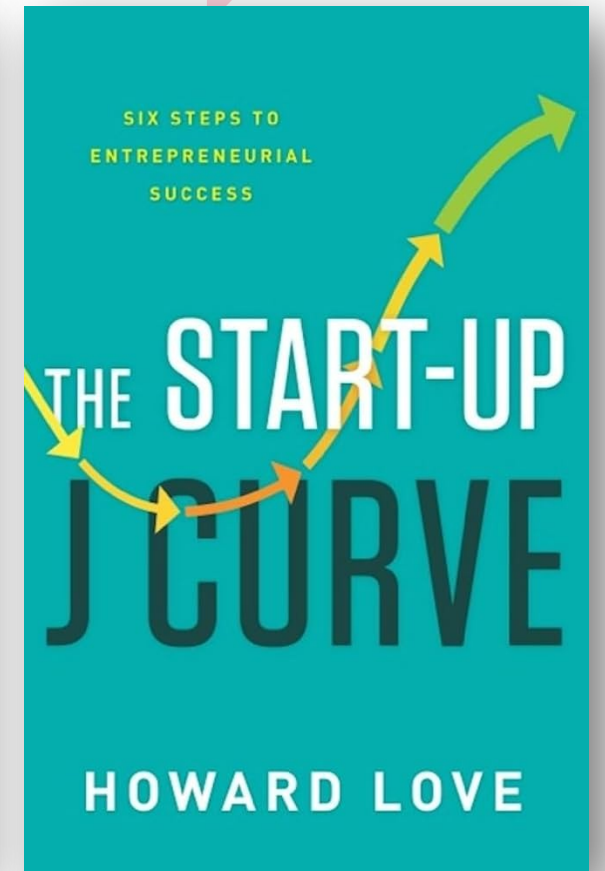
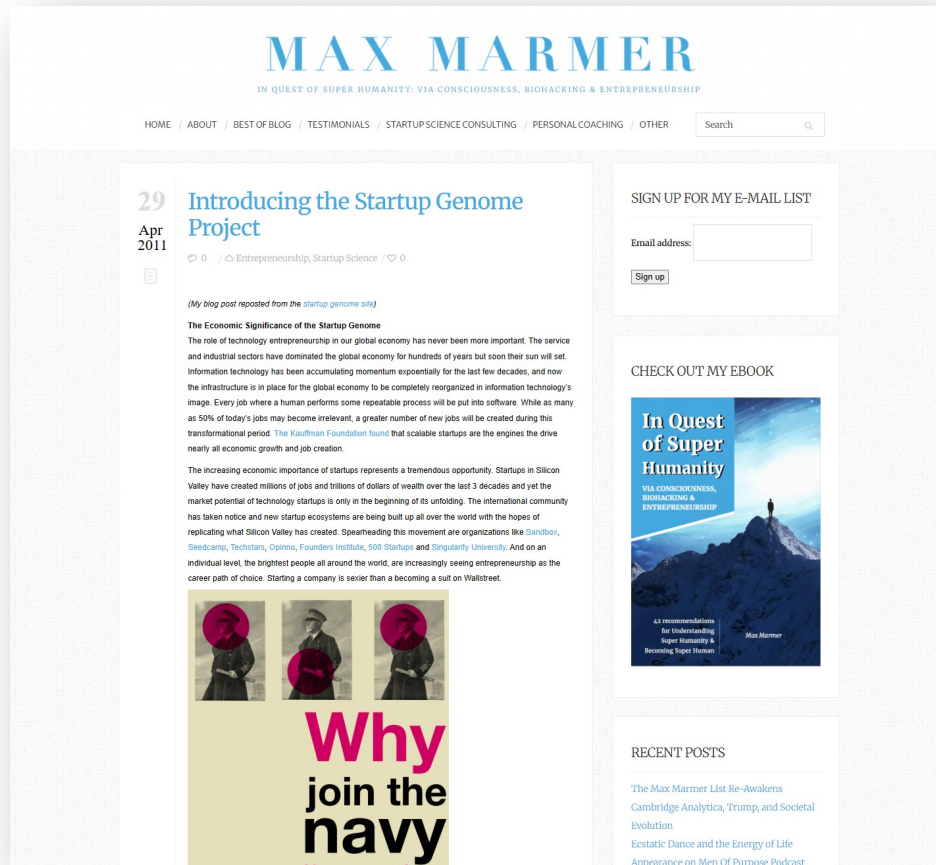
Prototyping

