

Starting up an ICT business

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The steps to success

- The idea
- The team
- The business plan
- The founding
- Finding capital
- Finding customers
- Running a company

Finding the idea

What do you want to do
with your company?

- Become rich
- Enjoy my job / Do what I have studied for
- Be free (rather than have bosses)
- Work from home / where I like

Unfortunately, this won't help you in building a company

The right question for the idea

What need do you want to solve?

- A company is an entity that provides a valuable service or product to someone
- A service or product is valuable if it solves someone's need
- There are different degrees of need and different sources (needs can be induced, etc.) but no one will buy something that they don't need

Ways to identify a need

- Have you ever looked for a certain product or service (e.g. over the Internet), but you could not find it easily and/or at the right price?
 - Would it be possible to provide the product or service easily and at a reasonable price?
- Have you ever used an existing product or service, and thought that it could have been better?
 - Can it be made better on a systematic manner?
- Do you know people that ordinarily buy products or services in your business sector?
 - If you ask them, is there a product or service they really miss?

You and your need

Do you know how to satisfy the need that you just discovered?

- If the answer is “yes”, you should try to work out a business plan
- If the answer is “maybe”, you should devote some time to experiment and understand whether it could become “yes” (you may need technical research, for example)

New needs vs. existing needs

- There is no need for the need to be a new need
- An existing need (for which solutions already exist) is a proven need – you know that people will be willing to pay to satisfy it
- However, entering an existing market may be more difficult than inventing a new product... or it may be easier... it depends!

How innovative is your idea?

Different types of innovation

- No innovation (do what others already do)
 - Suitable for established, growing markets
- Evolutionary innovation (do what others already do, but somehow better than them)
 - Even better for established markets (both growing and mature)
- Revolutionary (disruptive) innovation (do what no one is doing)
 - Very risky, potentially very rewarding
 - Open up completely new markets
 - Frequent in dreams, rare in reality

See Clayton M. Christensen, "The Innovator's Dilemma"

The founding team

The team follows the idea
(not the opposite)

- Have on board all the basic skills you need (you will not be able to hire anyone)
- Which means managers and salespeople as well, not just engineers
- Friends don't count – you don't add an useless team member just because of friendship
- Actually, friendship often becomes a problem during the company's growth

Pick your product (or service)

- What will you be selling initially?
- To whom?
- At what price?
- Will the price cover the costs (not just the variable ones, but the fixed ones as well)?
- How many pieces do you need to sell?
- How will you reach enough potential customers?

Set your place in the value chain

- B2B
 - Low investments in marketing, but you need references and contacts to gain customers
 - Typical for small startups
- B2C
 - Risky but potentially much more rewarding
 - Usually it requires a lot of capital due to marketing and mass production costs
 - Hard for small startups unless you get VCs since the beginning or you have very low production costs
- B2B2C
 - You may get the best of both worlds... or the worst

Set your glocality level

- Local
 - Low costs to acquire customers
 - A chance to experiment before going big
 - But the market may be too small or unfavourable
- National
 - Bigger market
 - Higher costs to acquire and manage customers
 - The “Italian problems” to acquire customers
- International
 - Better work environment
 - Potentially huge market
 - Very high costs for customer acquisition and management
 - Likely need for product translation and customization

Fit the economics of ICT

- Is it better (for your customers!) if you sell a product, or a service?
 - A product is easier to market and to optimize in pricing terms
 - A service fits better any customer's need
- Do you fall under the economics of material goods, or under the economics of immaterial goods?
 - Disclose or not to disclose?
 - Keep rare and expensive or give away for free?
 - Any “magic cauldron” effect?
 - Any network externality effect?
 - Any scale economies to be activated?

Prepare a work plan

- Mostly on the technical side, but also on the operational and commercial ones
- Anticipate what you will need to do to get to something that you can start selling or at least demonstrating
- Evaluate times, costs, needs as far as possible
- Try to be on the market (even if with a “beta”) as soon as possible, to test your idea as early as possible
- Set a tentative market launch date, and possibly a “final takeoff” date, by which you judge how well the company is doing and whether it can survive
- Be ready to adjust your plan as you go

Define roles and commitments

- What will each team member be responsible for?
- What kind of commitment will each team member guarantee?
 - Free work? Full time? Part time? For how long?
 - Funding? How much? Is it final, is it to be given back?
- Who takes final decisions when you disagree? (when, not if)
- Can you agree on tentative deadlines and milestones?
- Can you agree on a “final takeoff” date to evaluate whether to continue or pull the plug?

The business plan

- Description of the business idea
- Description of the team
- Description of the product(s)
- Competition and market analysis
- Technical feasibility and investment analysis
- Financial plan
- Risk assessment
- Tentative work plan

What a business plan is about

- Ensuring that you did your homework
- Forcing you to focus and work out a practical plan
- Trying to put figures down to see whether they look feasible
- Doing a reality check
- Showing your ability to think, analyze and strategize
- Selling your idea to potential investors

What a business plan is not about

- Predicting the future
- Giving to you and your investors any guarantee of success
- Giving to you and your investors any excuse for failure
- Telling you how you will run your business from tomorrow on

In fact...

