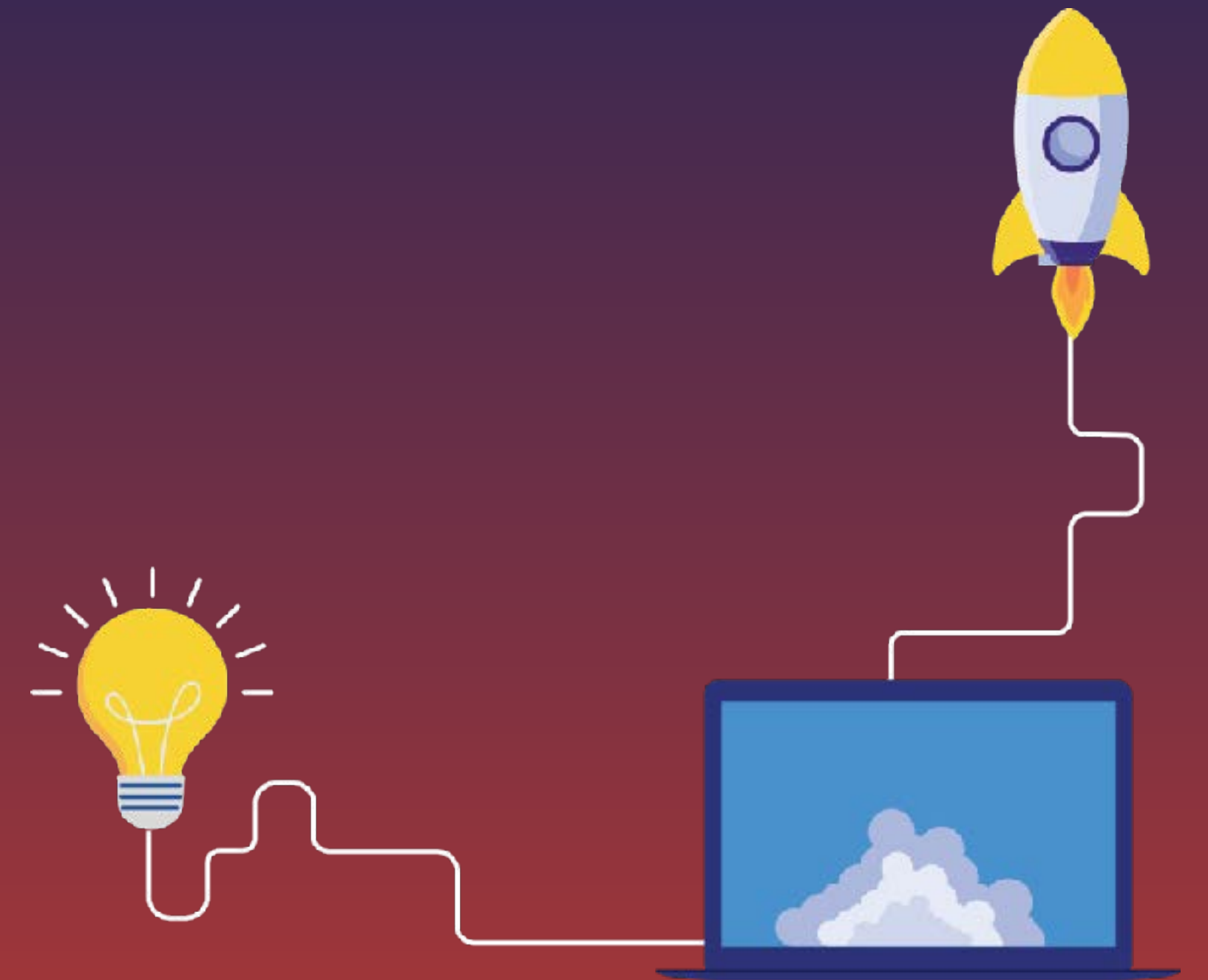# ENTREPRENEURSHIP 2025

A Startup Masterclass

Bret Waters

31 October 2024

Today's Agenda:

1. A little bit about me.

2. Steps to creating your own successful startup.

3. My thoughts on the future of startups.

Silicon Valley, California
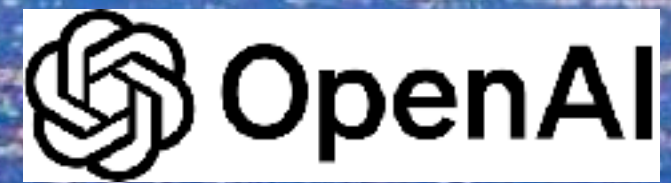
Global hub of entrepreneurship and innovation.
Headquarters of more than 4,000 tech companies.

The GDP of the Bay Area is more than $650 billion,
larger than most entire countries in the world.

Silicon Valley, California

Silicon Valley, California

Apple Introduces the First Low Cost Microcomputer System with a Video Terminal and 8K Bytes of RAM on a Single PC Card.

The Apple Computer. A truly complete microcomputer system on a single PC board. Based on the MOS Technology 6502 microprocessor, the Apple also has a built-in video terminal and sockets for 8K bytes of on-board RAM memory. With the addition of a keyboard and video monitor, you'll have an extremely powerful computer system that can be used for anything from developing programs to playing games or running BASIC.

Combining the computer, video terminal and dynamic memory on a single board has resulted in a large reduction in chip count, which means more reliability and lowered cost. Since the Apple comes fully assembled, tested & burned-in and has a complete power supply on-board, initial set-up is essentially "hassle free" and you can be running within minutes. At $666.66 (including 4K bytes RAM!) it opens many new possibilities for users and systems manufacturers.

You Don't Need an Expensive Teletype.

Using the built-in video terminal and keyboard interface, you avoid all the expense, noise and maintenance associated with a teletype. And the Apple video terminal is six times faster than a teletype, which means more throughput and less waiting. The Apple connects directly to a video monitor (or home TV with an inexpensive RF modulator) and displays 960 easy to read characters in 24 rows of 40 characters per line with automatic scrolling. The video display section contains its own 1K bytes of memory, so all the RAM memory is available for user programs. And the Keyboard Interface lets you use almost any ASCII-encoded keyboard.

The Apple Computer makes it possible for many people with limited budgets to step up to a video terminal as an I/O device for their computer.

No More Switches, No More Lights.

Compared to switches and LED's, a video terminal can display vast amounts of information simultaneously. The Apple video terminal can display the contents of 192 memory locations at once on the screen. And the firmware in PROMS enables you to enter, display and debug programs (all in hex) from the keyboard, rendering a front panel unnecessary. The firmware also allows your programs to print characters on the display, and since you'll be looking at letters and numbers instead of just LED's, the door is open to all kinds of alphanumeric software (i.e., Games and BASIC).

8K Bytes RAM in 16 Chips!

The Apple Computer uses the new 16-pin 4K dynamic memory chips. They are faster and take ¼ the space and power of even the low power 2102's (the memory chip that everyone else uses). That means 8K bytes in sixteen chips. It also means no more 28 amp power supplies.

The system is fully expandable to 65K via an edge connector which carries both the address and data busses, power supplies and all timing signals. All dynamic memory refreshing for both on and off-board memory is done automatically. Also, the Apple Computer can be upgraded to use the 16K chips when they become available. That's 32K bytes on-board RAM in 16 IC's—the equivalent of 256 2102's!

A Little Cassette Board That Works!

Unlike many other cassette boards on the marketplace, ours works every time. It plugs directly into the upright connector on the main board and stands only 2" tall. And since it is very fast (1500 bits per second), you can read or write 4K bytes in about 20 seconds. All timing is done in software, which results in crystal-controlled accuracy and uniformity from unit to unit.

Unlike some other cassette interfaces which require an expensive tape recorder, the Apple Cassette Interface works reliably with almost any audio-grade cassette recorder.
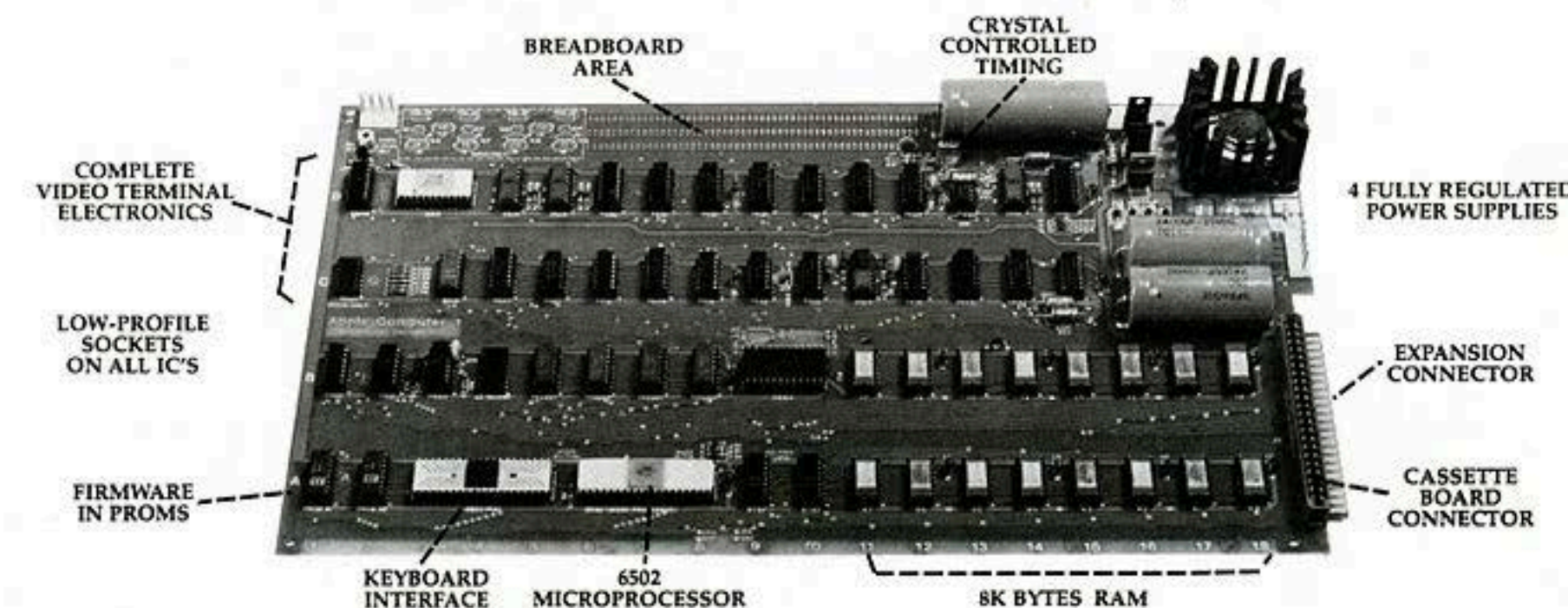
Software:

A tape of **APPLE BASIC** is included free with the Cassette Interface. Apple Basic features immediate error messages and fast execution, and lets you program in a higher level language immediately and without added cost. Also available **now** are a dis-assembler and many games, with many software packages, (including a macro assembler) in the works. And since our philosophy is to provide software for our machines free or at minimal cost, you won't be continually paying for access to this growing software library.

The Apple Computer is in stock at almost all major computer stores. (If your local computer store doesn't carry our products, encourage them or write us direct). **Dealer inquiries invited.**

Byte into an Apple $666.66*

*includes 4K bytes RAM

BREADBOARD AREA

CRYSTAL CONTROLLED TIMING

COMPLETE VIDEO TERMINAL ELECTRONICS

4 FULLY REGULATED POWER SUPPLIES

LOW-PROFILE SOCKETS ON ALL IC'S

EXPANSION CONNECTOR

FIRMWARE IN PROMS

CASSETTE BOARD CONNECTOR

KEYBOARD INTERFACE

6502 MICROPROCESSOR

8K BYTES RAM

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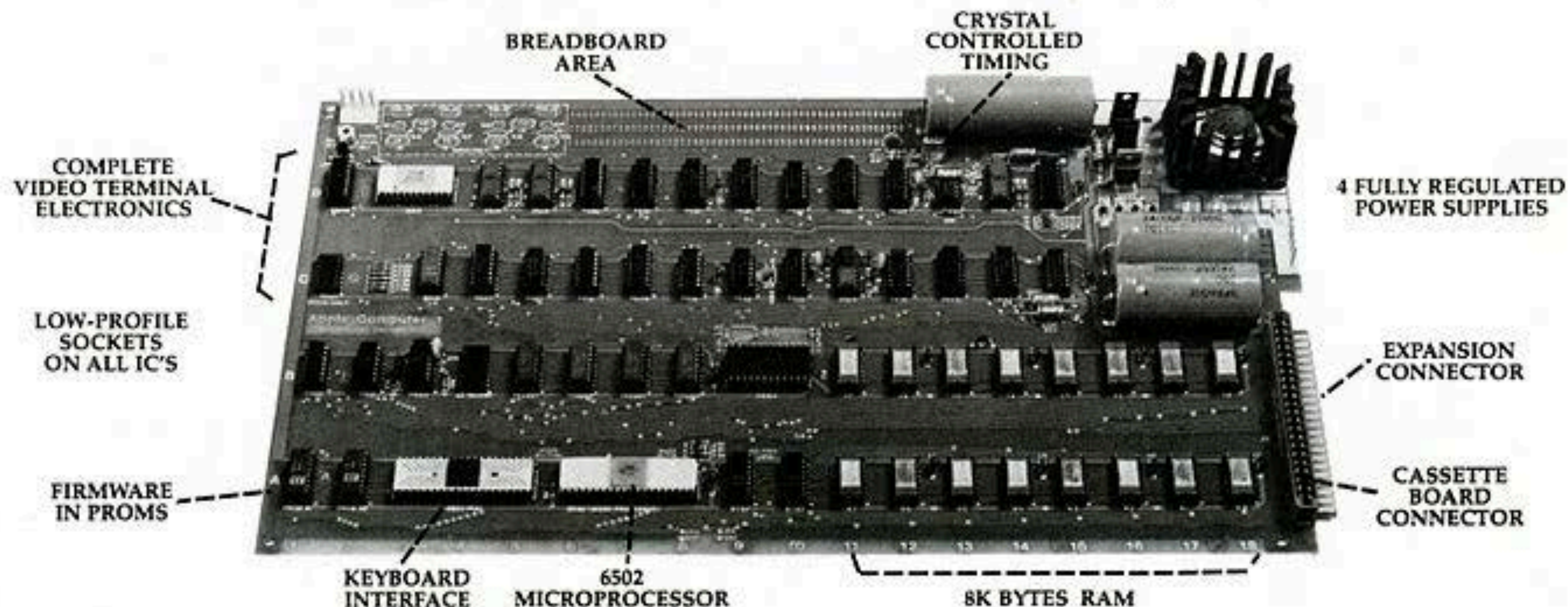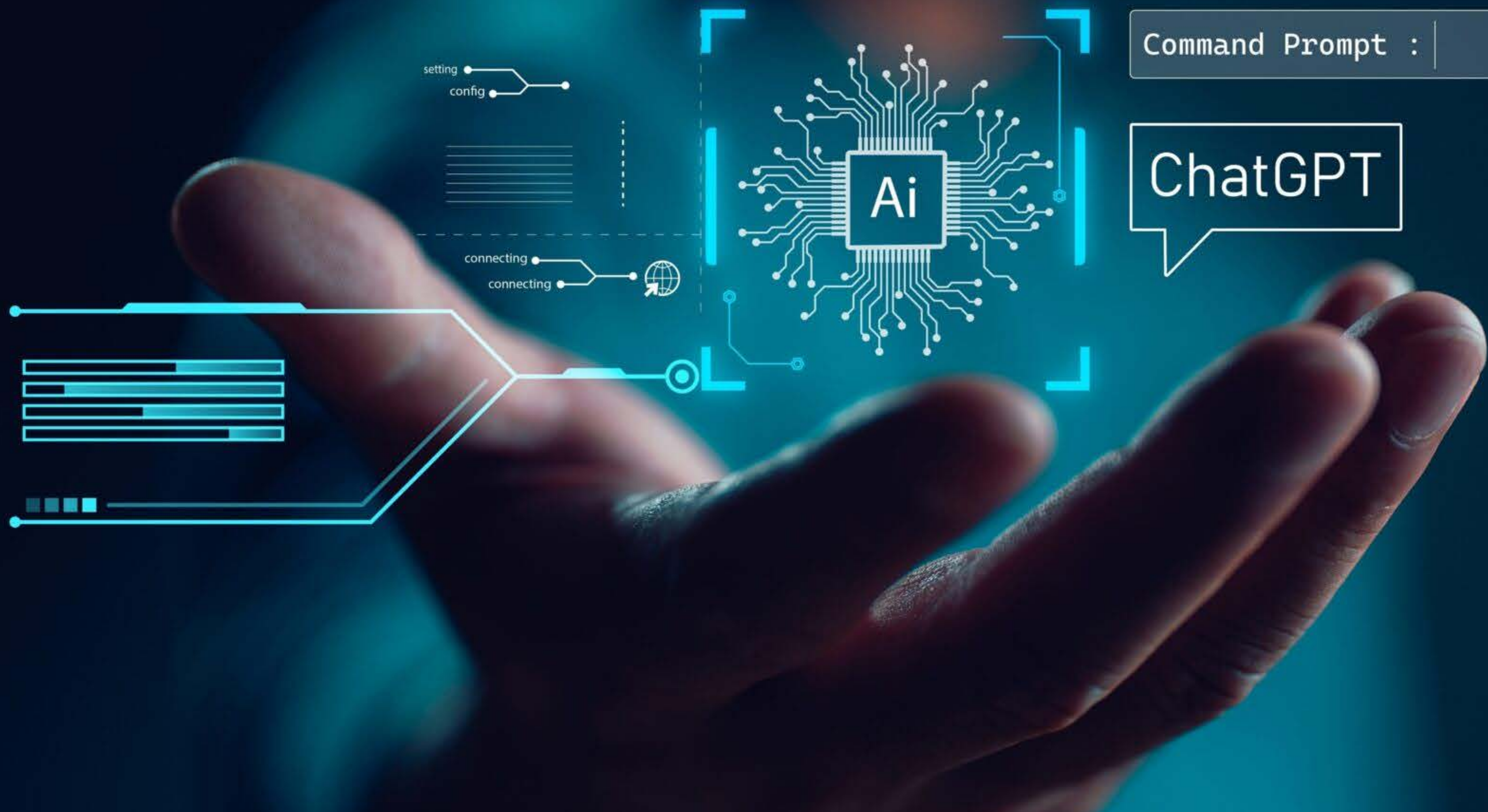
CIRCLE NO. 7 ON INQUIRY CARD

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8K BYTES RAM

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OCTOBER 1976

CIRCLE NO. 7 ON INQUIRY CARD

INTERFACE AGE 11

CRYSTAL
CONTROLLED
TIMING

BREADBOARD
AREA

COMPLETE
VIDEO TERMINAL
ELECTRONICS

4 FULLY REGULATED
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APPLE Computer Company • 770 Welch Rd., Palo Alto, CA 94304 • (415) 326-4248

CIRCLE NO. 7 ON INQUIRY CARD

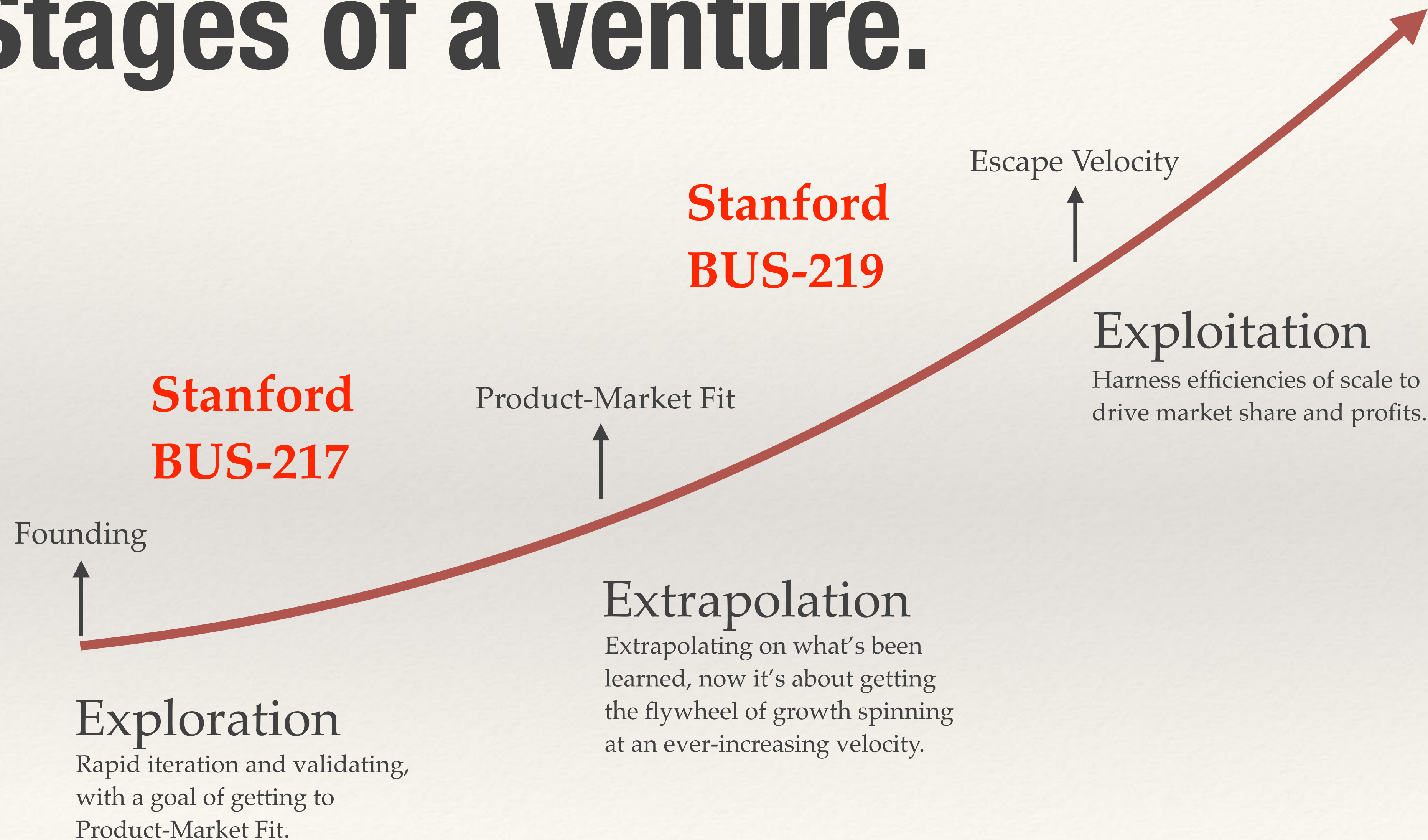I have been in Silicon Valley from the Apple 1 all the way to today's Generative AI tools.

BREADBOARD AREA

CRYSTAL CONTROLLED TIMING

COMPLETE VIDEO TERMINAL ELECTRONICS

4 FULLY REGULATED POWER SUPPLIES

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OCTOBER 1976

CIRCLE NO. 7 ON INQUIRY CARD

INTERFACE AGE 11

Command Prompt :

Ai

ChatGPT

setting
config

connecting
connecting

Bret Waters

Founder and CEO of three Silicon Valley companies:

- **Metagraphics –** developed the first web-based document generation engine.

  Sold to Linotext America**.**

- **Artmachine** – developed the first pure-SaaS digital media management system.

  Sold to OpenText.

- **Tivix** – developed fintech systems for major banks around the world.

  Sold to Kellton.

Now I teach entrepreneurship at Stanford University.

Stages of a venture.

Stanford BUS-219

Stanford BUS-217

Escape Velocity

Product-Market Fit

Founding

Exploration
Rapid iteration and validating, with a goal of getting to Product-Market Fit.

Extrapolation
Extrapolating on what's been learned, now it's about getting the flywheel of growth spinning at an ever-increasing velocity.

Exploitation
Harness efficiencies of scale to drive market share and profits.

I now also coach startup CEO's at Miller Center for Social Entrepreneurship.

2024

In my career, I've worked with hundreds of startup founders. I've seen patterns with regard to which ones succeed and which ones fail.

Based on the patterns I've observed, I've written a new book to help anyone successfully get from a startup idea to a launch-ready, funding-ready startup venture.

The Launch Path:

Getting from a startup idea to a launch-ready, funding-ready venture.

1) Listen to the waves.

2) Build something people want.

3) Draw the landscape.

4) Create an engine of growth.

5) Engineer an economic model.

6) Create a capital strategy.

7) Frame a Funnel.

8) Be a Master Storyteller.

The Launch Path.
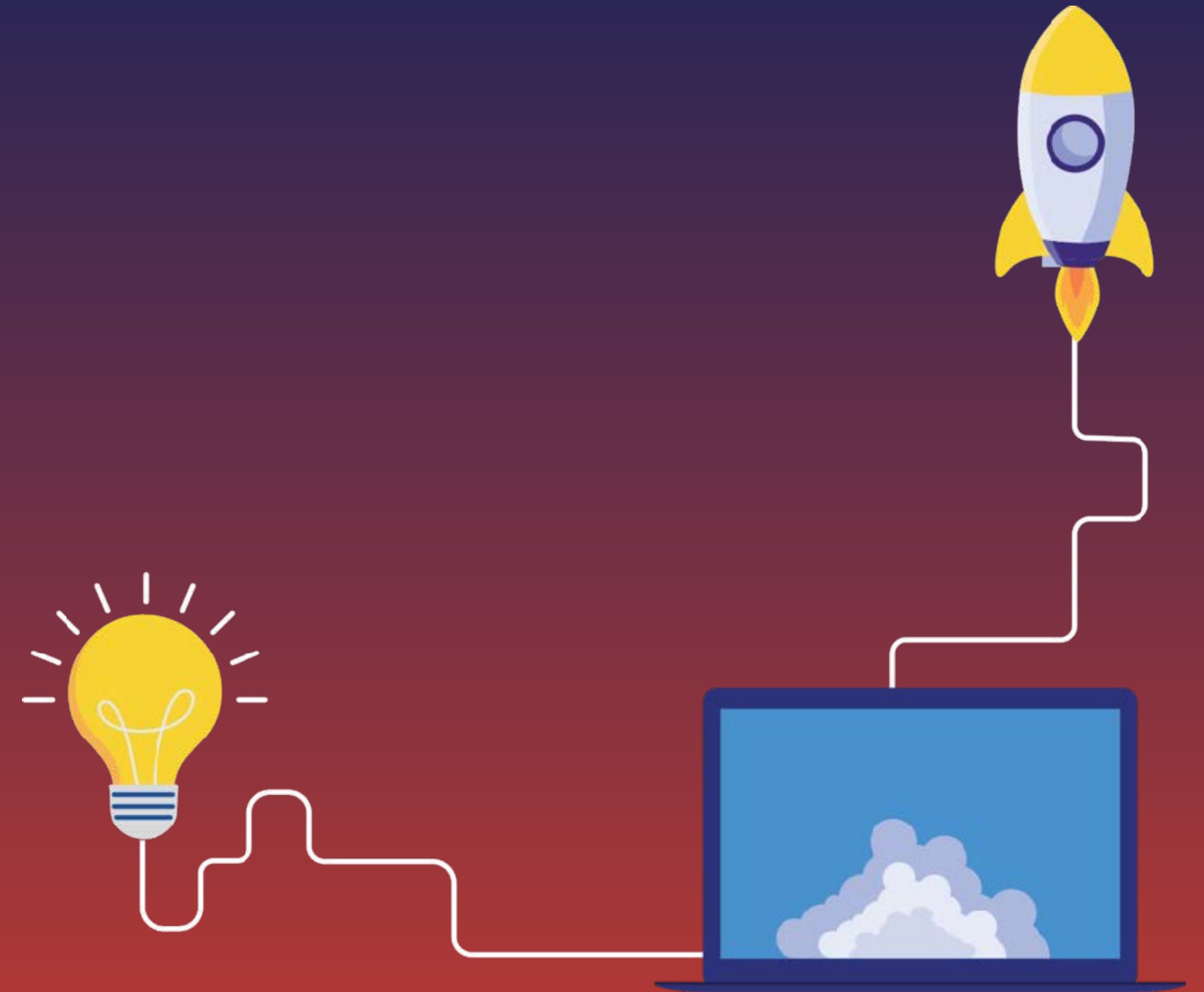
Today we will learn about how you can create your own startup venture, using my **Launch Path** process- eight steps from a startup idea to a launched and successful startup venture.

I will post these slides and other materials for you at bretwaters.com/vn

CHAPTER 1:

Listen to the Waves.

