

Forming a start-up



The Start Up Roadmap:

1. Getting the idea
2. Meeting around the kitchen table
3. Founding team establishment
4. Leaving your job
5. Business plan creation
6. Management team
7. Raising Capital
8. Closing Capital
9. Finding a home
10. Starting up
11. Secondary financing
12. Launch of first product
13. Raising working capital
14. IPO



The Startup Formation Process

Getting the Idea

Main focus point - A Vision

**A decision point – what do I want to do with my life?
Will my spouse support me? Can I lead a company?**

Main Risks - lack of realism



The Startup Formation Process

Meeting around the Kitchen Table

Main Focus: sharing the idea with trusted friends in order to solidify a dream. Refining the vision.

Needed : good business judgement.

Main Risks: Secret could leak out. (i.e facebook)



facebook

The Startup Formation Process

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The Startup Formation Process

Founder's and Team Commitment

**Main Focus - getting firm commitment from key people,
co-founders of the team**

Alternative - staying with a partially-committed team



The Startup Formation Process

Pullout from Employer – best time to leave your job?

Main Focus - Stay clean toward former employer

Major Costs - leave a job before seed round = must live off own savings or work part-time



The Startup Formation Process

Business-Plan Creation

Main Focus - writing a well-conceived business plan

Typical Participants - consultants, lawyers, CPA firm

Needed – all around strategic thinking

Output - inspired version of the founder's vision

Demonstration of a sustainable competitive advantage



The Startup Formation Process

Filling Management Team

Main Focus: Attracting and recruiting the vital talents.

Participants: CEO and personal connections (word of mouth)

Help needed - wise judgments is worth more than gold here.

Main Risks: compromise/ leaks of secrets following interviews

Output - have all vital talent commitment to joining the start-up



The Startup Formation Process

Raising Seed Capital

Main Focus - getting a firm commitment from a strong lead venture capital firm or an angel

Time Required - About 6-9 months

Typical Participants - VC's, angels, consultants, Founder, CEO

Help needed - advise on who to contact?, coaching on presentation skills, valuation, dilution and pricing judgment

Output - getting a lead VC backing the start-up, a timetable for a closing date with cash in the bank



The Startup Formation Process

Closing Capital & Incorporation

Main Focus - get the money in the bank account /closing the deal

Typical Participants - CEO, lawyer, banker, founders mm VC's

Help needed - negotiation skills, street-smart tactics & strategy

Major Costs: legal services

Main Risks: getting no cash, investors dropping out of the funding

Outpout - getting the cash in the bank, only then celebrate!



The Startup Formation Process

Finding a Home

Main Focus - get appropriate working quarters

Major Costs - CEO's time, broker's fee, monthly lease

Main Risks - Picking a bad facility (bad location, wrong size, rent too high, too long a lease)

Output - a great home will increase the ease of attracting fine employees and impressing good consumers



The Startup Formation Process

Starting up

Main Focus -

1. Hire the necessary extra people
2. Get started building the first product

Time Required: 16-18 months

Typical Participants- CEO, board of directors (BOD), employees, suppliers, family members

Help needed - prior start-up experience

Major Costs - burn rate, amount of cash spent each month

Main Risks - slips in schedules, insufficient market and too much competition, shortage of good people

Output - running company with eager employees and the right burn rate



The Startup Formation Process

Secondary Capital Rounds

Main Focus - Raise enough cash and leverage precious equity

Typical Participants - CEO in a collaborative effort with the VC

Main Risks -

1. Running out of cash
2. Lack of management focus
3. Bankruptcy

Output -

1. Sufficient cash in the bank
2. Equity at a higher price per share than in the last round



The Startup Formation Process

Launch first product

Main Focus - Focus. Go for the market opportunity

Typical Participants - customers, PR, whole company, specially marketing efforts

Main Risks -

1. Lack of focus
2. Product schedule slips
3. Underperformance
4. Poor market acceptance
5. Jaws, big company counterpunch

Output - The first product is in the market, mission accomplished ! (?)



The Startup Formation Process

Financing Growth - Raising working capital



The Startup Formation Process

Initial Public offering IPO

Main Focus - get the shares liquid, cash in a few chips and celebrate!

Typical Participants - bankers, analysts, lawyers from both sides, CPA firm, institutional investors and CEO roadshow

Needed - experts in investment banking

Main Risks - Missing the window

Output -

1. Image of success in the high tech industry
2. Investors increase their invested moneys
3. Founders become multi millionaires
4. Employees increase their net worth



Participants in the Formation Process

1. The person with the idea – founder
2. Key Followers
3. Family
4. Friends
5. Business consultant
6. Lawyers
7. CPA Firm
8. Venture Capitalists
9. Board of Directors
10. Equipment Leasing Company
11. Commercial Banker
12. Real Estate
13. Suppliers
14. Recruiters
15. PR
16. Media
17. Customers
18. Analysts
19. General Public



Summary

- The entrepreneur chose to convert an idea to a vision and became a commercial success.
- It took somewhere between 5-10 years to get to the IPO/M&A
- The entrepreneur learned to deal with various different positions and participants
- Essentials - half effort and skills, and half good timing and luck
- The founder convinced strangers to financially support his vision
- The founder took a chance on becoming a small going nowhere company and on going bankrupt
- **The rewards are seeing a viable company alive and doing business well, becoming personally and publicly worth millions, learning to balance the personal life along leading a very successful high tech start-up.**