

# ENTRE 440/540 – Business Plan Practicum

**Sign-in - Sit down front - Name tents!**

## One Minute Pitches

- Clearly state your name!
- What do you need?
  - **Join a team?** - what kind? what do you have to offer?
  - **Another team member?** – What skills or experience?
  - **Resource Help?** - Market data? Introduction?

*Sign-up in front of  
class*

# Welcome!

## **ENTRE 440-540AB** **Business Plan Practicum**

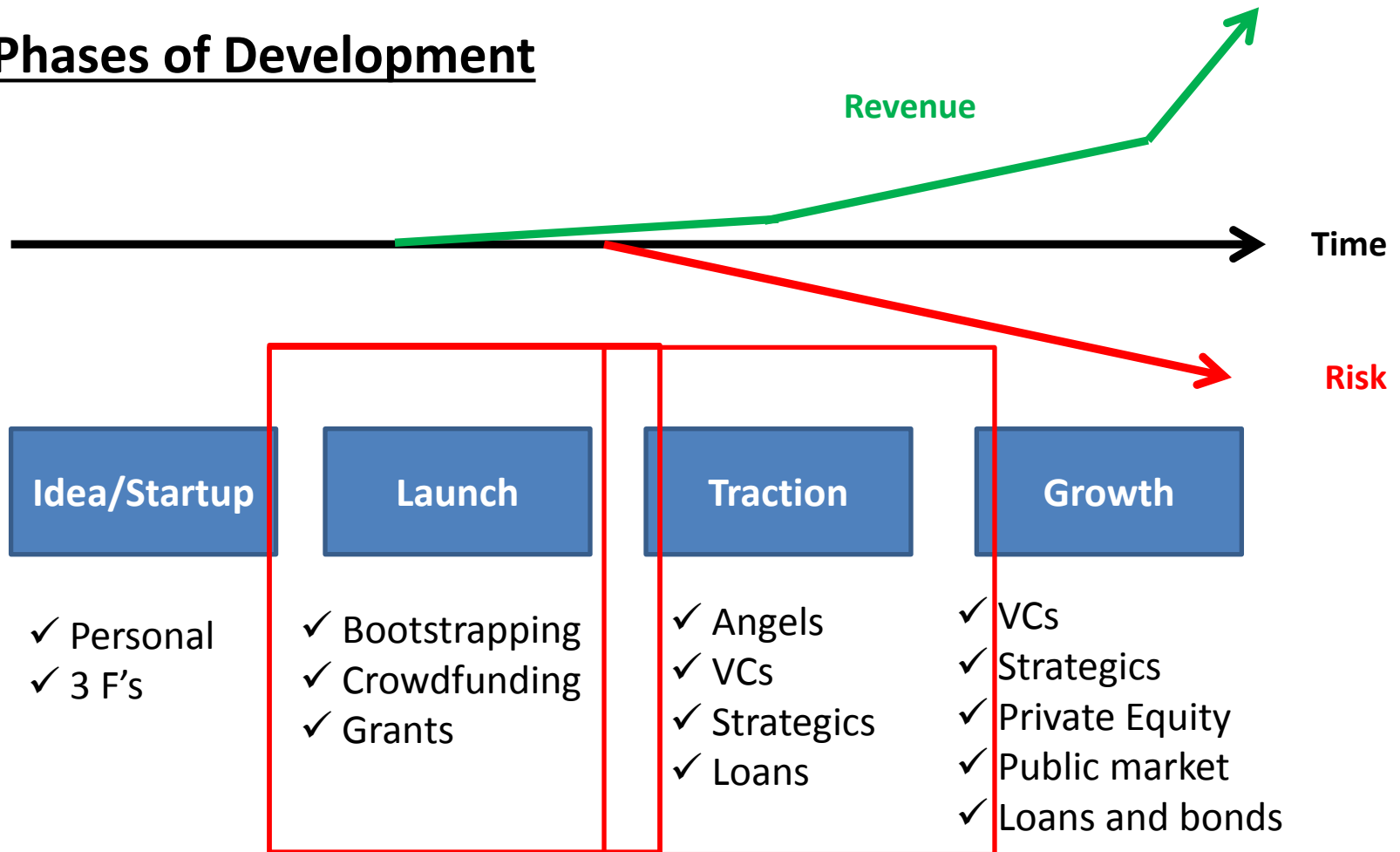
*“On-ramp to the 2015 U.W. Business Plan Competition”*

# Course Journey

January 8	“Is entrepreneurship for you?” and “Good business ideas”
January 15	Lean Startup, library resources, and “networking night”
January 22	Business planning and risk assessment
January 29	Markets, competition and “uniqueness”
February 5	Business models and financial projections
February 12	Legal basics for startups
February 19	Insights from past BPC participants
February 26	Bootstrapping and Crowdfunding
March 5	<b>Raising investor capital</b>
March 12	Dreaming Big! ( <i>who says the sky’s the limit?</i> )

# Sources of Capital for Startups

## Phases of Development



# Bootstrap Cash Needs

## Start-up Expenses (non-recurring)

- ✓ Legal fees, deposits, licenses
- ✓ Office set-up, creative fees, tooling, etc.

## Operating Expenses (burn rate)

- ✓ Payroll
- ✓ Rent, telephone, internet, and utilities
- ✓ General office expense
- ✓ Essential marketing and selling expenses

## Discretionary Expenses

- ✓ Sales and marketing programs
- ✓ Product/service development
- ✓ Growth initiatives

## Working Capital

- ✓ Accounts Receivable
- ✓ Inventory
- ✓ Capital purchases
- ✓ Contingency

# Bootstrapping Techniques

## **Start-up Expenses** (non-recurring)

- ✓ Legal fees, deposits, licenses,
- ✓ Office set-up, creative fees, tooling, etc.

## **Do's**

- Find service providers who specialize in start-ups (many offer special rates or packages)
- Defer payments as long as possible (e.g., negotiate payment of deposits over time)
- Barter, buy used or scrounge furniture, equipment, etc.
- Use “virtual services” (phone switching, software applications, web services)

## **Don'ts**

- Be proud. Tell people you're just starting and have no money. Most will cut a deal.
- Shortcut legal work (especially if others are involved in business)
- Rent Class A space. Instead, work from home or Starbucks – go to your client's office!
- “Invest” in things that are not essential to today's business

# Bootstrapping Techniques

## Operating Expenses (burn rate)

- ✓ Payroll, rent, telephone, internet, and utilities
- ✓ General office expense
- ✓ Essential marketing and selling expenses

## Do's

- Hire the best people possible but only pay what you can afford (make up for it with stock options, deferred comp or bonuses based on performance, flexible work hours)
- Outsource and use temps to avoid hiring (layoffs in a downturn are no fun!)
- Focus sales efforts on “low-hanging fruit”
- Practice guerilla marketing – low cost ways to get your name out and look BIG
- Conserve cash and pay your taxes!