The Launch Path

Step 1: Listen to the Waves.

Where do most startups begin?

Most great startups begin with a founder who notices <u>a problem worth solving.</u>

In getting from a startup concept to a successful, growing venture, what matters most?

It's not the idea.

Ideas are cheap. Execution is hard.

Most startup ideas fail. Investors know this and so they invest in founders who can execute a path to success when the original idea fails.

My goal with this course is to make you one of those founders.

Here are some ideas that failed, but now the business is worth billions.

YouTube's idea was a video dating site.

Android's idea was an OS for digital cameras.

Uber's idea was a fleet of company-owned cars, called "UberTaxi".

Instagram's idea was a mobile check-in app (like Foursquare) called "Burbn".

The Twitter team's idea was a Flash-based podcasting platform called "Odeo".

Slack's original idea was a video game studio.

"The verb you want to be using with respect to startup ideas is not "think up" but notice. The way to get startup ideas is not to try to think of startup ideas. It's to look for problems."

- Paul Graham
  Co-founder of Y-Combinator

Uber was born when a group of friends spent $800 to hire a private driver and then listened to the driver talk about how much downtime he had every week, waiting for business.

Airbnb was born when roommates in San Francisco needed to rent out a spare bedroom to pay the rent.

Cisco was born when two computer administrators at Stanford were frustrated by slow network speeds.

This is often how great startups begin, when a founder notices a problem worth solving and falls in love with solving that problem.

CHAPTER 2:

Learn what people want
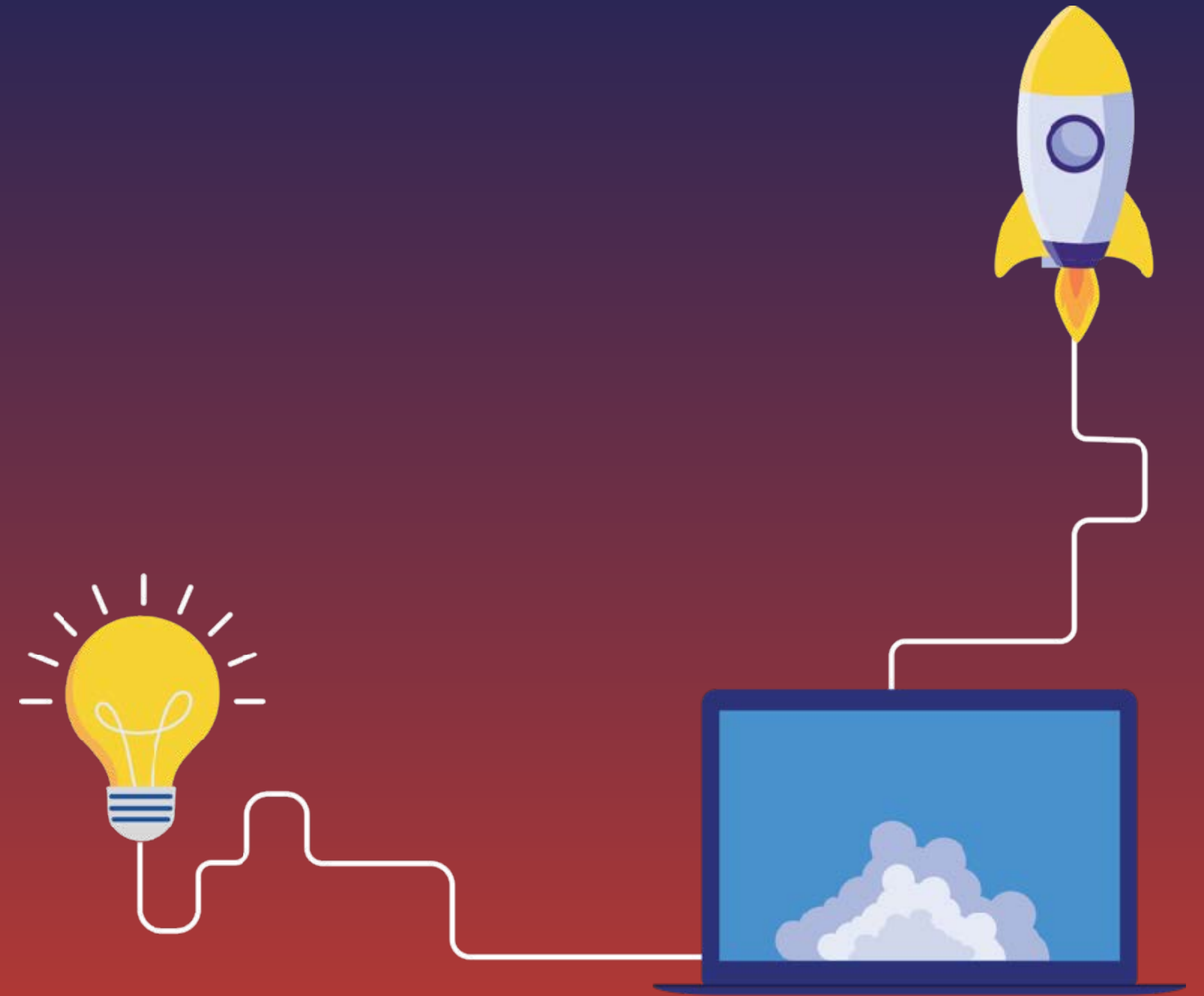
The Launch Path

Step 2: Learn what people want

Don't build something that no one cares about.

"

The only way to win is to learn faster than anyone else.

- ERIC RIES

1958
The greatest new product failure in history.

THIS IS THE **EDSEL**

Newest Expression of Fine Engineering from Ford Motor Company

Ford Motor Company

❖ After revolutionizing mass production, Ford had their IPO (initial stock offering) on the New York Stock Exchange in 1956.

❖ The stock opened the day at $64.50/share and by the end of the day was trading at $70.50, giving them a market capitalization of $660M (over $6 billion in today's dollars).

❖ It was the most successful IPO in American history.

So they decided to take all that new cash and develop a brand-new product.

They put together the best automotive engineers in the world and gave them two years and an limited budget to design the world's most advanced car.

Competing against Buick, Oldsmobile, Pontiac, Dodge, and DeSoto, Edsel would be the first new brand introduced by an American automaker since the 1939 launch of Mercury.

So Ford went all-in on using their pile of cash to make the Edsel the greatest new product ever.

After two years and tens of millions of dollars of product development, the Edsel launched in 1958.

THIS IS THE EDSEL

Newest Expression of Fine Engineering from Ford Motor Company

Rolling-dome .

Push-button transmission shifting

Self-adjusting brakes.

410-cubic-inch Edsel "E-475" Engine.

Warning lights on dashboard.

Speedometer glows when speeding.

Transmission locks in park until ignition key turned.

Triple-thermostat cooling system.

Front-mounted distributor, coil, fuel pump, dipstick.

Hood release controlled electronically.

"The Newest Expression of Fine Engineering from Ford Motor Company".

The most advanced automobile ever.

Projected sales for the first year were 200,000 units, with over one million units within three years.

18 Edsel models spread over four lines.

EDSEL CITATION

The Edsel Citation Convertible

The Edsel Citation 4-Door Hardtop

The Edsel Citation 2-Door Hardtop

EDSEL CORSAIR

The Edsel Corsair 2-Door Hardtop

The Edsel Corsair 4-Door Hardtop

EDSEL PACER

The Edsel Pacer 2-Door Hardtop

The Edsel Pacer 4-Door Hardtop

The Edsel Pacer Convertible

The Edsel Pacer 4-Door Sedan

THIS IS THE EDSEL

Newest Expression of Fine Engineering from Ford Motor Company
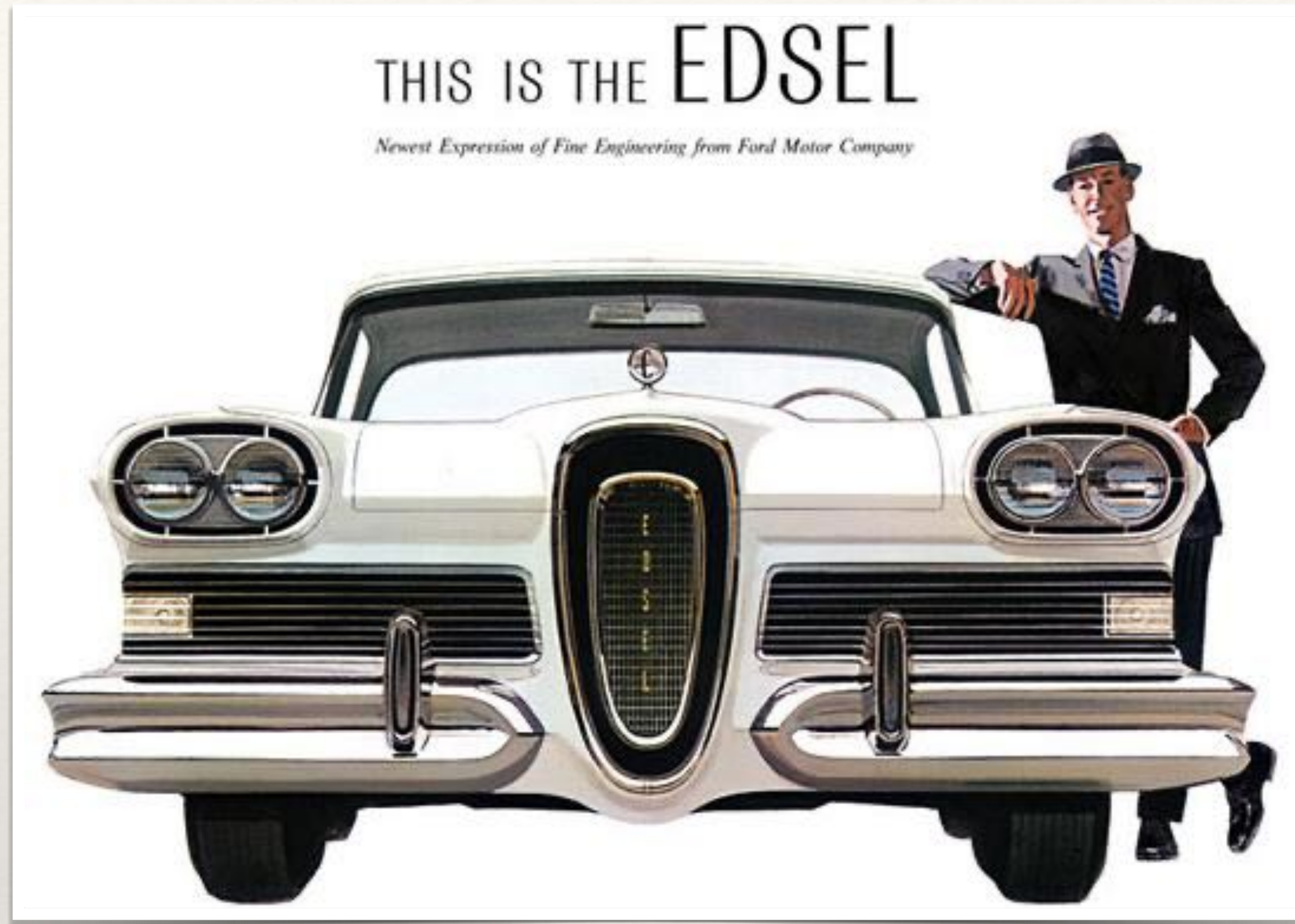
- Projected sales for the first year were 200,000 units, with 3-year projections of over one million units.

- First year sales were less than 60,000.

- The second year was 56,000.

- Total units sold were less than half the company's projected break-even point.

- Each one sold cost 2x to make.

- The Edsel project lost a colossal $350 million (over $3 billion in current dollars).

The greatest new product failure in history.

Technologically
Feasible.

What customers want.

Profitable economics.

Successful product
innovation happens here.

Technologically Feasible.

What customers want

Profitable economics.

THIS IS THE EDSEL

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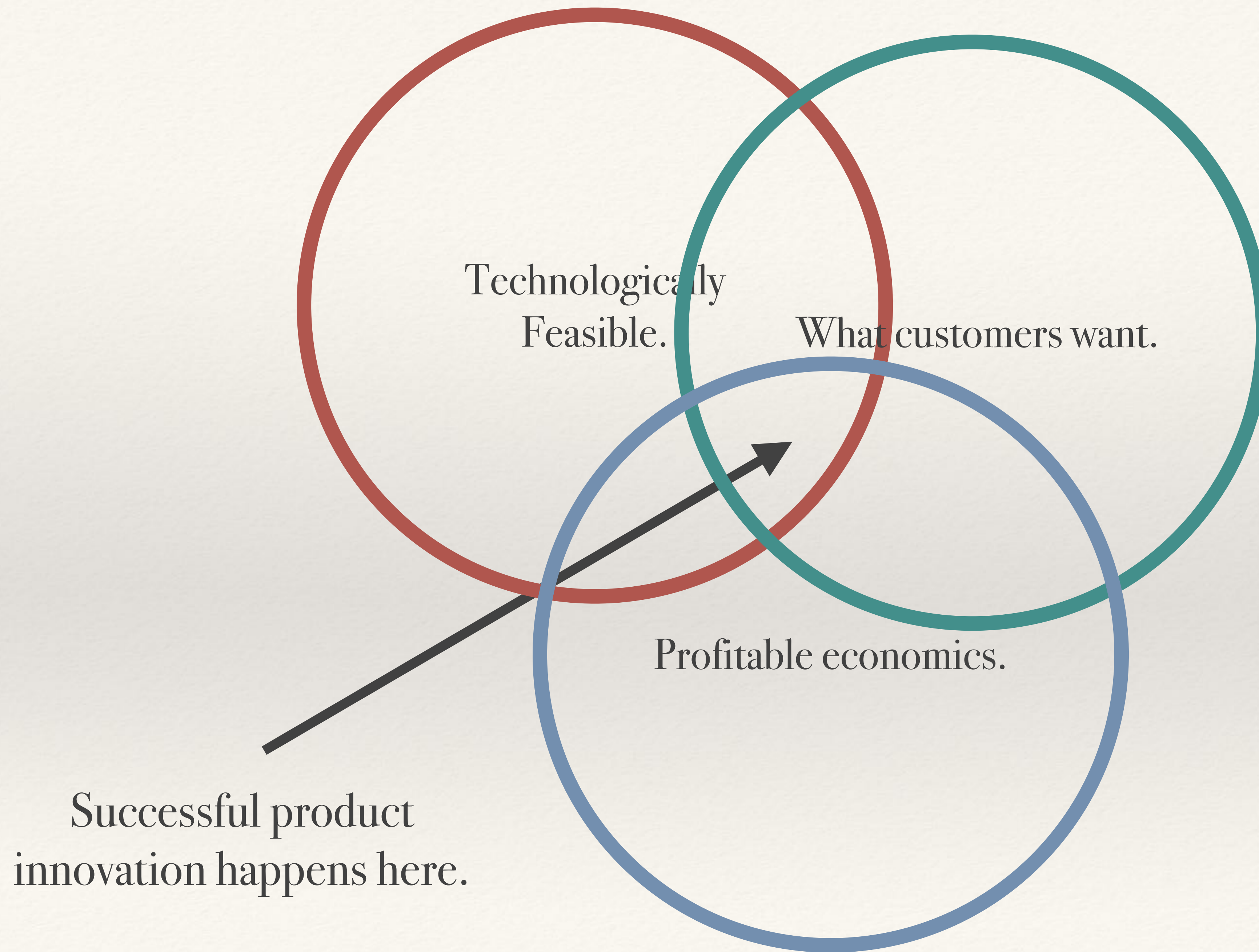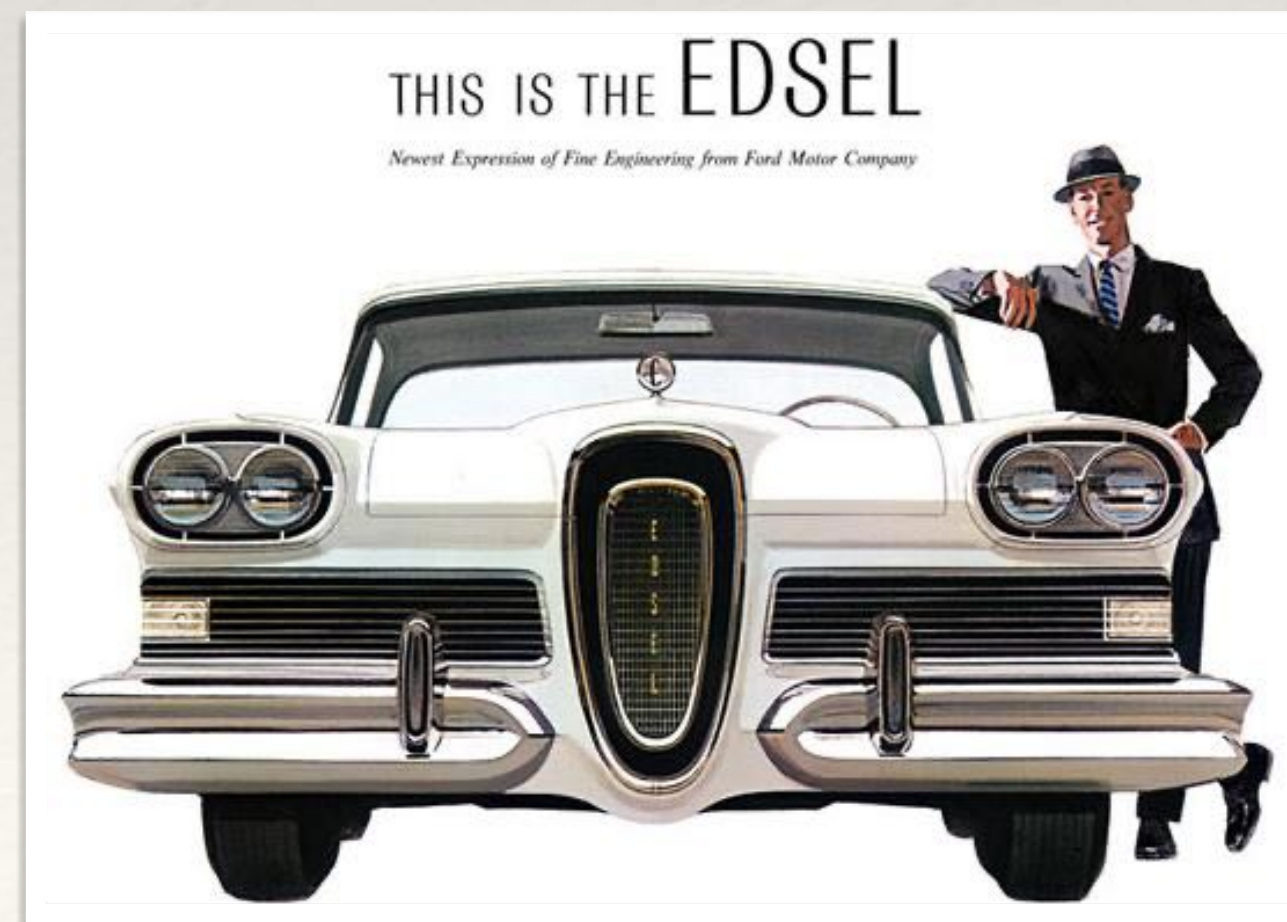
This has been a recurring issue since the dawn of entrepreneurship:

How does one reliably create products that succeed?

We've all seen examples of companies that have sent millions of dollars developing products they thought they world needed, only to find out that no one wanted to buy those products.

Perfected by Earth.

Pressed by Us.

JuicEro

Juicero:
(noun) /joos/ār/rō
Cold-pressed juicing system

Juicero

Founded 2014, raised $120M in capital.

"The only wifi-connected juicer on the market today".

$699, plus a subscription to receiving the juice packets, at $5-7 each.

After just 16 months of operation they went bankrupt and shut down. $120M in capital, down the toilet.

Squeezed out: widely mocked startup Juicero is shutting down

The company, which offered pre-sold packets of diced fruits and vegetables that users plugged into its $400 machines, launched only 16 months ago

Sam Levin

🐦 @SamTLevin

Fri 1 Sep 2017 17.26 EDT

📷 Juicero's $400 machine. Photograph: PR company handout

Juicero, a Silicon Valley juicer startup that raised $120m from investors and was widely ridiculed after the $400 machines were revealed to be the equivalent of two hands squeezing a juice box, is shutting down.

The death of Juicero, announced on Friday, is the latest case of a San Francisco tech startup collapsing after raising substantial funds under the

We've all seen examples of companies that have sent millions of dollars developing products they thought they world needed, only to find out that no one wanted to buy those products.

I'm embarrassed to admit that I've done it myself.

In 2000-2001 I used a linear product development process:

Congratulations! You've spent 2 years and $5 million proving that there is zero demand for your product!

But most startups die in the valley of death.

Then we'll scale up and be rich!

Cool idea! → Spend millions building it. → Find some customers. → [Then we'll scale up and be rich!]

Three concepts I wish I'd known before I did that:

Product Market Fit

Customer Development

Design Thinking

PMF

EE204: Business Management for Electrical Engineers and Computer Scientists

On this page:

Product/Market Fit

Product/Market Fit

> ❝ *The only thing that matters is getting to product/market fit.* ❞

by Marc Andreesen, June 25, 2007

This post is all about the only thing that matters for a new startup.

But first, some theory:

If you look at a broad cross-section of startups -- say, 30 or 40 or more; enough to screen out the pure flukes and look for patterns -- two obvious facts will jump out at you.

On this page:

Product/Market Fit

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> **"** *The only thing that matters is getting to product/market fit.* **"**

If the only thing that matters is product/market fit, then the only question that matters is:

How do we get there most efficiently and effectively?

Steve Blank

Steve Blank founded 8 companies, four had IPO's

The other four resulted in "large craters in the ground".

Retired and wrote "The Four Steps to Epiphany".
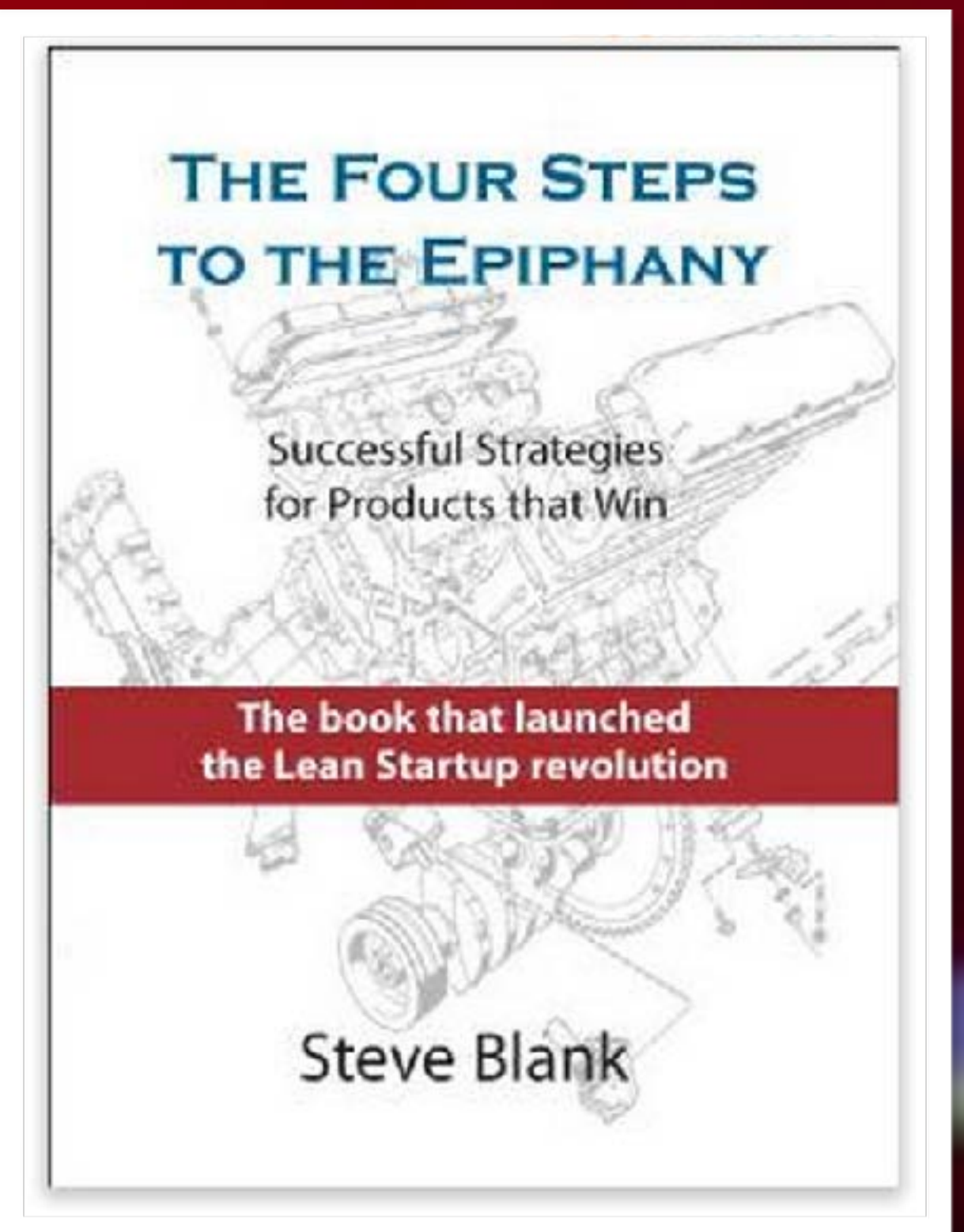
"No business plan survives first contact with actual customers".

-Steve Blank

"Before you begin product development you need to do <u>customer</u> <u>development</u>".

-Steve Blank

The concept of Customer Development is simple:

Spend a lot of time talking with prospective customers <u>before</u> you build a product.

Lean/MVP

The book by Eric Ries popularized the term "MVP".
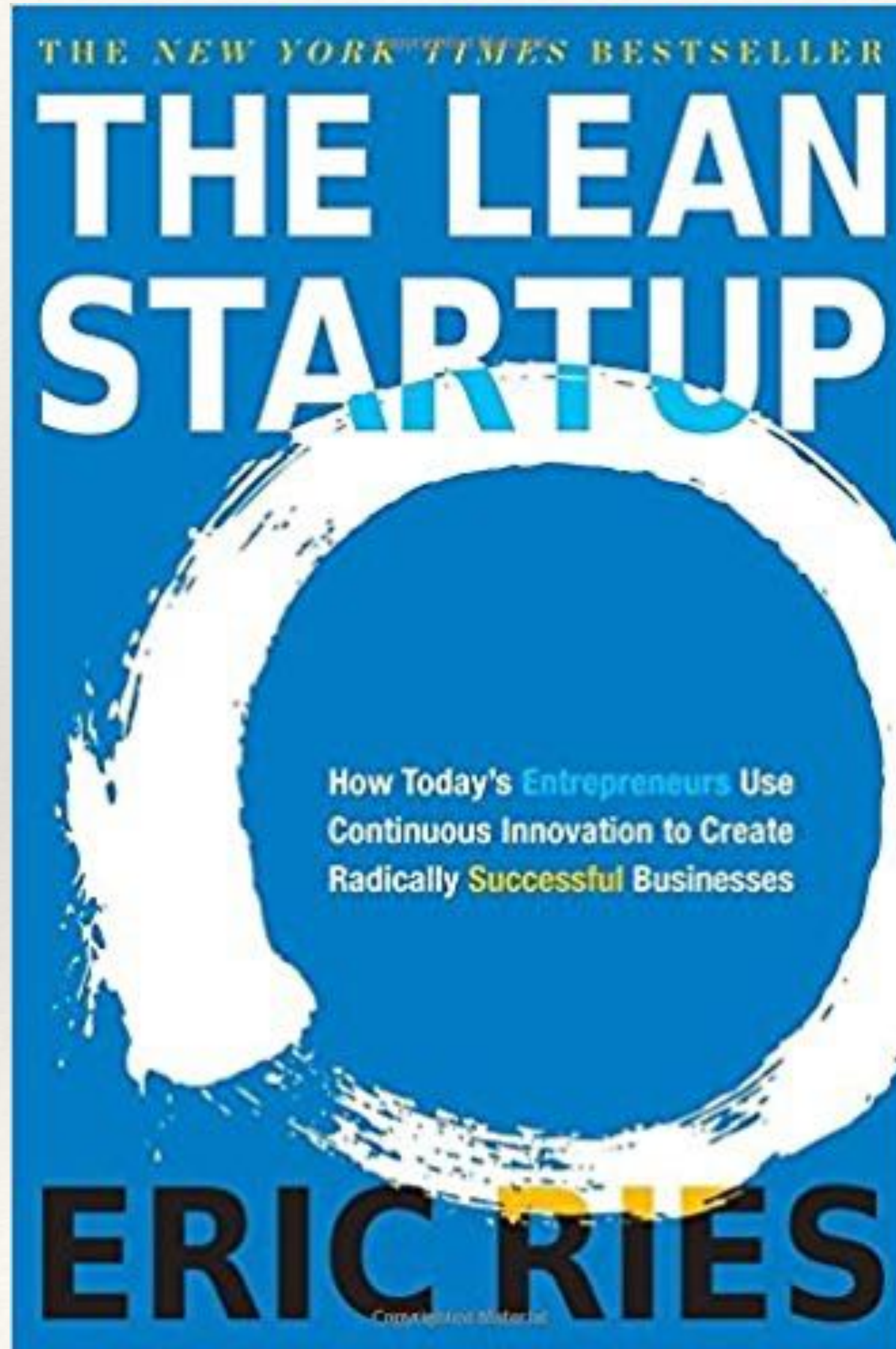
MVP
Minimum Viable Product

"A Minimum Viable Product is that version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort.