Go-to-market

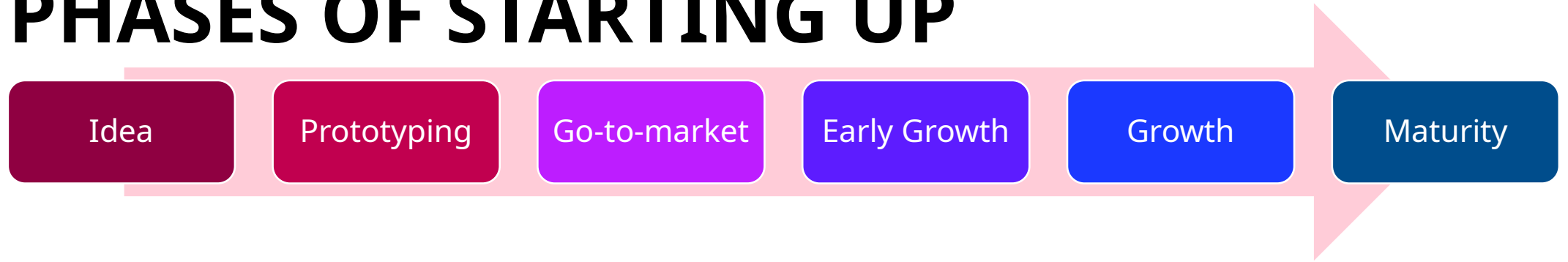
Early Growth

Growth

Maturity



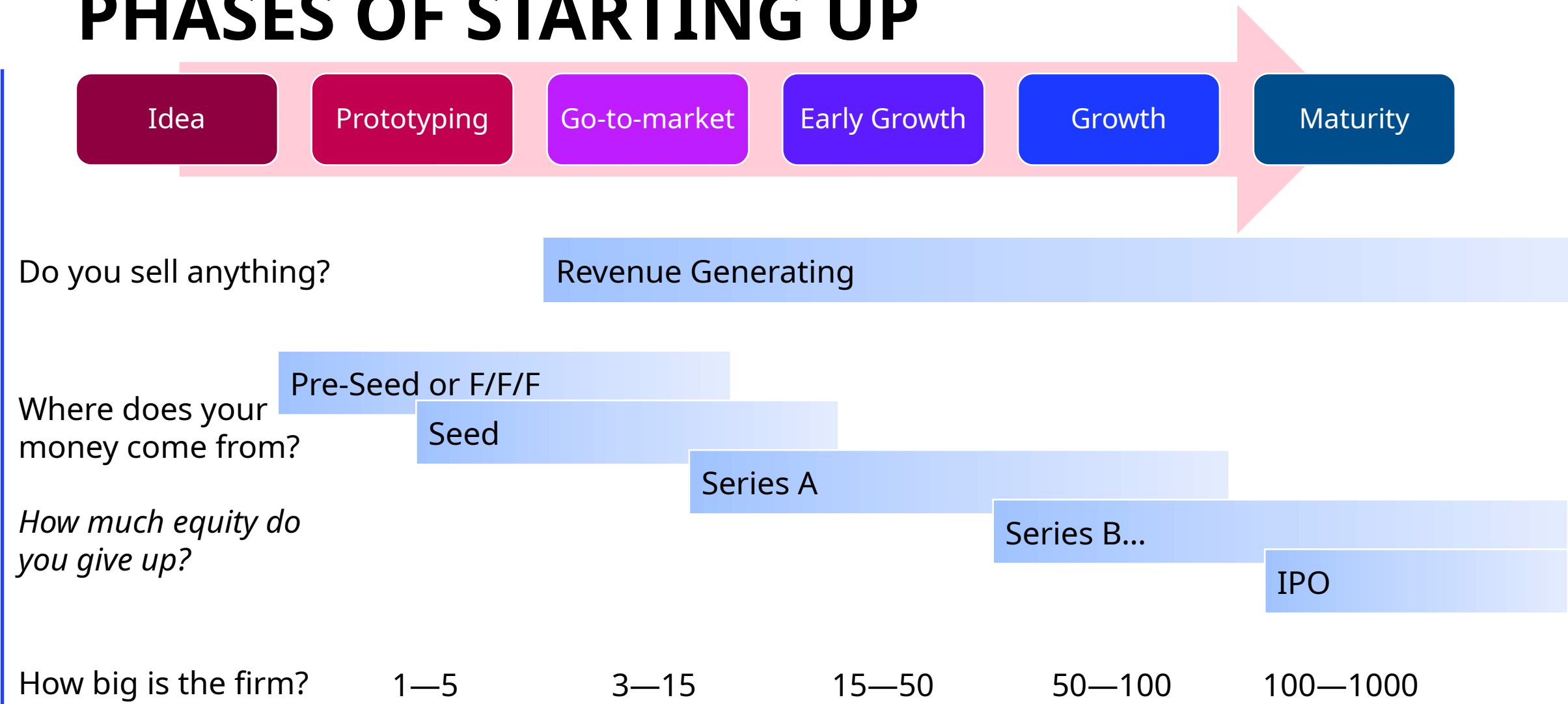
PHASES OF STARTING UP



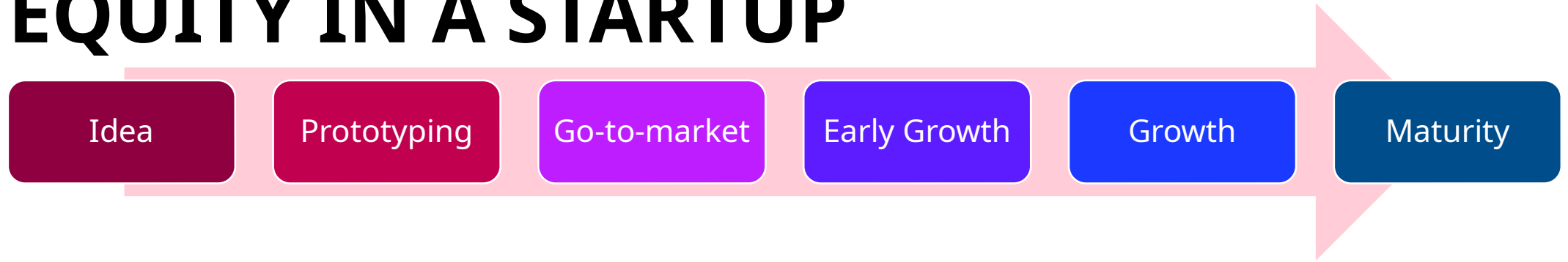
The funding gap is an **existential** threat for all startups.

Manage your *runway*, control your *burn rate*.

PHASES OF STARTING UP



EQUITY IN A STARTUP



Where does your
money come from?

Pre-Seed or F/F/F: 10%

Seed: 20%

Series A: 25%

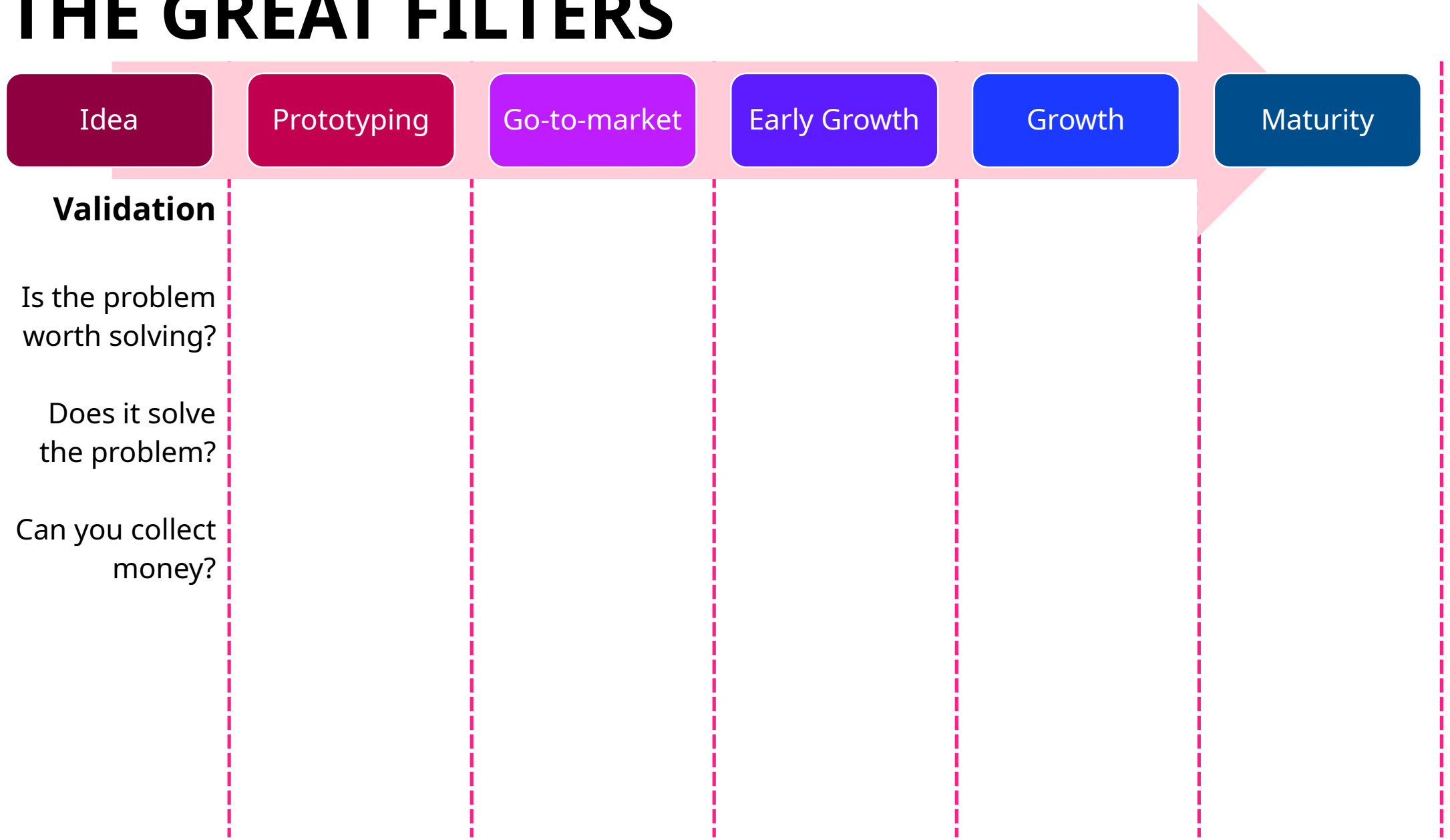
Series B...

IPO

*How much equity do
you give up?*

- You can dilute your share to nothing very easily.
- You can agree to innocuous terms that are very bad later.
- You are usually at an information disadvantage about external issues.

