Sting Startup Academy

MODUL 7

1. Why finance your startup?

External finances is sometime needed in early stage for research, proving first track & expanding.

If you do need external financing, you need finance strategy.

Short-term plan for this year & next, and then more long-term strategy for 5 years. Some companies have multiple rounds, some have 1 round.

2. Financing options for early-stage startups

Three categories (with some overlap) Soft, loans, & equities.

Soft money is provided by the government, and is not expected anything in return. Encourage companies in early stages.

Can be provided by grants and projects, typically through partners where you have to apply for them. Availability is posted on website (t.ex. energimyndigheten utlysningar).

Soft money is a terrific way of financing in the beginning, before revenue streams. In Sweden, Almi företagspartner & EU loans can be found on their webpage.

Loans are great to combine with equity investments do avoid dilution. External part bys shares, and intends to sell them, when the shares are more valuable and make profit on the investment.

This is called Venture Capital (VC). Tied tyo amount of risk, and stage of the company. Angel investors invest their own money with a lot of risk, usually in the span of 30.000 EUR to 300.000 EUR.

VC funds, on the other hand, invest other money and their investment size ranges from 300.000 EUR up to several millions. Also, owners that can help the company move forward.

3. Understanding risk and traction

With smaller investments, the room for risk increases, and with larger investments require more understanding and proof of potential success.

Risk assessments and milestones that lower the risk varies between the companies depending on the product or service they they offer.

Customer or user traction is a common way of measuring risk. More customers & users show traction in the market.

Having a unique product, deep knowledge, and a team with experience are great ways to reduce an initial risk before customer traction can be demonstrated.

You must figure out what traction means for your company, and how you target the specific investors for your company.

Risk can also be mitigated by having a formidable team, or encouraging growth rate. For companies developing truly disruptive tech/product, the risk lies in proving the technology works.

4. Finding investors & prepare for the meeting.

There's no single way of finding investors. Most VC funds have their own webpage, where they lay out their focus. LinkedIn is another great platform to connect investors. Startup-events throughout the year are great ways of meeting potential companies. Connecting in person is a proven and traditional approach, especially when dealing with angel investors.

Pitch: Sell them on the business opportunity in investing in your company and explaining the popportunity, as well as the traction and risks and how to mitigate them. There's plenty of templates online on how to structure a pitch deck.

The budget is another central piece for the investor to understand your business. Usually discussed in the first meeting, and then sent afterwards for further scrutiny. When Emanuel Andersson looks for a company, he looks for a strong and diverse team with some secret sauce and knowledge of the market.

Angel investors usually requires less DD, while VC investors do a bit more DD. It's strongly recommended to budget a few month before the first meeting to final decision, and plenty more for larger investments (VC). They focus primarily on team, product, space (tech-space, etc.) and first traction.

In the spotlight: Lars Lindgren

"The most important thing is cash-flow. As a minimum the company should have at least 12-18 months runway, how much it costs per month to run the company, and also when they're raising money, some of the investors that come in the first round should also be able to come in the second round. Some of the investors in the second round should be able to come in the third round, and so on. Because if they don't have any investor coming in the next round, it's really tough to convince new investors.

What are investors looking for? The personality, the entrepreneurs, the other co-investors"

In the spotlight: Jessica Schultz

"Important to remember that raising capital is not for everyone. You can build a big business by bootstrapping, and you don't even need capital in every case. Sometimes, can be better to build without, and then it's much easier to raise if you need."

5. What we at Sting & Propel Capital look for in early-stage startups

MODUL 2

How to find a problem worth solving

First question you should ask yourself is how passionate you are about the problem you are trying to solve. Unless you are truly passionate, you are much more likely to give up when it gets tough.
You need to show that you really believe in your idea for others to believe in you.

A common mistake that entrepreneurs do is to define the problem on a too general level. You need to be specific. Have in-depth understanding of the specific problems that they have.
It's **painful, urgent, frequent, necessary,** and the **market is growing.**
Having sustainability is also key to ensuring success. Look at Agenda 30 and see which of these goals SDG's (Sustainable, Development Goals) you can help solve.

We chose:

SGD 3
SDG 12
SDG 13

Write a purpose statement early on for your start-up! It gives you a direction and ensures alignment. It also helps you to stay true to your why. We've done this with masterplan 1.

A mindset of experimentation:

Thinks are usually not the way you think. You need to be curious, have an open mind, and be sure that there are many others working on the same problem and maybe even a similar solution. Thus, you need to work faster than everyone else. You cannot be afraid to fail! Many things will fail when experimenting. This means you need to fail fast and learn from your failures.

Build – measure – learn.

A common mistake that entrepreneurs do is to fall in love with the solution. You shall fall in love with the **problem** and not the solution!!!

MODUL 3

Getting your first customer

Let's say you have your MVP and you're ready to face your customers.
There's no easy way to do this, but you just must go head in and face your customer and see if you're solving the customers' pain. If a customer has a pain-grade 0-10, the pain needs to be 8-10. Otherwise, they will probably not buy from you. Create a list with 50-100 customers that you think will be able to buy from you the coming month.
Get out of the building and try to close some deals!

Step 2 after you created the list with customers, is to try to get customer meetings.
You can do whis by e-mails, phone calls, or warm introductions.
During your first call, try to figure out if your idea is solving the extreme pain point from the customer.

Listen – it's difficult to grow when you have to convince your potential customers that they have a problem. On the pain scale, 9-10 is frustrated and 1 is satisfied.

Sara Wallén, MindMore:
"My key learnings are that you should see your fist customers as super important because they shape your product. Be picky about them! Get customers to co-create with you, not customers that don't care about your product."

