



How to Stay Afloat

Summary of the feedback sessions from the Discovering Start-Ups Master class held on 12th July 2011 at NESTA, London

Session 1 – Working with Customers

- Networking is key to getting new customers
- Social networks useful, especially Linked-in
- Building team with existing relationships and contacts
- Paying a “staff bounty” – referral scheme for new customers
- Soft sell works better/best
- Importance of knowing what clients are doing was stressed. Timing.
- Align with major players, influence and introduction endorsement
- Foot in door – using big player to help develop and package product – red tape. Politics
- Branding: Better to get in and start making money than worry about your own brand (debatable).
- Larger institution “NHS” getting attention and they are breaking out of their culture of ‘not making decisions’
- Look for low-hanging fruit

How do you find a customer?

- Conferences are very useful. Provides background on market, a list of industry influencers and possible business development opportunities.
- Networking – building trust as relationship develops

Measuring Engagement

- Short film or presentation
- How far did people get through it?
- Can I win business? Do I want the business?
- Resource issues, customer support

Finding internal sponsor can be the key

- CEO for small company
- Sell internally, internal sponsor could be motivated by different factors:
 - metrics
 - kudos
 - influence / new companies
- Time waster could be issue – need to analyse real opportunity

Session 2 – Other sources of funding for your business

- Equity – angels/VCs/EIS were discussed
- EIS seen as most lucrative at the moment
- Still hard to get money from VC/ angels



- EIS good scheme because bank bonuses are still about. Better than banks
- (No / little interference from this kind of investor)

Who to talk to

- Trusted intermediary
 - don't waste time if fund doesn't invest in your sector
 - work with those aligned with the business not just people looking for a fee

Loans

- Banks not a good source
- Sweat equity can be converted into equity related loan – get back later
- Friends and family – only accept loan if friend can lose it or if you can afford to lose them
 - Friends and family can be harder than other investors
 - Need friends and family for emotional support – need support network and taking them as investors can increase the pressure

Money from Suppliers

- Future benefit – share of future profits
- Potential customers may be source too (n.b. SIG champions wouldn't recommend without serious safeguards)

Grants

- Mixed feelings, substantial overheads in terms of proposal writing – only say yes if direct fit to business
- These are time waster if they don't fit with what you are doing
- Especially EU can be time consuming and bureaucratic
- Write grant application to fit business plans/activities/projects not just to get grants
- One solution offered was to write a 'template' proposal that can be tweaked to meet the criteria of different grant source.

R&D Contracts

- Alignment issues – company funding the work may want say
- R&D needs to be aligned to potential customers
- Need it to be cash-based not work in kind
- R&D/risk share – may get you closer to the market early on and you don't get this from grants

Consultancy

- Seen as tricky
- Can be done but balance against time spent on consultancy and time in business
- If cycles of consultancy and product don't match up can end up with both businesses failing

Business Competitions

- Great way of getting exposure
- May win cash but the biggest benefit is getting people to know who you are – exposure

Things that go wrong

- Getting the wrong guy on your team because of VC money – can bite
- Expectation management – VCs fund has lifecycle – can be challenging. Things that can go wrong and will do so if both sides have an unrealistic expectation



- Tension if your and investors Exit strategies don't match
- Best time to raise money is when you don't need it

Session 3 – Reducing costs/overheads

Running a business theme:

- Be focused on what you are trying to achieve – what are you going to do with the business?
- Location is important – easy jet airport helps on low cost European business, for example
- Being located in a development area may help
- How hard can you negotiate – this may be the difference
- Keep pushing your suppliers – growth of business
- Sometimes business can get free samples of stuff
- Overheads not as important as early revenue
- The adage 'Revenue fixes everything' is nearly true
- Financial directors can be big beasts
- Power of personal recommendation
- Free advice invaluable

What can't be outsourced?

- Your vision
 - Core competencies
 - IP
 - Business planning
 - Relationship management/customer care? Definitely this needs to be kept in-house
 - Key management skills?
 - Accountability as a Director

Do outsource:

- Accountancy
- Strategic help
- PR & Marketing
- Web design
- Specialist legal service (flat rate or discount)
- IT services – can negotiate terms
- Sales – only if have scale and can train properly
- Manufacturing

Free

- Open-source
- Advice
- Potential advice:
 - Some basic initial legal advice
 - From investors/VC's
 - Customers
 - Non Execs and Board members
 - Shareholders.
 - Advice via Networking events, or forums such as Angel News, or from Incubator services. These can also be a source of Non Exec Directors.
- Services from friends and family