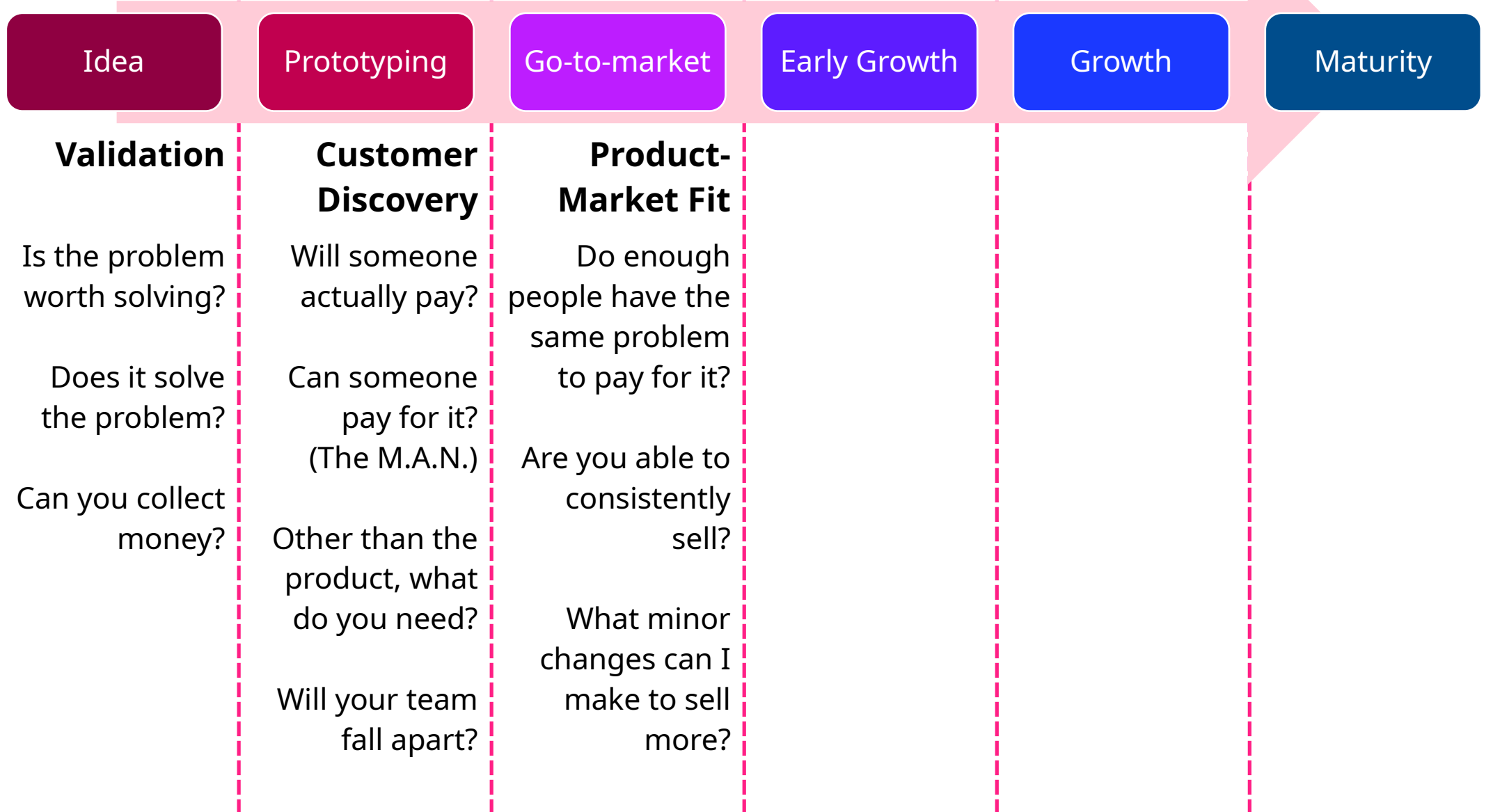
THE GREAT FILTERS



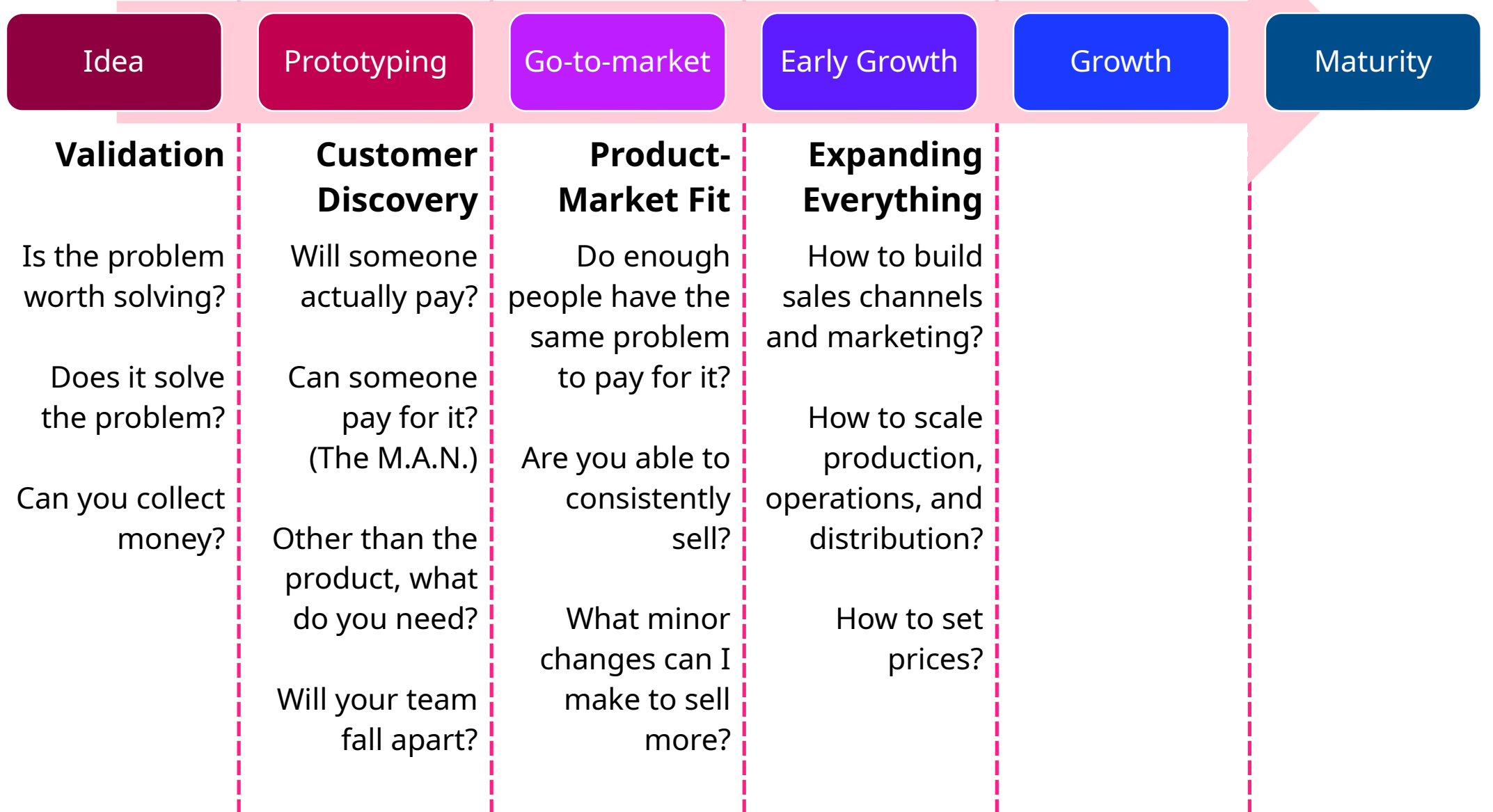
THE GREAT FILTERS



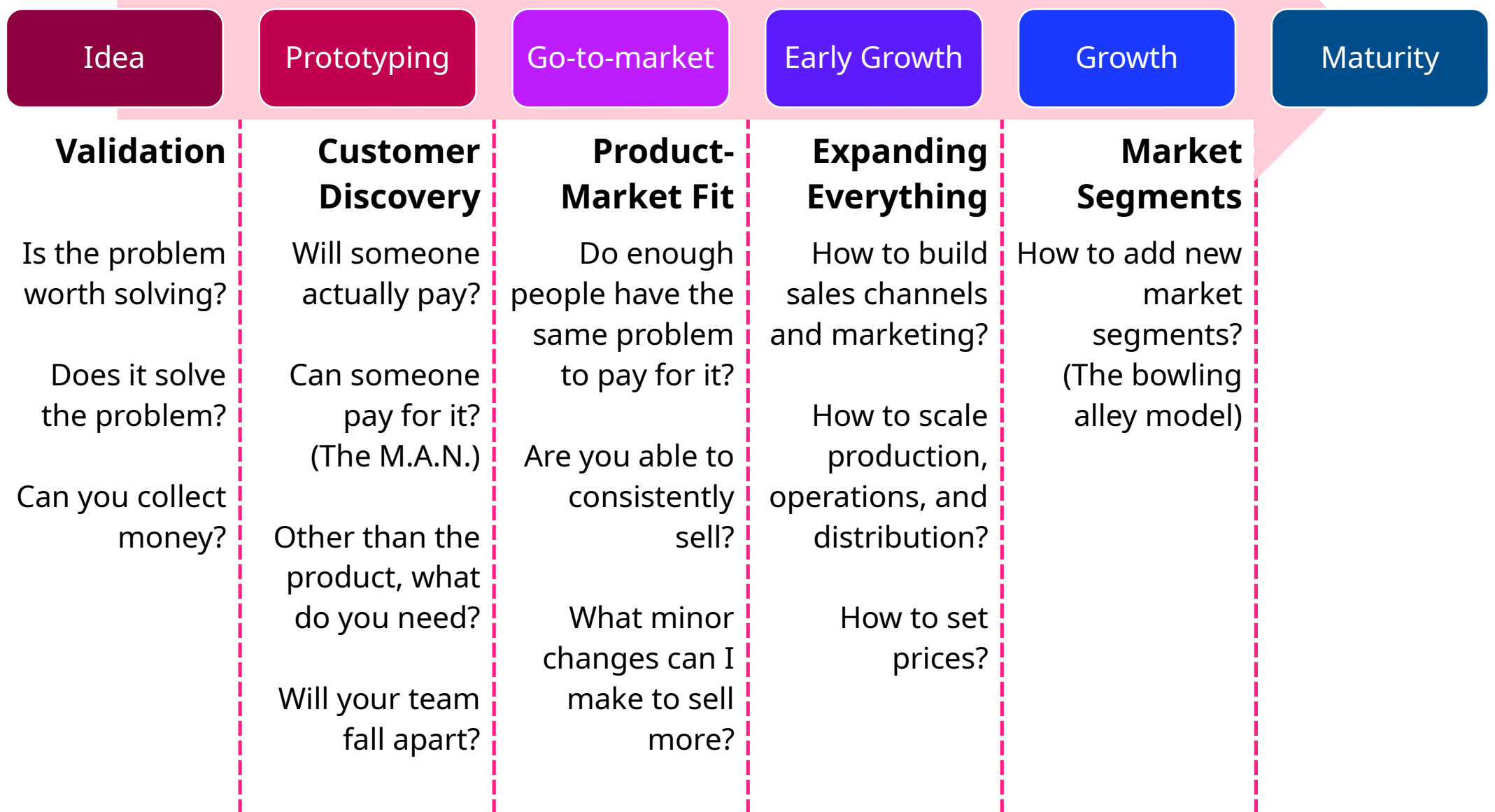
THE GREAT FILTERS



THE GREAT FILTERS



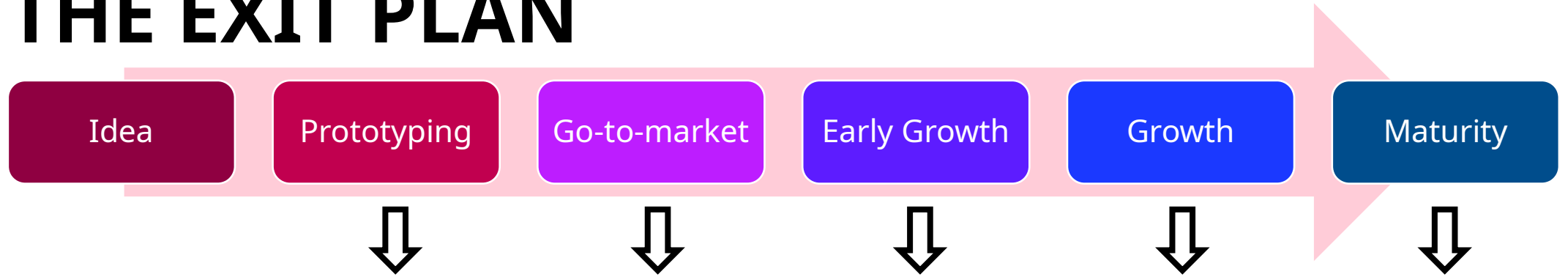
THE GREAT FILTERS



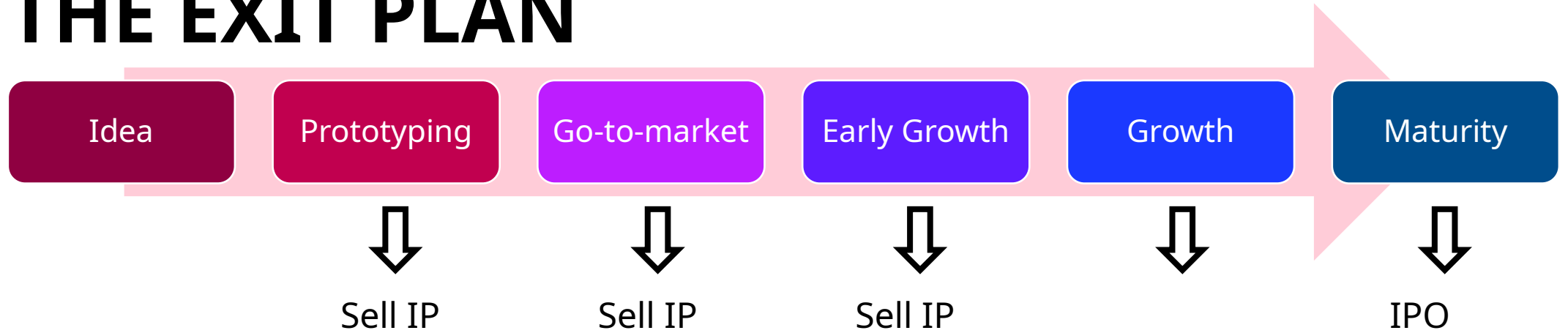
THE GREAT FILTERS

Idea	Prototyping	Go-to-market	Early Growth	Growth	Maturity
Validation	Customer Discovery	Product-Market Fit	Expanding Everything	Market Segments	Defending Position
Is the problem worth solving?	Will someone actually pay?	Do enough people have the same problem to pay for it?	How to build sales channels and marketing?	How to add new market segments? (The bowling alley model)	How to grow at CAGR?
Does it solve the problem?	Can someone pay for it? (The M.A.N.)	Are you able to consistently sell?	How to scale production, operations, and distribution?		How to avoid complacency?
Can you collect money?	Other than the product, what do you need?	What minor changes can I make to sell more?	How to set prices?		How to defend against large players?
	Will your team fall apart?				How not to be disrupted?
					How to create

