Milestone Planning

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THE FUQUA SCHOOL OF BUSINESS

Exercises

1. What can go wrong? In other words, what assumptions are you making?
2. What is the risk (probability) and impact of each item?
3. What is the right sequence of execution for your venture?

New venture strategy

1. Target customers
   - Who are the candidates — segments?
2. Business model
   - What are the options?
3. Sustainability
   - How can you compete over the long term: sustainable competitive advantage?
   - What investments should you make?
4. Milestones
   - What is the order of execution?
   - How do you structure financing?

These questions are all linked.

The process is iterative and piecemeal, not sequential

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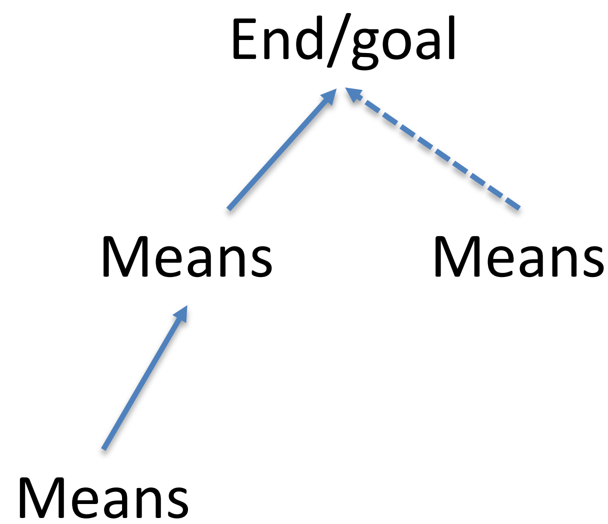
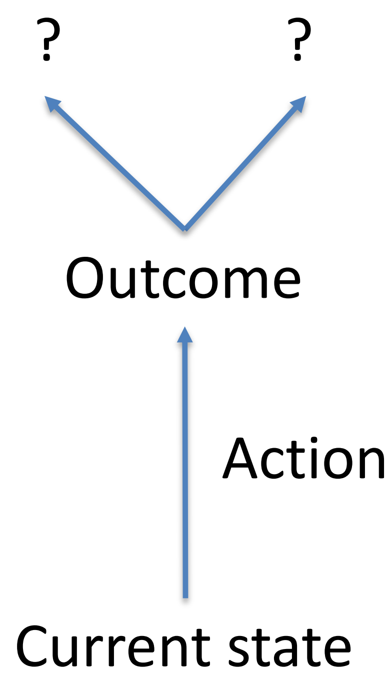
A theory of action



Another theory of action

End/goal?



A clash of methodologies?

The "traditional" method:

1. Analyze the idea
2. Create a plan
3. Fund the plan
4. Execute (according to the plan)
5. Hope (for good luck)

Results in an elaborate business plan

The new method, "lean startup":

1. Launch
2. Learn
3. Iterate

No business plan required

An integrated approach

Begin execution as soon as possible by performing **experiments**.

Clear hypothesis and a roadmap for learning ← **Analysis & planning**

\+

Well-designed, efficient test ← **Execution**

And always begin by validating the need.

Net cash

Cost of money

- Time actually is money
- An imaginary homerun; 100,000 shares, 2 founders, 1 year before money

Stage	# shares pre	Company value pre-money	Amount invested	# shares post	Company value post-money	Share value	Value of $1
Founding	100,000	$100,000	$200,000	100,000		$0.50	2
Seed	100,000	$1M	$500,000	150,000	$1.5M	$10	0.1
Series A	150,000	$15M	$7.5M	225,000	$22.5M	$100	0.01
Series B	225,000	$225M	$112.5M	337,500	$337.5M	$1,000	0.001

How to proceed

- Your idea is probably wrong — you have made assumptions that will not turn out to be true.
- Can you find a good idea before you run out of resources — time and money?
  - Time is money.
  - Early money is more expensive than later money
- When you find a "good idea," how efficiently you use capital determines your share, overall return, and possibly even success or failure.