- I don't know of any company that has ever met their business plan
- A few successful ones did much better and had to cope with unexpected growth problems
- Some did nothing at all and closed soon
- Many did worse, but survived somehow
- Many changed their products, marketing plans, technical plans or even business idea a few weeks later

Founding a company

- Define the shares and shareholders (pre-investors)
 - By commitment of work (usually converted into capital at a fixed, same-for-all rate)
 - By commitment of capital
 - By strategic value
 - By internal negotiation (hopefully not too much)
 - Everyone must be happy or you will soon run into problems
- Write all commitments down in a private deal (“patti parasociali”) and sign them
 - Don't forget the “co-sale pact”
- Write down the articles of incorporation (“statuto”)
 - Pick standard ones, but be sure to read them
 - Typical addition: the “priority acquisition right”

Costs of founding a company

- Initial capital (not a cost, technically speaking, but still you have to pay it out of your pockets) = 10.000 €
- Notaio, accountant and registration = 3.000 €
- Any machinery to be bought? (At least some PCs)
- Any services to be acquired?
- Do you need an office?
- Other funding needs as per the work plan
- Paying wages is unwelcome (at most, give yourselves a survival fee)
- Remember that you can never spend more than 2/3 of your capital

Finding capital

- Incubators
- Banks
- Business angels
- Industrial investors
- Venture capitals

Be sure that you know
WHY you need capital
(i.e. what costs you want to cover with it)
and WHEN you need it

(Italian) Incubators

- Good for your public image (prestige, prizes etc.)
- Good to help with practical needs (office etc.)
- Sometimes they can find you contacts
- Rarely they will find you customers
- Very rarely they will find you capital
- Beware of the hidden cost in relationships with the incubator...

Banks

- Nice joke

Business angels

- Good if you don't need much money (up to a few tens of thousands of euros)
- Don't just look for the money, look for someone with experience and/or contacts in your specific business sector (contacts can be much more valuable than money)
- Watch out for people who make promises that never keep
 - Be sure to write down commitments
 - Be sure to set incentives for the business angel
 - Be sure to have an escape clause to buy back his share if the promises aren't kept
 - Write everything down in a private deal between the shareholders, the business angel and perhaps the company

Industrial investors

- Very good idea: they are people who are interested in long-term partnerships rather than in short-term results
- Hard to find, especially for a startup
- Easier to get once you have at least some years of achievements
- Usually they are one of your company's main customers or suppliers, or they share your customers
- Watch out for companies that make promises that never keep
 - Be sure to write down commitments
 - Be sure to set incentives for the industrial investor
 - Be sure to have an escape clause to buy back their share if the promises aren't kept
 - Write everything down in a private deal between the shareholders, the investor and perhaps the company

Venture capitals

- Venture capitals are your worst friend
- But they are the typical way to get funding for an ICT startup, and they know a lot about the market
- A story of conflicting interests
 - You want to grow up a company that will pay you dividends forever
 - They want to pump up the short-term company value and sell it as soon as possible
- Watch out for venture capitals that make promises that never keep
 - Be sure to write down commitments
 - Be sure to set incentives for the venture capital
 - Be sure to have an escape clause to buy back their share if the promises aren't kept
 - Write everything down in a private deal between the shareholders, the investor and perhaps the company

Your interest in a VC deal

- Get as much money as possible while giving back as less shares as possible
 - Don't ask for more money than you actually need
- Be sure that you do not lose the control of the company
 - If you plan multiple VC rounds, figure out what will happen in the long term
- Yet, be sure that in the end they like the deal
 - A lazy, uncommitted VC on board can break your company by not allowing you to do anything, as a form of “damage control”
 - A VC that doesn't like you may attempt to force you to leave the company (for example by letting you run out of money)
- Try to get them to commit to provide you with contacts and potential customers

What a VC will ask you

- A huge amount of time and paperwork in negotiations
- Work for free
- Deliver measurable results
- Put / call options
- Tag-along and drag-along clauses
- Veto power in the Board
- An exit strategy for them

Finding customers

- Yes, you have to – people won't just come and give you their money
- It's easier if you got your products and target customer profile right (if it's too difficult, maybe you got them wrong)
- Don't waste efforts on potential customers who do not fall into your desired profile – always try to focus

Finding customers in B2B

- Write down your list of personal contacts and see whether anyone can introduce you to a potential customer
- Use LinkedIn and other business networking tools
- Find or create lists of potential customers, pick up the phone and call them
- Never be shy – if you have a useful product, people will just be glad to discover you
- Be tenacious – most people will leave you with vague promises and won't have buying your product as their top priority – call back every now and then unless they send you away

Finding customers in B2C

- A matter for professionals! However:
- You can't (easily) market products that don't work, are unnecessary, are bad... be sure you have a solid product before marketing it
- Don't start an advertising campaign if you're not ready to handle it (people who are dissatisfied once won't come back a second time)
- Depending on your target, search engine keyword, Facebook advertising etc. can be not too expensive but very effective
- However, don't be invasive and annoying with your advertising – it would destroy your karma

Running a company

There are a few non-obvious things in the strategy for running an ICT business

- Your true capital is your people
 - In small companies, the hidden cost in replacing an effective employee is huge
 - Replacing a partner may prove impossible up to the point of dooming the company to closure
 - Try to manage differences and make your company a nice and rewarding place (both economically and emotionally) for everyone

Running a company (2)

- Your other true capital is your karma with customers
 - Customers will be loyal to companies they like and trust, up to the point of damaging themselves
 - Increasingly (esp. in B2C) customers will pay you because they like you, not because they need you
 - In B2B, a long-term relationship with a customer can provide you with a steady influx of money (just be sure not to undersell your products)
 - In B2B, your customers are your references to acquire new customers
 - Karma is hard to build and fast to go away... whatever you do, whatever happens, always ask you first of all “what will my customers think of me?”

Viral marketing

- Your customers are your best testimonials
- If your customers are happy, they will gladly suggest your products and services to other potential customers
- You can enhance your karma with simple and inexpensive actions (host a pro-bono or community website, sponsor a small development project, give away demo products for free, adopt free licensing models, sign up to petitions and events that your customers appreciate...)
- However, you can't pretend: liars and posers are detected very easily over the Internet

Thank you

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The Internet Bill of Rights campaign

<http://www.internet-bill-of-rights.org/>