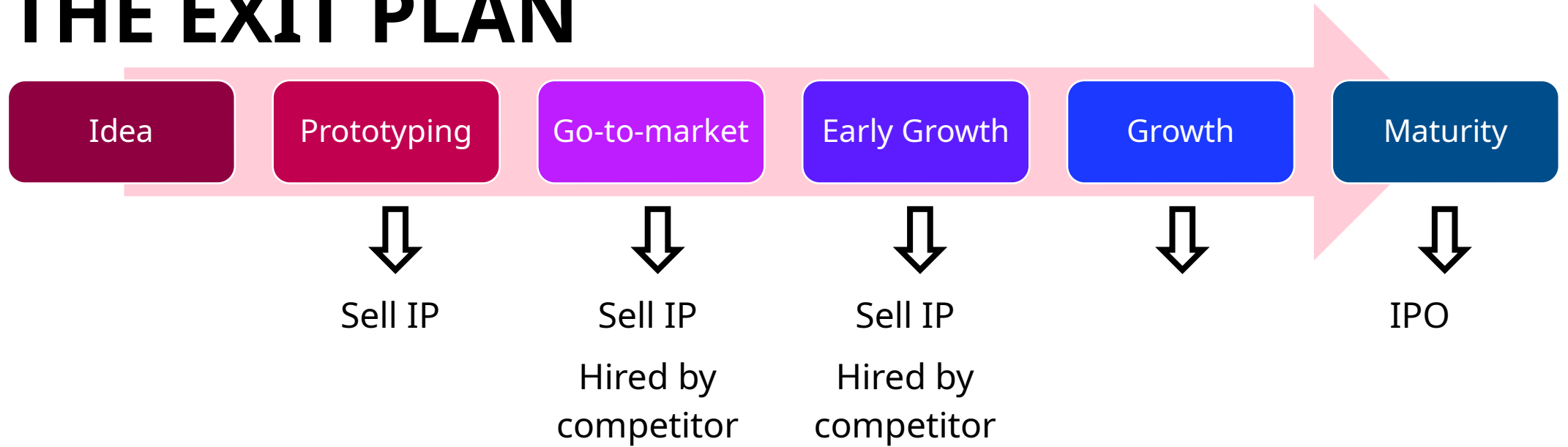
THE EXIT PLAN



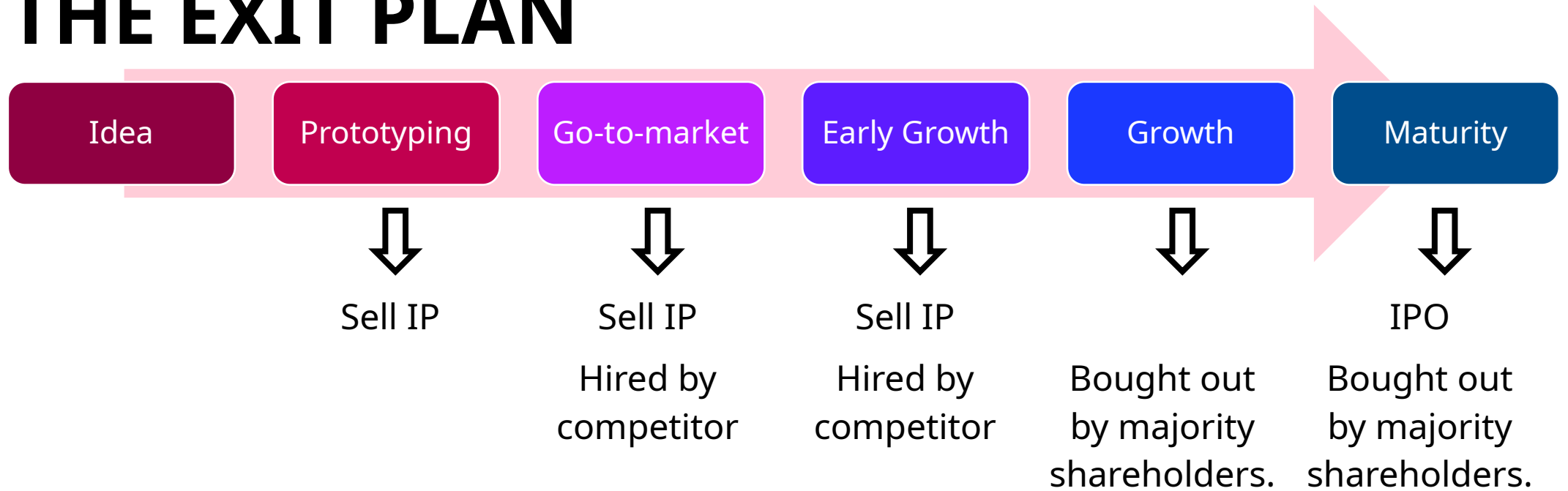
THE EXIT PLAN



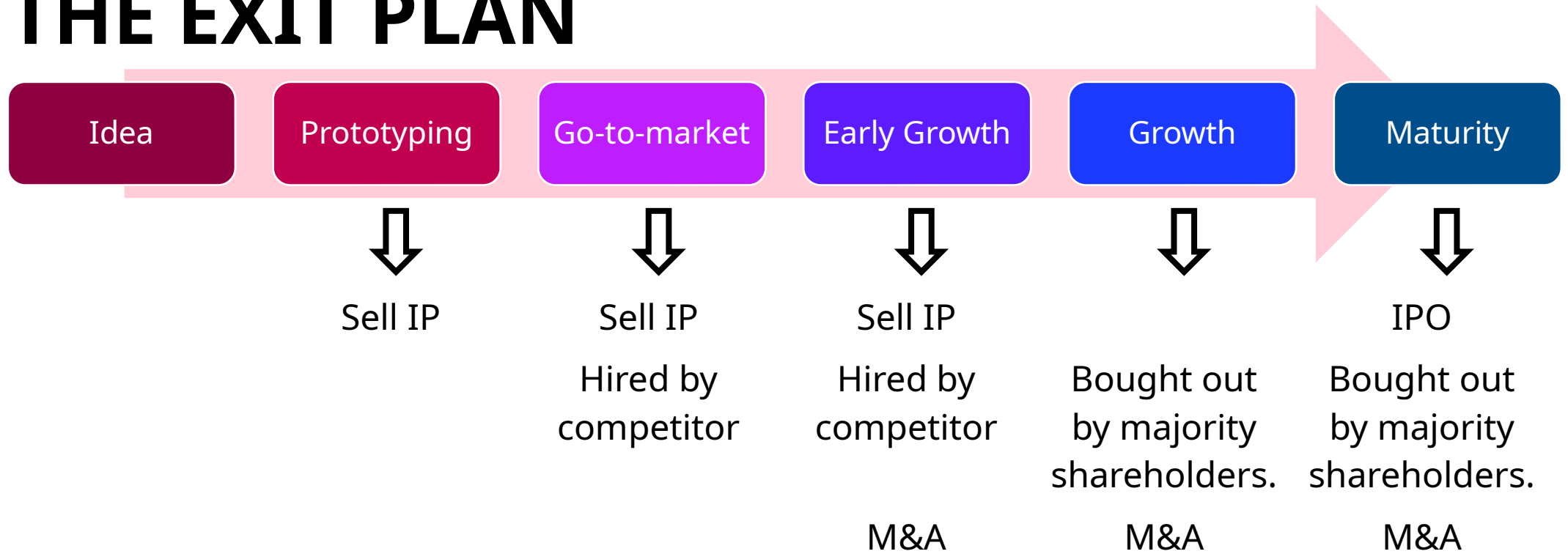
THE EXIT PLAN



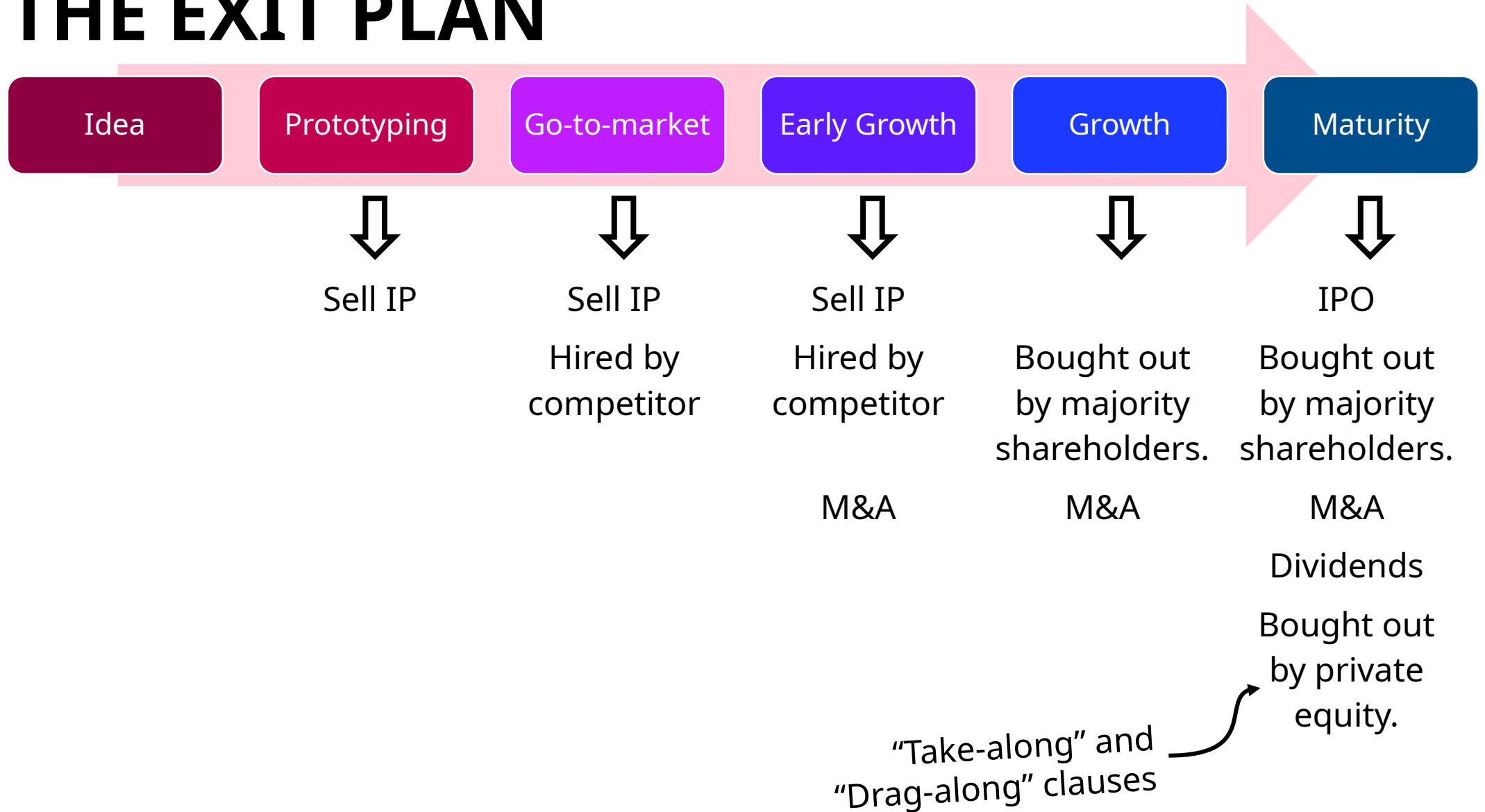
THE EXIT PLAN



THE EXIT PLAN