How to create a customer profile:
The smarter you run, the faster you will run. By creating a customer profile, you will run faster.
Use this template for your customer profile:

- Name
- Demography
- Personality + habits (bio)
- Goals + aspirations
- Frustrations /pain-points
- Trusted brands

Market segmentation is tightly connected with MVP. From you TAM (total addressable market), find you initial market segment. Try to aim for customers with short decision-time, and customers that match your customer profile. In the creation of your MVP, focus on high impact low effort. You want to work smart, not hard.

Zoom in 80% of the time on the initial market segmentation you have chosen.
Focus on features that this market segment has, with high impact and that take low effort for you to create. Zoom out 20% of the time to explore if you get better traction with your product in another part of the market. If so, redirect your focus!

Put a price on your product!

"A free product is never used the in the same way as if you put a price to it"

For the first customers, you can heavily discount it for them to be a good reference customer, but still put a price on it. In many B2B products, organization needs to test the product before they buy it and replacing it in the new system. If you don't have a proce, they won't allocate the same time to do a test. If you don't have a customer yet, just go with the gut-feeling. First 3-5 customer, just put a price on it. You will always return to the pricing model later on, so try to focus more on closing the deal than getting the "perfect" price.

Maja Magnusson:
"There's no golden formula, it's just trial and error. If people are buying it, can I increase the price and how would the customers respond? You can present the pricing model in a very clear and concise way, and then adapt the pricing model to how they use the product and if they are willing to pay. A good way to test out the product is to have different sizes of the product, for example small medium and large. Then you can see if the customer is really proce sensitive, will they buy the bigger

one or will they opt for the smaller one? Then you can adjust even further from seeing how they choose!

We looked a lot of services where they spend their money right now, which is human services. How much is a interpreter price? Can they save money by replacing the interpreter by our service? Time benefits, better work environment, better benefits for the patients."

Magnus Nilsson, iZettle:

You have to have something disruptive coming. It¨s easy to going in the trap let's just go lower than everybody else and everyone will love us. We divided our business into two parts, one was hardware and the other was really the transactions volume incoming.
We decided to be disruptive so we gave away the hardware for free,

What I want to say is that some element of your product needs to be disruptive.
Maybe you can do 6months heavily discounted, and then people will realize the value of your product.

How to form a successful team

The importance of finding the right co-founder
Most important is not what you do, it's who you do it with. When finding a co-founder, you have to be aware of your strength and also honest about where you lack and your weaknesses.
Make sure that you align on the mission, where you want to be in the long term. This is very important. Also, make sure you share the same goals in getting there.

For your team to be efficient, you need everyone to understand the mission. You and the co-founder team lay the foundation for when others join. Therefore, you need to talk through basic values of how to run the company. Specify what you need to accomplish in your roles in relation to where you want to be in 6months. Discuss your roles, abilities, and mandates. Why? So you know what to expect from each other! And who does what! What do you want to stand for at your company? How to handle potential disagreement. Also, how should you work together? Should it be remote or in person? Which meetings do you need to take, and when?

How to build a company that attracts global talent

How do you attract the right resources to your startup? Your unique vision helps form your brand. The moment your idea turns into a business you want to figure out what company culture you're building. Startup culture is often different from corporate culture, the individual contributions are often more impactful in startups, also it better reflects the ambitions and values of the members.

Having a positive employer brand is very important. Your brand is not just about your product, it is about your brand as well. Especially when attracting talent. Employer branding is the markets perception or the qualities of your company that you share with the public. You can see it as the reputation as an employer, and what you promise jobseekers in exchange for their skills.
You also have to live up to what you have promised, of course.

How do you recruit talent?
Start by asking yourself <u>why</u> you need a new role. What role will help you develop the most? Secondly, is it a co-founding role or not? It is crucial to discuss this before with the co-founders. The next step is to define the profile you need. Define the role and what tasks. Define what experience they need to have and distinguish between "nice to haves" and "need to have". What kind of salary are you able to offer? Maybe you can only offer equity in the beginning before you have raised money? Point out the things that makes your company unique, and post the job ad.
You also need to be able to evaluate the candidate, you don't want to lose momentum when you have found an interesting candidate because the chances are high they are in interest by other companies as well.

1. Define the role and candidate

- Budget and salary
- Tasks they will be working on
- Profile and mindset

2. Pitch the role

- Why is this role interesting?
- How does it stand out from the crowd?
- Why should a candidate join?

3. Handle the candidates

- Make sure to have an **employer agreement** or **shareholders agreement** in place for the candidate to sign.
- Set a structure for how to evaluate the candidates.

Shareholders agreement (SHA)
Agreement between the founders when starting off. The sooner you will get this in place, the better. A SHA basically set the rules for various shareholders issues that may arise. If you don¨t have a SHA, you may en up wasting a lot of time solving different conflicts or even risking your whole company. A SHA offers a good opportunity to strengthen your finders team, and gain confidence for future investors.

what should it cover? Work commitments and dedication, including IP. Vesting (outlining key person shares if they leave the company). Cover good leaving and bad leaving situations.
Transfer of shares, including write a first refusal, ride along and drag along.
Decision powers, often called the beta catalog.
One very thing to note is that you must have control of your Cap-table (your ownership structure). In various places in the SHA you define percentage levels of shares for certain decisions, and to set these levels wisely you need to consider what your cap-table looks like. You can find more of this online.

Jessica Schultz, HelloFresh:
"In the end, what it comes down to, is that team is everything. Normally it's 2-3 founders who

complement each-other. In the beginning you want to feel this huge vision where you come out of the meeting feeling you really are impressed and want to work together. Also want to see a hustling mentality, you think you can do something no one else has done before and also be able to convince someone you can. Sell, sell, sell!!!!