-Eric Ries, in The Lean Startup

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Like to know when that book you want comes out in paperback or when your favorite author releases a new title? Eyes, our tireless, automated search agent, will send you mail. Meanwhile, our human editors are busy previewing galleys and reading advance reviews. They can let you know when especially wonderful works are published in particular genres or subject areas. Come in, meet Eyes, and have it all explained.

[thefacebook]

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Password:

register
login

Welcome to Thefacebook!

[Welcome to Thefacebook]

Thefacebook is an online directory that connects people through social networks at colleges.

We have opened up Thefacebook for popular consumption at **Harvard University**.

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- Search for people at your school
- Find out who are in your classes
- Look up your friends' friends
- See a visualization of your social network

To get started, click below to register. If you have already registered, you can log in.

Register   Login

"A Minimum Viable Product is that version of a new product which allows a team to collect the <u>maximum amount of validated learning about customers</u> with the least effort.

-Eric Ries, in The Lean Startup

Design Thinking

Developed at the d.school at Stanford

Design Thinking: An engineering framework for creating products that succeed.
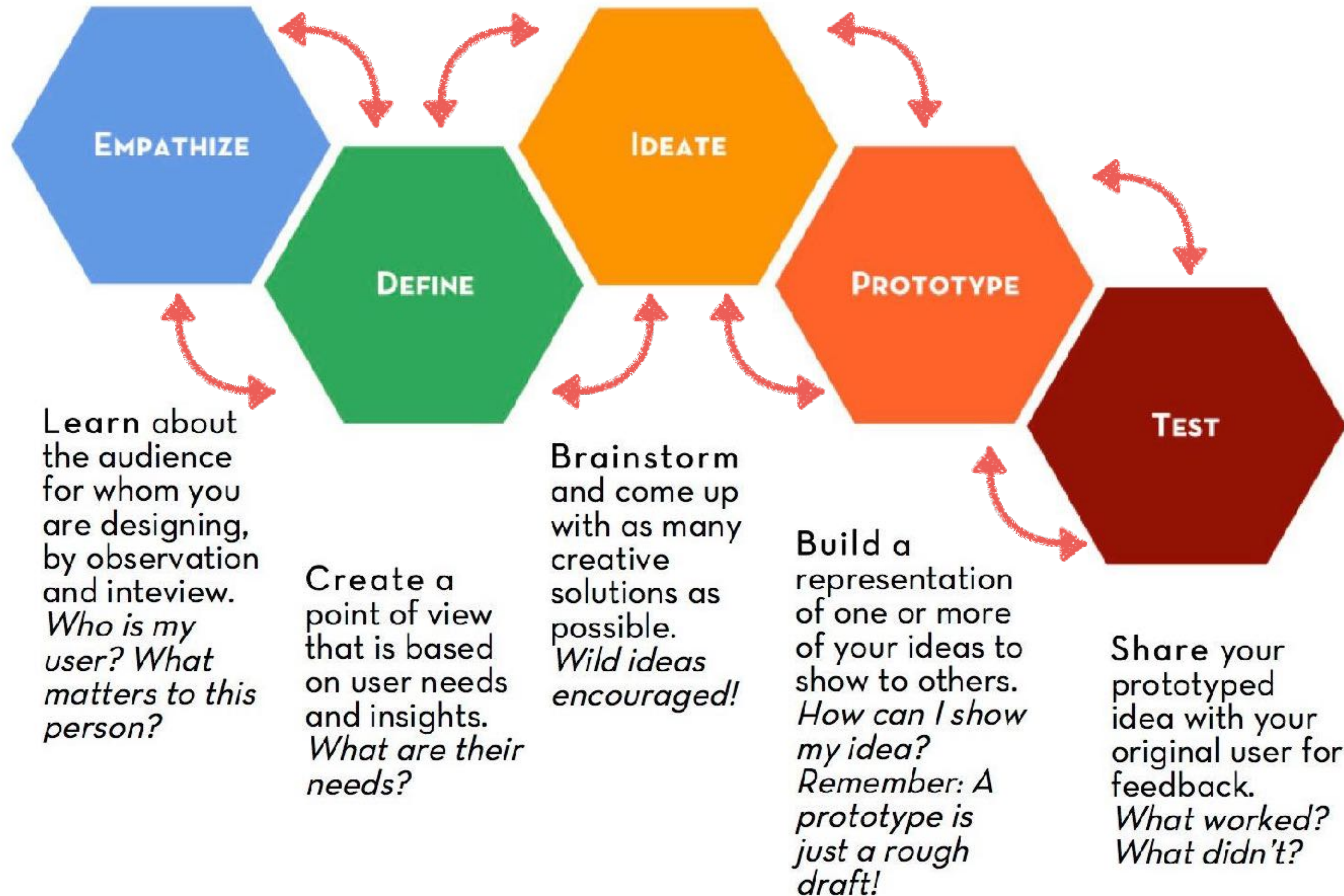
Product Market Fit
Customer Development
Design Thinking

All of these really distill down to this:

Don't build what you think the market needs. Build what the market tells you it needs. The most efficient way to get to PMF is a series of small experiments that <u>test</u> and <u>validate</u> your assumptions.

A startup is an experiment. Use the scientific method.

Customer Development, Lean startup, MVP, Design Thinking, Design Sprints are all variations on the same theme: small experiments are what lead to Product-Market Fit.

CHAPTER 3:

Draw the landscape

The Launch Path

Step 3: Draw the landscape

Every startup operates within a landscape of competitors and alternatives.

"
I looked at my competitors, and I thought, if they could do it, I could do it. And if they are popular and doing well, I could compete with them. "

- TOMMY HILFIGER

All startups operate within a landscape of competitors and alternatives.

All startups operate within a landscape of competitors and alternatives.

If you find a lot of competition for your startup, is that good or bad?

Paul Graham @paulg

In 99% of startups, failing to execute is a much bigger danger than being copied. So it's a mistake to risk the former in order to avoid the latter.

4:14 AM · Feb 7, 2021

2.8K   495   Copy link to Tweet

Researching and understanding the competitive landscape is important as you develop your product or service.

But then don't obsess about competition - it's not the reason most startups die.

Startups rarely fail because of competition. They fail because their product doesn't meet market needs, they fail from bad financial management, they fail because the unit economics are upside down.

In short most of them fail because the team doesn't execute. They don't usually fail because of competition.

Competition

	Our App	Brand X	Brand Y
User Friendly	✅	❌	❌
Encryption	✅	❌	✅
Keywords	✅	✅	❌
AI-Powered	✅	✅	❌
Cloud Bookmarks	✅	❌	❌
Social	✅	❌	✅
API's	✅	❌	✅

Competitive Landscape

Focus on individual calls

FaceTime

Google Meet

Skype

zoom

GoToMeeting

poly

Focus on large group calls.

BlueJeans

AVAYA

Cisco webex

Deep enterprise integration focus.

No enterprise integration focus.

Market Size: TAM, SAM, SOM

TAM

SAM

SOM

Total Addressable Market

This is the total existing market demand for your product or service. It's relatively meaningless because your applesauce startup is never going to get one hundred percent of the worldwide applesauce market.

Serviceable Available Market

This is the amount of the TAM you could potentially reach, given your geography and business model. Maybe our applesauce startup is targeting just the direct-to-consumer applesauce market in the United States. That's our SAM.

Serviceable Obtainable Market

Unless you're a monopoly, you're never going to get one hundred percent of the SAM. Given the benefits your applesauce offers customers, what percentage of the total available customers could potentially become yours, and how much would they buy?

CHAPTER 4:

Design a engine of growth
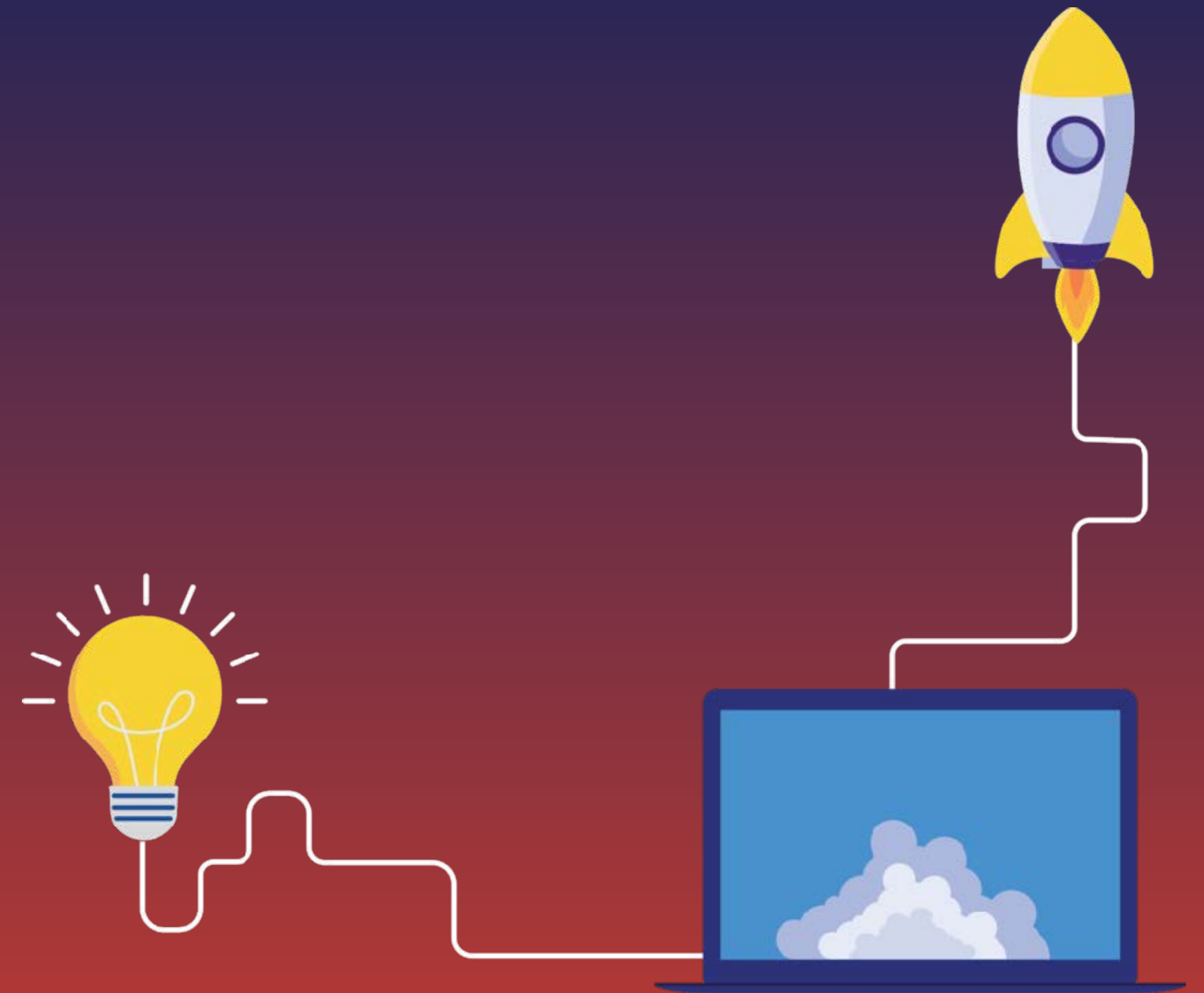
The Launch Path

Step 4: Design an engine of growth

You're gonna need a business model.

A business model is the rationale by which an organization creates, delivers, and captures value.

> **Luck is not a business model.**
> - ANTHONY BOURDAIN

Let's talk about Failure.

"I've missed more than 9,000 shots in my career. I've lost almost 300 games. Twenty-six times, I've been trusted to take the game winning shot and missed. I've failed over and over and over again in my life. And that's why I succeed".

- Michael Jordan, NBA Hall of Fame

AUTODESK

Carol Bartz
Autodesk CEO, 1992-2006
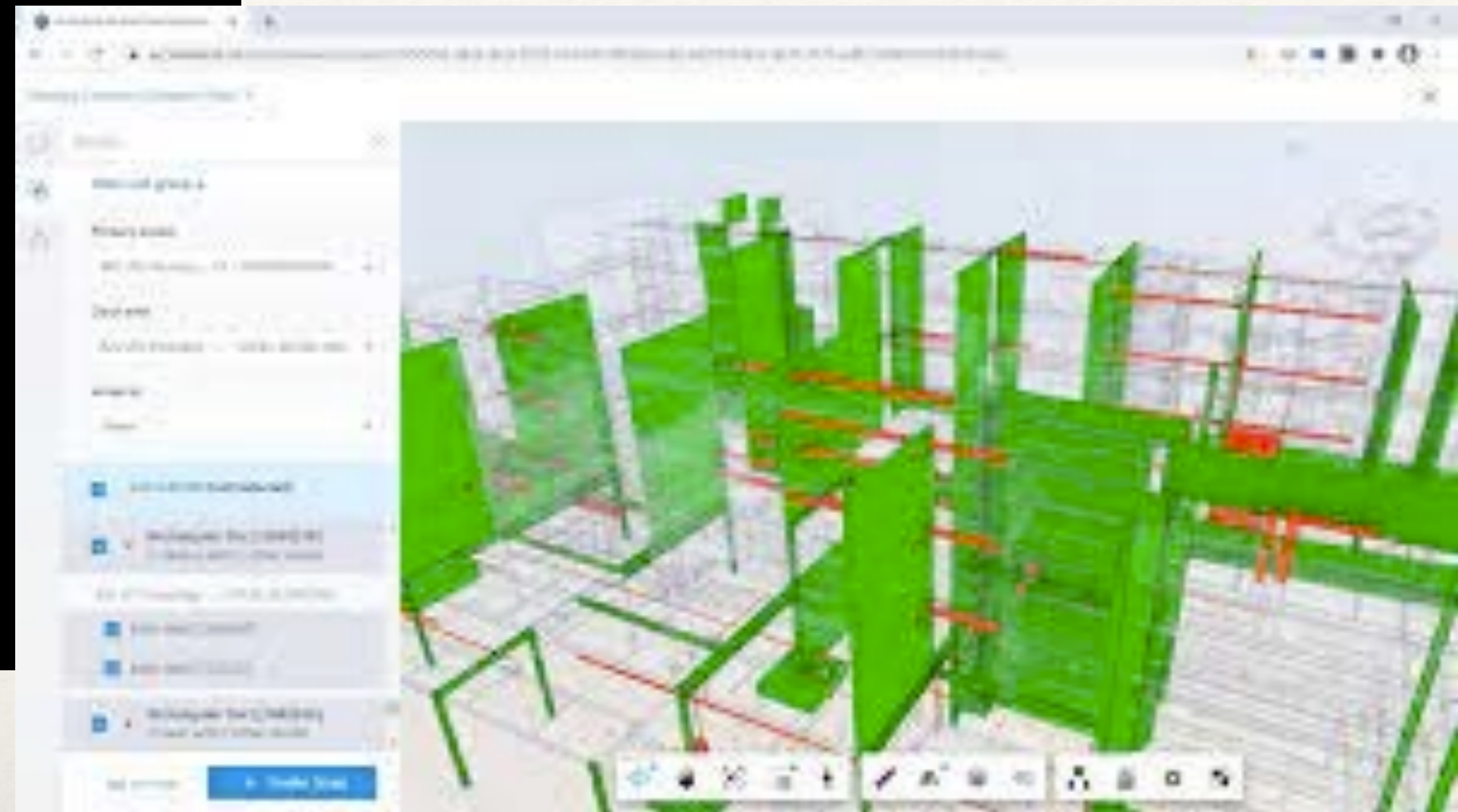
Carol Bartz

In 1992 she took over an old, boring software company and turned it into a billion dollar powerhouse of innovation.
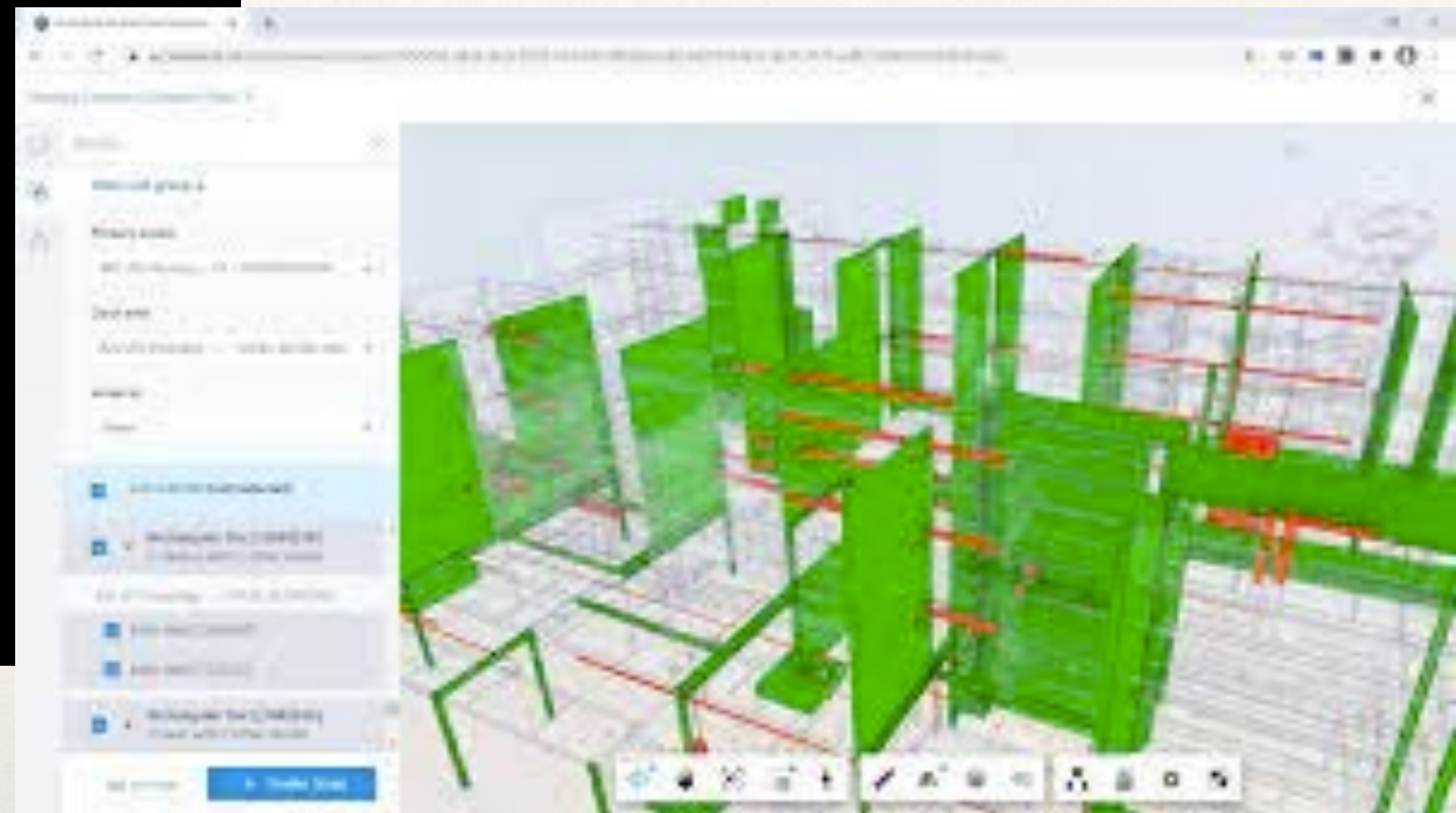
![AUTODESK]

Developed 3F Principle of Innovation: "Fail Fast Forward"

Carol Bartz
Autodesk CEO, 1992-2006
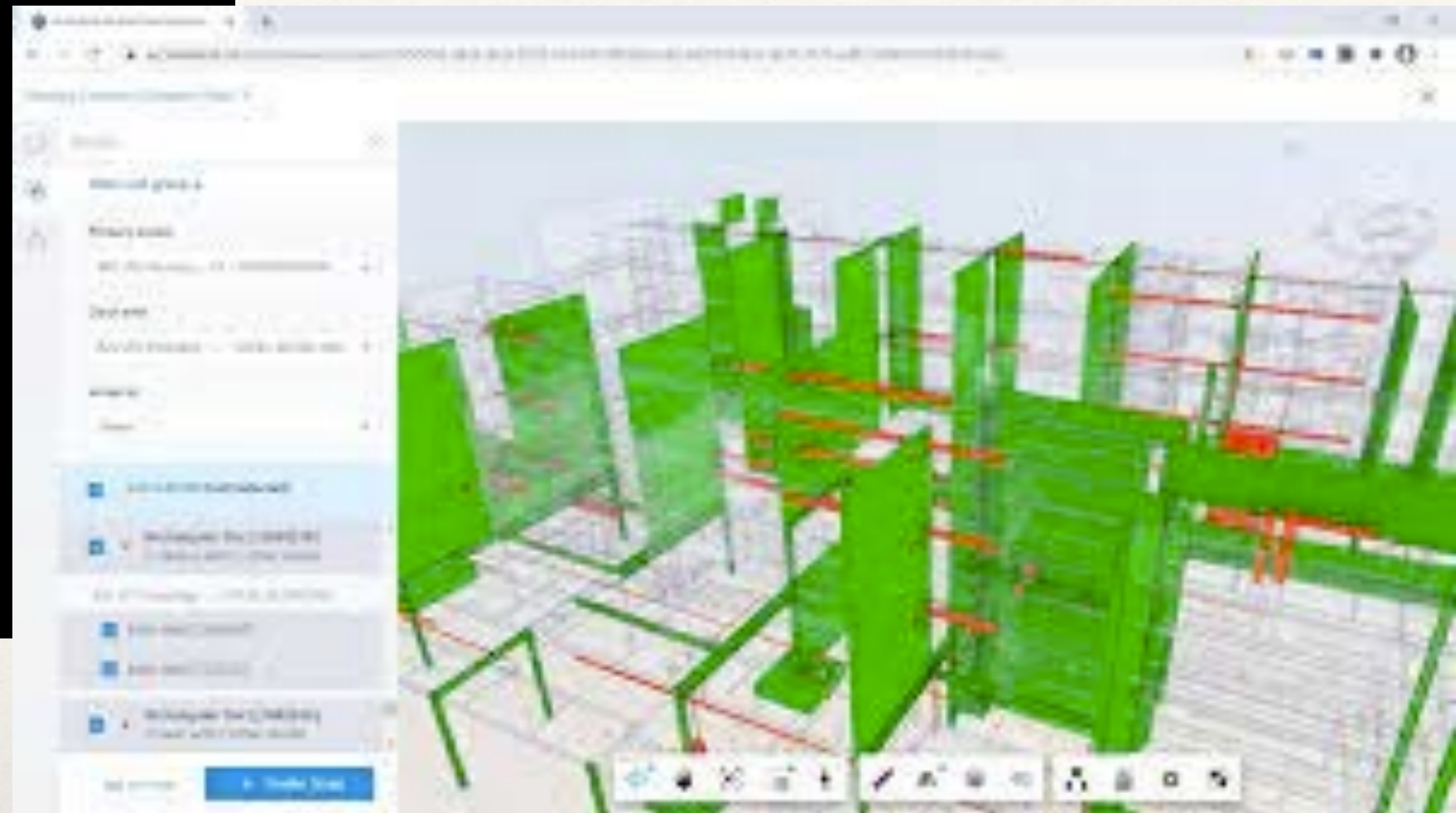
AUTODESK

During her 14-year tenure as the company's CEO, Autodesk became an innovative company, and annual revenue rose from $300 million to $1.5 billion, with the stock price rising an average of 20 percent annually.

Carol Bartz
Autodesk CEO, 1992-2006

Today her FFF ("fail fast forward") philosophy is considered a key component of Silicon Valley's secret sauce.

Carol Bartz
Autodesk CEO, 1992-2006

Startup success is all about learning.

Learning requires failure.

Startup success requires embracing failure.

Fail Fast Forward, baby.

Business Model

Business Model

"A business model describes the rationale of how an organization creates, delivers, and captures value"

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Power by the hour

Our TotalCare ® circular business model helps us to reduce waste and optimise resource efficiency, whilst enabling our customers to maximise the flying potential of their engines.

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A circular business model

Our long-term service agreements retain product stewardship. This provides a means _____ e – reducing waste, increasing efficiency, and
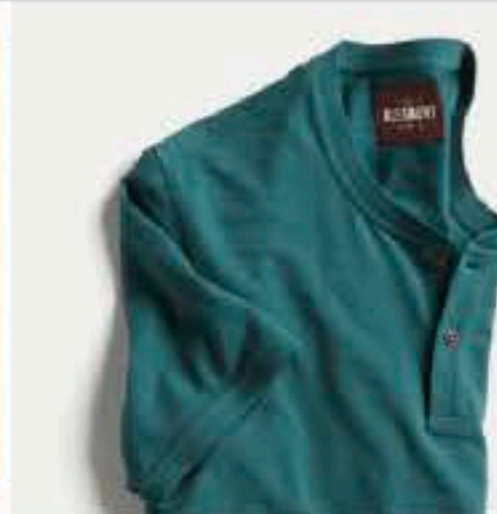
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COMPUTE	STORAGE	DATABASE
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Amazon EC2	**Amazon S3**	**Amazon RDS**
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per month	of standard storage	per month of database usage (applicable DB engines)
Resizable compute capacity in the Cloud.	Secure, durable, and scalable object storage infrastructure.	Managed Relational Database Service for MySQL, PostgreSQL, MariaDB, or SQL Server.
750 hours per month of t4g small instance	5 GB of Standard Storage	
⌄	⌄	⌄

DATABASE	MACHINE LEARNING NEW	COMPUTE
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Hi, I can connect you with an AWS representative or answer questions you have on AWS.

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EVERY MONTH **$1** +2.00 S&H

SELECT

A great basic shaver, for guys who dig simplicity and precision.

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SELECT

Member favorite – a gentle shave in a single stroke.

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SELECT

The final frontier – it's like a personal assistant for your face.

And now, the canvas.

BUS-217: The Launch Path Canvas

Name of Startup Venture:

Prepared by:

Date:

Iteration:

Problem ?

One clear sentence that articulates the problem your startup solves.

Solution ⚙

How does your venture solve the problem you have articulated? Keep this short and consise!

Why it matters ✩

Why is this a problem worth solving?

Alternatives

When a customer looks at alternative ways to solve the problem we solve, what will they see? This is a list of competitors and alternatives. Link to a graphic representation of the landscape.

Customer

It's all about understading customers. Write a one-sentence description of key customer personas and the problem we solve for each. Circle the one that is most influential.

Path to PMF

What is our path to Product-Market Fit? Customer Development, MVP's, etc.

Top 3 Benefits

What are the top 3 benefits that your product or services provides to customers?

Distribution

What are our distibution channels? Direct to consumer, via resellers, or?

Positioning

Within this landscape of competitors and alternatives, how is your venture positioned?

Economics

What are the Unit Economics for this venture, what do we expect the CAC<LTV to look like, and what are out capital needs? (Link to full spreadsheet).

Team

What are the characteristics of the right team to make this venture a success?

Defensibility

What is your secret sauce that is difficult for competitors to copy?

BUS-217: The Launch Path Canvas

Week 1

Name of Startup Venture:

Prepared by:

Date:

Iteration:

Problem ?	Solution ⚙	Why it matters ✦	Alternatives ⚑	Customer 👤
One clear sentence that articulates the problem your startup solves.	How does your venture solve the problem you have articulated? Keep this short and consise!	Why is this a problem worth solving?	When a customer looks at alternative ways to solve the problem we solve, what will they see? This is a list of competitors and alternatives. Link to a graphic representation of the landscape.	It's all about understanding customers. Write a one-sentence description of key customer personas and the problem we solve for each. Circle the one that is most influential.

