How NOT to FCUK'UP your STARTUP

Overcome 10 Startup Blunders

ALCOR

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INTRODUCTION

This Is Hard

- Common Startup FCUK'ups
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- Risk Mitigation For Successful Startups

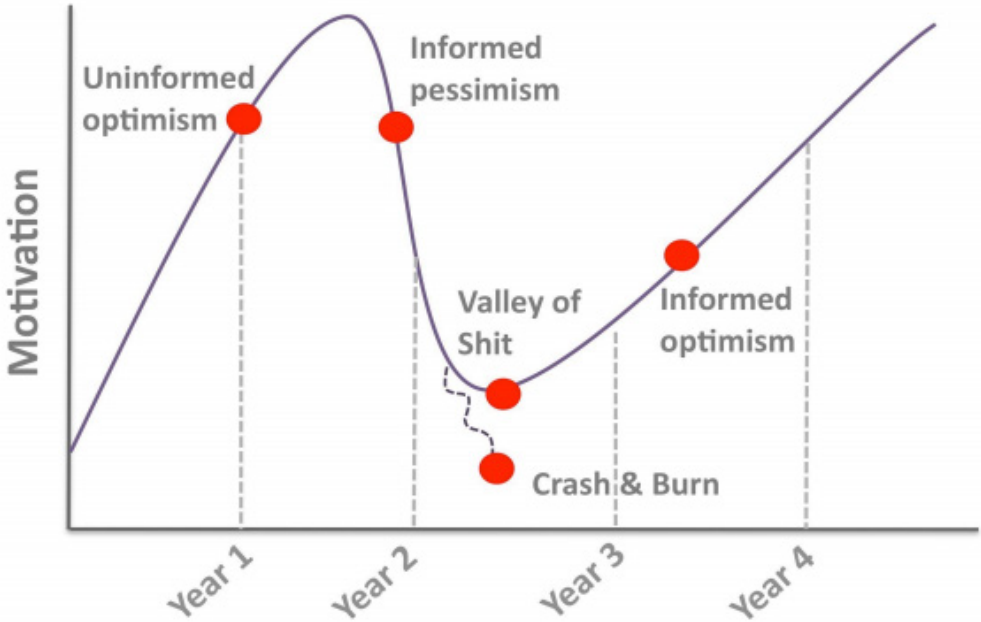
When we start a company, are we doing it the right way? Do we have all the know-how, all the great ideas - the market, the production, the execution, the supply chain, vendor management, customer acquisition tools, the team management - the whole bunch? Do entrepreneurs actually do that?

Entrepreneurship is always a tightrope walk. It is like walking on thin ropes. At any point in time, an entrepreneur must be able to do it the right way.

In this paper, we will look into the 10 biggest blunders entrepreneurs make. And then, we will move on to the steps we can take to avoid these mistakes.

We will also look at life measure. How do you measure your success? What happens if and when you fail? How do you get up and start going again? What are the risk mitigation tools that you need?

ENTREPRENEURSHIP LEAP



Let us take a look at an entrepreneur's journey. When we look at entrepreneurship, there is a roadmap. Everybody wants to be the next millionaire or billionaire. The challenge is, do they know how the journey is going to be? How are they going to go about this?

Everybody wants to go directly from a great idea and entrepreneurship leap to reach goals and fly high.

Entrepreneurs think that their business elements are in place. This includes a marketing plan, production, supply chain, customer acquisition model, etc. They decide to move to the

next level of creating a billion-dollar enterprise.

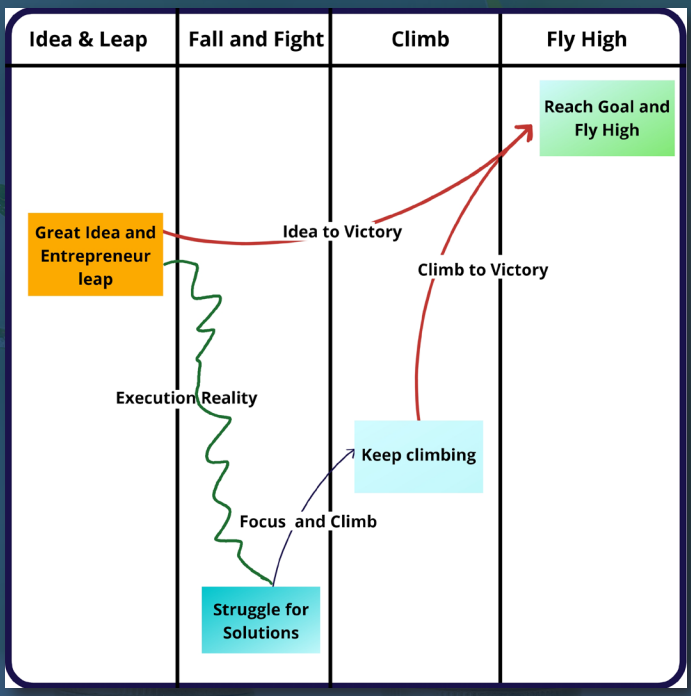
But, in an entrepreneurial journey, for 99% of entrepreneurs, everything looks good till launch. But the minute they launch, they land into facing execution reality. They fall into a pit.

