

The title and subtitle are centered on the slide and overlaid on a decorative graphic of five light purple circles. Three circles are arranged in a horizontal row at the top, and two are arranged in a horizontal row below them, offset to the left and right. The circles are semi-transparent, allowing the text to be visible through them.

# The Capital Network

Making *Your* Business Fundable  
Stephanie R. Khurana

October 2nd, 2007

# Is Your Business Fundable?

- First Ask - Do you really need funding for your business?
  - How else can you fund your business?
  - Is part/all of your business service based?
  - What are your personal goals?
  - Is your business ready for funding?

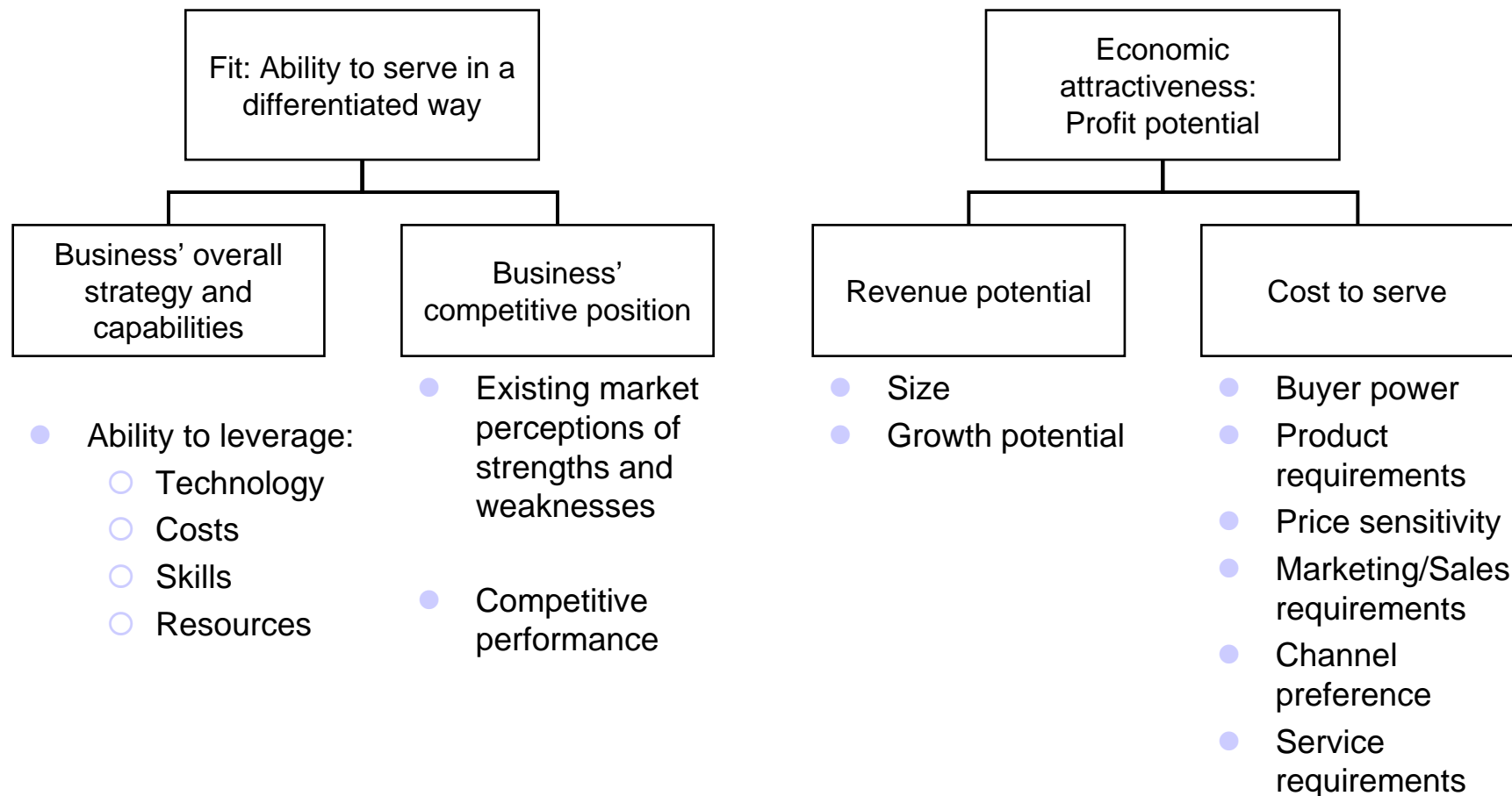
# Is Your Business High Growth?

- We'll explore key factors in your business plan/model to answer this question
  - Strategic Position/Value Proposition
  - Market
  - Competition
  - Scalability

# What is Your Value Proposition?

- The fundamental, unique combination of operational ideas that create value
- A thoughtful analysis of the underlying economics
  - What is the problem we are solving?
  - What is the \$\$ value we create for each customer (use exact #)
  - What is the lowest \$\$ cost position (direct and indirect costs) we can create
  - What is the unique value to employees?
  - Build these numbers for the competition and compare w/ your model.
- How we create a sustainable value proposition for customers and employees, vis-à-vis the competition
- Business model choices are often hard to change and are decided at outset; strategy builds upon these early choices.

