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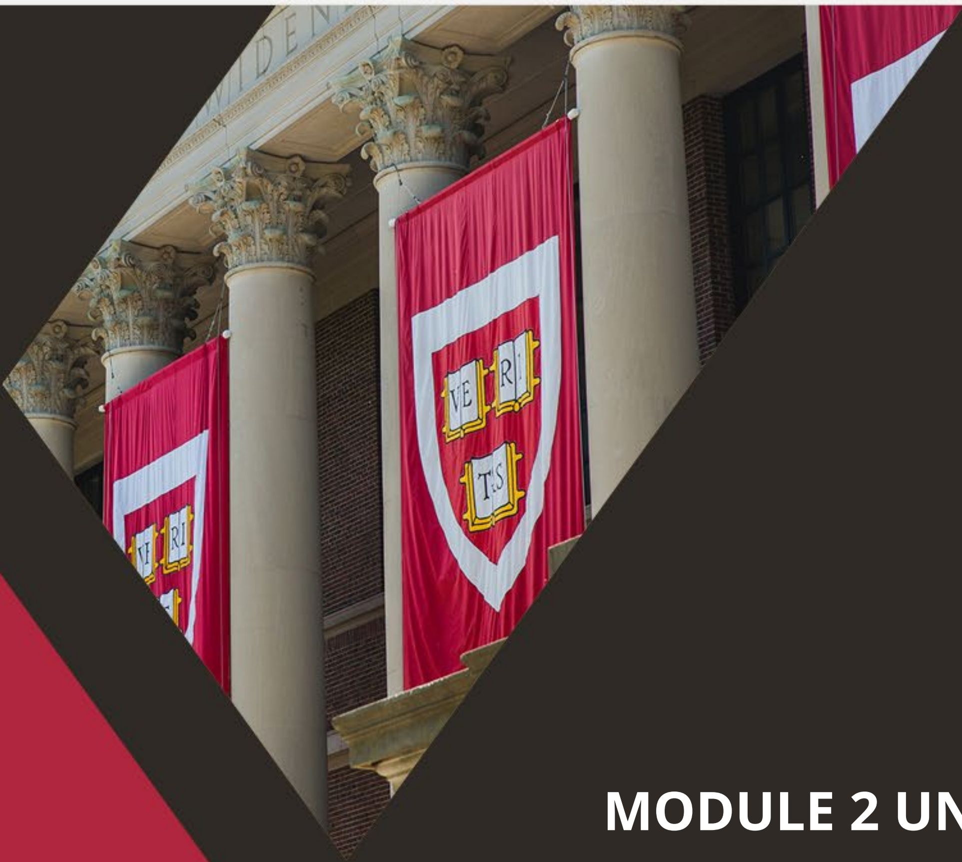

MODULE 2 UNIT 2
Video 1 Transcript

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LAUREN COHEN: It was the early 2010s, Paul Lister was an engineer at Lockheed Martin, had spent his entire career at Lockheed Martin, and was very happy there. He never planned to be an inventor, never planned to be an entrepreneur. But what he did plan was to change his car radio his car radio was on the fritz and he needed a new one.

So he went to the store to buy a new car radio. And in fact, look he was a bit of an audio file and he really liked to maximize the sound of his radio, but he also. Was interested in technology as an engineer and two wanted to meld the two together and so he wanted a car radio that can integrate with this Smartphone.

And also have a GPS system. He found one on the Shelf cost about $1000 and installed it and he couldn't have been less happy than what he got. He uninstalled it took it back and got one that was even more expensive for about $2,000 put that in was absolutely sure that this was going to be the solution and again was devastated to find out it just wasn't what he was looking for.

And so that kind of thinking well gosh, I think I can do a better job than this. And so we took on exactly that challenge. He took the next about year to just try to figure out how to make his own car radio and so he bought car radios. He took them apart. He figured out how they work how they did integrate into a smartphone and he did come up with his own.

Okay, and this was called DVM so it's company you decide to name DV. Mm. And this radio he decided to name so this was great. He had a prototype at least in his mind or the first one that worked into a piece of wood and he then had to figure out God if I want to make this from just an initial idea into a company.

I'm going to have to do a lot more. So first thing was first he first had to figure out how to make this right how to actually produce more than just these one of these that he had into a piece of wood he. On to the online workplace sites, in case of the one that he used was taskrabbit and he also used up work and he figured out exactly how he would create these in some kind of big way.