Once they fall into a pit, they wonder whether they will survive. They think about how to take their next steps if they survive.

Do they have the tenacity, focus, and various other aspects needed to survive in the business world?

If they struggle for solutions and survive, then they can start focusing. They start climbing gradually till they reach their goals.

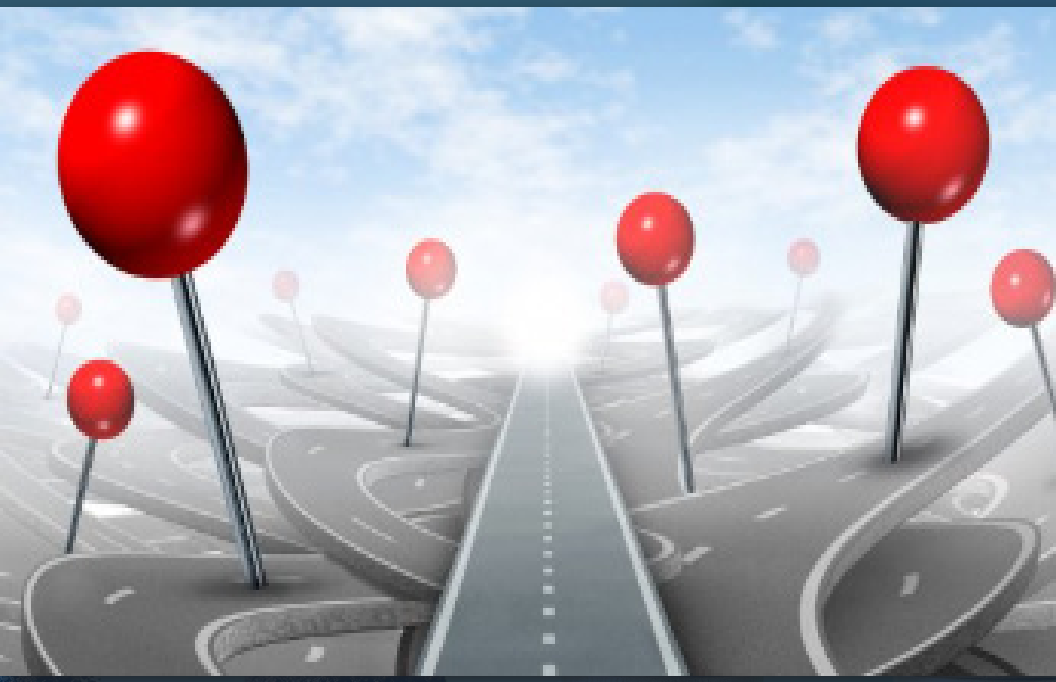
This is the way entrepreneurs grow.



95% of Entrepreneurs face this leap.
So – How to CLIMB up?

STARTUP FCUK'UP – 1:

LACK OF FOCUS, ATTEMPTING MULTIPLE REVENUE STREAMS



Shiny object syndrome will kill your business

This is one of the biggest screw-ups that we see all the time. Entrepreneurs may have ideas rolling in their heads. As an entrepreneur, they always have a solution 1, solution 2, solution 3, and solution 4.

They are also looking at revenue streams 1. Before they make a move, there is a revenue stream 2. Then there is a revenue stream 3.

Entrepreneurs keep looking at this revenue stream and that revenue stream. They think of focusing on all revenue streams.

But this cannot be done realistically. This is because they have limited resources.

Entrepreneurs have to focus on one revenue stream. They have to penetrate one stream and make that break happen.

Most of you know what a virtual data room is. But in 2000, there was virtually very little awareness. Because this was a concept at that time. There were also Loan syndication documents separately.

Intralinks was a company in 2000. They wanted to go and start fund-raising. They got the money and the investors. They had seven products which were coming to them.

All the seven products were getting revenues. But they were bleeding $18 Million with an income of $3 Million.

Jim came on board. He said, “Listen, I think we have got seven products. Each of them is producing revenue. But we have to just focus on one and leave the rest.”

The board of directors, the investors, and the V.C. firms said this was a ridiculous proposal. They said that they had invested and developed the products.

But Jim persisted. Finally, they shed out six products and kept one product. With that first product, they went for a fund-raising round.

Jim realized that there was one product now, but investors were needed to get on board. He and his team went to fifty different investors in New York and Silicon Valley. They still did not get the money.

This is similar to playing soccer or football. If you have a goalpost and are in the field, you can kick towards that goalpost. What if there are three or four goalposts there? Now, where will you kick the ball?