Path to PMF 📈	Top 3 Benefits 💼	Distribution 👥✉	Positioning 📍	
What is our path to Product-Market Fit? Customer Development, MVP's, etc.	What are the top 3 benefits that your product or services provides to customers?	What are our distibution channels? Direct to consumer, via resellers, or?	Within this landscape of competitors and alternatives, how is your venture positioned?	

Economics 🪙		Team 👥	Defensibility ⚗	
What are the Unit Economics for this venture, what do we expect the CAC<LTV to look like, and what are out capital needs? (Link to full spreadsheet).		What are the characteristics of the right team to make this venture a success?	What is your secret sauce that is difficult for competitors to copy?	

Week 2

BUS-217: The Launch Path Canvas

Name of Startup Venture:

Date:

Prepared by:

Iteration:

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Solution
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Why it matters
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Defensibility
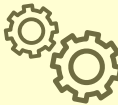What is your secret sauce that is difficult for competitors to copy?

BUS-217: The Launch Path Canvas

Name of Startup Venture:

Prepared by:

Date:

Iteration:

Week 3

Problem ?
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Solution ⚙
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Why it matters ✦
Why is this a problem worth solving?

Alternatives ⚐
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Date:

Prepared by:

Iteration:

Week 4

Problem	Solution	Why it matters	Alternatives	Customer
One clear sentence that articulates the problem your startup solves.	How does your venture solve the problem you have articulated? Keep this short and consise!	Why is this a problem worth solving?	When a customer looks at alternative ways to solve the problem we solve, what will they see? This is a list of competitors and alternatives. Link to a graphic representation of the landscape.	It's all about understanding customers. Write a one-sentence description of key customer personas and the problem we solve for each. Circle the one that is most influential.

Path to PMF	Top 3 Benefits	Distribution	Positioning	
What is our path to Product-Market Fit? Customer Development, MVP's, etc.	What are the top 3 benefits that your product or services provides to customers?	What are our distibution channels? Direct to consumer, via resellers, or?	Within this landscape of competitors and alternatives, how is your venture positioned?	

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BUS-217: The Launch Path Canvas

Name of Startup Venture:

Prepared by:

Date:

Iteration:

Week 5

Week 6

Problem ?
One clear sentence that articulates the problem your startup solves.

Solution
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Why it matters
Why is this a problem worth solving?

Alternatives
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Week 7

# BUS-217: The Launch Path Canvas

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Prepared by:

Date:

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Week 8

I will put a Launch Path Canvas for you to download at **bretwaters.com/vn**

CHAPTER 5:

Engineer an economic model
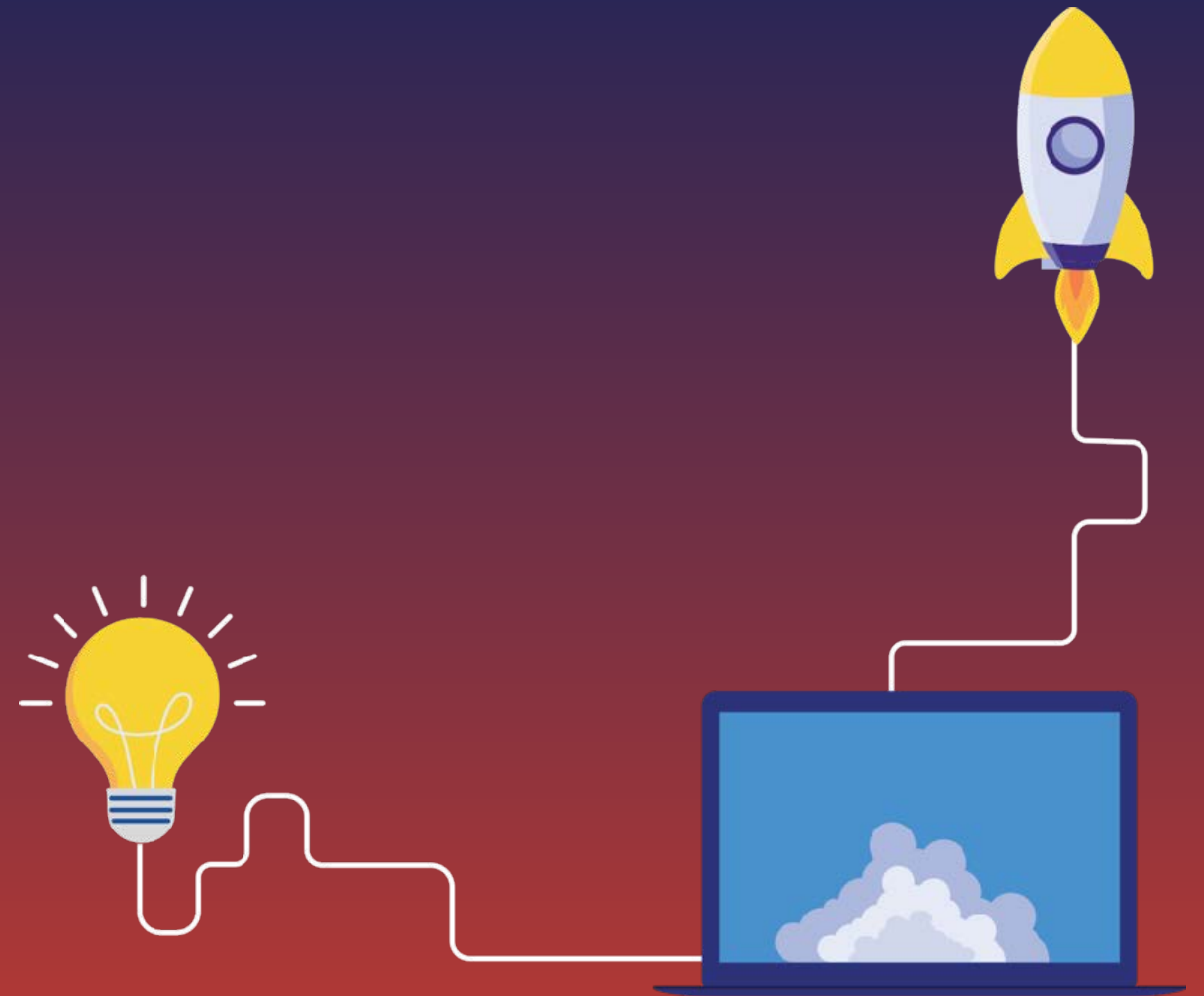
The Launch Path

Step 5: Engineer an economic model

The numbers need to work

" For every one of our failures, we had spreadsheets that looked great.

- SCOTT COOK
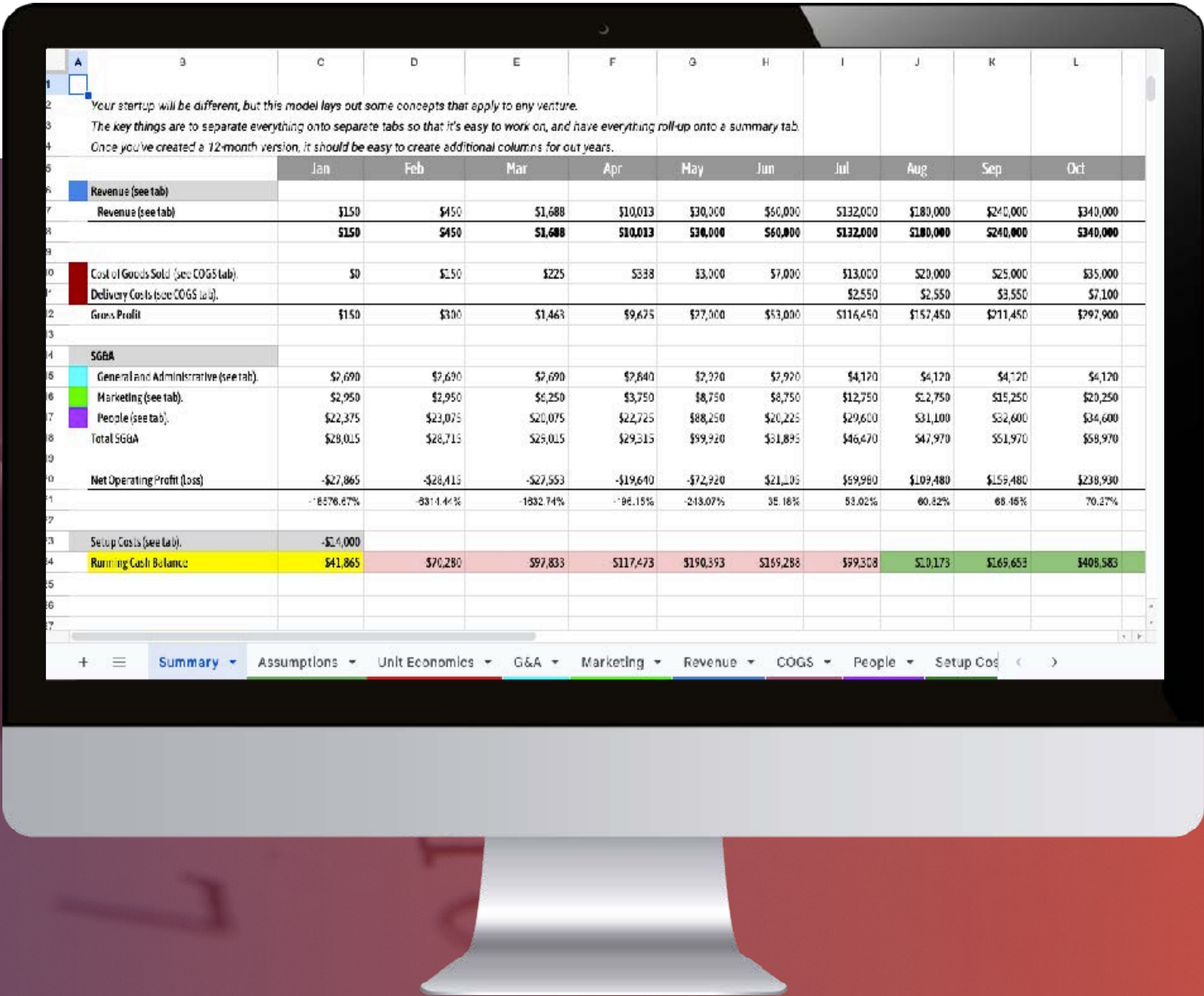
Unit Economics

One Unit.

Unit Economics

Every business distills down to unit economics.

Something we can produce for X, and customers will pay Y for it.

For a widget factory, one unit is one widget.
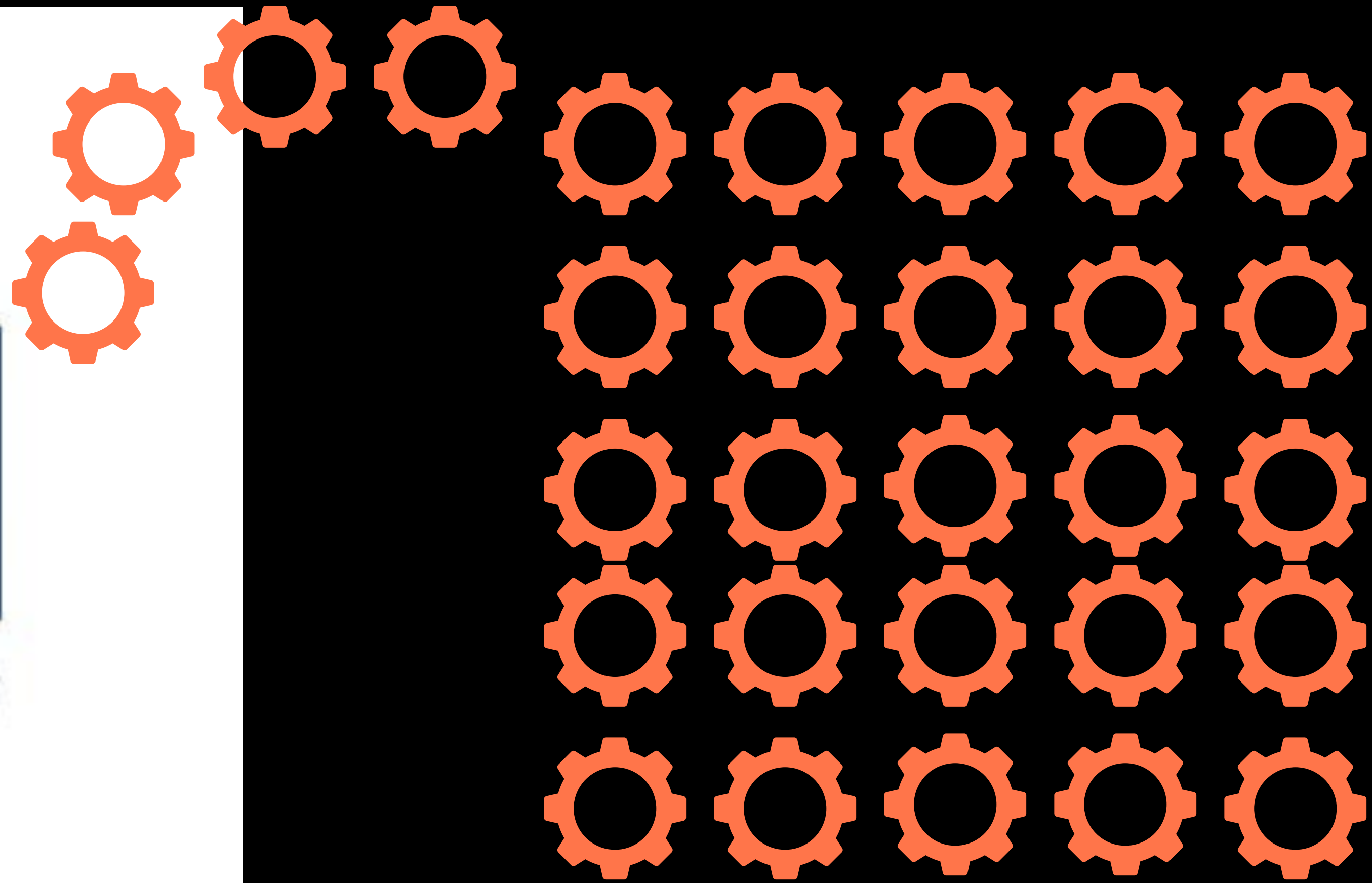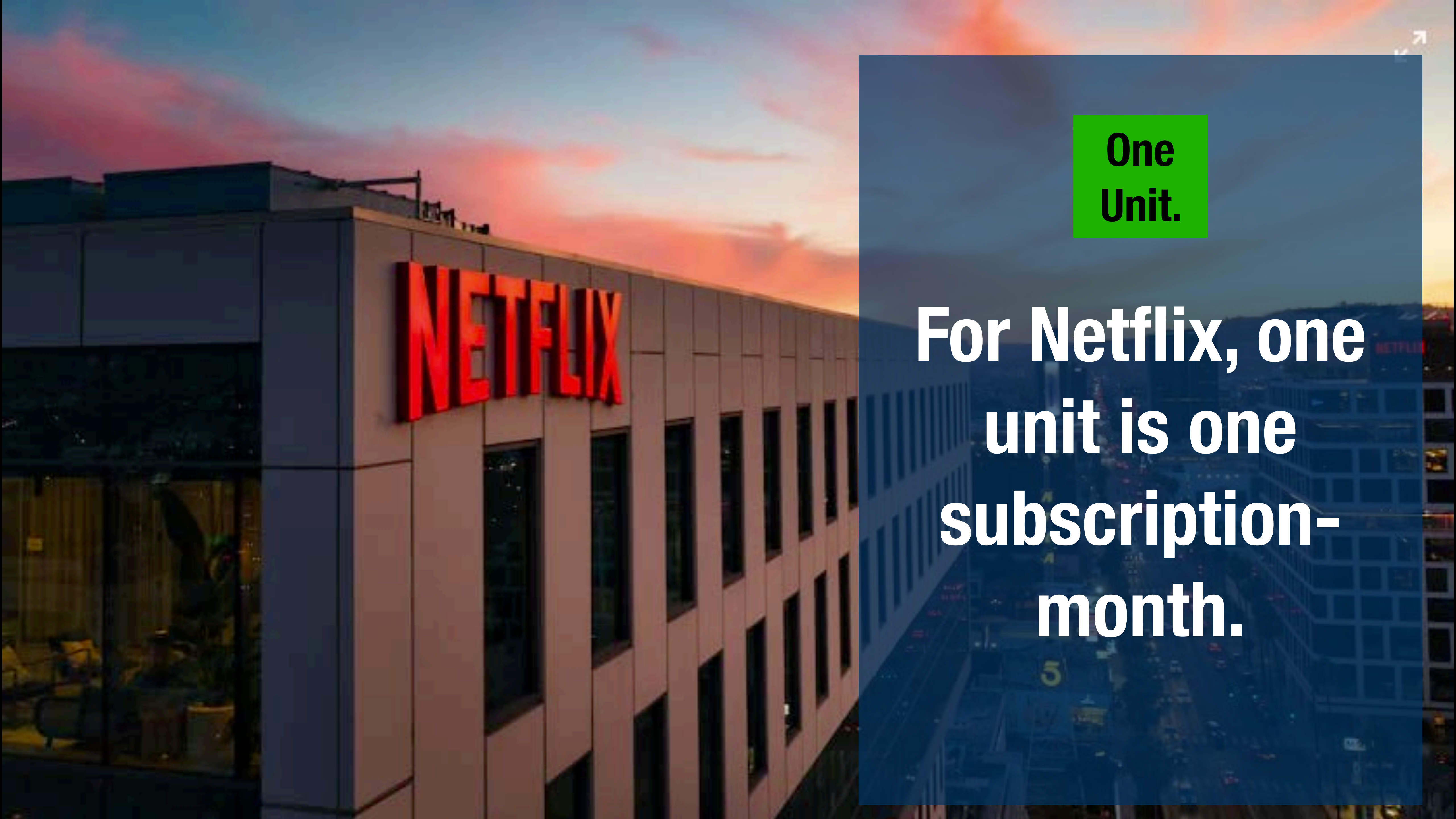
One Unit.

One Unit.

For lemonade stand, one unit is one glass of lemonade.

One Unit.

For a consulting firm, one unit is one hour of billable time.

One Unit.

For a bakery, one unit is one loaf of bread.

One Unit.

For Netflix, one unit is one subscription-month.
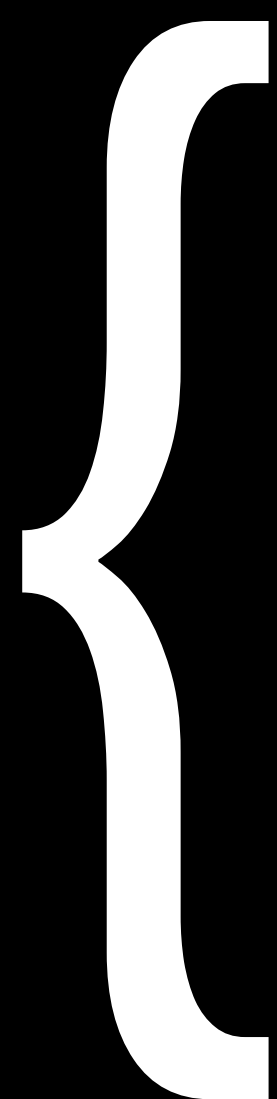
One Unit.

For an airline, one unit is one seat-mile.

Unit Economics

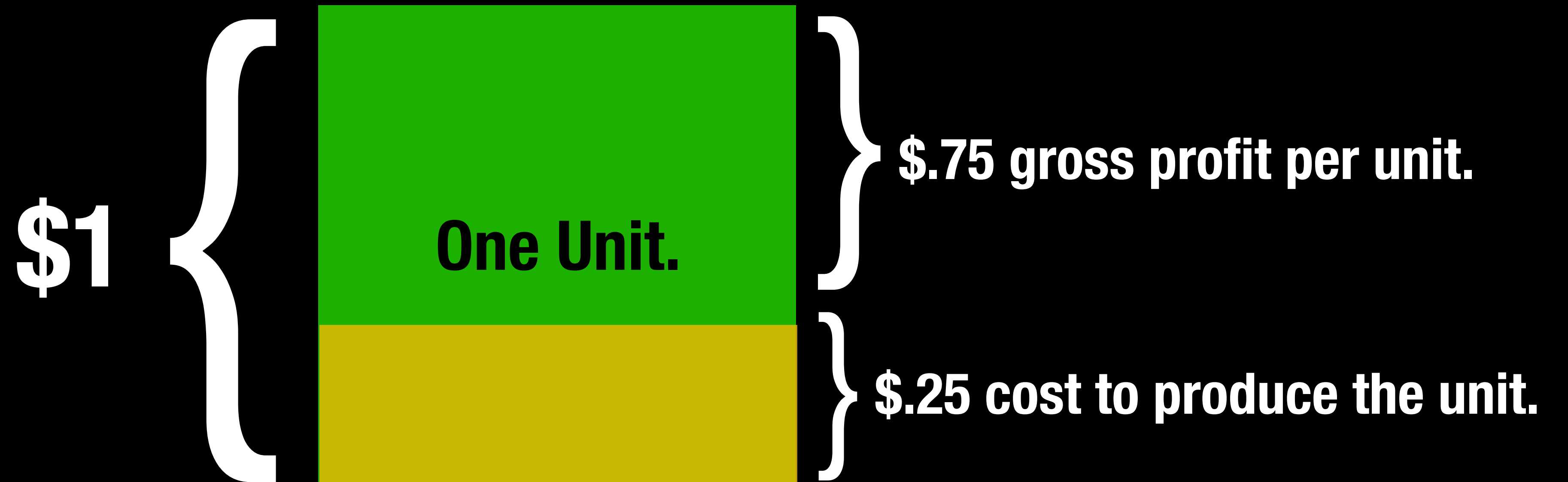## Every business distills down to unit economics.

Something we can produce for X, and customers will pay Y for it.

$1 { One Unit.

} $.75 gross profit per unit.

} $.25 cost to produce the unit.
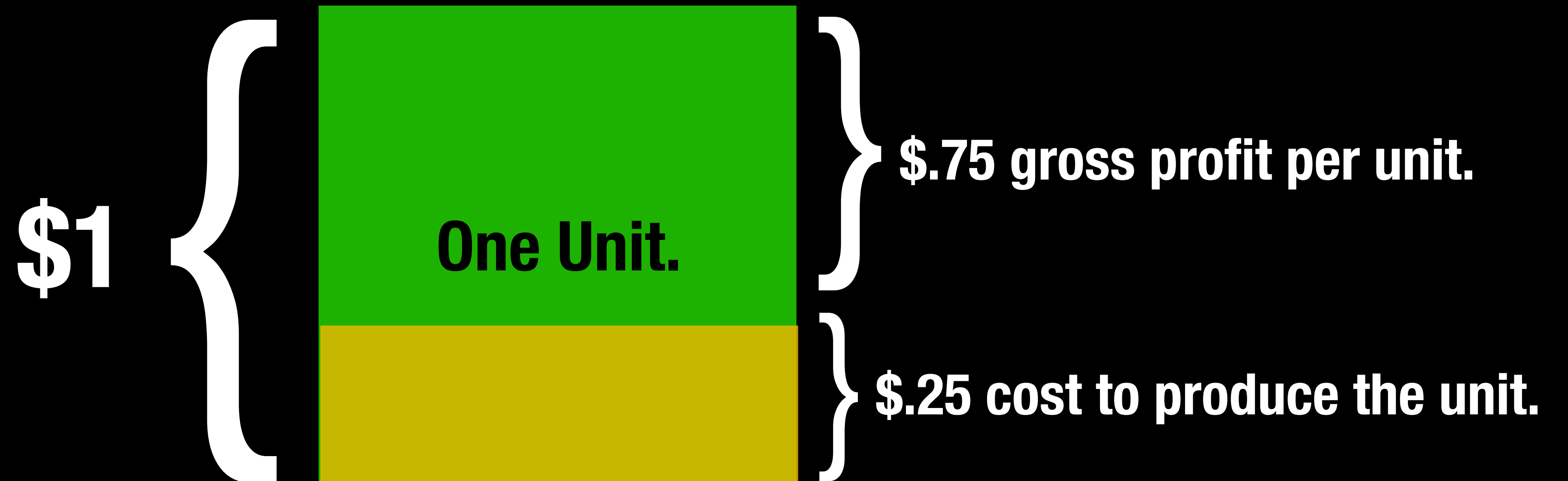
Enterprise Economics

Fixed Overhead   **Breakeven**

Management salaries, insurance, IT costs, rent, utilities, etc, etc, etc,
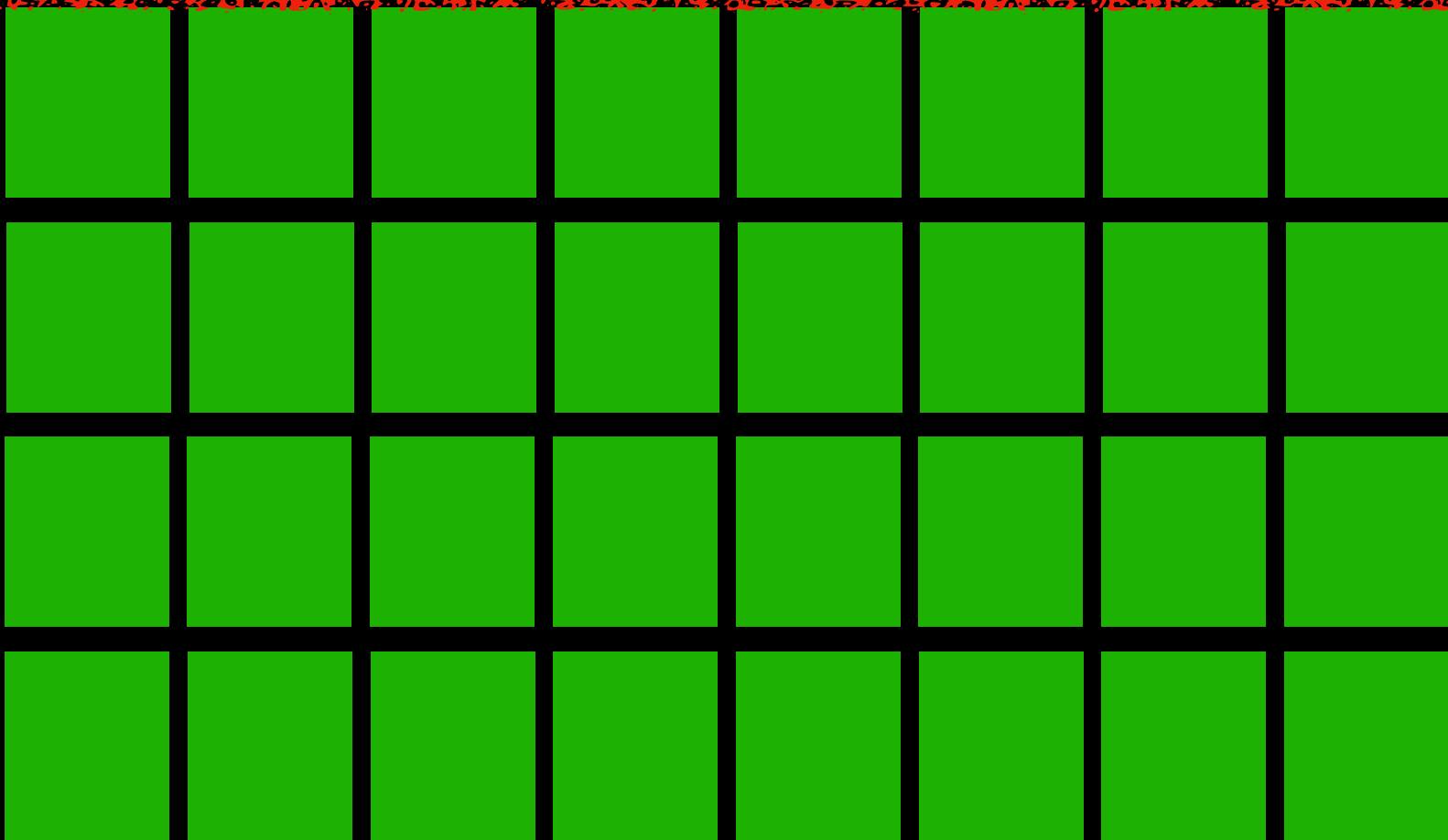
G&A (overhead):

Units sold:

Enterprise Economics

Operating Profit

Fixed Overhead

Management salaries, insurance, IT costs, rent, utilities, etc, etc, etc,

G&A (overhead):
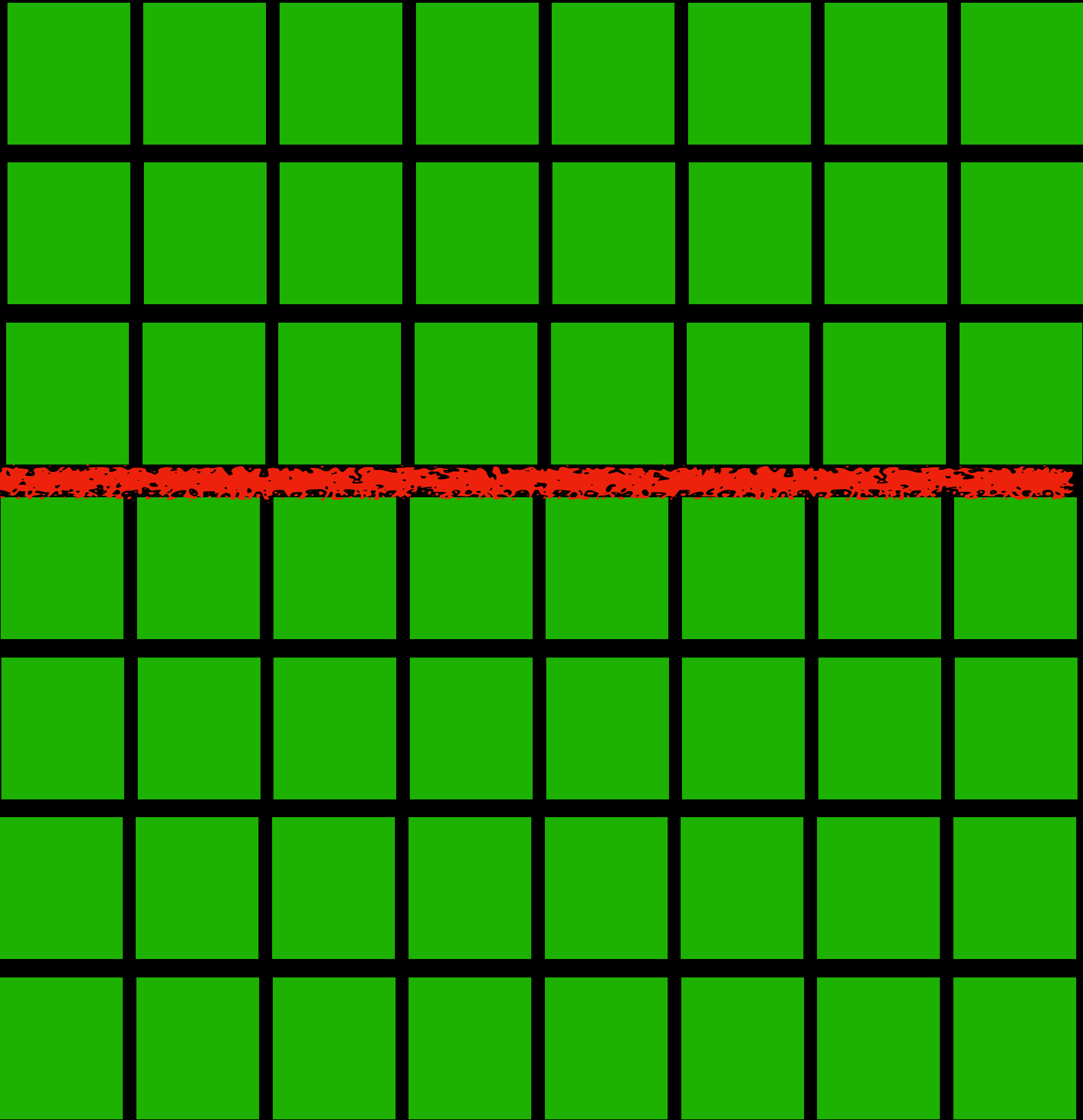
Units sold:

What is one unit for your venture?