## Don'ts

- Hire people to do things you can do yourself (until you're at 100% capacity)
- Pay for more than you need

# Bootstrapping Techniques

## Discretionary Expenses

- ✓ Sales and marketing programs
- ✓ Product/service development
- ✓ Growth initiatives

## Do's

- Be very creative in negotiating for products and services

## Don'ts

- Spend money on discretionary programs unless you can afford success! (i.e., do you have capital to finance growth that might come?)



# Bootstrapping Techniques

## Working Capital

- ✓ Accounts Receivable
- ✓ Inventory
- ✓ Capital purchases
- ✓ Contingency

## Do's

- Do everything you can to minimize inventory expenses – outsource manufacturing and distribution, push inventory back on suppliers, negotiate extended payment terms, implement JIT production, etc.
- Understand your business cycles (sales, production, payment practices)

## Don'ts

- Offer payment terms (unless you have very high profit margins, discretionary cash, and the ability to absorb the occasional bad debt)
- Buy anything you can rent, contract out, borrow (or steal!)
- Forget that it costs thousands to hire an employee (furniture, equipment, software, etc.)

# Other Benefits of Bootstrapping

## Build a viable business from day 1

- ✓ Become more scrappy and creative
- ✓ Meet and deal with customers right away
- ✓ Get to market and cash-positive operations faster

## Learn to operate lean

- ✓ You squeeze each dollar harder when you don't have many
- ✓ Position company to survive in lean times (and they always come!)

## Strengthen position to raise investor capital

- ✓ Demonstrate “capital efficiency”
- ✓ Build traction that demonstrates viability of business
- ✓ Increase valuation (sell less of company for investment)

# XYZ Manufacturing Company (example)

Cash Category	Techniques Used
Start-up Expense (Non-Recurring)	<ul style="list-style-type: none"> <li>✓ Small business attorney, basic LLC</li> <li>✓ Contract manufacturer</li> <li>✓ Borrowed furnished office space</li> <li>✓ Logo &amp; web template (online)</li> <li>✓ Web hosting and email (godaddy.com)</li> <li>✓ Senior team put up capital and worked cheap</li> </ul>
Operating Expenses (Burn Rate)	<ul style="list-style-type: none"> <li>✓ Outsourced human resources</li> <li>✓ Online phone switch (grasshopper.com)</li> <li>✓ Focused on direct sales over the web</li> <li>✓ Pay-per-click marketing</li> </ul>
Working Capital Accounts Receivable Inventory Management Systems	<ul style="list-style-type: none"> <li>✓ None – we required payment in advance</li> <li>✓ Contract manufacturer held most of it</li> <li>✓ Used lower-cost, “disposable” systems</li> </ul>



**Geoff Entress**  
**Investor**

# Raising Investor Capital

March 5, 2015

University of Washington

ENTRE 440/540



**Charles Seybold**  
**Entrepreneur**



## Venture Partner at Voyager Capital

### Former Venture Partner at Madrona Venture Group

#### Current Board Member

WhitePages, Bonanza, Judy's Book, Meritage Soups, LiquidPlanner

#### Former Board Member

- **Big Fish Games** (acquired by Churchill Downs)
- **DrugStore.com** (acquired by Walgreens)
- **Dashwire** (acquired by HTC)
- **Seadragon Software** (acquired by Microsoft)
- **Sandlot Games** (acquired by Digital Chocolate)
- **Banyan Branch** (acquired by Deloitte Digital)
- **Walk Score** (acquired by Redfin) and **Redfin**



Member of Executive and Screening Committees of Seattle's Alliance of Angels, Angel investor in over **130** Pacific Northwest businesses, including...

- **Isilon Systems** (NASDAQ GM ISLN, acquired by EMC)
- **buuteeq** (acquired by Priceline)
- **Swype** (acquired by Nuance)
- **Dashwire** (acquired by HTC)
- **Geospiza** (acquired by Perkin Elmer)
- **SparkBuy** (acquired by Google)
- **World Wide Packets** (acquired by Ciena)
- **Coffee Equipment Company** (acquired by Starbucks)
- **Shelfari** (acquired by Amazon)
- **HootSuite, Porch, Context Relevant, Rover.com, Elemental Technologies**



## Geoff Entress

### Investor

Former co-founder of UrbanEarth.com, a hip hop music site

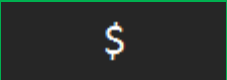
Former securities lawyer with Perkins Coie, worked on several IPOs and venture financings

Former hedge fund co-founder and ran analysis and pricing groups at Salomon Brothers and a unit of Prudential

Geoff's Companies



# Sources of Financing by Stage



Black shading indicates primary focus of investor type.



Gray shading indicates secondary focus, or focus of a subset of investors of the type.

Investor	Dev Stage	Start-up	Early Growth	Rapid Growth	Exit
Entrepreneur	\$				
Friends and Family	\$				
Angel Investors	\$	\$			
Strategic Partner	\$	\$	\$	\$	
Venture Capital		\$	\$	\$	
Asset-based Lender		\$	\$	\$	
Equipment Lessor		\$	\$	\$	
SBA Loans			\$	\$	
Trade Credit			\$	\$	
Factor			\$	\$	
Mezzanine Lender				\$	\$
Public Debt					\$
IPO					\$
Acquisition, LBO, MBO					\$



