Big Bang! Business Competition Workshop

MAKING THE LEAP

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2015 Big Bang! Winner

What I have Seen at UCD since 2001

• Office of Research – HP, National Labs, Calgene, Dow, Oracle, Cisco, Sun Micro, Intel, Dow, Accenture, Apple, etc.
• UC Davis Institute of Transportation Studies – Ford, Tenneco, Sunoco, Siemens Transportation, etc.
• UC Davis Engineering Department – DST Innovis, Pac Bell, Gen Corp. (Aerojet), ATT, NEC, PG&E
• UC Dept. of Agriculture-Del Monte, Mars, Campbell Soup, AgraQuest, Diamond Walnuts, Genentech, Holt of California, Monsanto, Novozymes, Surewest Foods, Marrone Bio, Paramount Farms
• UCD Health System – Sutter Health, VSP, Cal Dental, Kaiser
Research commercialization takes multiple forms and paths.

— Joseph Schumpeter

"Entrepreneurship] does not essentially consist in either inventing anything or otherwise creating the conditions which the enterprise exploits. It consists in getting things done."
“[It’s not innovation] “until there’s a customer who can actually purchase the branded product or service and use it. So, we’re not talking about invention, we’re not talking about ideation or creation, we’re talking about transforming that idea or that technology into a product or service that’s a commercial success.”

— A.G. Lafley, CEO Procter & Gamble

Why do people want to be Entrepreneurs?

Typically would-be entrepreneurs are looking for something in their lives different from what exists:

• Set their own hours
• No boss
• Do it my way
• Make lots of money

The real reasons ultimately that people truly become entrepreneurs are:

• Want to work with the right people
• Recognize appropriate level of risk is something they can live with
• Want to be somebody
• Want to make something better than it currently is
Do you have something the world needs?

Thinking Correctly

- Think you have to ship a killer product...
  - ‘Boiling the ocean’ feature sets
  - Delays time to market, and the market always is moving
  - Uses large amounts of capital

- Real entrepreneurs build it, buy it, partner for it
  - Prioritized market feedback from validation
  - Get to market faster and with less capital
  - Go after partners like you go after customers
  - Ship ‘minimal functionality’ products / upsell
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Make things people want

Three lessons for innovation
It’s not about the idea

Would-be Entrepreneurs think.....

Good ideas are scarce...
- Ideas are commodities
- Get to market first fallacy
- No competition fallacy

Characteristics of a solid concept
- New approach to an existing business process
- Real, existing corollaries today
- Solution today has market potential of $1 billion
- Multiple adjacent markets just as large
- Start up team with execution skills in the space
I saw for the first time everything in practical operation. It was all before me. I saw the thing had not gone so far but that I had a chance. I saw that what had been done had never been made practically useful.

— Thomas Edison

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Strategy + Execution
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- Changing out people
- Pivoting your product
- Moving to a new market
- Realizing you can’t be all things to all people
- Doing things that don’t scale

It's about commitment: yours and others'
Do you have something the world needs?

At a fundamental level...

It's About Participation

Employees, Customers, Vendors, Investors, Board Members, Blogs, Wikis, Open Source, Social Networking, Open Media, ...
Networking/Collaboration has a role everywhere

Theory

Experiment

Simulation

Risk Reduction

PROTOTYPING

Would-be Entrepreneurs think.....Example

I know my customer...

- Market validation from friends
- Ready, fire, aim approach to products
- Consumes capital at a furious pace

Market validation

- Right product, features and markets sooner
- Natural alpha, beta and first customers emerge
- Helps recruit savvy employees
- Raises smart capital
- Optimizes company's capitalization
Uncertainty and Commitment in Innovation

Innovation is risky, yet much of that risk should properly be defined as uncertainty.

- Risk (proper) is measurable but irreducible
- Uncertainty is risk that not measurable but is reducible (aka Knightian Risk)

The process of innovation hinges as much on commitment in the face of uncertainty as on discovery in the face of ignorance. Maybe more.
Lifecycle of a new venture

Manage for uncertainty and commitment
Gen1 1st 3-9 Months

Manage for market, product & process development
Gen2 (startup)

Manage for building the company
Gen3 (transition)

Manage for growing the business
Gen4 (business)

Focus on reducing uncertainty: yours and others

think
the challenge

$5, $50, $500, $5,000...

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Each failure is a learning experience

The network is the innovation
Innovation involves *seeing, building, and maintaining committed and lasting networks* connecting people, ideas, technologies, and other resources.

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**Innovation Happens Everywhere**

- Most of the smart people don't work for you (look around the room!)
  - Universities
  - Customers
  - Suppliers
  - Employees
  - Competitors
Innovation Happens Everywhere

• Get them to work on your stuff
  > Because your stuff is cool
  > Because your stuff is “free”
  > Because your stuff lets them build even cooler things

“Pick a reason”

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Leverage the knowledge available to you
Entrepreneurs build a picture to communicate to:
Develop plan, sell employees, prospects, investors, customers, vendors

**Market Segmentation Analysis**
- Competitors
- Complimentary Companies - Company to model yourself after
- Revenue Channels - profitability
- Cost of customer acquisition

**Organization Analysis**
- Who do you hire when
- Cost
- Board Structure

**Product Analysis**
- BOM
- COGS
- Product evolution

**Financial Analysis**
- P&L
- Balance Sheet
- Cash flow

Would-be Entrepreneurs think.....

I can use partners to sell my product
- Many technology focused companies rely on others to 'go to market'
- Companies forget sales is a form of ongoing market validation
- Partners work only after you’ve established a strong market position

How do early stage companies sell?
- Three basic sales models for early stage companies; direct, telesales and OEM
- Prove an economic model that has reasonable customer acquisition costs
- Understand your sales cycle, sales model and who in the organization are in the decision chain
Lifecycle of a new venture

Stage of Venture Development

Funding

Research Grants
Development Grants (e.g. SBIR)
Friends, Family, & Founders ($5-$50k)
Angel Investors ($50-$500k)
Early Stage Venture Capital ($500k-$2M+)
Venture Capital ($2M-$50M)
Private Equity, Project Financing ($2M-$50M)
IPO, Merger, or Acquisition ($2M-$50M)

Basic Research
Applied Research
Proof of Concept
Target Market
Business Plan
Working Prototypes
Engineering Prototypes
Suppliers Contracts
Production Prototypes
Distribution Contracts
Product Introduction

Stage of Venture Development

Revenue Growth

Net Cash Flow

Valley of Death

# of New Ventures

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Revenue Growth

Net Cash Flow

Valley of Death
Would-be Entrepreneurs think.....

I must raise a lot of capital quickly...
- Lots of capital before any value is created
- Causes dilution
- Produces a spend mentality
- Output versus execution orientation

Focus on value inflection points
- Validate markets and business models
- Customer traction
- Bring on key executives and advisors
- Raise enough capital to get through the next set of value inflection points

People in the Ether

- Lawyers – Morrison & Forrester, Weintraub, DLA, Murphy Austin
- Investors – Sacramento Angels, Moneta Ventures, DFJ, etc.
- CPAs-Gallina, Moss Adams, KPMG, etc.
- Complimentary Firms-Genentech, Marrone Bio
These programs help you determine the best path, the best first steps, and the best first network.

The rest is up to you.
Penicillin broth was used in a few cases as a local antibiotic although it gave reasonably good results the trouble of making it seemed not worth while.

— Alexander Fleming (looking back in 1940)

Identify and resolve the critical uncertainties quickly and cheaply.