Unit Economics

Every business distills down to unit economics.

Something we can produce for X, and customers will pay Y for it.

$1 { One Unit.

$.75 gross profit per unit.

$.25 cost to produce the unit.

$1 {
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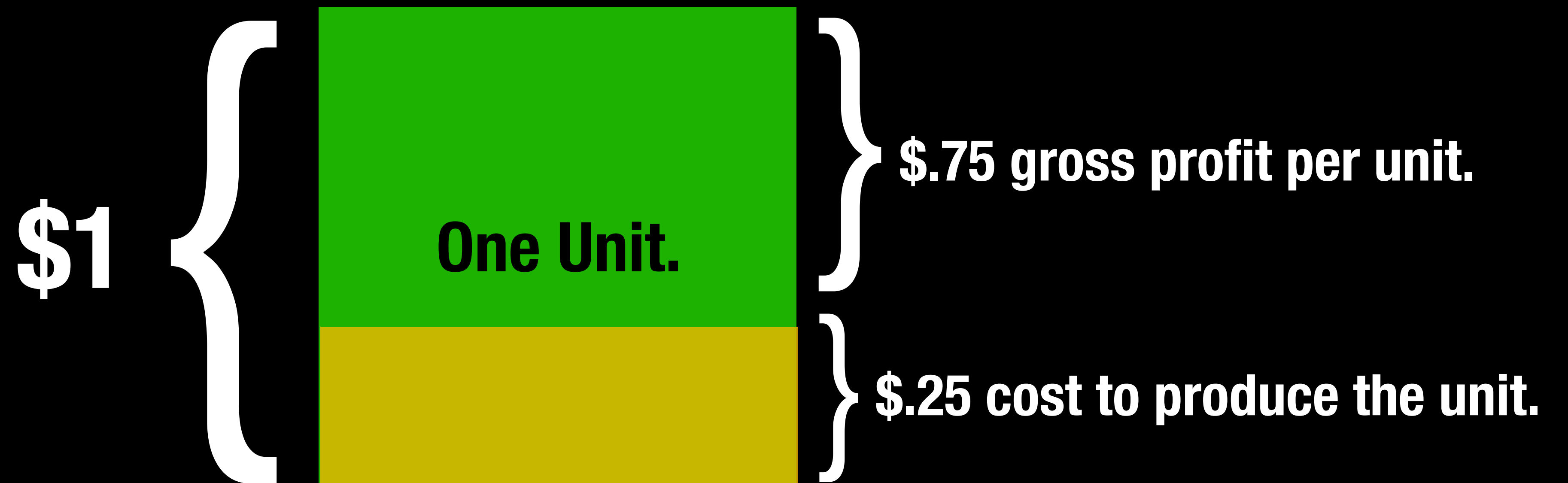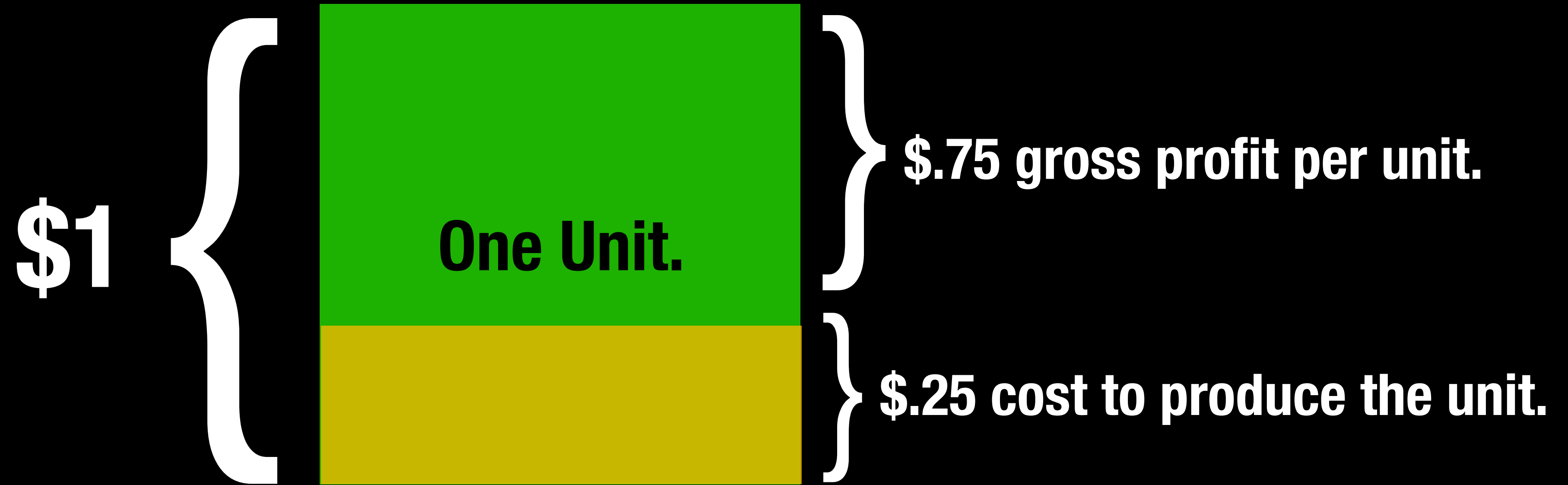
Understanding unit economics will lead us to the most important equation of all:

CAC < LTV

One equation to rule them all:

CAC < LTV

Customer Aquisition Cost must be less than the **Lifetime Value** of a customer.

It's fundamental economics. Having this equation wrong is a leading cause of startup death.

Let's say we spend $10,000 in the quarter and we get 1,000 new customers.

CAC = $10

We make $5 gross profit on every widget we sell.

On average a new customer ends up buying 2 widgets in their first order, and then come back and buy 3 more.

LTV = $25

Winner winner chicken dinner!

One equation to rule them all:

CAC < LTV

Customer Aquisition Cost must be less than the **Lifetime Value** of a customer.

It's fundamental economics. Having this equation wrong is a leading cause of startup death.

Amazon customers spend an average of $790/year. Amazon Kindle owners spend $1233/year.

The average Netflix subscriber stays on board for 25 months, with a LTV of $291.25

The average Starbucks customer spends $24.30/week and remains a customer for 12 years. That's $15,163, and Starbucks has an average margin of 21%, so the lifetime value of a customer is $3,184.

"The purpose of a business is to create and keep a customer."

- Peter Drucker

"The purpose of a business is to create and keep a customer."

- Peter Drucker

CAC < LTV

Eventually, <u>Customer Aquisition Cost</u> must be less than the <u>Lifetime Value</u> of a customer.

Typically, the Lifetime Value of a customer goes up over time, as you get better at keeping customers longer, cross-selling and upselling, getting referrals to new customers, etc.

LTV

CAC < LTV

Eventually, <u>Customer Aquisition Cost</u> must be less than the <u>Lifetime Value</u> of a customer.

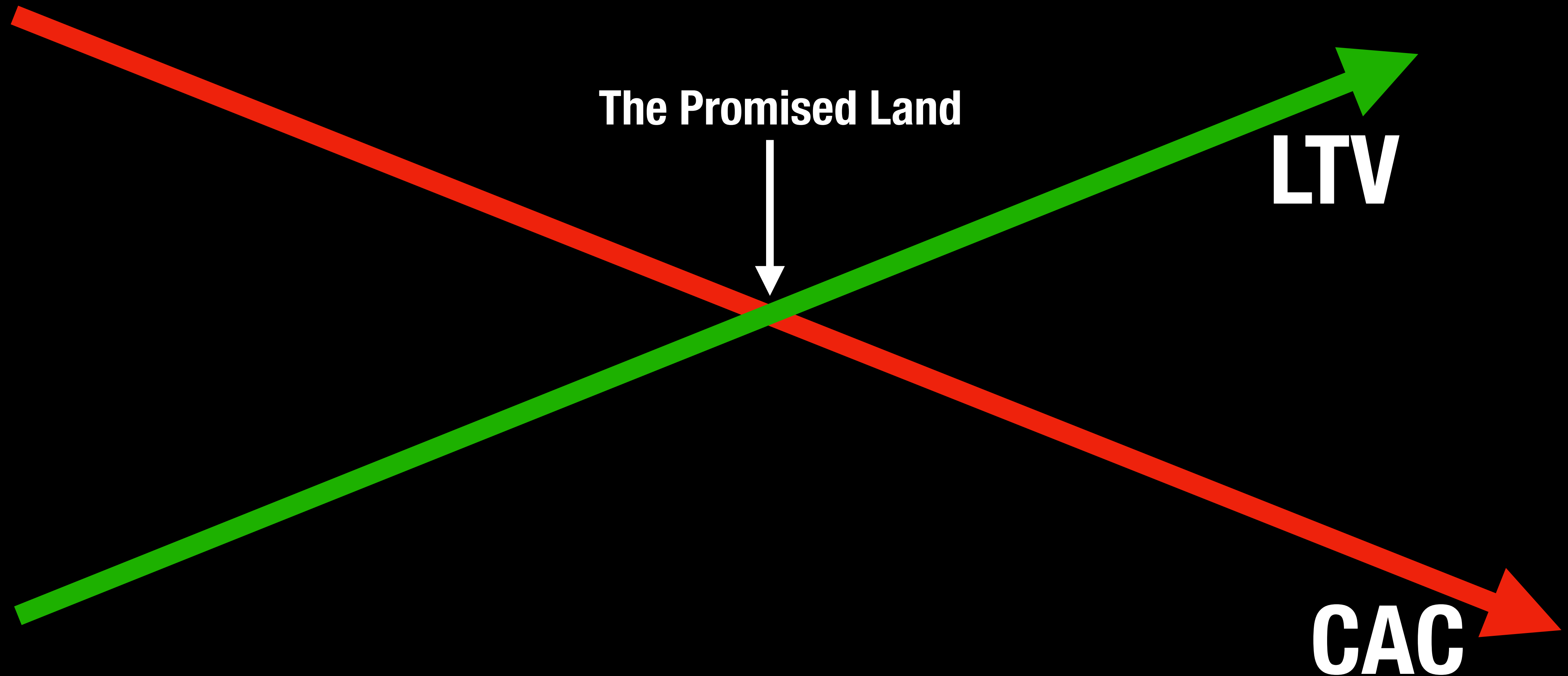**Typically, your Customer Acquisition Cost goes down over time, as you optimize your marketing efforts, build brand equity, partnerships begin to pay off, and your word-of-mouth footprint grows.**

CAC

CAC < LTV

Eventually, <u>Customer Aquisition Cost</u> must be less than the <u>Lifetime Value</u> of a customer.

The Promised Land

LTV

CAC

Our Fitaco Economic Model

E3 | fx

Your startup will be different, but this model lays out some concepts that apply to any venture.
The key things are to separate everything onto separate tabs so that it's easy to work on, and have everything roll-up onto a summary tab.
Once you've created a 12-month version, it should be easy to create additional columns for out years.

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
6	Revenue (see tab)												
7	Revenue (see tab)	$150	$450	$1,688	$10,013	$30,000	$60,000	$132,000	$180,000	$240,000	$340,000	$500,000	$660,000
8		$150	$450	$1,688	$10,013	$30,000	$60,000	$132,000	$180,000	$240,000	$340,000	$500,000	$660,000
9													
10	Cost of Goods Sold (see COGS tab).	$0	$150	$225	$338	$3,000	$7,000	$13,000	$20,000	$25,000	$35,000	$50,000	$75,000
11	Delivery Costs (see COGS tab).							$2,550	$2,550	$3,550	$7,100	$9,600	$11,600
12	Gross Profit	$150	$300	$1,463	$9,675	$27,000	$53,000	$116,450	$157,450	$211,450	$297,900	$440,400	$573,400
13													
14	**SG&A**												
15	General and Administrative (see tab).	$2,690	$2,690	$2,690	$2,840	$2,920	$2,920	$4,120	$4,120	$4,120	$4,120	$4,120	$4,120
16	Marketing (see tab).	$2,950	$2,950	$6,250	$3,750	$8,750	$8,750	$12,750	$12,750	$15,250	$20,250	$22,250	$25,250
17	People (see tab).	$22,375	$23,075	$20,075	$22,725	$88,250	$20,225	$29,600	$31,100	$32,600	$34,600	$36,600	$39,600
18	Total SG&A	$28,015	$28,715	$29,015	$29,315	$99,920	$31,895	$46,470	$47,970	$51,970	$58,970	$62,970	$68,970
19													
20	Net Operating Profit (loss)	-$27,865	-$28,415	-$27,553	-$19,640	-$72,920	$21,105	$69,980	$109,480	$159,480	$238,930	$377,430	$504,430
21		-18576.67%	-6314.44%	-1632.74%	-196.15%	-243.07%	35.18%	53.02%	60.82%	66.45%	70.27%	75.49%	76.43%
22													
23	Setup Costs (see tab).	-$14,000											
24	Running Cash Balance	-$41,865	-$70,280	-$97,833	-$117,473	-$190,393	-$169,288	-$99,308	$10,173	$169,653	$408,583	$786,013	$1,290,443

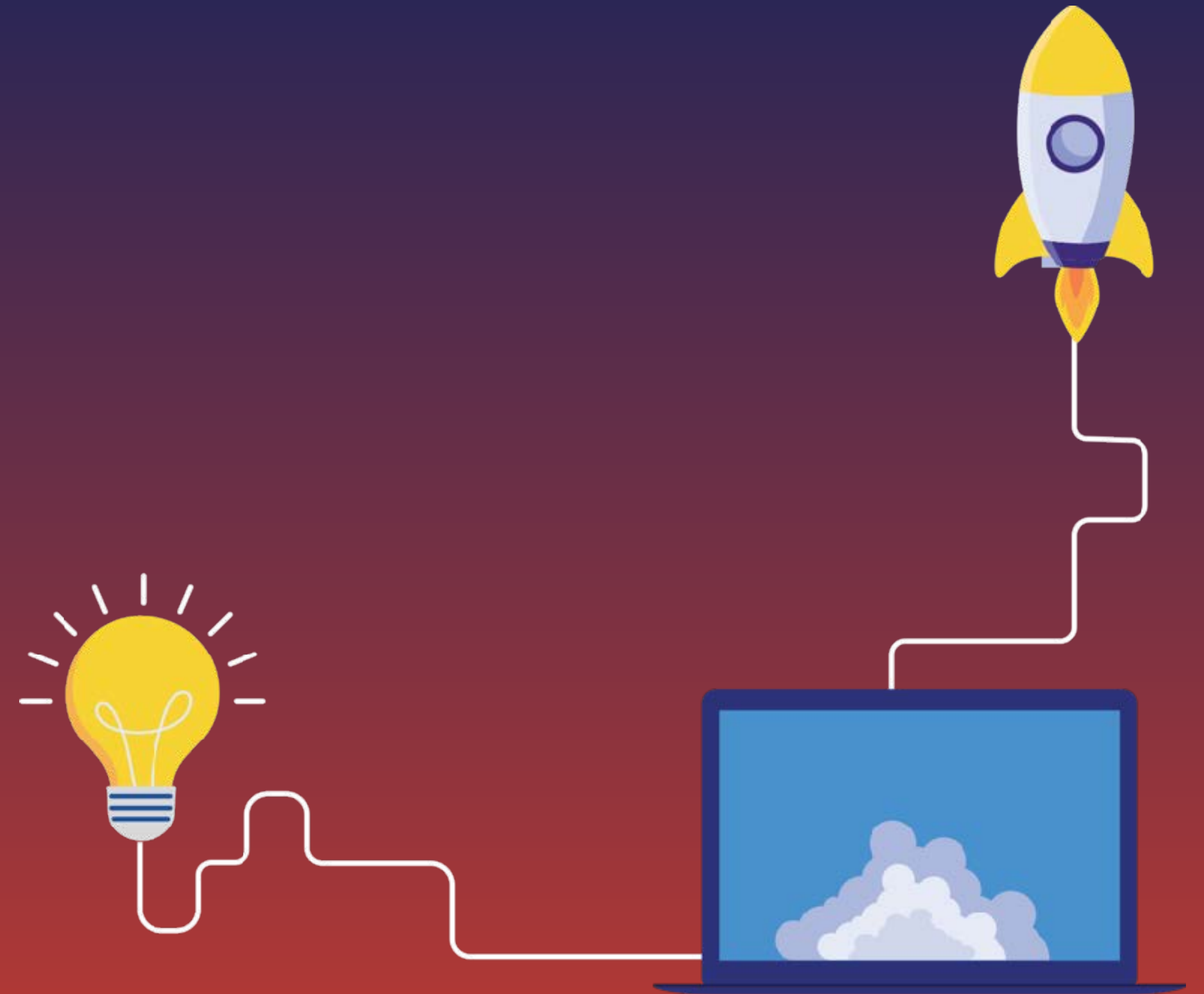Summary ▾ | Assumptions ▾ | Unit Economics ▾ | G&A ▾ | Marketing ▾ | Revenue ▾ | COGS ▾ | People ▾ | Setup Costs ▾

I will put a Launch Path spreadsheet template for you to download at bretwaters.com/vn

CHAPTER 6:

Develop a capital strategy

Step 6: Develop a capital strategy

There are many great ways to finance a startup venture in 2024.

My goal with this chapter is to open up the solution set a bit in your mind so you can choose the form of financing that makes sense for your particular venture.

It's not just VC. Revenue share notes, demand dividend, SAFE's, royalty-based notes, SIB's and so much more.

"

Be so good they can't ignore you.

- STEVE MARTIN

Financing your startup.

Bootstrap? Angel Capital? Venture Capital?

Many ways to finance a business:

- Your own pocket.
- Your own friends and family.
- Supplier financing.
- Customer financing.
- Bank Loan
- Factoring
- Crowdfunding (Kickstarter, etc).
- Borrow from your 401(k).

- Pre-sales
- SBA Loan
- Angel List syndicates
- Angel Investors
- Venture Capital Funds
- Impact Funds
- Foundation Grants
- Buy a lottery ticket (not a recommended strategy).

BUS-217: Sources and Structures of Startup Capital

	Typical check size.	Typical investment structure.	Typical stage.	A good fit for:	Notes
Angel Investors	$25K - $500K.	SAFE or Convertible note.	From idea to PMF.	Very early stage ventures.	Because they are investing their own money, they can make a "leap of faith" investment decision.
Venture Capital Firms	$1M - $500M.	Equity.	Growth stage after PMF.	High-growth startups with billion dollar potential.	They have a fiduciary responsibility to make rational investment decisions, and a model that requires billion dollar…
Crowdfunding.	$10K - $1M.	Mixed.	Idea.	Creative projects, and also pre-sales of physical items.	There's a lot of regulation around selling private stock that can make crowdfunding problematic.
Impact funds.	Wide range.	Debt, soft-debt, demand dividend, rev share, SIBs. General not equity, as	After PMF and after impact metrics proven.	Nonprofits and social ventures.	Need to have solid impact metrics plus enough cash flow that the capital can make a round trip back to the fund eventually.
Foundations.	Wide range.	Grant.	Wide range.	Nonprofit organizations.	Grants today are typically tied to impact metric goals.
PE Firms.	$10M plus.	Equity.	Late, and/or distressed.	Founders wanting to sell control and get exit liquidity.	Not typically relevant in the startup world except during crazy times like 2020-23
Corporate Venture Capital.	Wide range.	Equity.	Early-ish.	Ventures where a strategic partnership is important to growth.	CVC firms have a variety of mandates. Make sure you ask what theirs is.
Non bank lenders	Wide range.	Debt or points, sometimes plus warrants.	Growth.	E-commerce ventures with a proven CAC:LTV.	Typically non-dilutive, which can make this very attractive.

Capital Comes in Two Flavors:

Debt

Has to be repaid (principal + interest) over some defined amount of time. Debt holder has no claim of ownership to the company, and is not entitled to any share of future profits.
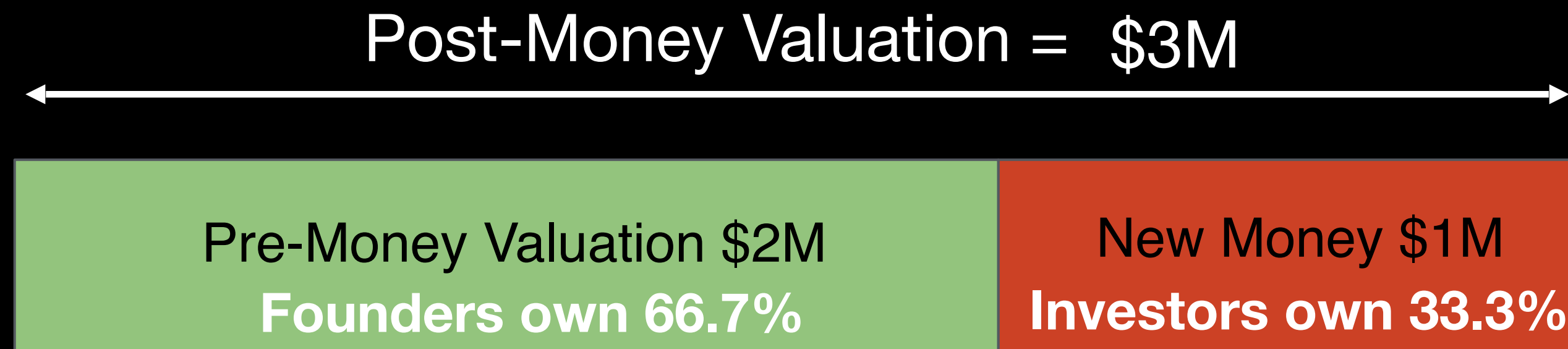
VS.

Equity

No repayment obligation. Investor owns a percentage of the company and has a pro rata claim to future profits. Investor hopes to sell their equity in the company in the future at a profit.

(Grants are a different topic)

Every Venture Capital transaction is an <u>equity financing</u>.

(Nearly every)

Equity Financing Math:

Post-Money Valuation = $3M

$\longleftrightarrow$

Pre-Money Valuation $2M	New Money $1M
Founders own 66.7%	**Investors own 33.3%**

Every equity financing transaction follows this simple math.

The standard Silicon Valley progression:

Pre-Seed
Friends and Family.
$50-100K

Seed Round
Angel Investors
$500K-$1M
Structured as SAFEs.

Series A
VC Firms
$3M-10M
Structured as Equity.

Series B
VC Firms
Structured as Equity.

Series C
VC Firms
Structured as Equity.

IPO
Everyone
Cashes-out!