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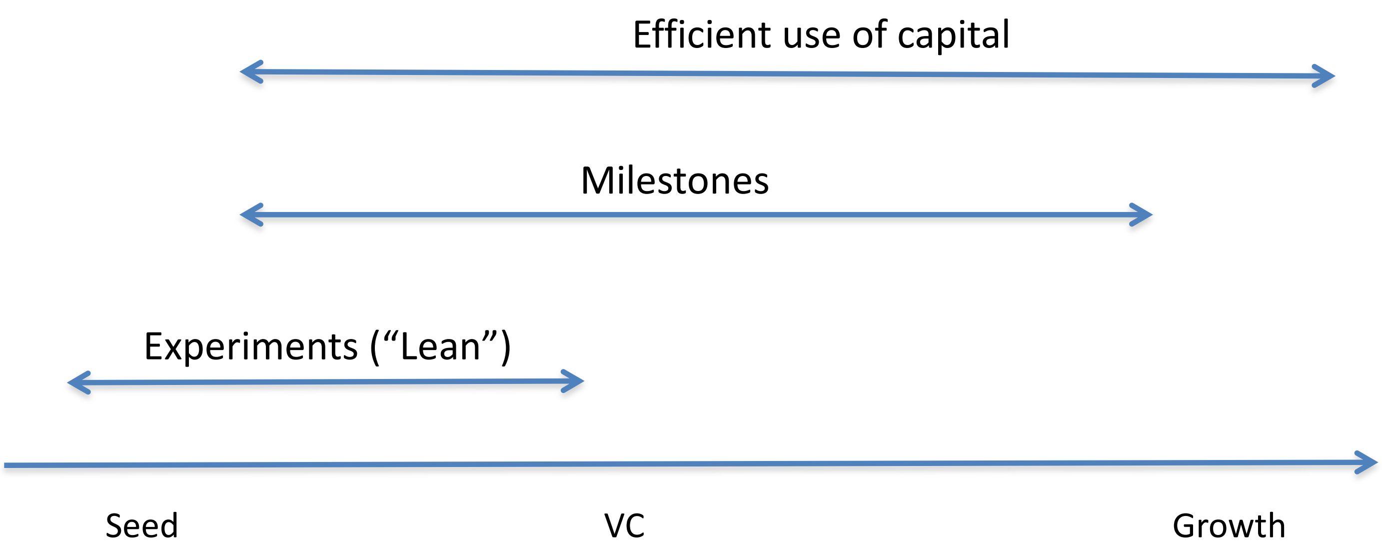
Managing uncertainty



Different terminologies, same underlying concept

Your "theory"

- If your assumptions are correct, your venture will succeed (and be worth a lot of money).
- There are three kinds of statements in your theory:
  - Drivers of value (expressions of the need)
  - Drivers of cost
  - Drivers of sustainability (especially sustainable competitive advantage)
- Intelligent experimentation involves:
  - Identifying the assumptions: as simple as possible but no simpler (to paraphrase Einstein)
  - Sequencing: creating a roadmap

A simple model

- Goal of every new venture: find the match

Market + Product

- This is hard to discover by asking people (traditional market research often doesn't work in a new venture).
- So just launch the product and see what happens.
- But what can you conclude from failure? By itself a failure tell you nothing. It does not guide the next step.

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Many unknowns

Market + **Product**

Market

- Value / willingness to pay
- Constraints / parameters of solution
- Necessary complements
- Alternatives
- Inhibitors
- Influencers
- Customer acquisition
- Etc.

Product

- Features
- Business model / price
- Competitive position
- Distribution
- Etc.

What can go wrong?
(What are you assuming?)