# Finding Angel Investors

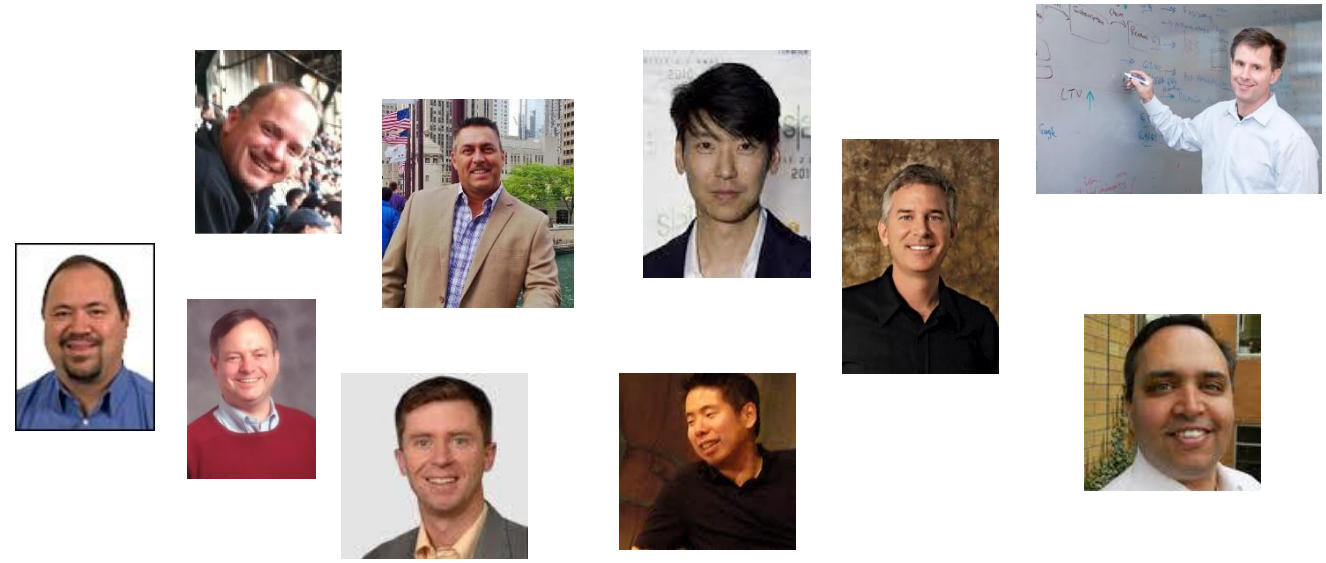
Occasional angels

Semi-pro

Professional

Super angel groups

Organized angel groups



Second Avenue Partners





# Founders' Co-op.



Second Avenue Partners

Alternatives to traditional fund raising



Revenue Loan Funds



Incubators



# Why do VCs invest?



## They **NEED** to make money

Venture money comes from institutional investors who invest small portions of their assets in high-risk alternative asset classes (including Venture, Private Equity and Natural Resources) to increase overall return

# Why do Angel Investors invest?



- 
- They **WANT** to make money
  - Fun work & interesting people
  - Support to new businesses, ideas, and philanthropic causes (giving back)
  - Early opportunity to participate
  - Leverage prior experience into investments
  - Enable advancement in fields important to them

# Why do Start-ups take Angel Money?



Relatively easy and quick raise

---



Assemble strategic advisors/investors



Better deal terms



Better chance of maintaining managerial control



Potentially easier working relationship with angels than VCs

What do investors look for in prospective investments?

# GREAT Team



- Right market timing
- LARGE opportunity
- Sustainable competitive advantage
- Compelling business model/value proposition
- Reasonable terms

# Why do Investors say No?

They don't understand  
what you are doing



They don't have any money



Timing not right  
Small opportunity  
Revenue model not compelling  
No sustainable competitive advantage



They don't like you



# IRR

## Internal Rate of Return

Internal Rate of Return (IRR) is a rate of return used in capital budgeting to measure and compare the profitability of investments.

It is the annualized effective compounded return rate that can be earned on the invested capital. It is called “internal” because it does not take into account external factors like inflation rates.

Investments with a higher IRR are more profitable (e.g., an IRR of 20% is better than an IRR of 10%).

Higher expected IRRs are associated with riskier investments (basic risk/return).

$$\text{NPV} = \sum_{n=0}^N \frac{C_n}{(1+r)^n} = 0$$



# IRR

## Internal Rate of Return

Year (n)	Cash Flow (C <sub>n</sub> )
0	-4000
1	1200
2	1410
3	1875
4	1050

$$NPV = -4000 + \frac{1200}{(1+r)^1} + \frac{1410}{(1+r)^2} + \frac{1875}{(1+r)^3} + \frac{1050}{(1+r)^4} = 0$$

$$\text{IRR} = 14.3\%$$

# IRR

## Internal Rate of Return

### Return Expectations

<b>Pre-seed stage –</b> <i>developing product</i>	250K-\$1mm	IRR 70+%	Need 10x in 5 years
<b>Venture Series Seed –</b> <i>revenue paying customers</i>	\$1- \$3mm	IRR 50%	Need 5x in 3-4 years
<b>Venture Series A –</b> <i>sales expansion</i>	\$3- 10mm	IRR 40%	Need 3x in 2-3 years
<b>Late stage –</b> <i>mature business</i>	\$15-50mm	IRR 25%	Need 1.25x in 12 mos

10% IRR = double your money in 7 Years

20% IRR = double your money in 4 Years

40% IRR = double your money in 2 Years

100% IRR = double your money in 1 Year

# IRR

## Internal Rate of Return

### Start-up IRRs

- Out of 10 investments, assume:
  - 1 is “homerun” – 10X
  - 2 are “5Xs” – 5X
  - 3 are “singles” – get your money back – 1X
  - 4 are “zeroes” – 0X
- Expected Value
  - =  $(.1 * 10X) + (.2 * 5X) + (.3 * 1X) + (.4 * 0X) = 2.3X$
- About a 20% IRR
  - Assuming five year average time to exit



## Determining Valuation

- **Discounted Cash Flow (DCF) analysis** – but often hard to do

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n}$$

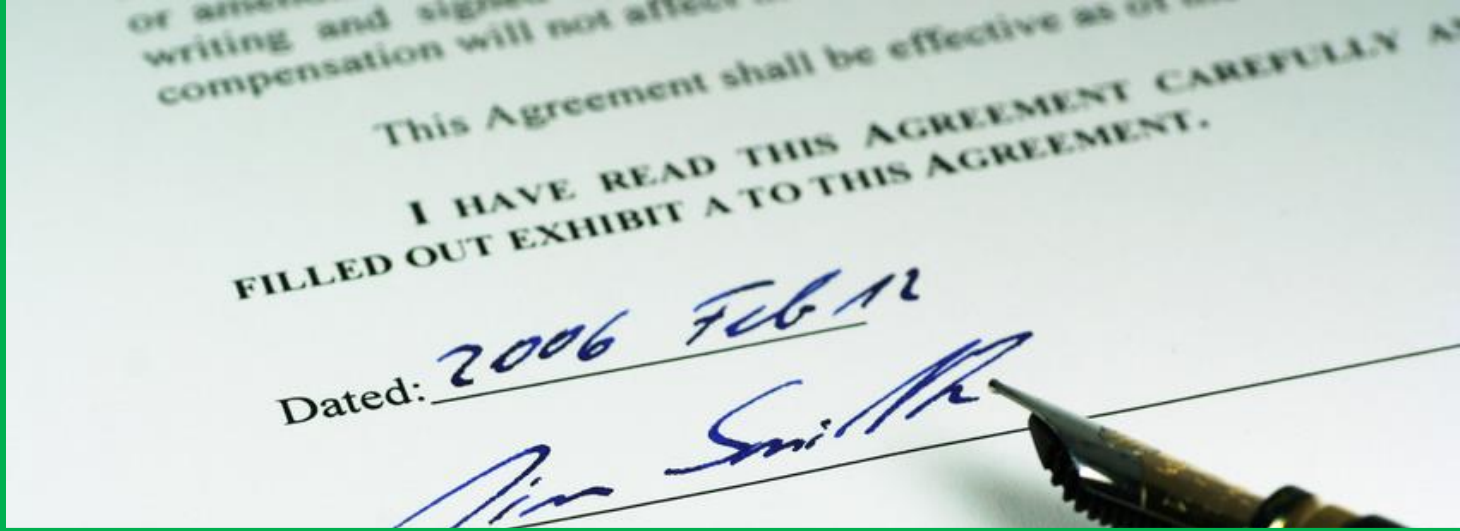
CF = Cash Flow

r = discount rate (WACC)

