Introduction to Venture Capital

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• Introduction

• Intro to Venture Capital

• Starting a Start-up / Finding the Right Idea

• Pitching your Idea / Raising Funds
About Me

• Ari Bencuya, Ventures Manager
  – Duke University, BA
  – Economics and Business
  – Business Analysis, Product Management, Mobile
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About Inveon
About Inventures

Seed Stage Investor and Incubator
About Inventures

Internet, Mobile, & E-commerce
About Inventures

Goals

• Provide Guidance to Entrepreneurs

• Help Build Successful Companies
About Inventures

Management Team

Yomi Kastro
- Managing Partner
- Boğaziçi University
- Founder of Inveon

Ari Bencuya
- Ventures Manager
- Duke University
- Silicon Valley Background
Our Investment

• Capital
• Incubator / Office Space
• Strategic Consulting
• Technical Development and Know-how
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What is Venture Capital?

Venture capitalists:

• Raise pools of capital from investors
• Finance new and rapidly growing companies;
• Purchase preferred equity securities and take board positions;
• Add value to the company through active participation;
• Take higher risks with the expectation of higher rewards;
• Have a long-term orientation
• Make $$$ by via M&A or IPO liquidity events
70-20-10 Rule

• 70% -> Fail

• 20% -> Lifestyle

• 10% -> Success
# Types Of Investors

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<th>Angels</th>
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*Note: The pie charts represent the proportion of low and high contributors.*
Types Of VCs

- VC’s segment in a number of ways
  - Sector
    - Internet vs Engineering vs Clean Energy
  - Size
    - Small fund (<$100M) to large fund (>=$1B+)
  - Geography
    - US, EU, India, Israel
  - Stage
    - Seed/early – two guys and an idea/demo
    - Mid-Stage – initial revenue traction
    - Late-Stage – near breakeven – expansion/mezzanine capital
The economics of VC

- **Management Fees (typically 2-2.5% of Amount Raised)**
  - Charge a management fee to cover the costs of managing the committed capital.

- **Carried Interest (typically 20-25%)**
  - The Carry
  - A term used to denote the profit split of proceeds to the general partner.

- **Example $100m fund**
  - 4x return and 2% and 20%
  - $2m per year in management fee
  - \(((100m \times 4) - 100m) \times 20\% = 60m\) in carried interest
Structure

- **General Partners**
  - 6-8 active deals at a time

- **Principals/Associate**
  - Drive deal flow, deal process, and portfolio company development

- **Finance, Marketing, and HR Staff**

- **Decision Making**
  - Typically unanimous
  - Individual partners champion deals to group
  - Deal team diligences prospect and builds investment case
  - Partnership acts as a check and balance to ensure careful decision making
Top 10 Venture Capital Firms*

- Andreessen Horowitz
- Sequoia Capital
- Accel
- Benchmark Capital
- Union Square Ventures
- General Catalyst Partners
- NEA
- Kleiner Perkins
- Khosla Ventures
- Greylock

*According to InvestorRank.
Venture Capital Firms in Turkey

- iLab Ventures
- Hummingbird Ventures
- Aksoy Internet Ventures
- Golden Horn Ventures
- Young Turk Ventures
- 212 Venture Capital
- Galata Business Angels
- Acton Capital Partners
- 360° Capital Partners
- 3TS Capital partners
- Endeavor Vision
- Pond Ventures
- RedAlpine Sourced
- Fidelity Growth Partners Europe
Seed Stage Investors & Angels in Turkey

• **Seed Stage Investors & Accelerators**
  – Inventures
  – eTohum
  – Girişim Fabrikası

• **Angel Investors**
  – Sina Afra
  – Çağlar Erol
  – Cem Sertoğlu
  – Nevzat Aydın
  – Emre Kurttepeli
  – Birol Kabakoğlu
  – Haluk Elçi
  – Erdem Yurdanur
  – Devrim Demirel
  – Ersan Özer
What do VCs Look for?

- Team
- Idea
- Traction
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What you need to start a start-up

Team

Idea

Finance
The Chicken or the Egg?