1. Nobody wants what you are selling.
2. Somebody wants it, but they don’t represent a real market.
3. People want it, but for some reason they can’t buy it or can’t use it.
4. People want it, but you can’t get it to them (economically).
5. The technology doesn’t work.
6. The technology works but you can’t protect it.
7. The technology works but you can’t get it into a reasonable product.
8. You build a bad product.
9. You can’t build your product for a low enough cost.
10. Somebody introduces a better product.
11. Somebody has the power to stop you and exercises it.
12. You need somebody else in the value chain to do something and they don’t.
13. You can’t find the right people.
14. You just don’t execute on something important.
15. Etc.

Milestone planning

Basic question: Will your venture succeed?

Imagine a series of big steps that increase your confidence (i.e., reduce the risk)

- E.g.: a customer, validation of technology, selling model

These steps can constitute a series of objectives for the venture:

- And become the milestones in your financing plan

Not all risk is the same

- Risk derives from bad things happening.
- Some are life threatening.
- Some just reduce the likely return.

A measure of risk:

severity of impact X probability
(of the negative outcome)

Risks also differ on

cost of resolution

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Lowest cost resolution of uncertainty

1. Identify the assumptions and discrete steps (elements of uncertainty) required for your venture.
2. Rank order the points of uncertainty (assumptions) in decreasing order of risk to the venture — this is the sequence of execution.
3. Find a way to resolve each point of uncertainty for the lowest cost (time and money).
4. Factor in any issues of overall timeliness and interdependencies.
5. Use these milestones as a framework for your plan.
6. Commit sufficient resource to achieve the next milestone.
7. Make corrections as you learn (“pivot”).

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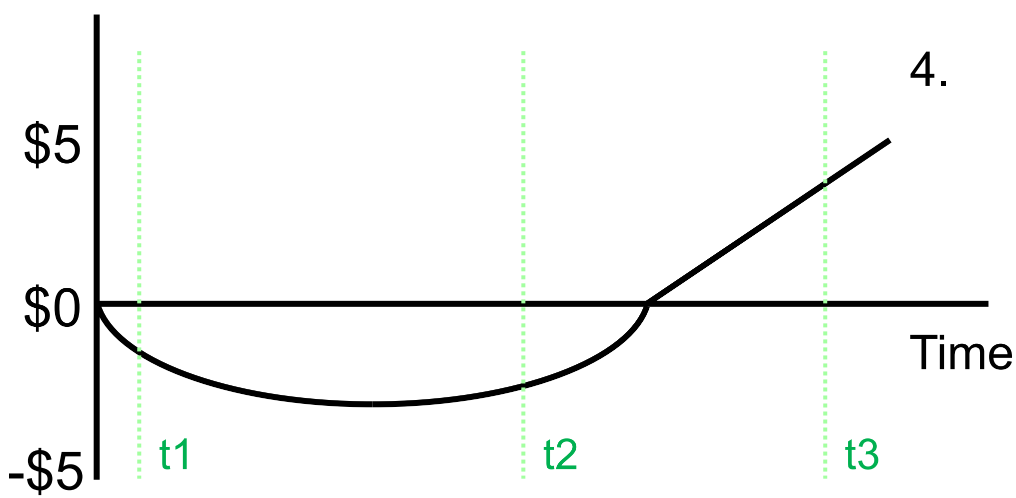
How much money should you raise or invest?

- Should you raise the total amount of cash needed (according to projections) in a single investment?

  Usually not

- How much is the business worth?
- What increases the value of the company?

  Reduction of uncertainty



1. Establish a plan (which you will end up revising):
2. Determine a milestone that produces a step up in valuation - what will remove the (a?) main source of uncertainty?
   - (Keep in mind that investment may be tranched)
3. Determine cash needs
   - Including asset based financing to reduce requirement for equity based financing
4. Raise enough to get you to the next milestone that would cause step up in valuation (+ small cushion, if possible)

The first two laws of entrepreneurship

First Law

Always start with the need.

Second law

Make no investment before its time.

- Analysis — comprehensive and discrete elements
- Sequencing — based on severity, probability, and cost of resolution

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