- **Compare to comps** – also can be hard to do
- **Compare to other financings** – Series Seed' s of \$2-5 million
- **Back-into from assumed next investment** – if assume Series A of \$5-8 million at \$8-12 million pre-money, better price Seed at a post of \$4-5 million to generate acceptable return
- **Convertible Notes** – used to solve the pricing dilemma, but now are almost always “capped,” so still are effectively priced

# \$\$\$

## Terms of the funding transaction



- **Financial Terms**
  - Valuation
  - Liquidation preferences and participation rights
  - Dividends
  - Redemption rights
  - Option pool refresh
- **Control Terms**
  - Blocking rights on certain corporate actions
  - Board seats
- **Usually Angel and VC terms are similar**
  - Including even capped convertible notes

\$\$\$

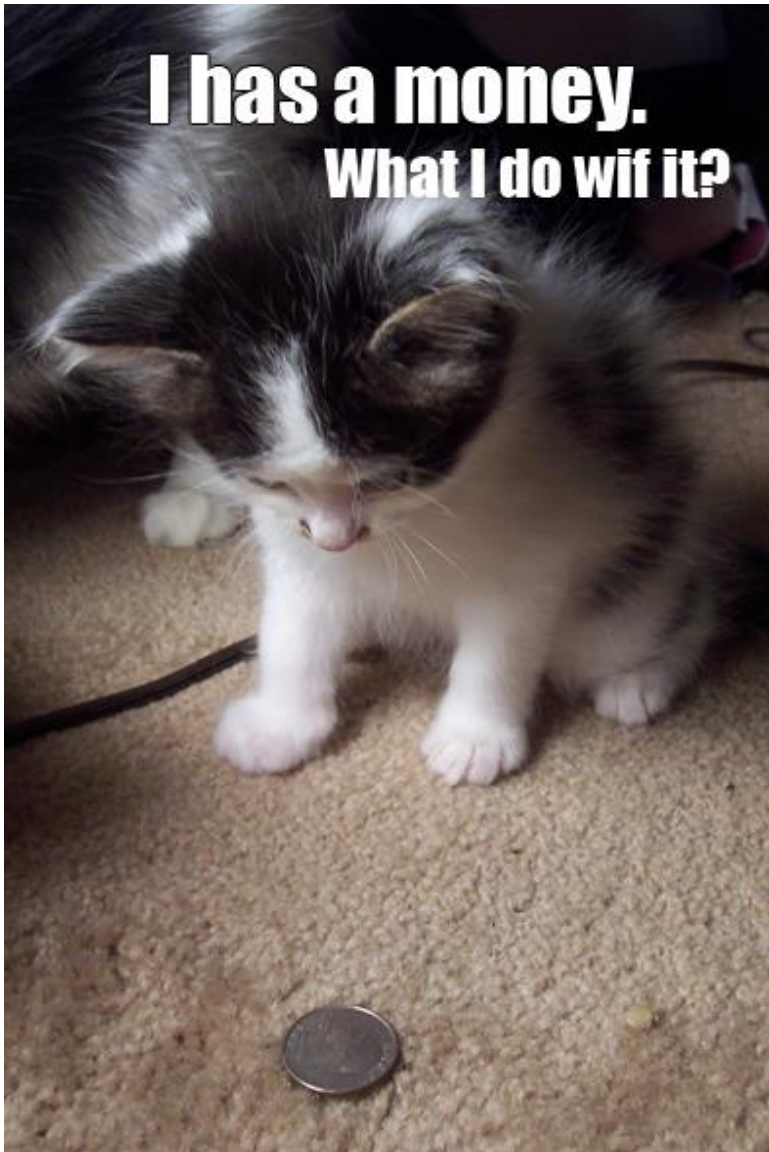
Terms of the  
funding  
transaction

Watch the Control Terms...



\$\$\$

Terms of the  
funding  
transaction



...and remember that the hardest part (and the most important part) of running a start-up comes after you raise the money.



# Entrepreneur's Perspective



**Charles Seybold**





# LiquidPlanner helps fast moving teams Plan, Track, Collaborate and Analyze their work.



Product Guy  
Co-Founder  
Former CEO  
Former Expedia  
Former Microsoft  
Former Developer  
Multiple Start-ups  
CS Degree

LiquidPlanner® Home Projects People Dashboards Analytics Help Settings Game FX Workspace

Introduction Help Guide Feedback

## Portfolio Dashboard

+ Add Widget Customize Sharing (16) More | Created by Zareen

# GAME FX

Q1 Summary - Company Confidential

### Active Projects

Project	Owners	Hrs Re...	Finish [E]	Delta D...
Gamespace Pro II Launch	Zareen	52.33h	03/10/15	-11d
Logic Blox Mobile App v2.2	Nick	47.83h	03/18/15	-4d
GoGo Guppies Expansion Pack	Adam	35.65h	03/09/15	-13d
iPong V3	Charles	87.32h	03/20/15	24d
Email Campaign	Zareen	121.65h	03/20/15	0d
Support Hub Build	LizR	50h	03/23/15	0d

### Risks

Task	ID	Flag	Risk	Project
Confirm messaging	898771	⚠	High	Email Campaign
Design icons	891162	⚠	Medium	iPong V3
Get research data	196695	⚠	Medium	Email Campaign
Create banner ad for paid sea...	1130839	⚠	Medium	Gamespace P...
Functional Testing	145341	⚠	Medium	iPong V3

### Current Clients

Client	Hrs Logge...	Hrs Remai...	Hrs Total ...
Boston Homemade Games Inc.	575.25h	337.42h	912.67h
GameCenter Inc.	248.54h	85.67h	334.2h
GFX Internal	448.5h	173h	621.5h
Gravity Games LTD	783.76h	310.72h	1094.48h
Happy Camper Co.	165h	8h	173h
Mobile Madness Group Inc.	512.16h	83.92h	596.08h