Finance

Traction
Get Traction from Day 1
Lean Startups and Customer Development

Classic Product Development

1. Concept / Business Plan
2. Product Dev.
3. Test
4. Launch The Product
5. Hope People Buy it
You don’t know if you’re wrong until you’re out of money (and business)!
Startups fail not from a lack of products but from a lack of customers
Lean Startups and Customer Development

Classic Product Development

1. Concept / Business Plan
2. Product Dev.
3. Test
4. Launch The Product
5. Hope People Buy it

Customer Development

1. Customer Discovery
2. Customer Validation
3. Customer Creation
4. Company Building
Step 1: Customer Discovery

- Customer Discovery
- Customer Validation
- Customer Creation
- Company Building
“Look at something people are trying to do, and figure out how to do it in a way that doesn't suck.”

– Paul Graham
Customer Discovery

- Customer Development is about Problem/Solution Fit
- Get OUT of the Building
  - There are no facts inside your building, so get outside and talk to people
- Stop selling, start listening
Where to find ideas?

• Review Top Sellers on the Internet
  – Example: The Dodo Case for iPad
    • People were trying to protect their iPads, Doda came in and made an awesome case.

• Think of things you do every day
• Be aware of products you hate. (I hate iTunes)
• Check Auction listings (Gittigidyor)
• Browse the Q&A Section on LinkedIn... What kind of products are people looking for?
Key Idea Evaluation Points

- Does this add value to the customer?
- How Significant is my problem?
- How big is the market?
- Is it a good fit with the founders?
The Goal of Customer Discovery

Release a minimum viable product
Step 2: Customer Validation

- Customer Discovery
- Customer Validation
- Customer Creation
- Company Building

The process starts with Customer Discovery and moves through Customer Validation, followed by Customer Creation, and then Company Building. The cycle is indicated by the arrow pointing back to Customer Discovery.
Customer Validation

- Product / Market fit

- Test the Problem/Solution Hypothesis through Customer Validation
  - Is this actually a problem?
    - Greater Pain = Greater Profit
  - Does my solution actually work add value?

- Your first customers make your company
- They’re ALSO smarter than you
“You need to make small calculated bets on your ideas in order to validate them. Validation is absolutely essential for saving time and money.”

- Noah Kagan, Founder of AppSumo
How to Validate

• Step 1 - Drive Traffic to a basic sales page
  – Set up a page on wordpress
  – This can be done for 100TL can drive 500-10,000 onto your site via Facebook or Google
  – Tell them about your product and have them leave an email address
  – You’re not looking to make a sale just trying to get more information

• Step 2 – Email 10 people and ask them to send you money via Paypal for your product or service
  – If they do, congrates you have “light validation”
  – If they don’t figure out what’s wrong with your product and go back to the Customer Discovery phase to find a new Problem/Solution fit
Fail Fast / Fail Cheap

• Failing Cheap is how you get traction without spending a lot of money.

• Customer validation can come from:
  – A word press page
  – A forum
  – A survey
  – Cold emails to potential customers and suppliers
Step 3: Customer Creation

- Customer Discovery
- Customer Validation
- Customer Creation
- Company Building
Customer Creation

• This is a strategy not a tactic.

• You have a product, you know that people want your product and that it adds value.

• Now you need to go get it in front of more people, this requires a strategy.
Crossing the Chasm

Marketing and Selling High-Tech Products to Mainstream Customers

— Geoffrey A. Moore

Innovators | Early adopters | Early majority | Late majority | Laggards
Customer Creation

- New Product Introduction methodologies sometimes work, yet sometimes fail
  - Why?
  - Is it the people that are different?
  - Is it the product that are different?
- The theory of different “types” of startups
Three Types of Markets

• Existing Markets

• Resegmented Markets

• New Markets

• Sales, Marketing and Business Development tactics vary across market types
Three Types of Markets

• Existing Markets
  – Faster/Better = High End

• Resegmented Markets
  – Niche = Marketing and Branding Driven
  – Cheaper = Low End

• New Markets
  – Cheaper / Good Enough can create a new type class of product / customer
  – Innovative / Never existed before
Existing Market Definition

- Are there current customers who would:
  - Need the most performance possible?
- Is there a scalable business model at this point?
- Is there a defensible business model
  - Are there sufficient barriers to competition from incumbents?
Resegmented Market Definition (1) - Low End

• Are there customers at the low end of the market who would:
  – buy less (but good enough) performance
  – if they could get it at a lower price?
• Is there a business profitable at this low-end?
• Are there sufficient barriers to competition from incumbents?
• Are there customers in the current market who would:
  – buy if it addressed their specific needs
  – if it was the same price?
  – If it cost more?
• Is there a defensible business model at this point?
• Are there barriers to competition from incumbents?
New Market Definition

• Is there a large customer base who couldn’t do this before?
  – Because of cost, availability, skill...?
• Did they have to go to an inconvenient, centralized location?
• Are there barriers to competition from incumbents?
Hybrid Markets

- Some products fall into Hybrid Markets
- Combine characteristics of both a new market and low-end resegregation
  - Dell Computers
  - Cell Phones
  - Apple Iphone – Perhaps?
Step 4: Company Building

- Customer Discovery
- Customer Validation
- Customer Creation
- Company Building
You’ve built your product
You’ve sold your product
You’ve found your market.
Congratulations!