So he hired some programmers. He hired some Fabricators. He even went to Ali Baba to try to figure out how he might produce these. In China, and he did and he connected with some 3D printers and after a few hiccups along the way about 11 months in he had a plan where he could manufacture this DVM in what he thought was a reasonably large scale way.

You might think now the entrepreneur has one right? He's found a potential product and a space and I should mention that he had done a little bit of market research and thought that he could sell about 20 million of these that that was the kind of latent demand for this Smartphone radio, right? He figured out how to make them.

And here even done a little bird little bit of work on the pricing and so he had decided that he was going to price under his competitors right under that thousand dollars under that two thousand dollars that have been paid he was going to price around $300. So he felt like he had a better product at a lower price and so he couldn't lose right the market was his all 20 million of those were going to flood in and even if they didn't he would be happy with a million or two million of them buying his DVM Now it seems like thus the fairytale story of politzer is done right because he's figured this out.

But in fact, it's just beginning and the reason is just beginning is that one of the most important aspects of an entrepreneurial venture that many entrepreneurs don't realize until it's too late is the financing of that venture. Okay, how they're going to get the money and how you're going to structure the ownership given that money of the product.

Okay, and so while good financing can't make a product successful bad financing can absolutely make a product fail. So Paul went out to the market and realize that he really had three options here. The first is that he could try to find it himself. But this was going to cost between 25,000 and fifty thousand dollars and he had already put in a lot of Sweat Equity into this write the amount of hours the amount that he had spent just creating the Prototype and he didn't really want to spend another 25 to 50 thousand dollars.

He might have to mortgage his home. He might have to do a lot of other things. He just wasn't really comfortable doing. Okay. So let's put that one aside. The second is that it could go out and get what's called Angel financing. So what is Angel financing? Well, Angel financing is going out to high-net-worth individuals and pitching them to take what we're usually Equity stakes in this firm.

A problem with that is that usually had never really well developed business plan in order to do that and that took a lot of time. So on average about 8 to 12 months to get to any sort of resolution and that resolution by the way could be negative so we can find out after those 12 months that in fact there just really wasn't any demand from these angels to finance this DV mm product that he had so that will be 12 months wasted and he was worried that in those 12 months.

The market would pass him by that someone else would come in and swoop in on his great idea. So he didn't love that but there was a third option and that third option is the one that really got Paul excited but also nervous and that is this option which was very new in the early 2010's called crowdfunding.

So what is crowdfunding? Well, it's exactly what its name implies that you go out to a larger group of people and you get them to fund this idea that you have now. This had been very hard to do in the past because it's very hard to coordinate that many people and to convey your idea and efficient way and then to collect the financing right to collect those small pieces of investment that each of them are going to make but the internet really helped.

To coordinate on both those two lower the cost on that coordination of getting your message across and of you collecting those payments and so a number of websites had popped up and the one that Paul was considering was website called Kickstarter Kickstarter had now been growing for quite a long time.

And they had a great track record of connecting small entrepreneurs with people who are interested in funding these entrepreneurial projects Paul knew we had some work to do he had to create a compelling video. I need to create a compelling pitch to raise money. In this crowdfunding, but it had him incredibly excited.

So he went to one of the other early investors which was his friend in DVM and this friend had invested just $3,000 to get a four percent stake and he went to his friend Charlie and he said look Charlie. I'd love to get into Kickstarter and it kicked off a great conversation with Charlie about exactly what the advantages and disadvantages of Kickstarter might be as Paul and Charlie sat back to reflect on this.

Two big questions came to. The first was gosh could they really raise $50,000 by these small $50 $100 $200 investment that people usually made on Kickstarter. And if not, what would they do? If they only raised $12,000 that wasn't enough to kick off their company. So would they have to return all that Capital to these investors who had believed in them along the platform.

That was the first thing the second thing is if they failed on Kickstarter, it would be a public failure and. If they were to go to another source of financing everyone would know and everyone could find out that they gone to Kickstarter first and that the public didn't think enough to finance this product and so as they went on to other investors, they would have to try to explain why yeah, you should invest in dbm in the world really wants this but just not quite enough to invest in it over this Kickstarter platform put yourself in Polish shoes.

Was Kickstarter the right place for him to go to get the funding that he needed for DVM and if it wasn't where else would he go?

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