What does an investor want from a startup?

Dr. David Bozward
Senior Lecturer in Entrepreneurship
University of Worcester

@bozward
What do we need?

From: The new business road test, Book by John Mullins
but first I need a product...

What product/service should I do?

[Diagram of overlapping circles labeled Unique, Demanded, Simple, Memorable (Sticky), with a triangle labeled Here at the intersection]
A Known Willing Market
A Team
and its still true
The Good

• Return On Investment
• ROI = (Gains – Cost)/Cost

• We are looking
  – 3X over 5 years
  – 9x over 10 years
The Bad

Results

Time

Facebook's Revenue Growth

Revenue in Millions

Revenue Growth

Data: Company Filings (10/31/12)

Quarterly Revenue

Y/Y Quarterly Revenue Growth
The Ugly

• Not Larry
• Not Richard
• But team
HOW, WHO, WHAT, WHEN,
The Seven Domains of Attractive Opportunities

From: The new business road test, Book by John Mullins
Key Aspects of the Seven Domains Model

- Market analysis is **different** to industry analysis
- Both macro and micro level perspectives are important
- Analysis of the team domain goes beyond the experience and character of the team members
Difference between a Market and an Industry

• A market consists of buyers; an industry consists of sellers

• A market may be served by several industries
Market Attractiveness - Macro Level

• A broad perspective to determine the scale of the opportunity

• Market size and trend data: (number of customers; total expenditures; total volumes; growth trends & forecasts)

• Macro trends and their likely effect on market development (demographic; socio-cultural; economic; technological; regulatory; natural)
Current World Population
7,486,210,000
and our product will address 1% or 74,210,000 customers
Market Attractiveness – Micro Level

• Ability to offer compelling benefits to particular market segments at a price customers are willing to pay

• Nature and size of segment

• Opportunity to differentiate from competitors

• Access to other segments (pathways to growth)
Industry Attractiveness – Macro Level

• An attractive industry offers greater profit opportunity

• Assessment of industry attractiveness can be undertaken using Porter’s Five Forces
  1. Threat of entry
  2. Threat of substitutes
  3. Bargaining power of suppliers
  4. Bargaining power of buyers
  5. Rivalry amongst existing competitors
Industry Attractiveness - Micro Level

• Assessment of the sustainability of the proposed new firm’s competitive advantage:
  – presence of proprietary elements
  – whether the firm has superior organisational processes, capabilities or resources
How to Research Market and Industry Attractiveness

- Secondary research (gathering data from trade publications, newspapers, published research, internet, government reports, etc)

- Primary research (interviews, focus groups, surveys)
The Team Domain

Takes into account:

• Business mission, personal aspirations and risk propensity
• Ability to execute on the critical success factors (CSFs)
• Connectedness up, down and across the value chain
Using the Seven Domains Framework

• The domains are not additive; their relative importance can vary depending on the business, market and industry

• Strength on some factors *may* mitigate weakness on others

• It is crucial to identify opportunities which are flawed:
  – Abandon those that cannot be fixed
  – Reshape those which might be viable

From the book: The new business road test, by John Mullins
THANK YOU

An investor is not going to be Santa!

Dr. David Bozward
Email: d.bozward@worc.ac.uk
Twitter: @bozward