Time to scale up the business
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2 Big Myths about Venture Capital

Funding = Success
Every Startup should raise funding
Should I Raise Funds

Scalability of Business

High

Low

Capital Required to Achieve Breakeven Cash Flow

Low

High

Weak Barriers: VC

Strong Barriers: Bootstrap

Bootstrap

Own 80% of Small Company

Venture Capital

Build a Huge Company

Not Viable

Not Viable

Venture Capital

Build a Huge Company

Not Viable

Not Viable
Bootstrapping vs. Venture Capital

**Venture Capital**

**Pros:**
- Experience of Venture Capitalists
- Possibility of extra funding when needed
- Wide network

**Cons:**
- Fund delivery lead time. It might take some time before the funds are released.
- You are no longer the only owner of the business, VCs become a part of the decision process.
- You would have a smaller share in the business.

**Bootstrapping**

**Pros:**
- Simple and straightforward
- Full control of business
- You get to keep all the profits
- You’ll learn to be more self-reliant and resourceful

**Cons:**
- Longer hours
- No extra financial sources available if needed
- Sole responsibility of the business
Raising Money

- Contact to an Investor
- Presentation/Demo
How To contact and Investor

Most Effective

- Direct Intro
- Mutual Contact
- Linkedin
- Cold Email
- Spam

Least Effective
What Materials do you need?

- Executive Summary
  - A 1-2 page document that summarizes the opportunity
- A Pitch
  - To be presented at a face to face meeting
- Financial Forecasts
  - These are a must
- Optional Materials (Things that prove traction)
  - Demo
  - Customer Testimonials
  - Surveys
  - Marketing Execution Plan
- Business Plan (?)
  - These are awesome for you
  - These are terrible for investors
What goes in a pitch

- Team Bio
- 50k View of your company
- A Definition of the Problem
- Presentation of your Solution
- A Demo
- Market Sizing
  - Top Down
  - Bottom Up
  - Total Addressable Market
- Competitors
- Traction
- Team
- Financial Projections
- Use of Proceeds
- Exit Options
- Back up Slides
Market Sizing and the Total Addressable Market

- Top Down Approach
  - Turkish Ecommerce is 24.4 Billion (BKM)
  - 13.3% Ayakkabı = 3.2 Billion TL Online Ayakkabı Market
  - İnternetten online satın alınan ürünler (%) 13.3
Market Sizing

Bottom Up

• 70 Million Turks
• 50% Internet Penetration = 35 Million online
• 25% buy shoes online = 9 Million
• About 4.5 M Women and 4.5 Million Men
• Women buy 3 shoes per year at 100 TL per pair (based on Survey)
• Men buy 1 Shoes per year at 100TL per pair (based on Survey)

1.8 Billion TL per year
Total Addressable Market (TAM)

- Facebook demographics

![Image of Facebook demographics](image)

- 63,640 Market * 100TL per year on shoes = 6 Million Lira TAM
Financial Projections & Use of Proceeds

- Financial Sales Projections are always wrong
  - But they still give an idea if a company is viable
- Financial Cost Projections are important
  - These tell you how much money you need to raise
  - Spend $20k per month
  - Need 6 months to get up & running
  - Need to raise minimum $120k (I’d got with $180k)
- Where is the Money going to go
  - Growth (how?)
    - More Marketing
    - Better Development Team
  - What Milestones
    - 100,000 customers
    - 1 Million TL in Sales
    - 4 new product designs
Company Valuation and Term Sheets

• What is a Term Sheet?

• How are companies Valued?
  – 1 Million Investment
  – 20% Stake
  – 5 Million valuation

• Set your Valuation
  – Seed 6-25%
  – Series A 15-20%
  – Series B 10-20%
  – 35% Left.... (You sure you don’t want to boot strap?)
Demo Pitches
Q&A