### Objectives

Strategic Objective	Hrs Total [E]
Business Development	108.03h
Customer Retention	26.82h
Product Research	167.13h
Training & Staff Development	22.5h
Website Optimization	117.82h

### SPRINT 50

Viewing: 12/05/14 to 03/22/15

### Billable Hours (Expected)

319 Hours

#### Hrs Total Billable [E] by Activity

30.4% - 020 - Coding	97.15 h
23.0% - 010 - Design	73.55 h
17.7% - 050 - Marketing	56.47 h
15.9% - 070 - Testing	50.75 h
6.8% - 030 - Project Management	21.77 h
6.3% - 060 - Support	20.00 h

### Client Hours (Expected)

1295 Hours

#### Hrs Total [E] by Client

30.3% - Gravity Games LTD	392.43 h
25.6% - Boston Homemade Games Inc.	331.42 h
16.7% - Mobile Madness Group Inc.	216.48 h
11.9% - GameCenter Inc.	153.77 h
11.8% - GFX Internal	152.95 h
3.7% - Happy Camper Co.	48.00 h

### Remaining Hours (Expected)

1220 Hours

#### Hrs Remaining [E] by Team

36.9% - PM	450.35 h
32.0% - Design	390.63 h
16.4% - Sales	200.73 h

# How founders see investors



# How investors see you



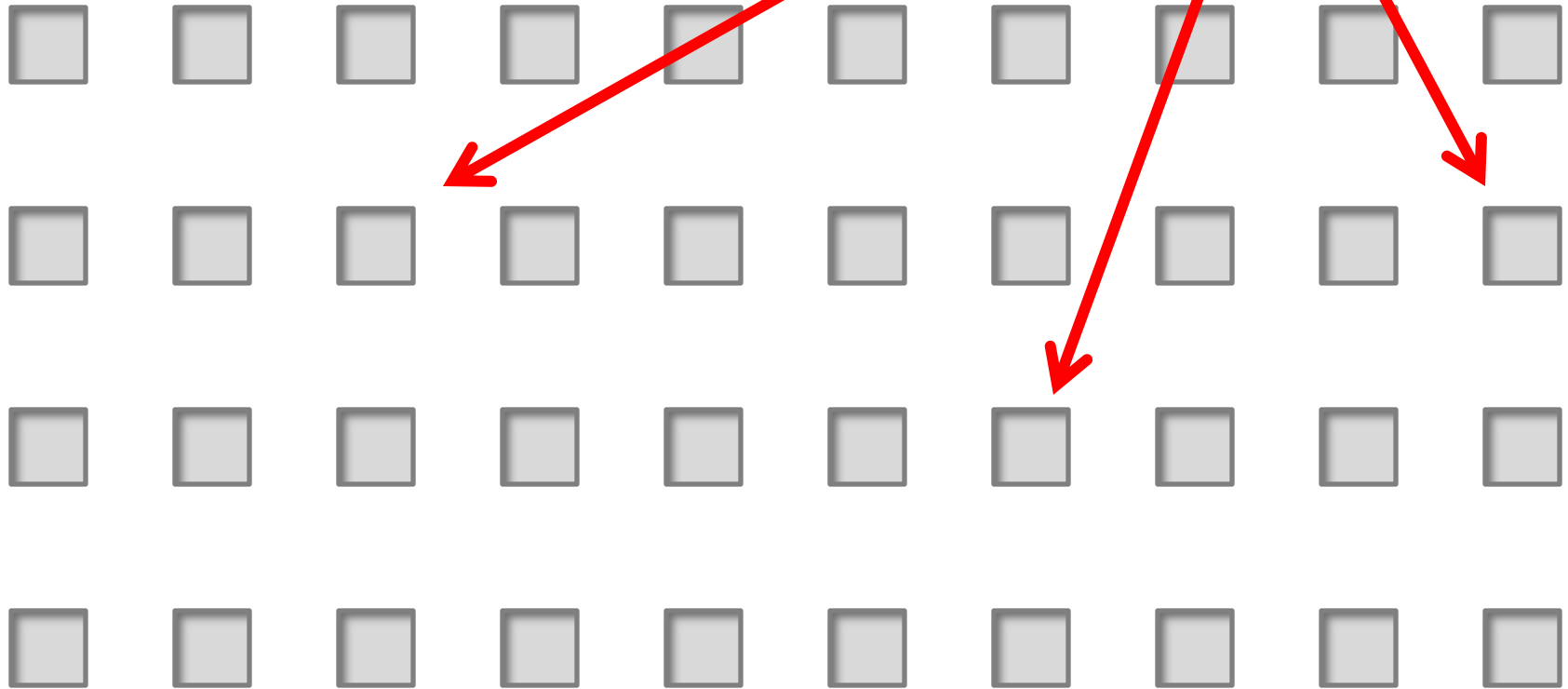
**"SEND MONEY- K'BYE THX"**

**Screening**

Pitching

Engaging

???