# Assessment of Attractiveness: “Fit” and Economics



## Case Example: Dell Computer

- Key Business Model Feature: Dell sold directly to consumers rather than through resellers like the competition
  - Cheaper than channel
  - Managed inventory better, so less obsolescence from overproduction (another high cost)
  - Better info on customer needs for R&D
  - Competitors couldn't change easily w/o alienating channel - (note: early choices you make may be hard to undo later)
  - Still has strategic choices to make regarding which customers, products, geography etc.
  - Clarity around model used as motivation/communication for employees

# Surebridge: Application Outsourcing to Mid-Market Companies

**MARKET** Mid-tier market needed top-tier technology, but couldn't afford it.

**UNIQUE OPERATING DIFFERENCE** Staffing costs were the biggest barrier: SB hired staff outside of application expertise and trained them in a unique way so that competition could not easily duplicate - new training enabled 1 person to handle what takes 3 people currently. Behind the scenes work done offshore. Both create good margin potential.

**FIT** This in turn provided career opportunities for staff to interact with CIOs at early career stage. Clients had dedicated, highly skilled client manager for main point of contact. This in turn gave us direct knowledge of customer enabled up-sell/cross sell

**NEW BUSINESS MODEL** A recurring revenue model with upfront *monthly* payments & large 5yr contract size gave us the ability to employ a direct sales force and create high switching costs. Previous revenue models created smaller deal sizes, making direct sales infeasible.

**SYNERGIES** Unique match between market and employee needs that enabled both to grow.

# Defining the Market

- Choose Your Industry/Market Carefully - It Can Determine Your Potential
- It's Hard to Create a New Sector
- Project Size and Growth Characteristics
  - Need credible/independent numbers
  - Project market size based upon your current offerings
  - Market potential for future offerings is discounted due to risk
  - A \$100M market potential is not attractive - \$3B is not realistic as competitors are likely to beat you to it.
  - Calculate what % of the market you will penetrate - is this realistic?



# Competition

- Who are the competitors?
  - Everyone has competition: eBay competes with garage sales
  - Who are competitors today? Strengths/weaknesses
  - Future competitors? Barriers to entry?
- What are the main dimensions that customers make decisions (ie Breadth of product offering and scalability) Map yourself against your competitors on a 2x2.
- Substantiate why can you deliver a better product or service to the customers than the competition.
- Can you build in high switching costs?

# Can your Business Scale?

- Sales Strategy
  - It's hard to manage >10 people, so need to build in management
  - Do you need to open regional offices? - they need overhead too.
  - Do you need to go international? Have you studied this market?
  - Are your buyers fragmented? (eg. Physicians 70% operate in 1-3 doc practices, vs. Fortune 500 CIO's).
- Operations
  - Can you maintain customer/client satisfaction with fast growth?
  - Are you dependent upon a new product version to scale?
- Management
  - Different company stages require different leadership/mgmt styles. There are only a handful of examples where founders have scaled. Be prepared to manage your own destiny. (Otherwise it will be managed for you...)

# Bottom line: What Investors Are Thinking

- Investors want to make 10X their investment in 5 years
- Simple math:
  - Invest \$2 million for 50% of company
  - In 5 years, for money to be worth \$20 million, the company needs to be worth \$40 million
- Do the numbers and plan support these returns?

# Summary

- Ask Yourself these Hard Questions Now
- “Making your Business Fundable” occurs through early, well thought out choices.
- If you’re ready, then be prepared to ride the rocket ship to high growth -- and have some fun along the way.

# Resources

- 1) How to Write a Great Business Plan – William Sahlman July-Aug 1997\*
- 2) Why Business Models Matter – Joan Magretta Harvard Business Review, May 2002\*
- 3) Walnut Venture Associates (A): RBS Group Investment Memorandum
- 4 Value Innovation: The Strategic Logic of High Growth - W. Chan Kim, Renee Mauborgne; Harvard Business Review, July 2004
- TCN! <http://www.thecapitalnetwork.org/>

\*To Access these publications, go to [www.hbsp.com](http://www.hbsp.com)

# Quick Background

- Entrepreneur
  - Founding Team Cambridge Tech Partners (IPO 1991)
  - Early team member - Vectis (M&A - Monarch)
  - Co-founded Surebridge \$40M rev; raised debt & equity cap in up and down markets (Sold NAVI 2004)
  - Axxon Capital/General Catalyst
  - Managing Director - Higher Aims, LLC
- Cornell, BS, HBS/KSG; Lecturer MIT, TCN Board, BBJ's Top 40 under 40, Babson's top 100 women led companies