List of 6,000 active VC investors.
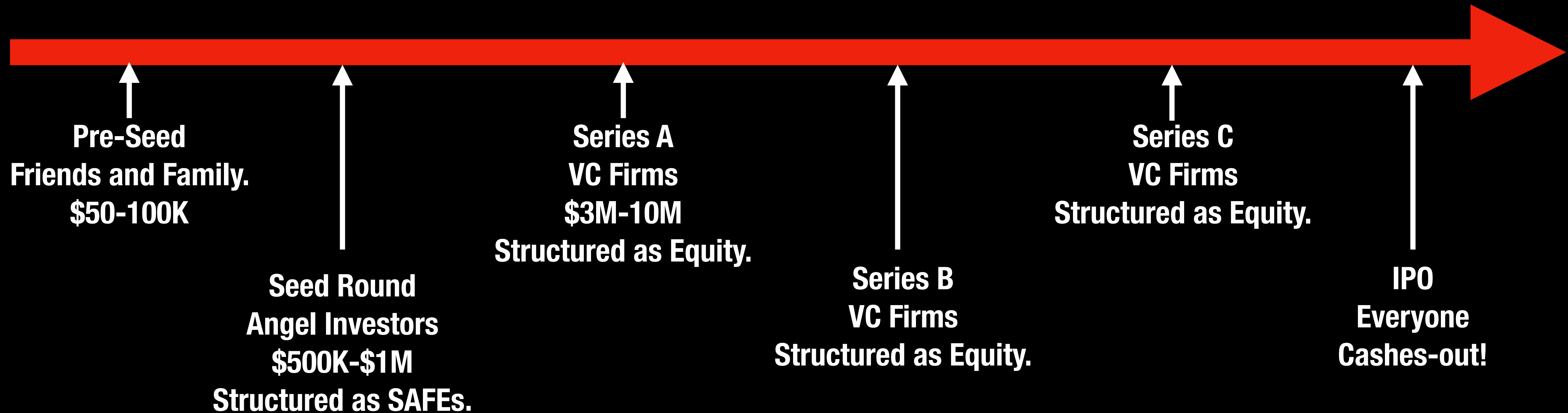
Investor	Domain	Main Country	Investor Category	Overview	Main City	Industries	St
1 Angels FTW	https://www.joinodin.com/	🌐 Worldwide	Angel Investment Group	Keep your cap table clean with Odin. Learn mo...		📋 Administrative Services 🚜 Agricu	S
2 High-Tech Grunderfonds	http://www.high-tech-gru...	🇩🇪 Germany	Venture Capital	High-Tech Grunderfonds (HTGF) is Germany's ...	Bonn	🧠 Artificial Intelligence 🧬 Biotechn	S
3 Kima Ventures	http://www.kimaventures....	🇫🇷 France	Family Office	Kima Ventures, founded by Xavier Niel, funds a...	Paris	🏦 Financial Services 🌐 Internet Se	P
4 Index Ventures	http://www.indexventures...	🇬🇧 United Kingdom	Venture Capital	Index Ventures is a global venture capital firm ...	London	📣 Advertising 🚜 Agriculture and Fa	G
5 Wayra	http://www.wayra.com	🇪🇸 Spain	Corporate Venture	Wayra acts as an interface between entrepren...	Madrid	🧠 Artificial Intelligence 🛒 Commer	In
6 Partech Partners	http://www.partechpartne...	🇫🇷 France	Venture Capital	Partech Partners is an investment company foc...	Paris	📱 Apps 🧠 Artificial Intelligence	S
7 3i Group	http://www.3i.com	🇬🇧 United Kingdom	Private Equity	3i (LSE: III) is a multinational private equity and...	London	📋 Administrative Services 📣 Adver	B
8 Apax Partners	http://www.apax.com	🇬🇧 United Kingdom	Private Equity	Apax Partners focuses on long-term investmen...	London	🛍 Consumer Goods 📱 Apps 🎁 B	
9 Global Founders Capital	http://www.globalfounder...	🇩🇪 Germany	Venture Capital	Global Founders Capital (GFC) is a globally ori...	Berlin	📱 Apps 📊 Data and Analytics 🏦 P	
10 Innovate UK	http://www.gov.uk/govern...	🇬🇧 United Kingdom	Government	Innovate UK, fka Technology Strategy Board (T...	Wiltshire	📋 Administrative Services 📣 Adver	
11 Balderton Capital	http://www.balderton.com	🇬🇧 United Kingdom	Venture Capital	Balderton was founded in 2000 by Benchmark ...	London	📊 Data and Analytics 🏦 Financial S	S
12 Almi Invest	http://www.almiinvest.se	🇸🇪 Sweden	Venture Capital	Almi Invest is a venture capital company which...	Stockholm	📱 Apps 🧠 Artificial Intelligence	S
13 Novartis Venture Funds	http://www.nvfund.com	🇨🇭 Switzerland	Corporate Venture	Novartis Venture Funds primarily focuses on th...	Basel	🏥 Health Care 🧬 Biotechnology	S
14 Enterprise Ireland	http://www.enterprise-irel...	🇮🇪 Ireland	Government	Enterprise Ireland is the government organizati...	Dublin	🧬 Biotechnology 📊 Data and Analy	S
15 Entrepreneur First	http://www.joinef.com	🇬🇧 United Kingdom	Incubator / Accelerator	Entrepreneur First (EF) is a UK-based company...	London	📱 Apps 🧠 Artificial Intelligence	S
16 next47	http://www.next47.com	🇩🇪 Germany	Corporate Venture	next47, formerly Siemens Venture Capital, part...	Munich	🧠 Artificial Intelligence 🧬 Biotechn	S
17 Holtzbrinck Ventures	http://www.hvventures.com	🇩🇪 Germany	Venture Capital	Holtzbrinck Ventures is an independent Europe...	Munich	📣 Advertising 🧠 Artificial Intelligen	D
18 IDInvest Partners	http://www.idinvest.com	🇫🇷 France	Private Equity	Idinvest Partners is a European private equity fi...	Paris	📱 Apps 🧬 Biotechnology 🛒 Cor	D
19 HSBC	http://www.hsbc.com	🇬🇧 United Kingdom	Diversified Financial Se	HSBC is a banking and financial services instit...	London	📋 Administrative Services 📣 Adver	

6,206 records

CHAPTER 7:

Frame a funnel
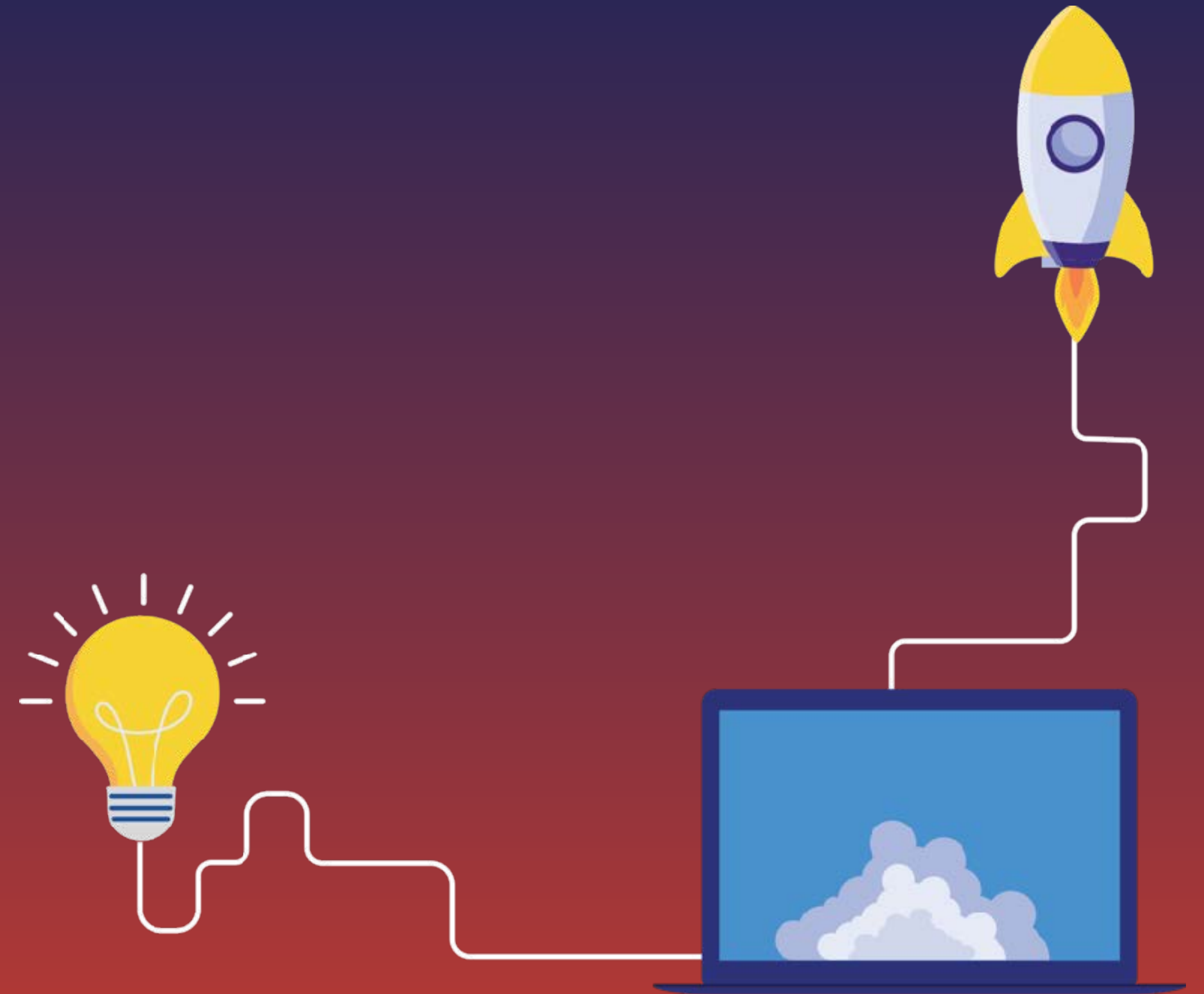
The Launch Path

Step 7: Frame a funnel

We need a scalable process for getting customers at a rational cost.

Most startups die from lack of customers. Others die because they realize too late that the economics of their customer acquisition process are impossible to survive. Both are painful deaths, so let's try to avoid them.

"

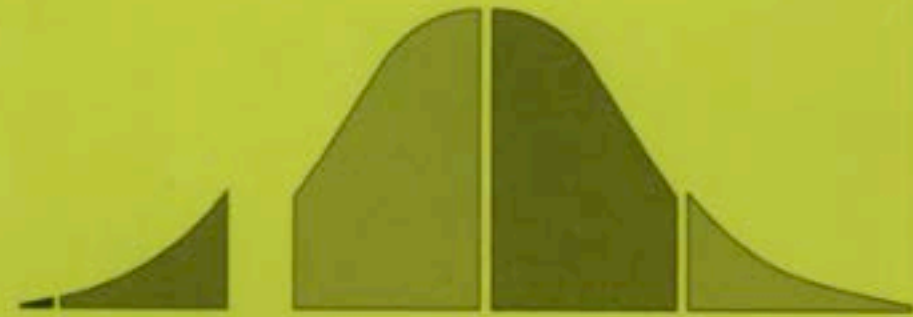# The purpose of a business is to create and keep a customer.

- PETER DRUCKER

"

The Law of the Few.

Not all customers are equal.

GEOFFREY A. MOORE

Author of *Inside the Tornado* and *Living on the Fault Line*

A *BusinessWeek* Bestseller

CROSSING THE CHASM

"For the most astute companies this book provides the blueprint for success, for the others it is a manual for their survival, and for all it is a great read."
—William Davidow, general partner, Mohr Davidow Ventures

MARKETING AND SELLING DISRUPTIVE PRODUCTS TO MAINSTREAM CUSTOMERS

Many businesses can get the first few customers.

But getting millions of mainstream customers is hard.

Chasm

Technology enthusiasts

Visionaries

Pragmatists

Conservatives

Skeptics
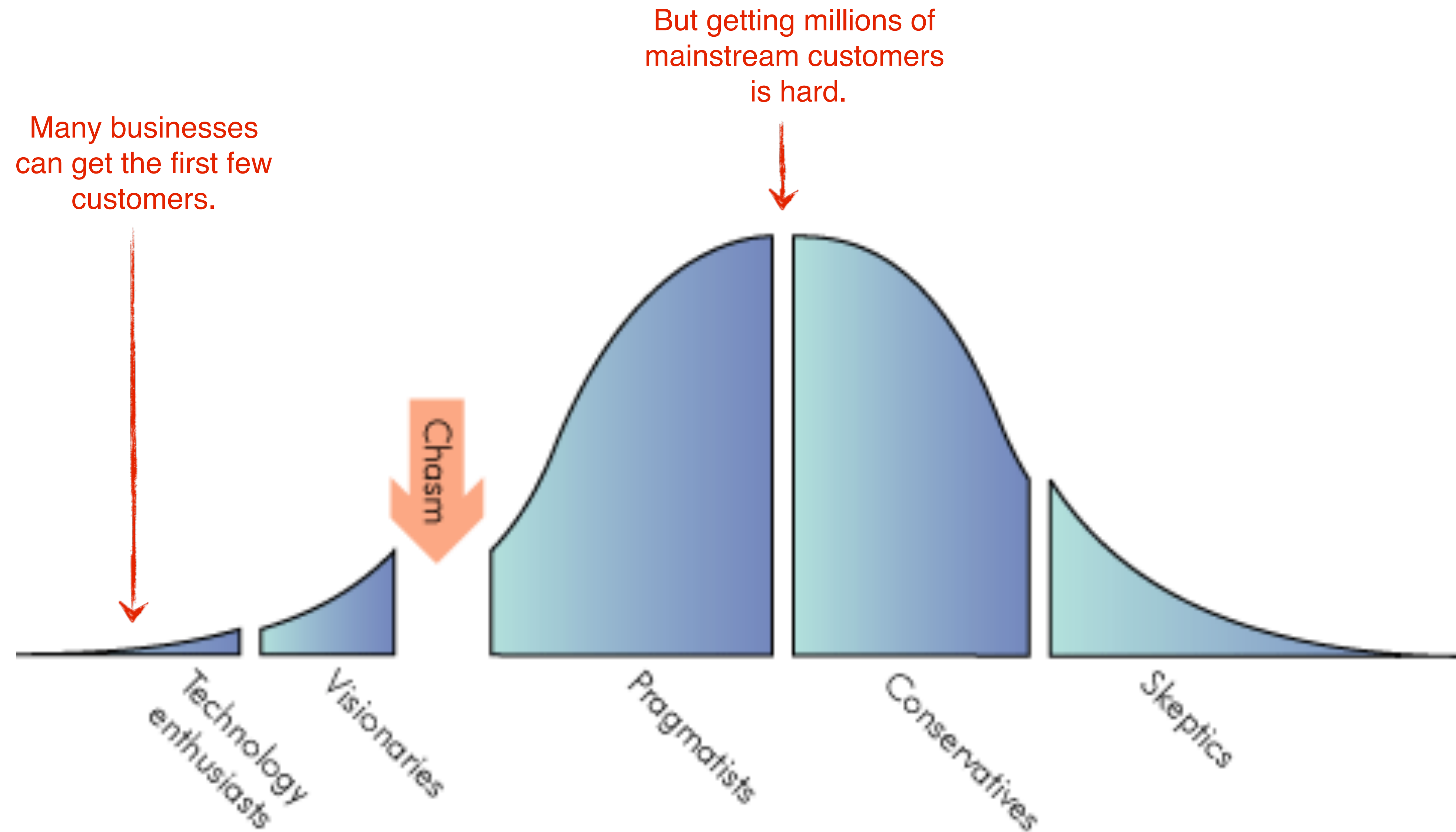
This is littered
with the dead bodies
of many promising startups.

Chasm

Technology
enthusiasts

Visionaries

Pragmatists

Conservatives

Skeptics
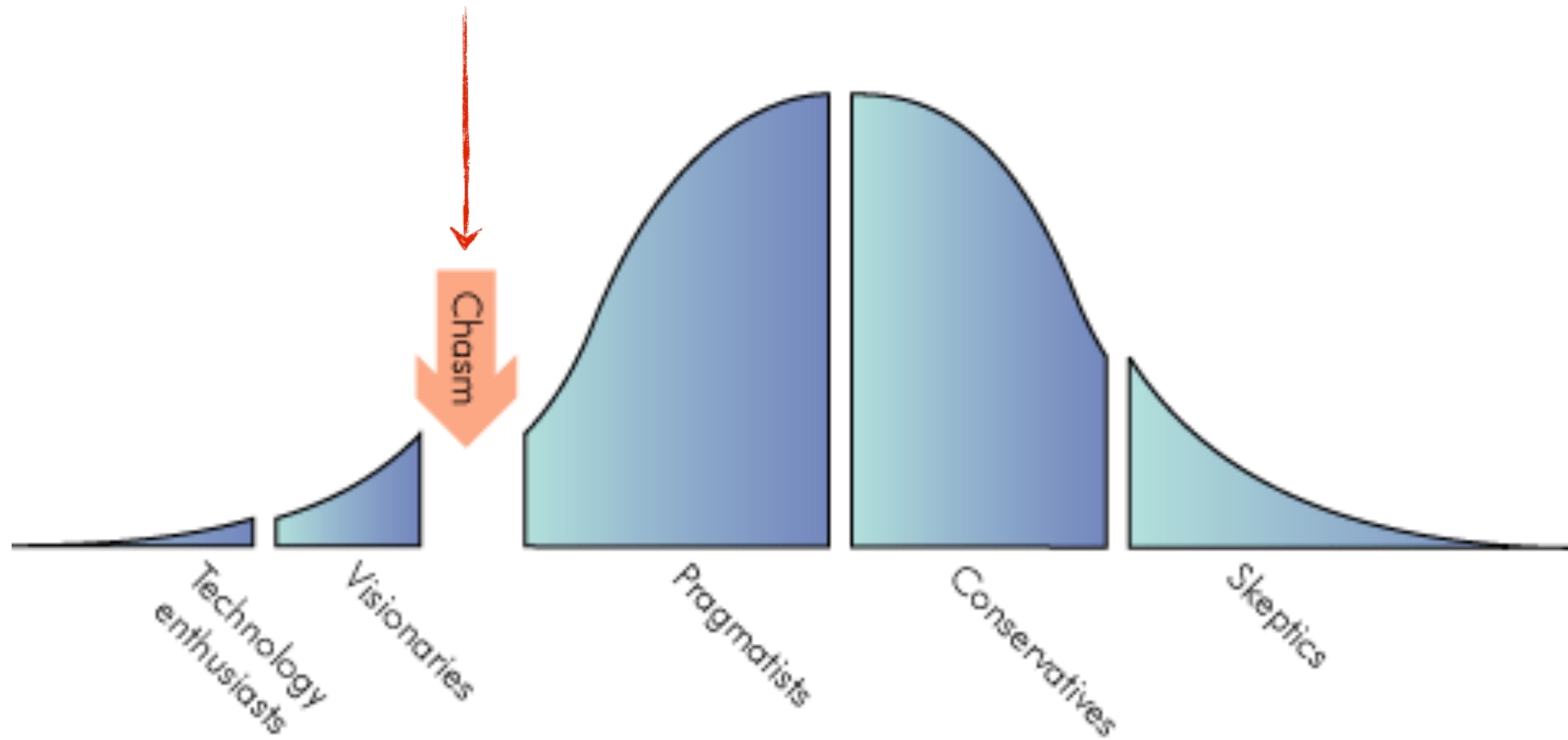
> " **The marketer should focus on one group of customers at a time, using each group as a base for marketing to the next group.**

Geoffrey Moore
Crossing the Chasm

Facebook User Growth (In Millions)
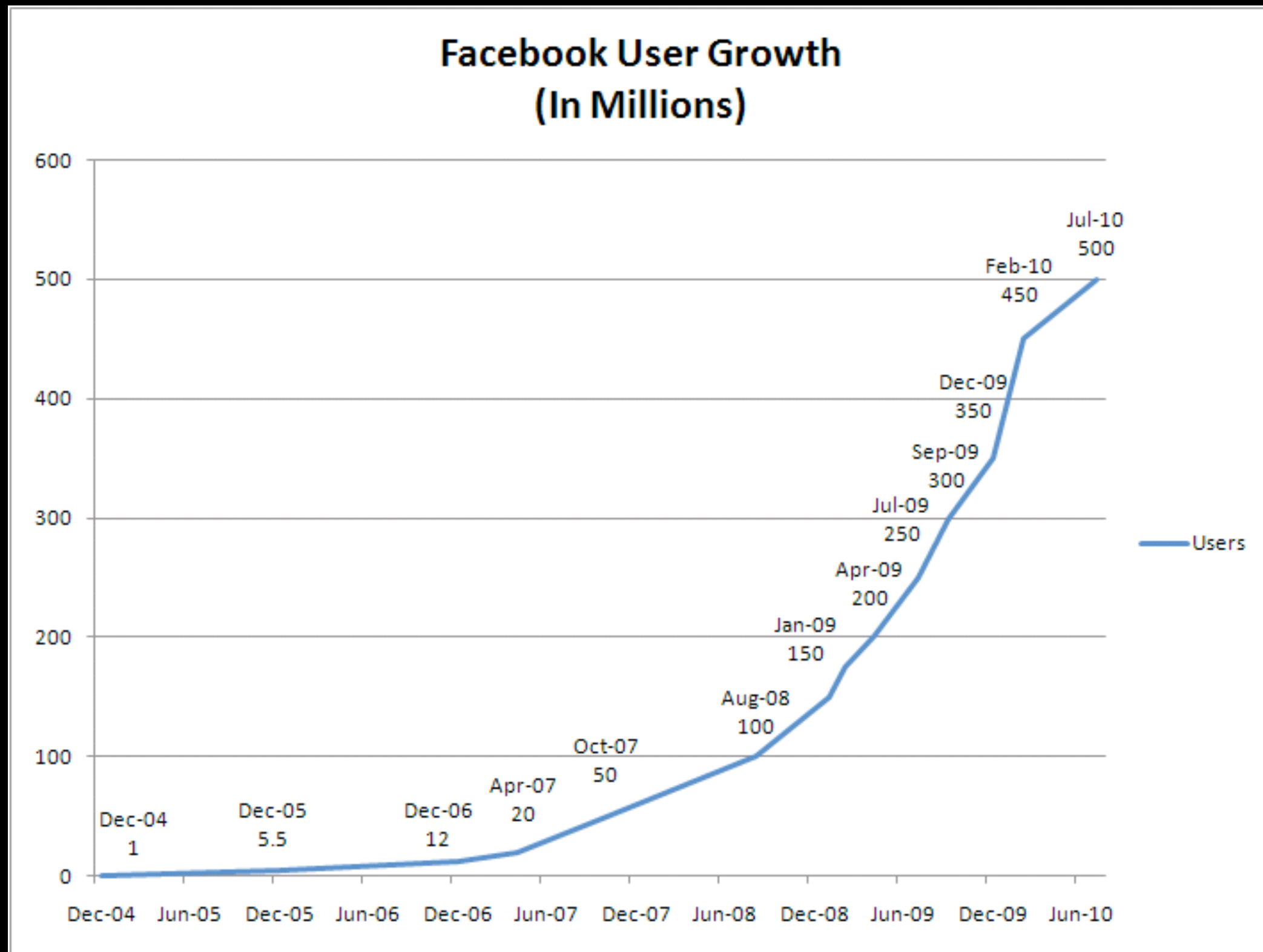
At launch was restricted to one university.

Then to three universities.

Then restricted to just .edu email addresses.

Then targeted mass market.

Now has >2 billion users.

Post-it Notes

Adhesive invented in 1968, and initially marketed for bulletin boards. A few thousand units were sold.

Then re-launched launched as Post-its in 1977 and went nowhere. Product was slated to be killed.

1978 sent free samples to secretaries at Fortune 500 companies.

Today, the product line generates $3.7 billion in revenue, selling in 150 countries.

The Funnel

You need to get a whole bunch of prospective customers coming into the top of the funnel…
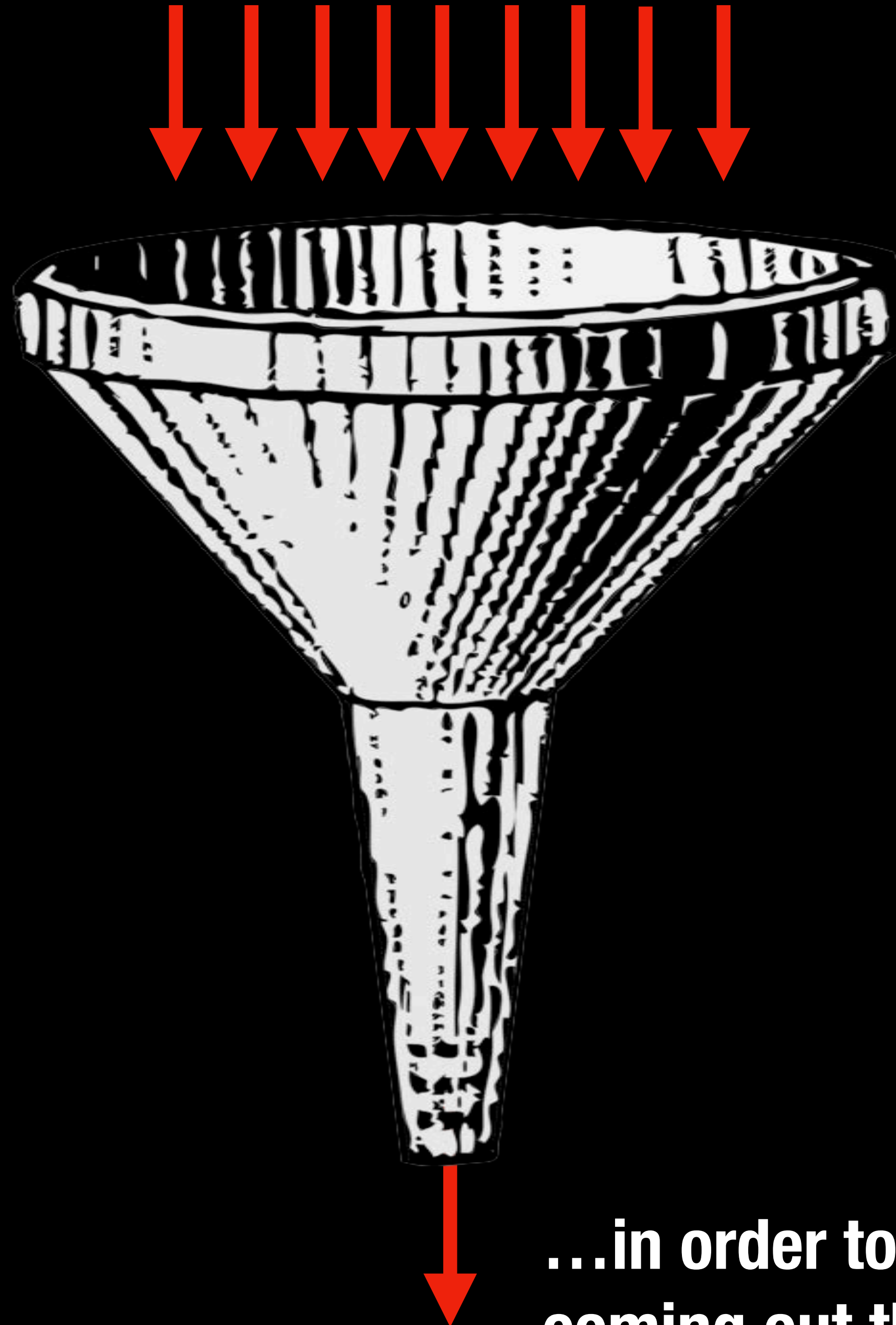
…in order to get a few purchases coming out the bottom of the funnel.

Awareness: PR, podcasts, SEO, events, advertising, trade shows, content (blog posts, infographics, etc.), webinars, direct mail, viral campaigns, social media, search, media mentions

Interest: emails, content that is more targeted around industries and brands, classes, newsletters

Consideration: automated email campaigns, while continuing to nurture them with targeted content, case studies, free trials
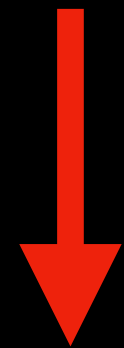
Purchase: Sign contract/enter credit card.

Repeat: Referral programs etc.
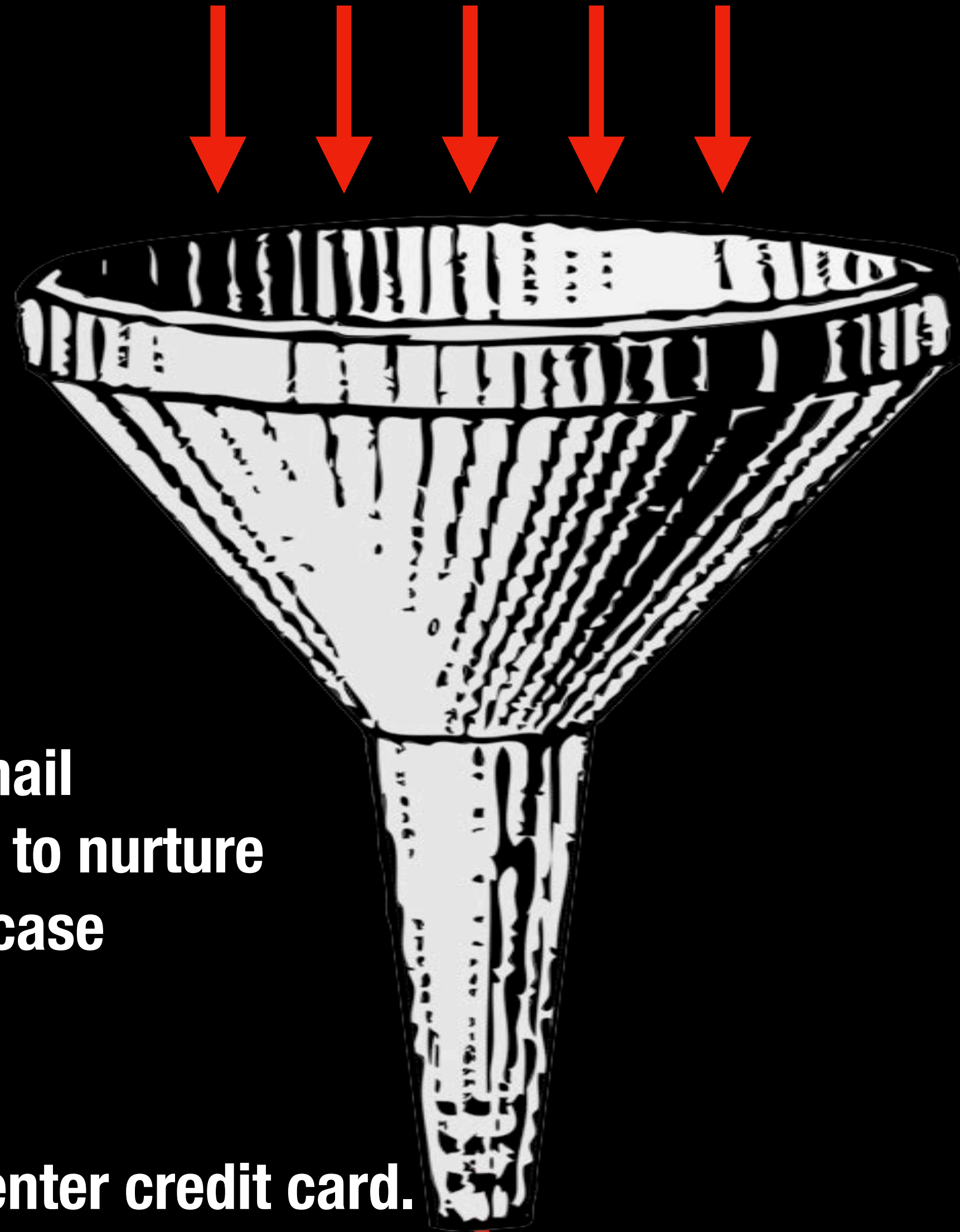
Awareness: Social media ads, organic social media, SEO, and farmers markets. Also, some direct outreach to companies about corporate plans.