THE EXIT PLAN



CASE STUDIES

Success is a lousy teacher. It seduces smart people into thinking they can't lose."

– Bill Gates



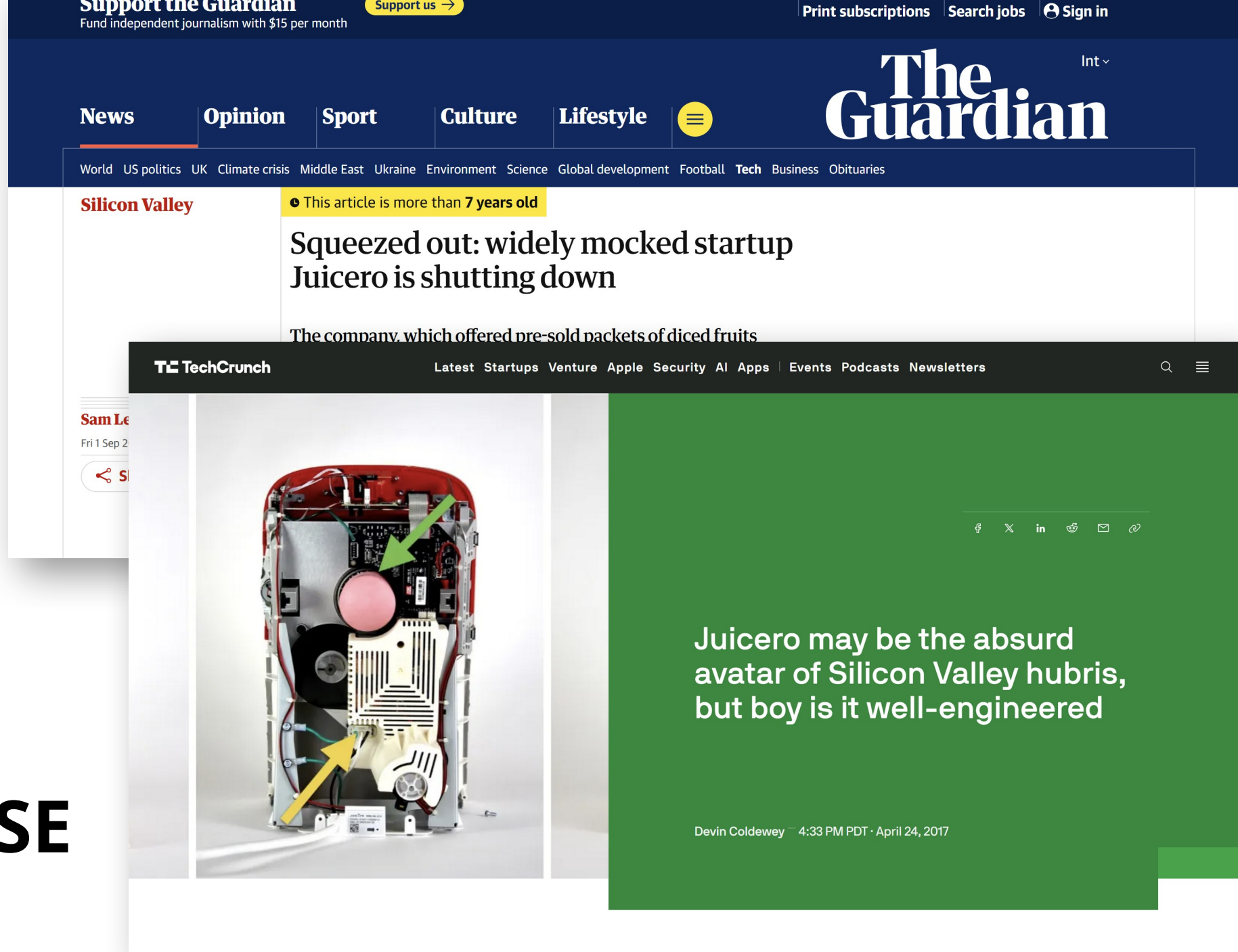
FILTER: IDEA **JUICERO**

Machine that presses pre-made juices out of mylar packaging.