- Nearly free –Technology Strategy Board (though you often have to match their funding). Note investment required in paperwork and process to do this. FP7 for European Grants can also be source of free money. These sources make your equity go further.
- Not quite free – match funding
- Office space:
 - Perhaps through incubation programme – this can also lead to access to high speed networks etc.
 - Sometimes if building has been vacant for a while you can get in on the basis of free rates at least for a time (and free rents, if you are a charity).
 - IBM provide free office service and co-presentation services
- Academics for collaboration:
 - They need to have a project.
 - Input from academics/Universities looking for collaborators for their own fund raising. How would you find them?
- Free interns are available:
 - Potentially from Councils, Universities or grant assisted schemes.
 - Got to make sure they have sufficient technical skills so you don't waste time managing them.
 - Morally do you want to do this? Pay a small amount or have a genuine opportunity?
- Free referrals
- Risk sharing deals (distribution)
- Marketing via package
- Free negotiating skills
- Training – from Discovering Start-Ups
- Referrals from customers
- Using Co-operative buying services to obtain discounts/reductions. Is this too high maintenance? It requires your time, which is money.
- Negotiating skills training? You can always improve your personal power
- Collaboration with trading partners through risk sharing deals
- Free marketing – e.g. Twitter, Facebook and other forms of social media. Linked-in
- Software – e.g. from Microsoft/BizSpark. Use of Google Apps. This kind of software is free as might be CRM packages from e.g. Sugar

What else can be out-sourced?

- Preparation of stat accounts
- Maybe management accounts
- PR/marketing
- Web Development
- Specialist legal services e.g. IP/Fund raising legal services. You can get flat rates or discounted rates for these. Firms often keen to give discounts to start working with you.
- IT services – e.g. Cloud based services/software packages. You can negotiate good terms for these as there is plenty of competition for these kinds of product/service.
- Sales? Only if you have some scale and you can train them properly
- Manufacturing As long as quality control can remain assured

Other issues

- Use time to focus on key issues
- Being near cheap flights/development areas



- Negotiating over timescales for payment/leasing v buying/play customers off against each other/make short-term commitments/negotiate discounts
- Focus on revenues rather than cost!
- Virtual working
- Part time FD?
- Use personal recommendations to save time

Session 4 – Panel Q&A

Obtaining first customers

- Nobody has monopoly
- Human bit is very important:
 - Conferences
 - Relationships
 - Ability to pick up phone can't be underestimated
- Challenges
- Ability to business globally

Early stage investment

- Enthusiasm has to come through
- Absolutely time to start business is now
- Great support structures around
- Really figure out the source of business you need – only pitch for what you want
- Don't under value experience that is appropriate
- Push back
- At some point need to have return on investment if you are a service company
- Getting revenue in early is key – focus on what you're selling
- Fundamental driver is knowhow and you need to find the hole in the market and fill it
- Meet the market need, don't just develop product
- Huge challenges for entrepreneurs
 - sustaining business needs different skills
 - need team
 - give time to staff
 - enthusiasm

How many months will funding take if first investment?

- If have house in order EIS could be couple of months
- VC times are 12 -18 months. (And if less than 6 months this is very short).
- For the right deal money is there but you need to provide quality information

How much time does CEO have to spend on this? If you have time have to spend 40% of it.

- An intermediary may get the money in faster (or may not)
- VCs don't invest in one person
- CEO should spend time network



When you look at investment in US there is lots of change – structure of the deals is changing. What about the UK?

- IPO being used as a credible exit strategy rather than trade sale
- More consolidation of investors as per USA
- Money available in market will start filtering out
- Silicon Valley Bank could be force for good – license will be in place soon
- Atlanta (fund) looking for opportunities in Cambridge
- Number of funds sitting on money

How can large companies help start-ups?

- Getting in through door problem
- Microsoft make 11 acquisitions per day
- Enormously helpful

Global corporate venturing:

- Bring people together to find investors

Any other ways?

NESTA

- micro-electronics Academy
- supplies to micro electronics business
- providing tools etc for free or low rent – risk sharing

Important that start up know:

- Start ups need to understand who they are talking to. Don't assume that the one guy from BigCorp Inc. is representing company
- Fallacy that they are considering corporate position
- It is about individual or teams' motivation
 - few are interested in corporate position
 - self focused – need to show how they raise head
- Human element – what's the hot spot. Tailor pitch (use Linked-in)

Directory of scouts

- Network like a lady of the night
- Bigger the business you are trying to build the longer you have to network

Get out of comfort zone

- Useful to give something out
- What are the top 5 shows? What are you trying to achieve? Go and see what others are doing – talk!

Non-competitive – get out to different conferences

- Find something interesting to say
- Ask the question that tells everyone what you do