Interest: Anyone who lands on our website will get more detailed information, and a special "trial offer".

Consideration: Once we have them on our email list we'll send regular emails with further information, nutrition tips, etc.

Purchase: A very simple, low-friction sign-up and pay system.

Repeat: Referral loyalty program.

BREAKFUST.
IT'S DELICIOUS.
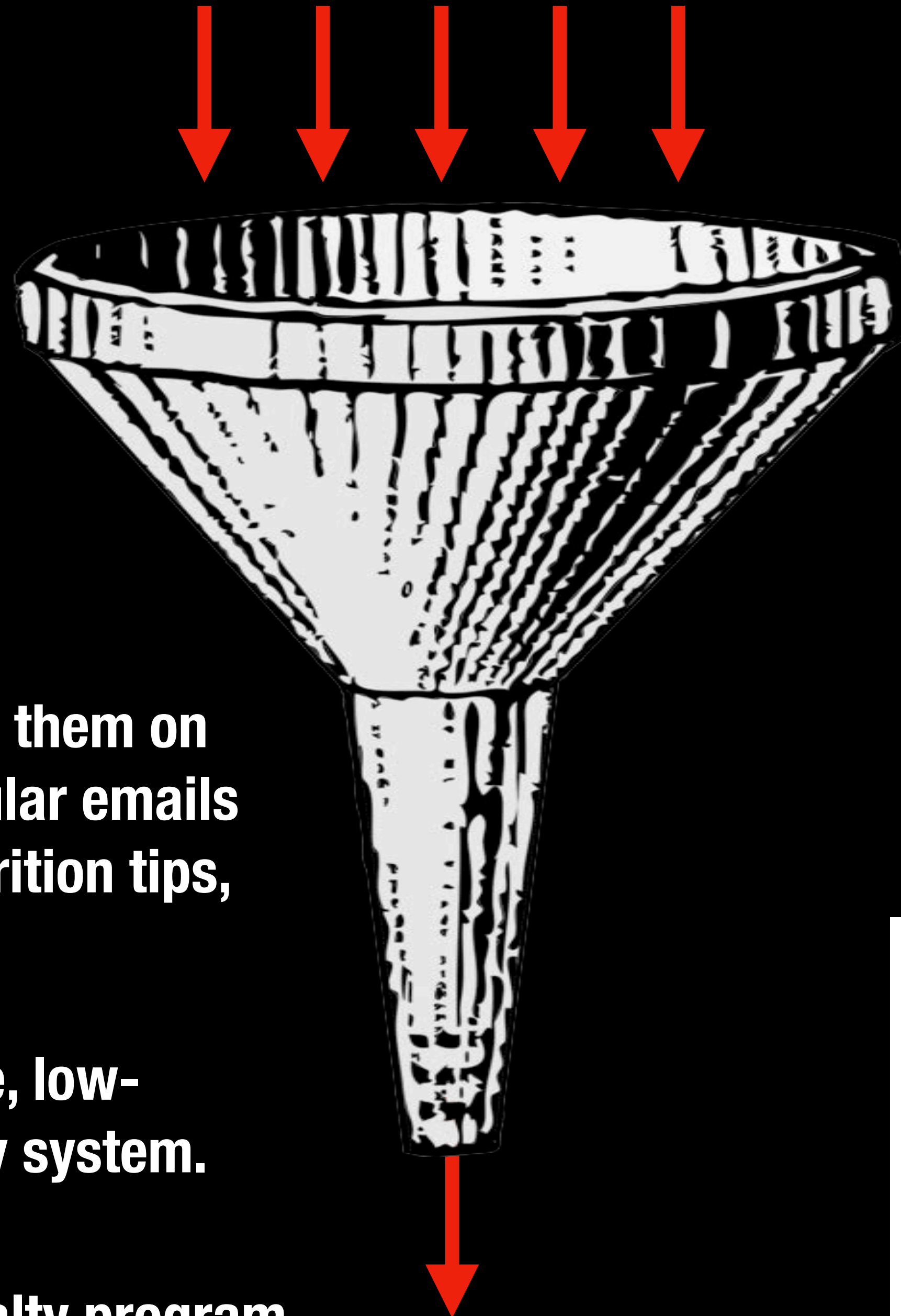
CHAPTER 8:

Be a master storyteller

Step 8: Be a master storyteller

Every great entrepreneur has the ability to tell a crisp, clear, and compelling story about what she's working on, and why it matters.

2024

2025-2035

Silicon Valley, California

For most of my life, this is where the future has been invented.

But today, the future is being invented all over the world.

2025

It's a whole different world today. More global, as we enter a place-agnotic world. Sources and structures of startup capital have proliferated. Entrepreneurship is more accessible than ever. Digital tools for running a startup are more powerful than ever before. Global markets can be accessed by anyone.

The next decade, 2025-2035, will be a whole new era for startups.
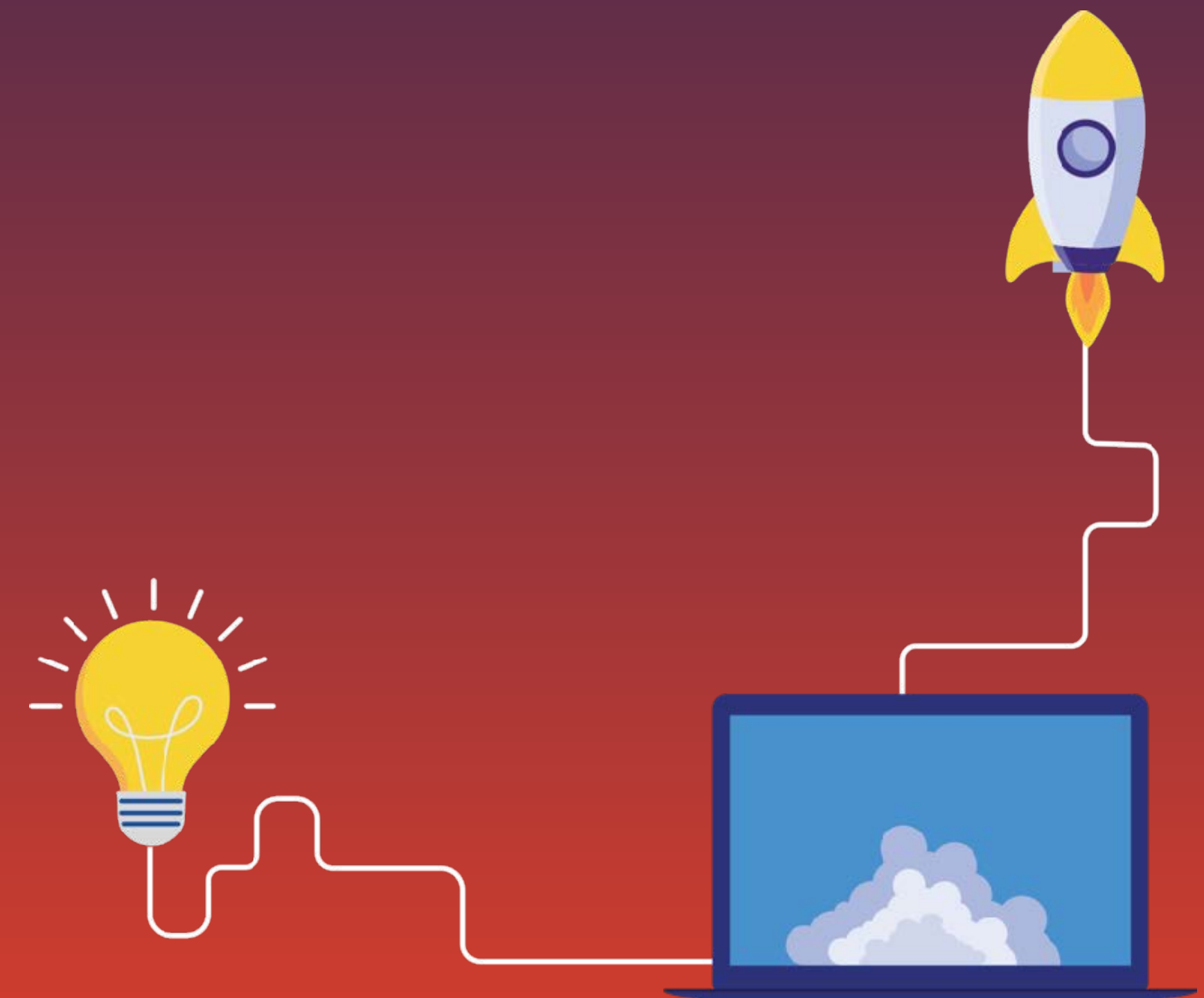
Startups in 2025-2035:

The democratization of entrepreneurship has made founding a startup more accessible to all.

And also, we now know that diverse teams are high-performing teams.

Less likely to be founded by white men.

Startups in 2025-2035:
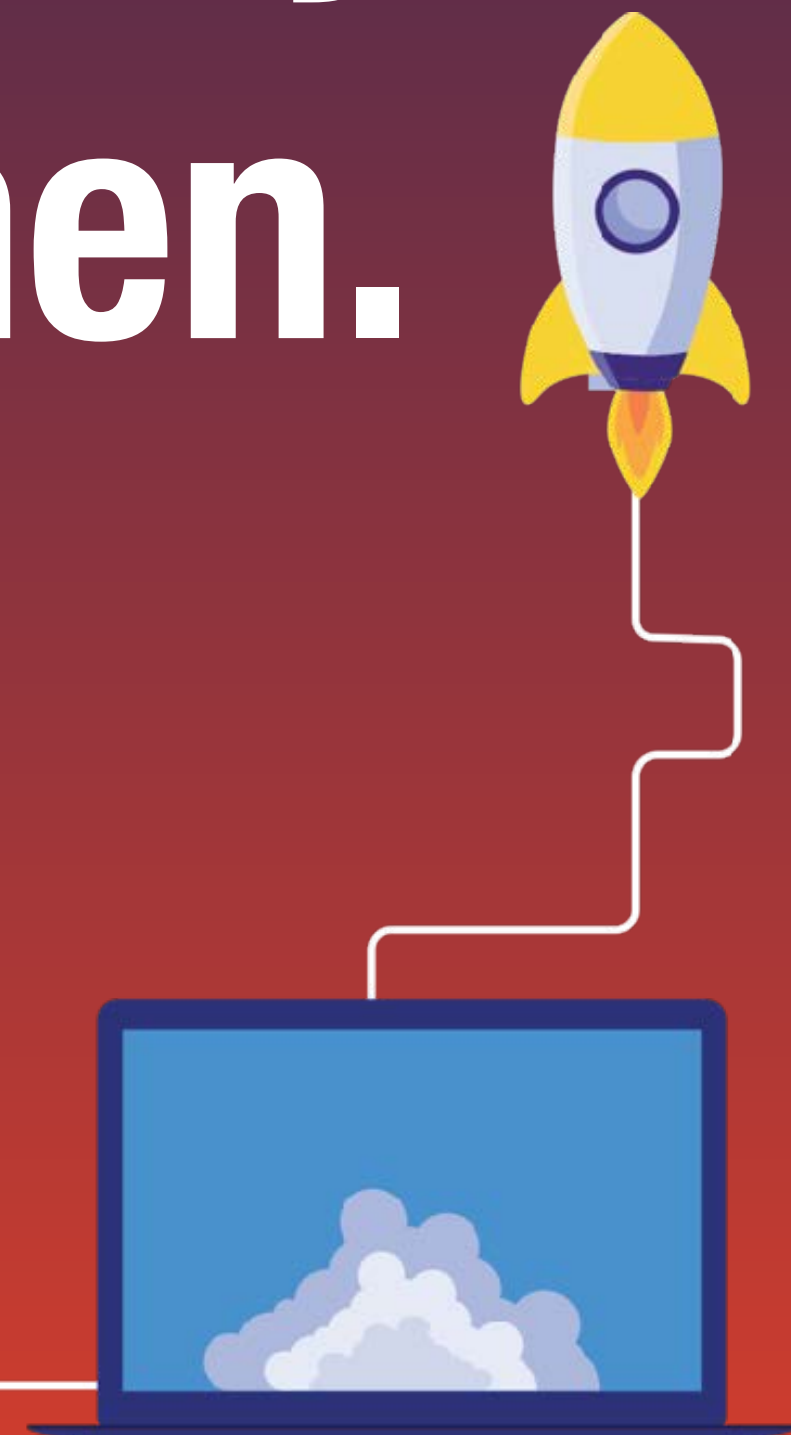
Not just Silicon Valley anymore.

Entrepreneurship has gone global. Location matters less than ever before. The next generation of new startup founders will be all over the world.

Startups in 2025-2035:

More likely to be driven by Purpose + Profit.
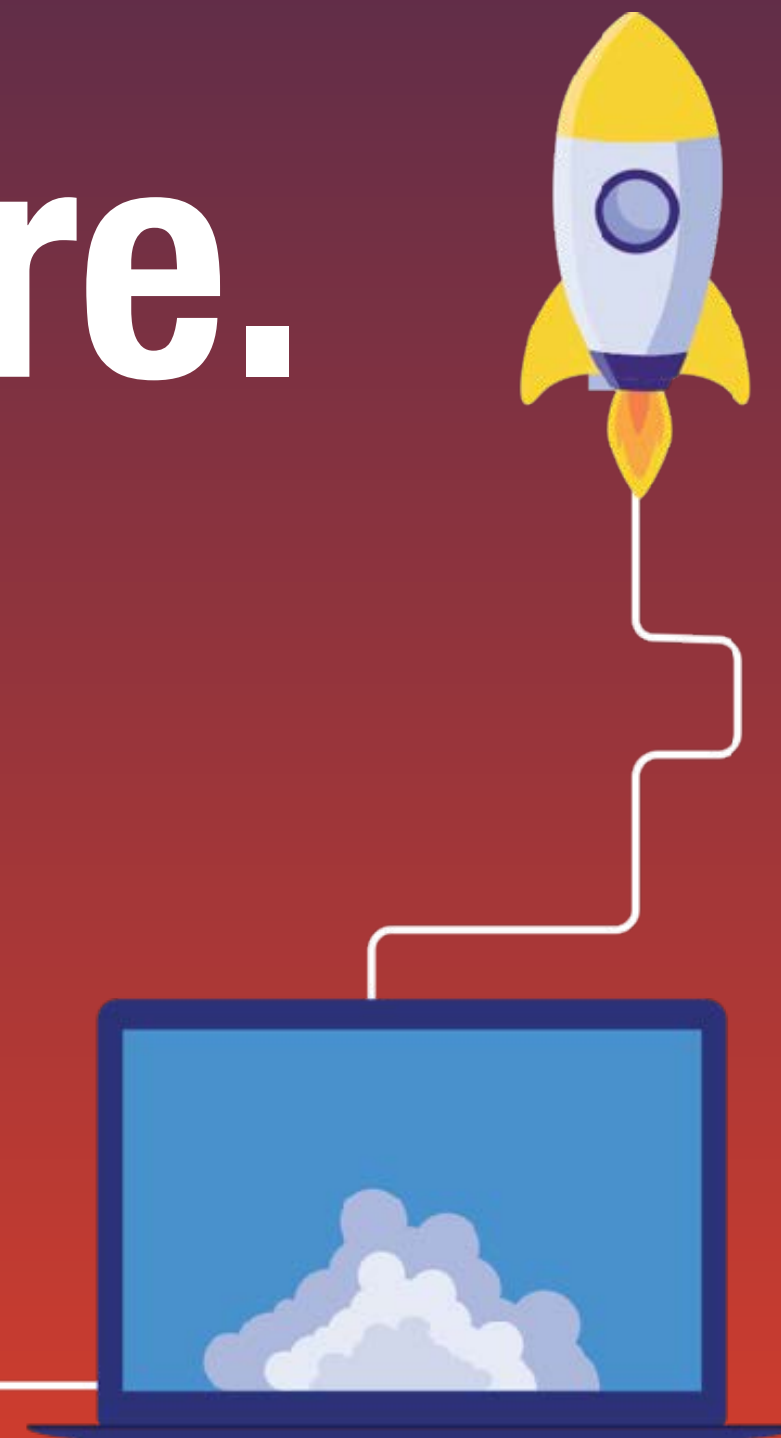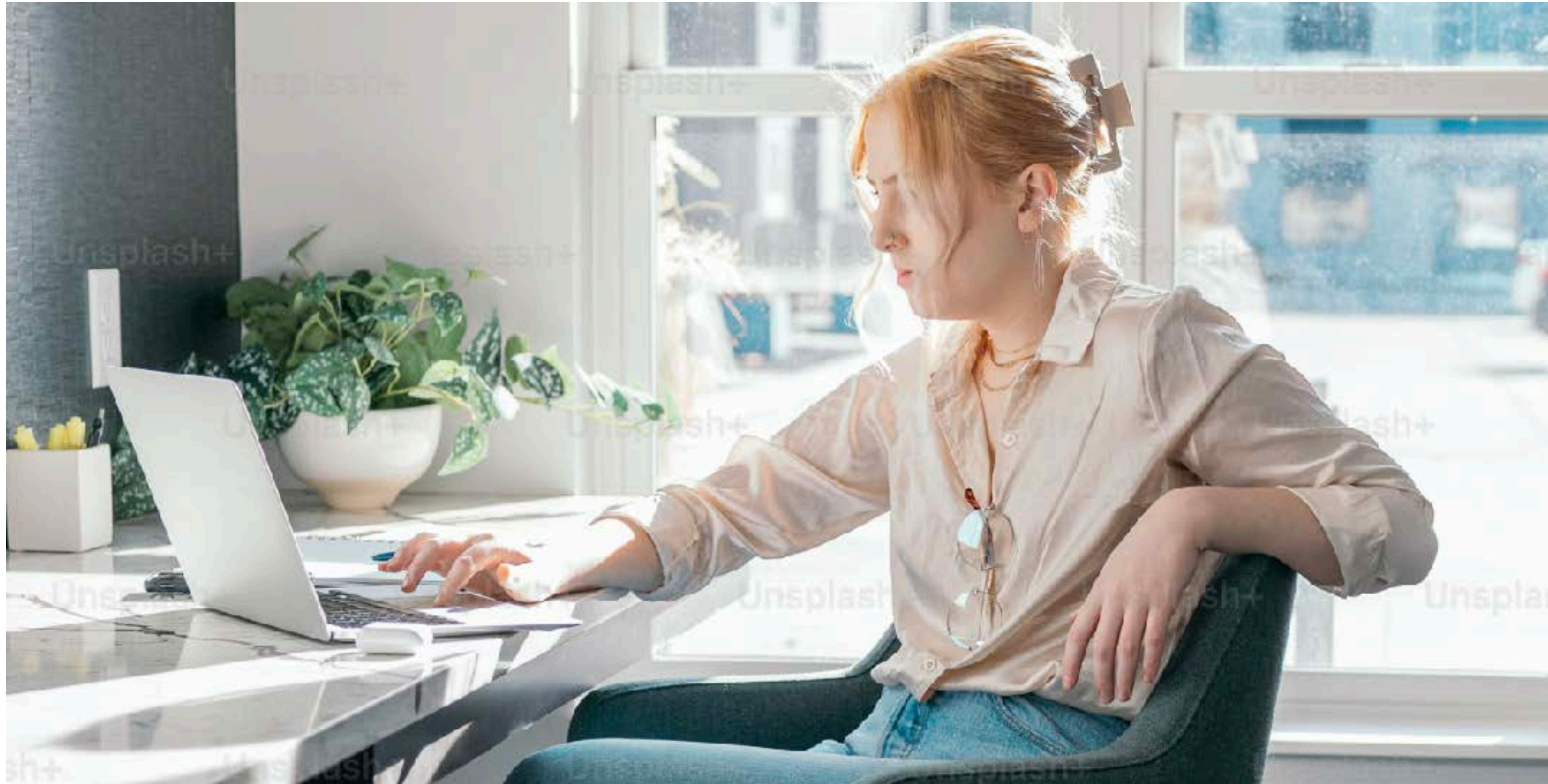
Next generation startup founders are more likely to be driven by a passion for social impact and see a profitable startup as a way to achieve impact.
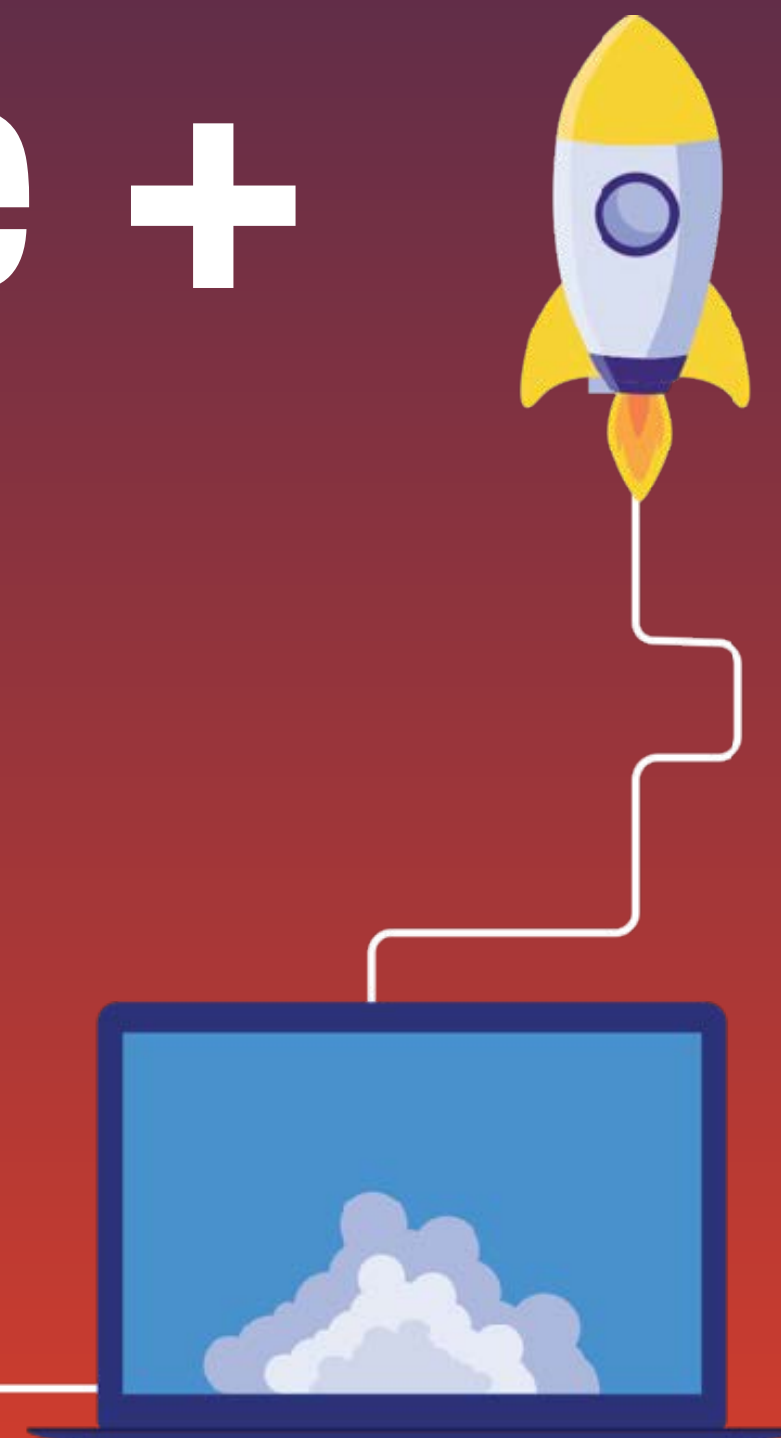
Startups in 2025-2035:

With the digital tools today, a team of 3 can run a company that would have required 20 people a generation ago.

The agility of small teams wins, every time.

Smaller teams, more power + agility.

Startups in 2025-2035:

Won't necessarily use Venture Capital.
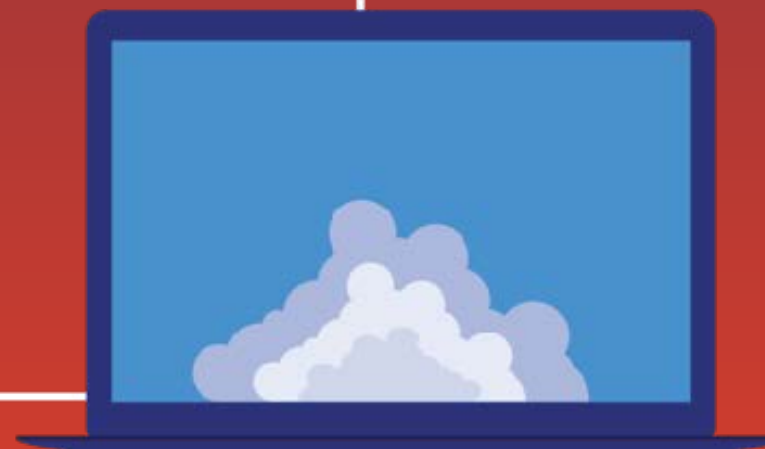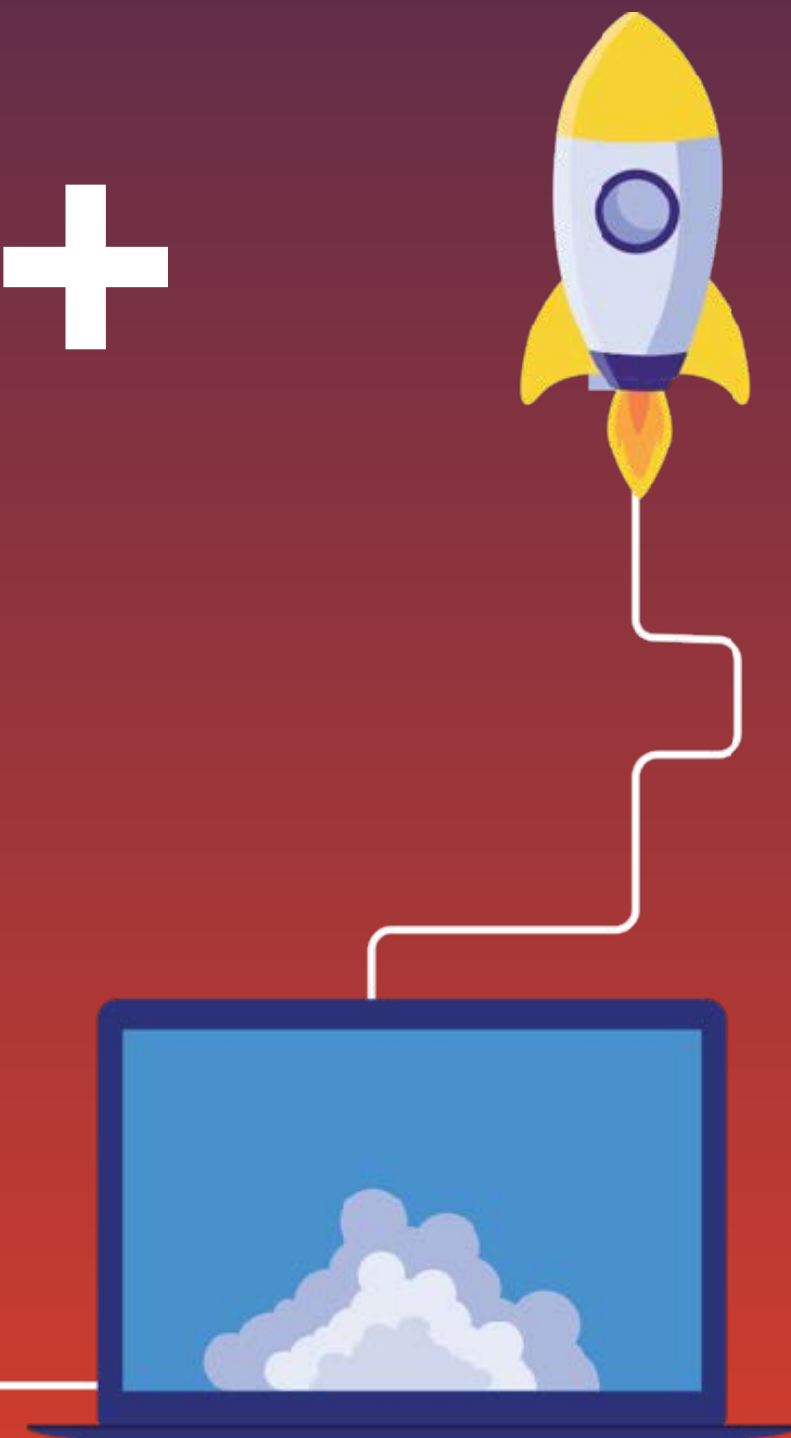
VC's are stuck in an old model - launch 10 rockets, watch 9 crash, and get rich from the 10th.