Screening

**Pitching**

Engaging





Screening  
Pitching  
**Engaging**



1



2



## **Pre-funding Vision**

Everything works

You find the people  
you need

You get the breaks  
you need

Customers deeply  
need your product

**This is the time of  
“possibilities”**

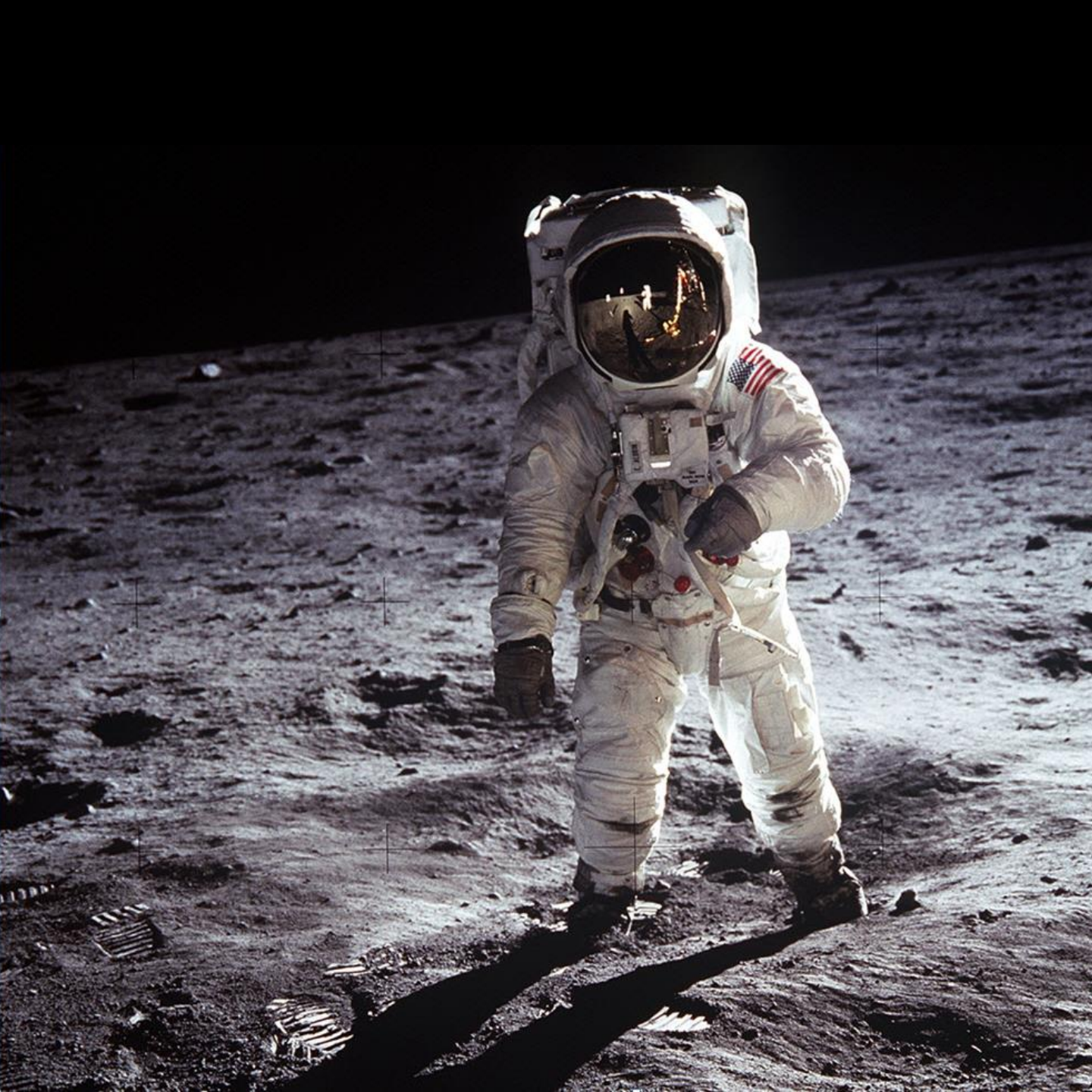


## Post-Funding Reality

Investors know all the pitfalls, but they are truly optimists

This is why TEAM is an important X-factor to investors





## Your mission

Be honest yet  
give your  
investors  
permission to  
believe

Activate their  
hunger for the  
deal



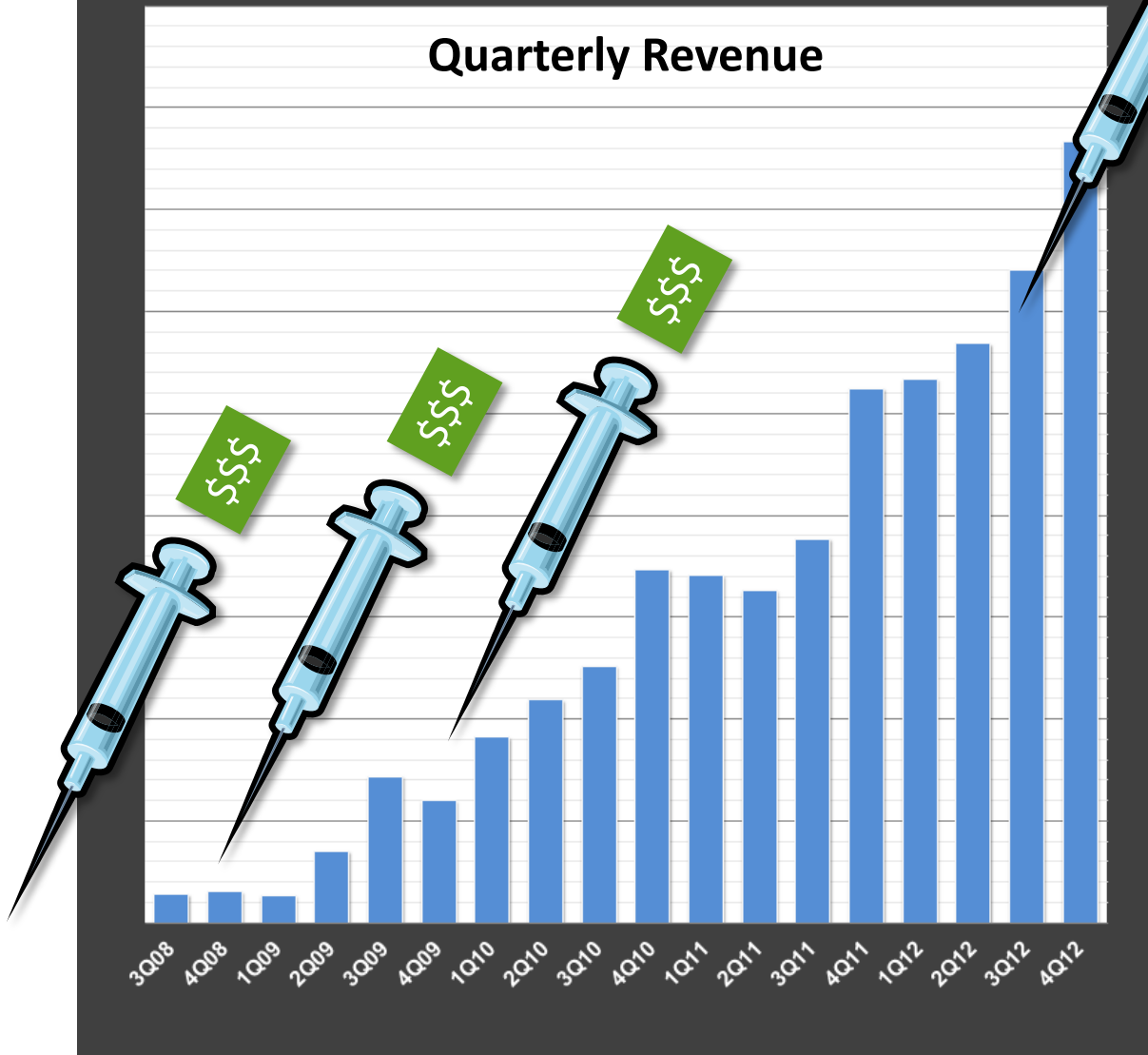
**It's business  
natural  
selection**

**The strongest  
get the  
attention**

- Product
- People
- Process

# LiquidPlanner

## Quarterly Revenue



Funding is a process

Investment follows traction

Investment should be used for more traction

Always raise \$\$\$ with a purpose



BTW – There is another form of investment, it's free, has no control terms, no payback terms, it's ...