Sold machine for US\$400, juice pack for \$5—7.

DRM on juice pack so it would only squeeze original packs within their best-before date.

HOW DID
THEY RAISE
\$120M?



FUNDRAISING

WHAT ARE INVESTORS LOOKING FOR?

- Investors raise pools of money and have 5—7 years to provide the best return.
 - Like what startup founders do, but at a much larger scale!
 - Provides pressure for investors to choose.
- Investors generally optimize for what the next investor is looking for, not for eventual market success.
 - Prone to fads!
 - Avenue of exploitation → importance of *Due Diligence*.
- Investors may know the market better than you, but you know your company better than them.

+ •

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FILTER: CUSTOMER DISCOVERY

WEBVAN

Original grocery delivery website in 1999. One of the most famous busts of the 2001 dotcom bubble.

Raised \$396M from VCs and \$375M in an IPO.

Why did they go bankrupt?



NORTHERN CALIFORNIA

1 Register

- OR SIGN IN IF YOU ARE ALREADY REGISTERED
- FREE TO SEE IF WE DELIVER TO YOUR ADDRESS

2 Schedule Delivery

- SCHEDULE YOUR DELIVERY TIME BEFORE YOU SHOP FOR THE BEST SELECTION OF DELIVERY WINDOWS

3 Shop

4 Checkout

YOUR SHOPPING CART

CART DETAILS

Your Subtotal: \$1,235.00

QTY	ITEM
3	King Cobra Beer, 40oz.
1	Hostess Twinkies Millennium Special

Welcome

Shops

New Products

Great Values

Webvan @Work

My Webvan

Help

GETTING STARTED | REGISTER NOW | START A CART | OUR PARTNERS | ACCOUNTS/MENUS | PERSONAL IDEAS

SEARCH

Search

In

ALL SHOPS

GO

\$15 off your 1st order!

Welcome to **Webvan**



Webvan Grocery

Selection & Quality

- Favorite local & national brands
- Farm-fresh [produce](#) (organic, too)
- Cut-to-order [meat & seafood](#)
- [Full selection](#)

[Recipes & more](#)



News & More

Personalized Messages: adkjkhg kjijj kjkjasjdk, Kjkjh hghuhoi sghkwa kjhkdjfh kjkjhds.

Personalized Messages: adkjkhg enw kjijj kjkja sjdk. Kjkjh hghuhoi sghkwa kjhkdjfh kjkjhds.

NEW

ON SALE

GREAT IDEAS

Webvan@WORK

Webvan is more than a grocery store. Shop now for:



Drugstore

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[Lorem Ipsum](#)
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Pets

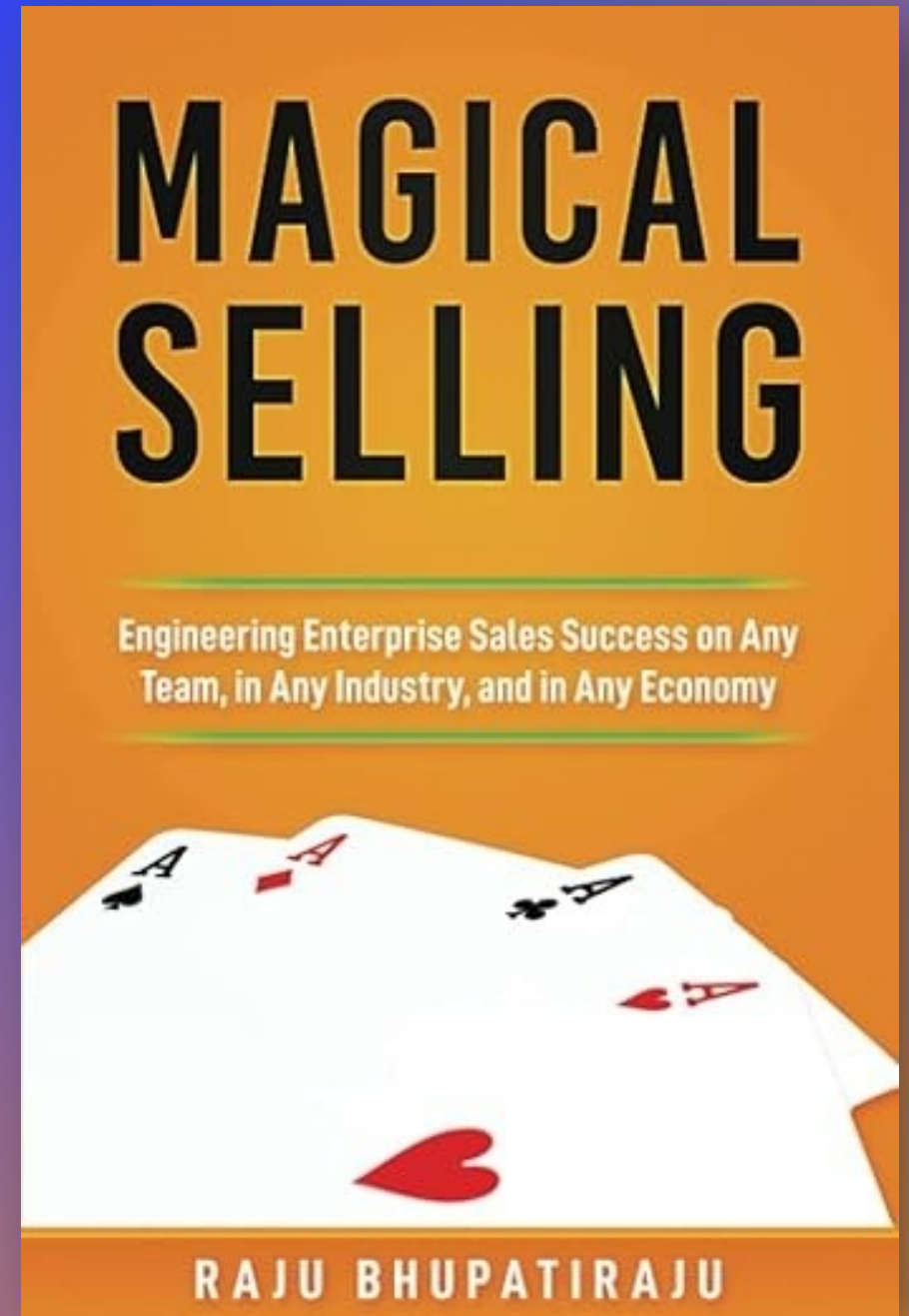
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Specialty Shops

Money Authority Need

- Every company separates these along the corporate hierarchy.
- You must sell the same product in different ways to different people.



FILTER: CUSTOMER DISCOVERY

EXAMPLE: SURGICAL IMAGING SYSTEM

Realtime tracking of brain tumour boundaries from imaging.

- **Money:**

- Hospital's surgery department budget.
- CAPEX is <\$250k, approved by CFO.