Today there are sources and structures of capital available that make more sense for the next generation of startup founders.

Startups in 2025-2035:
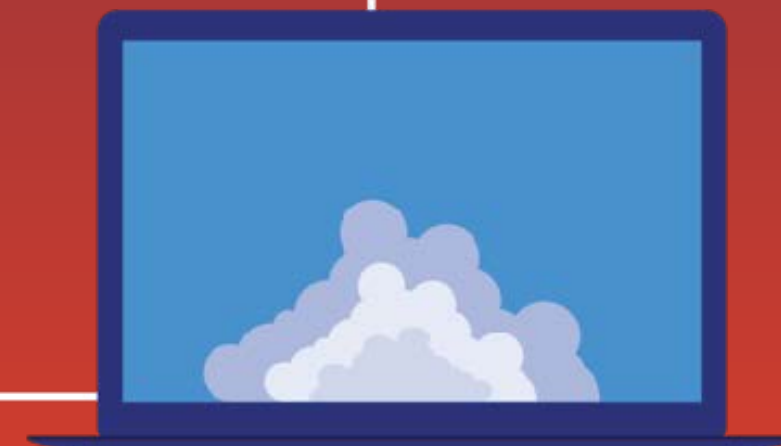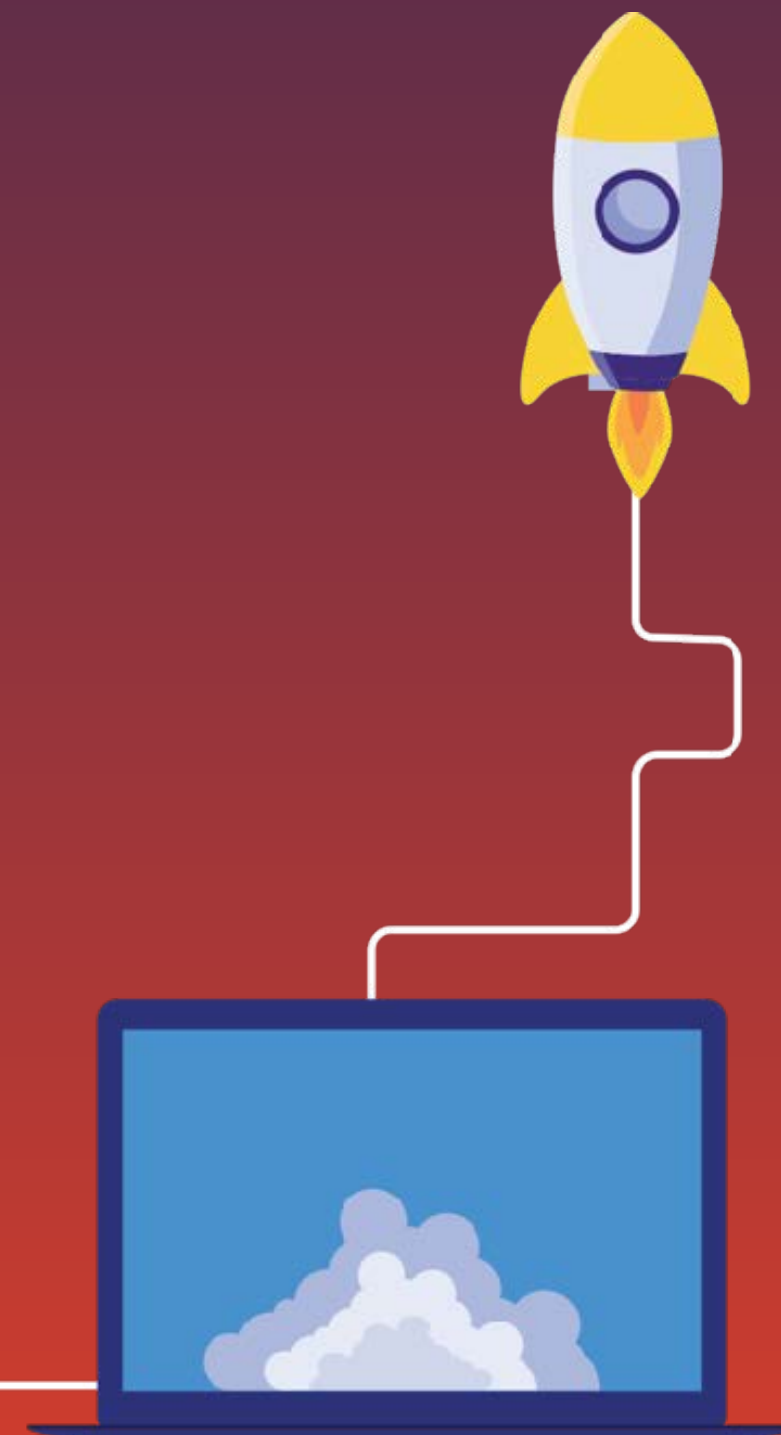
Will use AI to get to PMF faster.
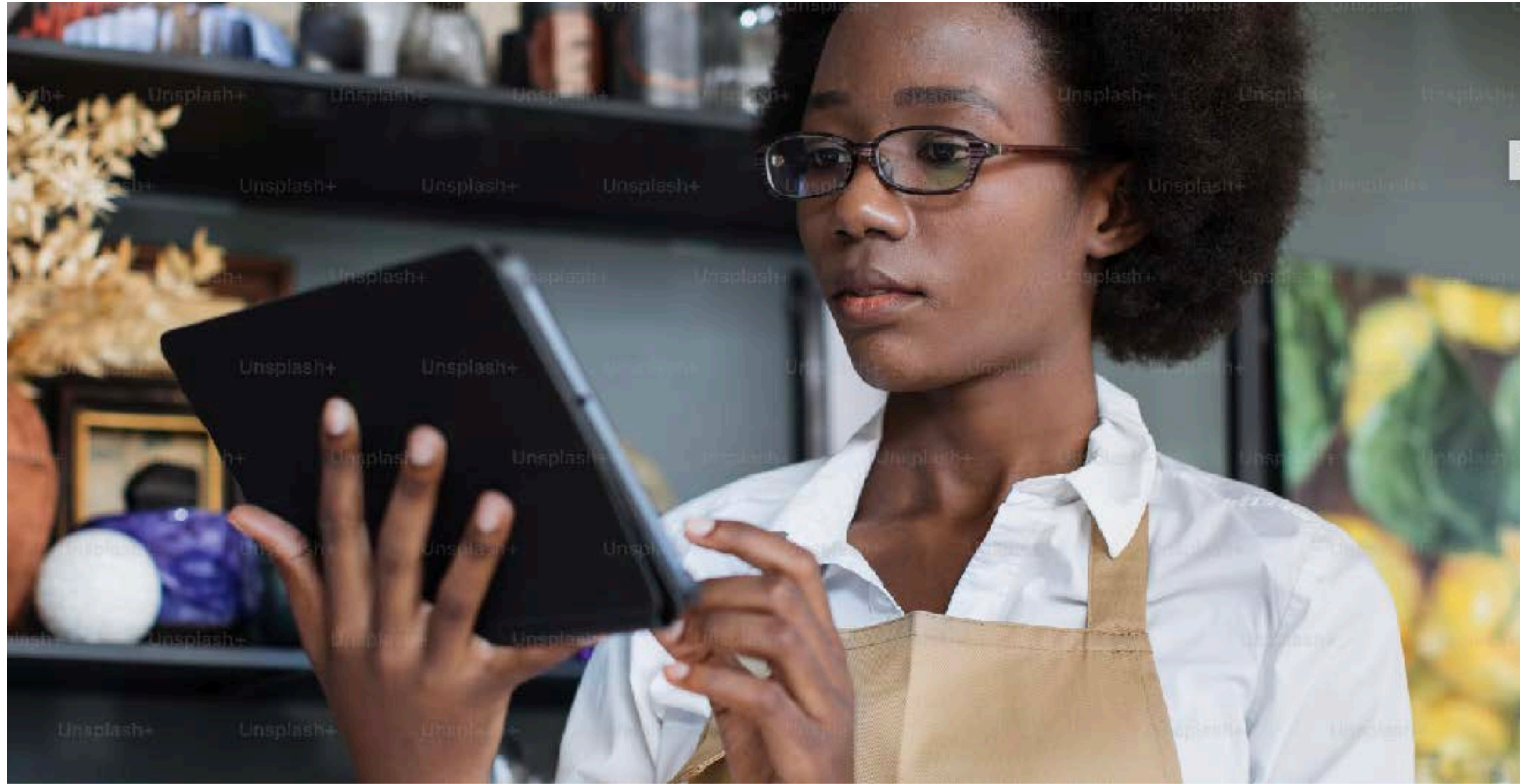
A startup is a race to get to Product-Market Fit before the money runs out. AI will transform that game.
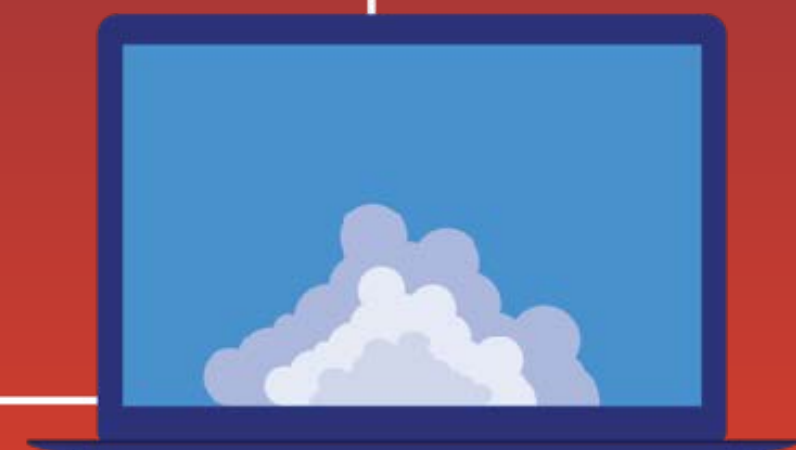
Startups in 2025-2035:

After the 2010-2020 "cult of unicorn fundraising", we'll return to the cult of just building a great business.

Won't have to chase unicorn status.
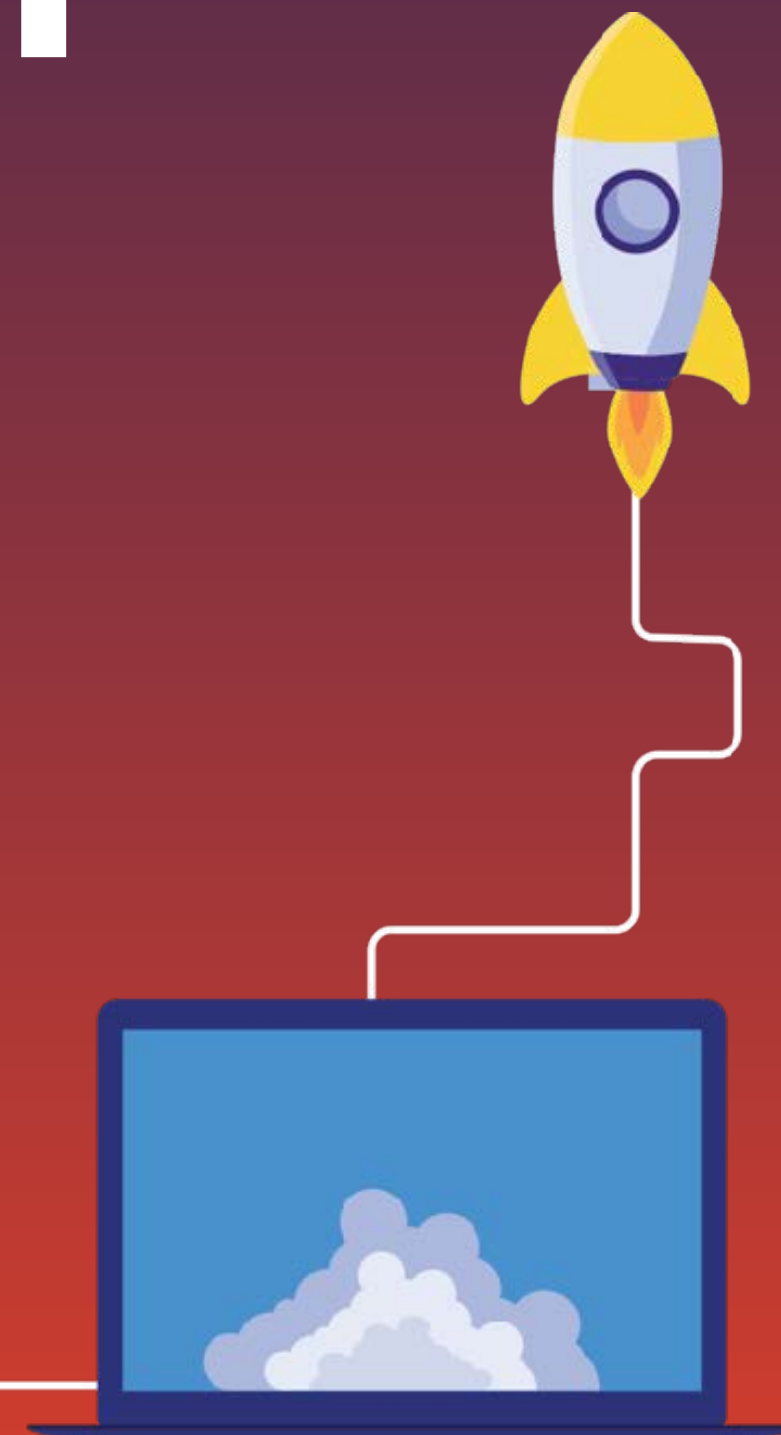
Startups in 2025-2035:
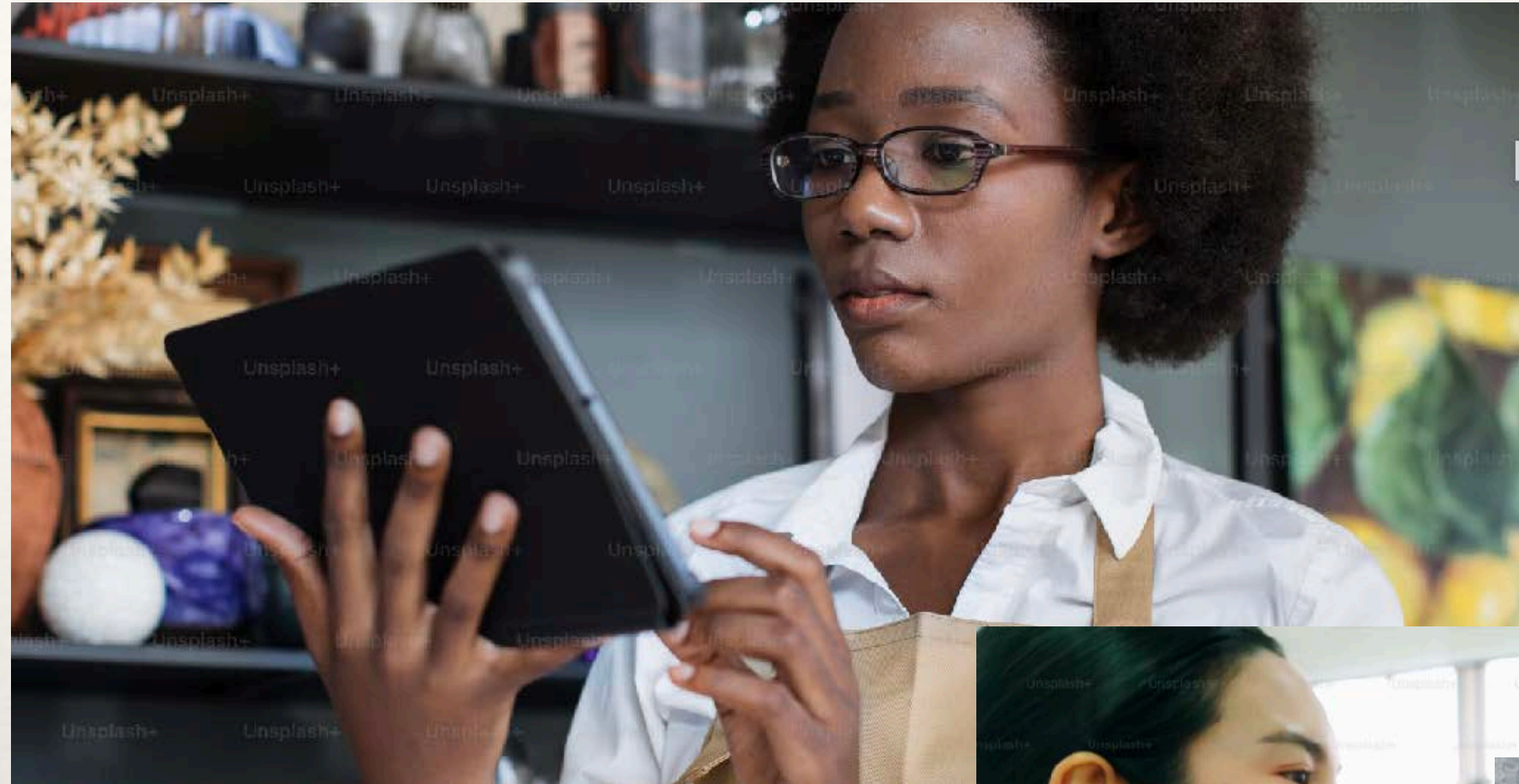
All over the world, creating impact.
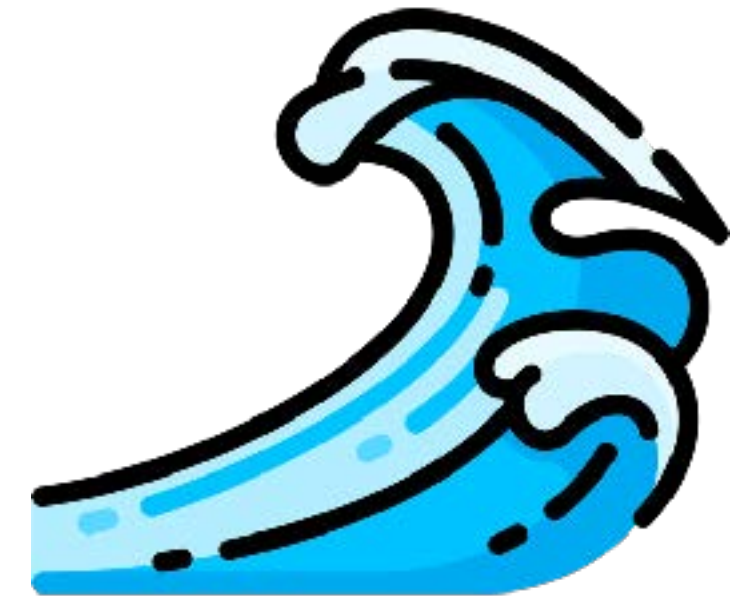
In my career, there was one opportunity wave at a time:
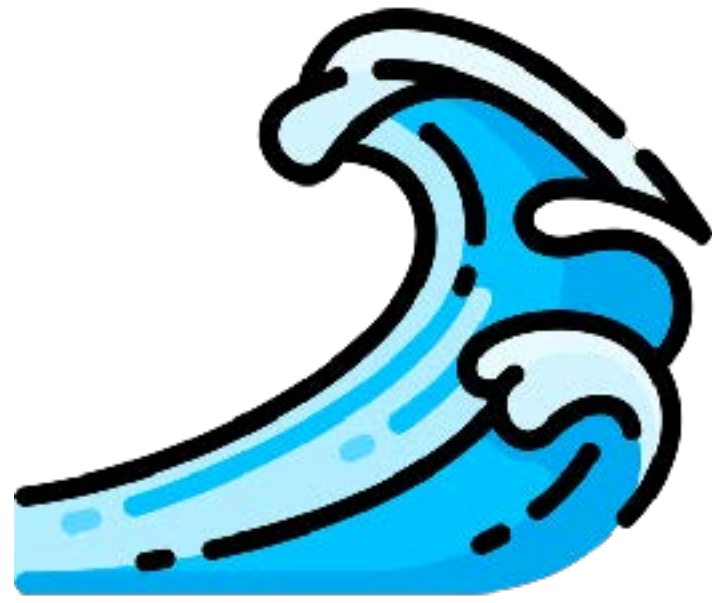
Semiconductors
1970's
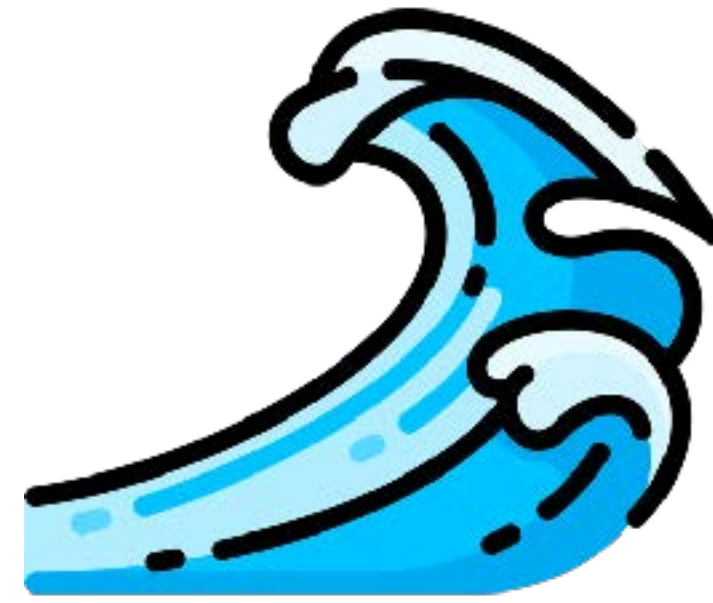
Personal Computers
1980's

Internet
1990's

Mobile/Social
2000's

Right now, there are several "trillion dollar waves" at the same time:

| Autonomous Vehicles. | Life sciences, Medical | Climate | AgTech | AI, ML | Fintech |
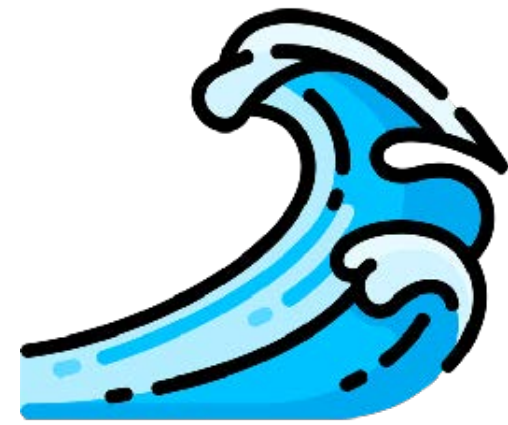
The World Economic Forum says we have entered the Fourth Industrial Revolution.

A merging of the digital, biological, and cognitive (AI) worlds in innovative new ways that create new promise and opportunity.

The 1st Industrial Revolution
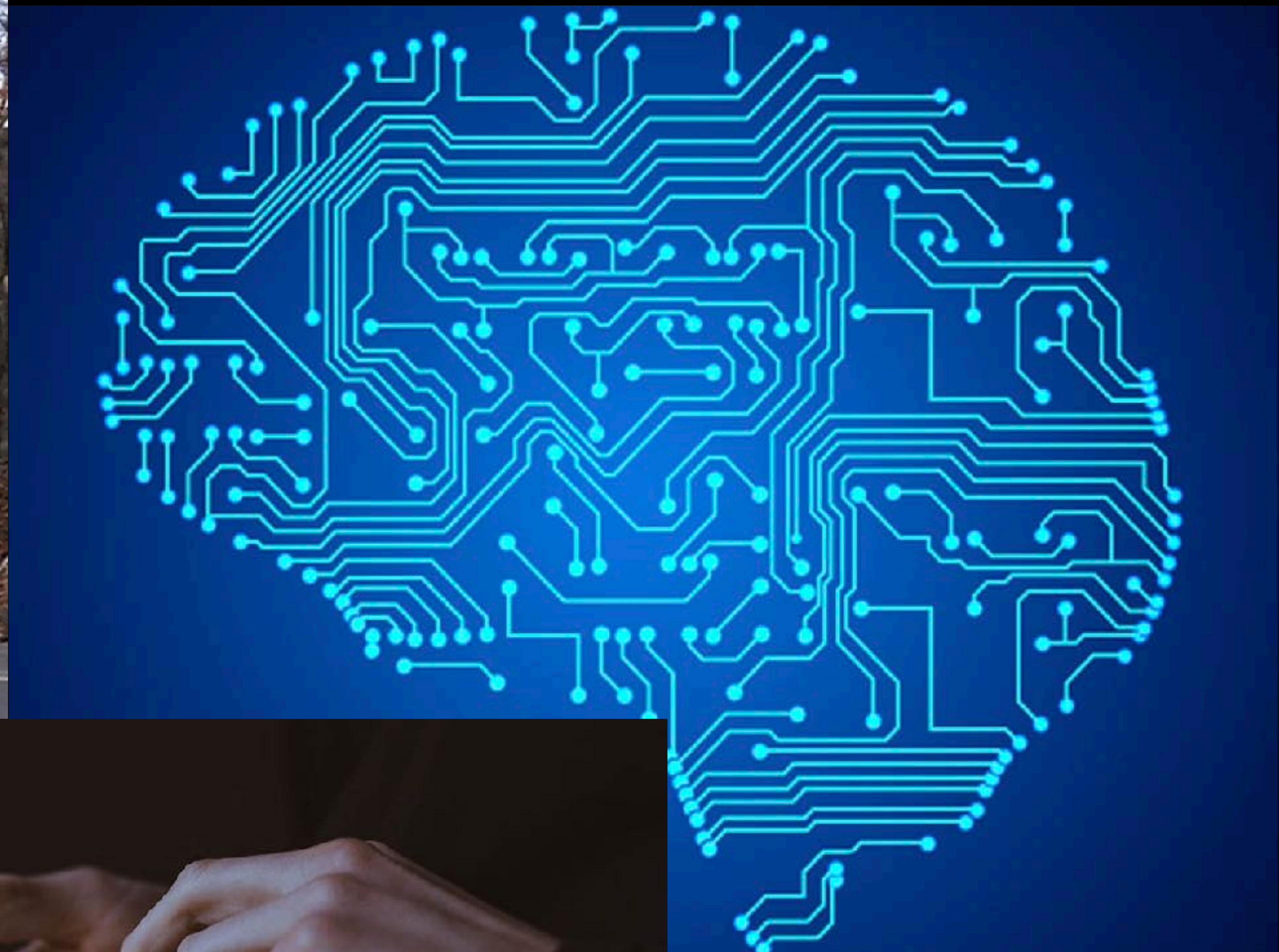The steam engine and the cotton mill. London, England

The 2nd Industrial Revolution
Electricity and mass production. Detroit, Stuttgart

The 3rd Industrial Revolution
Information technology. Silicon Valley, California

The 4th Industrial Revolution

2023 - Merging the digital, the cognitive, and the biological.

And unlike the first three, this new industrial revolution isn't happening in one place.

It's happening all over the world.

All over the world today, entrepreneurs are solving problems and creating opportunity.

The next decade will be a golden area for global entrepreneurs.

Thank you.

You'll find me as "bretwaters" on everything.

LinkedIn, Gmail, Instagram, Threads, etc.