GRIT

Experience

Likeability / Humor / Humility

Driven towards the Opportunity

Ability to Focus, Prioritize, & Execute

**5**  
Things  
investors  
will look for  
in you

# Ooze Vision - The Million Dollar Deck

LiquidPlanner\_pitch\_81.pptx - Microsoft PowerPoint

## liquid PLANNER PROJECT MANAGEMENT 2.0

1

## PROJECT MANAGEMENT 1.0 ASLEEP AT THE WHEEL...

**Standish Chaos Study**

- 2/3 of all IT projects miss
- Average budget over run = 100%

**Steve McConnell**

- Typical underestimation = 25%-100%
- 3 yr ROI on best practices = 1000%

2

## liquid PM 2.0 - RESULTS ORIENTED

- predictability
- productivity
- participation
- cloud-based
- social
- flexible
- narrative
- smarter

3

## liquid born in the cloud

4

## liquid ultra social complete environment

5

## liquid extremely flexible never forgets always awake

6

## liquid document describe discuss detail delegate duplicate

7

## liquid Can you trust your schedule?

8

## liquid probability of completion

3 days - 7 days

reasonable best case 3 days

reasonable uncertainty

reasonable worst case 7 days

9

## liquid

10

## BUSINESS MODEL

We take the risk out.

When your trial ends...

\$35 MONTHLY per user OR \$300 YEARLY per user

- Self-serve web site
- Inside sales process attached to trials
- Focus on breaking adoption barrier
- Sticky application / moderately viral

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## TRACTION (as of 9/19)

- 67 Companies
- 500 seats in paid spaces
- Inside sales stats:
  - 150 personal contacts
  - 25% close rate
  - 32% still in progress
  - 15% need features
  - 21% lost

12

## TARGET MARKET

- Market expansion play
- Small / Med Businesses
- Departments in F1000
- Teams: 3 - 100 people
- Multiple Segments
- \$1-3B addressable

reference: MS Project is \$1.2B

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## COMPETITION

Office Excel.com 20%

Spreadsheet 20%

Desktop 35%

Office Project 25%

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## LEADERSHIP TEAM

Charles DeBelle CEO/Co-founder

Jason Carlson CTO/Co-founder

Shankar Naray Director of Product

Brian Millerson Director of Development

Liz Pearce Director of Marketing

Advisors: Microsoft, Intel, Google, Amazon.com

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## EXIT POTENTIAL

M&A

SaaS leaders

SW leaders

PPM leaders

BPM leaders

16

## PRODUCT DEVELOPMENT

Major projects since launch (Feb)

- Performance enhancements
- Schedule Engine enhancements
- Email integration
- Task Dependencies
- Bulk add
- Duplicate
- New dashboard
- Training videos
- Watch Lists
- Re-designed planning tab
- Customizable column set
- Customizable date format
- Printing improvements
- Right-click support
- Multiple-select and edit

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## liquid Rev/GM/NIBT 2006

5 year plan

18

## FINANCING

Mar '06	Feb '07	Jan '08	Sep '08
\$2K	\$2K	\$2K	\$2K
\$2K	\$450K	\$450K	\$450K
	\$452K	\$810K	\$810K
		\$1.26M	\$800K
			\$2.2M

Series A: Closing Oct '08

- \$5.5MM Pre-money valuation
- Up to \$1.4MM new money
- Fully subscribed at \$90K

Use of funds

- Sales & Marketing ramp up
- Continued Product Development

Charles Seybold  
charles@liquidplanner.com

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~100 revisions

# TRACTION

A STARTUP GUIDE TO GETTING CUSTOMERS

Written by

Gabriel Weinberg  
and Justin Mares

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# Obey the Law

The  
New  
Law of  
Attraction  
is  
Traction

5  
things  
that you need  
to plan on doing

Getting to  
**Yes**

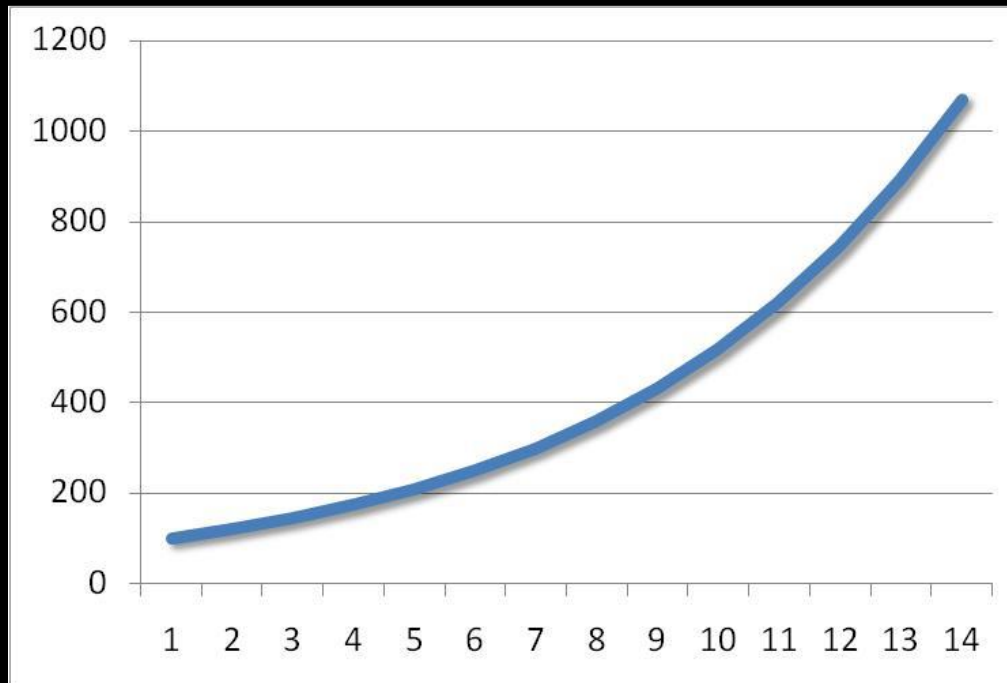


Love thy data.

Learn to love getting data.