- **Authority:**

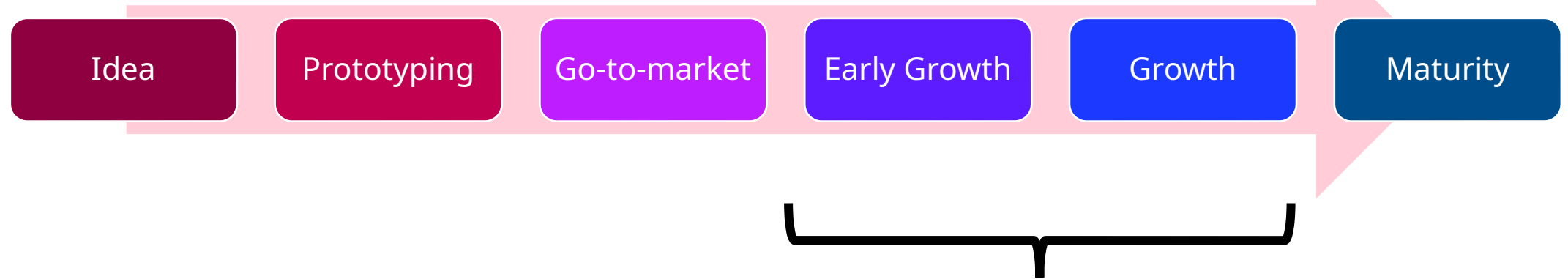
- Chief of Surgery, input from chief of neuro.
- Purchasing committee
- Purchasing/legal department.

- **Need:**

- Neurosurgery team wants real-time tracking to improve margin clearance.
- Hospital compliance team to meet accreditation requirements.

FILTER: EARLY GROWTH

WHY DO INVESTORS LIKE SaaS?



Why?

Because of IaaS/PaaS providers allow easy scaling.

Because modern toolchains encourage scalability-first principles.

FILTER: MATURITY

INCUMBENTS GET DISRUPTED

- **Google** (by OpenAI)
- **Yahoo** (by Google)
- **CompuServe, AOL**, etc. (by Yahoo)
- **Blockbuster** (by Netflix)
- **Kodak** (by digital photography)
- **Nokia, Blackberry, Palm** (by Apple, Google)
- **Encyclopaedia Britannica** (by Wikipedia)
- **Toys R Us** (by Amazon)
- **Garmin/TomTom** (by Google Maps)
- **Sears** (by Amazon)
- **Skype** (by Zoom)
- **Yahoo Mail** (by Gmail)



This is why mature companies
invest in R&D and M&A.

FILTER: MATURITY

WHY DO WE CARE ABOUT CAGR?

- CAGR = “Compound Annual Growth Rate”
- Companies at maturity are collectively satisfying the total demand for the product in the entire market.
- To generate more value, they must:
 - capture business from another company, or
 - make new business

Companies are locked in an **eternal arms race** with each other to maximize value, and they judge how well they're doing it by how they grow relative to CAGR.



IN SUMMARY



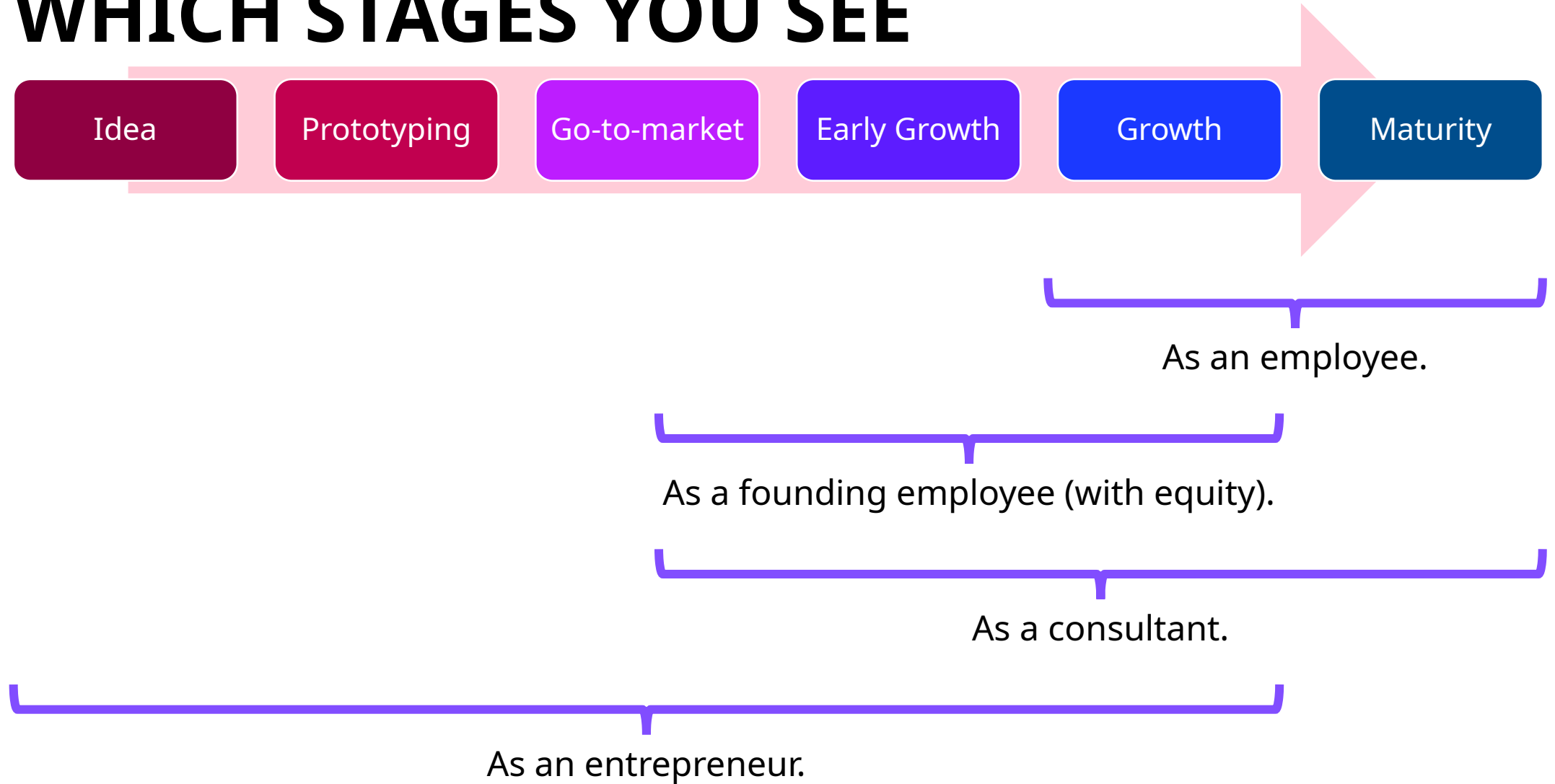
WHEN WORKING IN A BIG COMPANY

- Every big company you see was once a startup.
- Some decisions made as a startup remain with a company.
 - Software architecture, regulatory pathway, business model.
- Business relationships are enduring.
- Market Position is an interactive game with others.

WHEN WORKING IN A STARTUP

- You must be exploiting some comparative advantage.
- Protect your advantage
 - Legally through IP laws, Secrets, etc.
- Talk to as many people as possible, especially customers.
 - Makes up for information disadvantage.
 - Correlate what people say.
- Observe your customers solving their problem
 - Both with and without your product.

WHICH STAGES YOU SEE



Fixing What's Broken – Seeing a problem in the world and believing you can solve it.

Freedom – Choosing what to work on and how to do it.

Challenge – Facing new problems every day and growing through them.

Impact – Knowing that if it works, life improves for many.

Responsibility – Owning the decisions that shape the future.

Adventure – Forging a path where none existed before.

SO, AFTER ALL THIS.

KNOWING THE DANGERS,
PITFALLS, AND TRAPS.

SHOULD I
BUILD A
STARTUP?

AT THE COST OF TIME,
COMFORT, SECURITY, YOUTH,
AND OTHER OPPORTUNITIES.



THANK YOU!

- ← Recommended reading
- ← Lecture video
- ← Follow me on LinkedIn.