Learn to love reading about getting data

Learn to love someone who loves watching you read about data



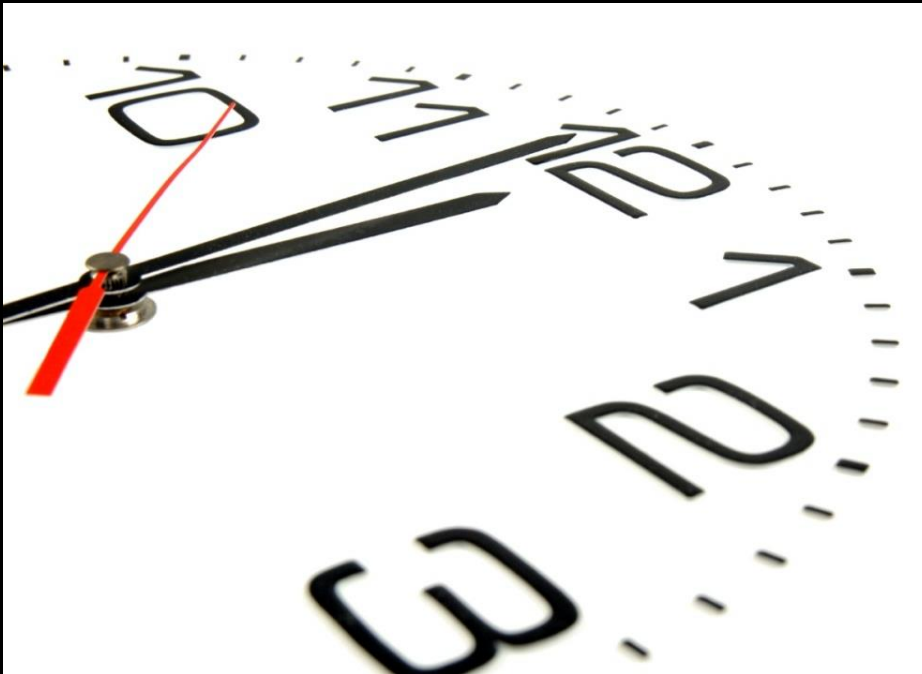
#1

# Get Advisors



#2

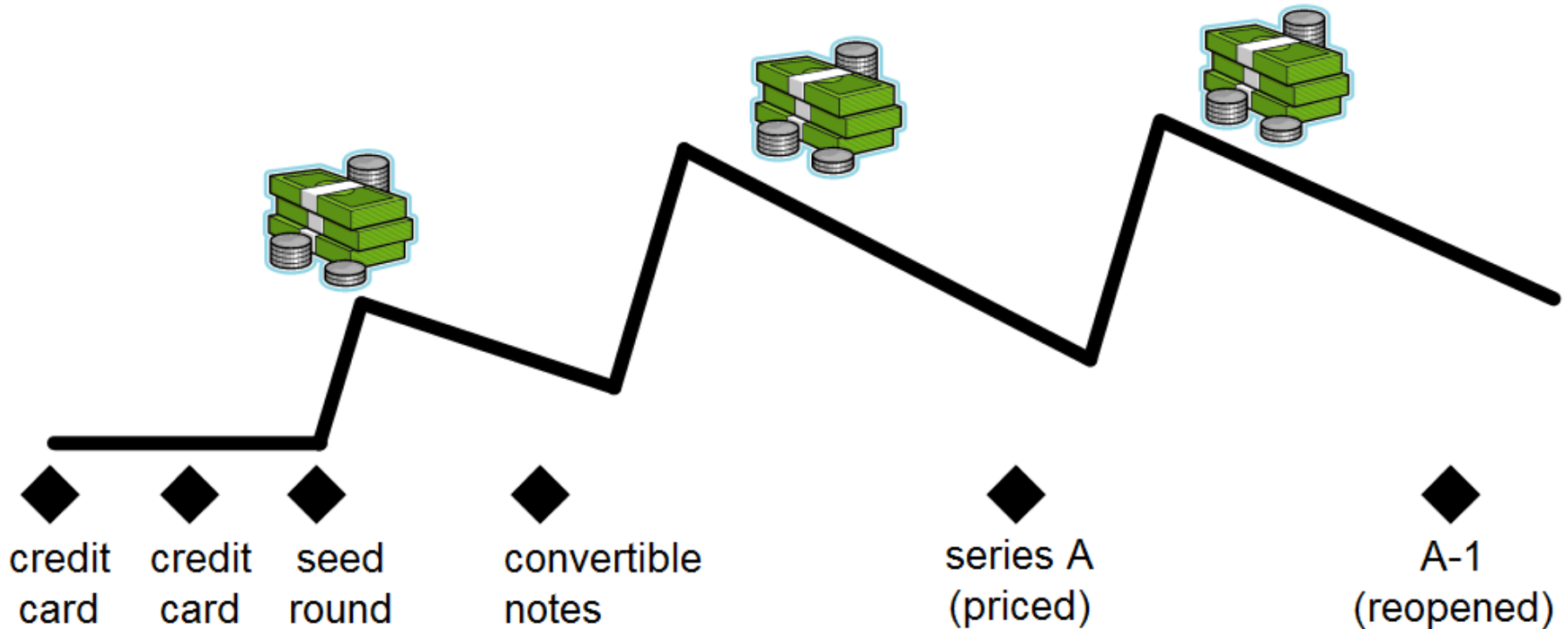
Accept that it is a process



#3

# #4 – Plan on Stages

- ◆ Good idea?
- ◆ Does anyone care?
- ◆ Can you assemble a team?
- ◆ Can you build it?
- ◆ Can you launch it?
- ◆ Will anyone buy it?
- ◆ Repeatable sales process?
- ◆ Can you scale your sales process?



# #5 – Follow Through

### liquid

## LIQUID PLANNER

LIQUID PLANNER  
MILL PLANNING  
G&P

For more information  
contact us at  
800-850-8500

### liquid

## LIQUID PLANNER

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### liquid

## LIQUID PLANNER

LIQUID PLANNER  
MILL PLANNING  
G&P

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4

things  
investors  
like to poke at

#1 Sustainable competitive advantage

#2 Go-To-Market strategy

#3 Scaling the business

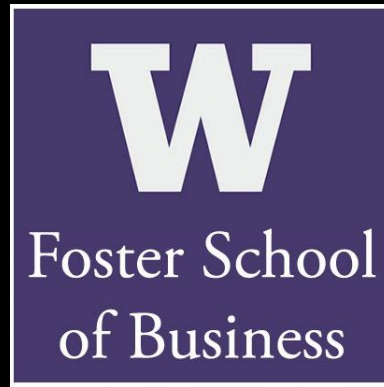
#4 Experience gaps / hiring

1  
thing  
that I happen  
to believe is true

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Luck favors the prepared





Discussion

# Wrap-up

1. BOA projects (write-up and PPT) due March 6 (midnight)  
(filename for each document: *your company name*)

2. Next Week:

- ✓ Guest Speaker: Chris Lewicki, Planetary Resources
- ✓ Student BOA presentations
- ✓ Class wrap-up and evaluations