You may try to kick it towards the closest one. The next goal, you may try to kick it towards the next closest one. But you are going to dilute your resources. You cannot have five different goalposts.

You got to have one goalpost. That is where your focus and energy is going to be.

STARTUP FCUK'UP – 2A:

NO TENACITY, QUITTING EASILY

You cannot quit. You need to have tenacity. Now you have to go ahead and get funding. Without your funding, without pulling through, you cannot grow the company.

You go to the first investor, the second one, the third one, the fourth one, etc. That is how you keep going on and on.

Jim and his team finished meeting with fifty investors. They came back tired. They decided that they needed to listen. They needed to see what they have to do.

So, they pivoted their model a bit. By the time they reached their 80th investor, they had got the $50 Million they wanted. Today, they are a billion-dollar enterprise.

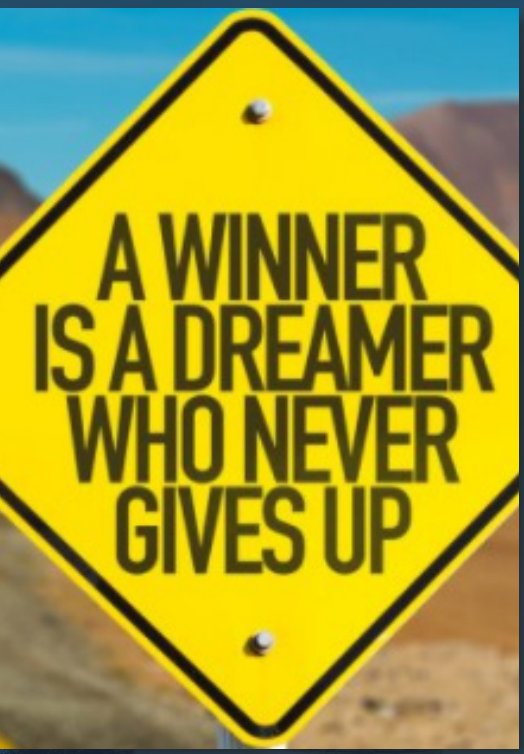
This was always going to be hard. Suck it up.

What do we see here?

We see that persistence is required. You need to go all in. You cannot give up.

STARTUP FCUK'UP – 2B:

QUTTING EARLY AND NOT PIVOTING



Your idea needs refinement. Guaranteed.

A winner is a dreamer who never gives up. If you are somebody who is sitting and who is looking, then you cannot be a winner.

There is another example of Starbucks, the coffee shop. People are there at Starbucks. They are drinking coffee.

Howard Schultz, when he first went to Italy, got a taste of Starbucks coffee. He came back saying that the USA was not a coffee-drinking country. He said that he wants to get this to the USA.

He made a business plan. He wanted $3 Million. He and his wife started visiting all the high net worth individuals (HNIs) in their town. They could not get anybody as the USA was not a coffee-drinking country.

His wife felt pity for him. She suggested them to go to her town and stay with her parents. They went to her town, shortlisted all

the investors, and started visiting them.

He reached 270 investors. How many of you have the tenacity and the persistence? How many of you crib before you go to the 270th investor?

He got the 270th investor. The investor agreed to give him 50% of the amount, which was $1.5 Million. By the time he went to the 283rd investor, he had got the entire $3 Million.

Today, the company is worth $123 Billion.

What do we see here? We see persistence and tenacity. We are seeing people who stood their ground because they believed. They were passionate, and they knew they could do it.

They pivoted and made changes. They were dynamic.

STARTUP FCUK'UP – 3:

NO CUSTOMER VALIDATION

Fall in love with problems. Make Customers drive your solutions.

Another one of the most significant flaws is no customer validation.

Why are we talking about no customer validation? This is because 80% of the startups fail. After all, they have not gone to their customer and built a customer's solution.

We receive almost 20 investment decks and pitch decks every day from all over the world - South America, Australia, Japan, Korea, China, etc.

The first thing we look at is how many of these have been validated by customers. Why is it so important to get this validated by customers? Because 99% of the entrepreneurs start a journey because of their personal experience.

They face a problem. They find the solution that is in their perspective. Some so many people are facing the same problem. And this goes on and on. So, this is a journey. This is what exactly happens.

Nestle makes a chocolate spread called Nutella. Somebody thought that it had only one chocolate flavor. It was not coming in honey, coconut, or coffee flavors.

They thought of adding some flavor to the same chocolate spread and reduce the sugar intent by 20%. So, what they did was they went and built this. But they later realized that customers were not moving in at the desired speed.

This is what happens when a product is created without any customer validation or market research.

STARTUP FCUK'UP – 4:

NO MARKET RESEARCH

Market research is so critical once you have customer validation. Customers have to define the product. You need to get your customers to define your product or service that they require.

If customers require it, you're past one step. Then, find out how much of the market is there. Think about what the competition is all about.

If the market report is skewed towards you, and your questions are being where you want to be, you know it's not a perfect market report. This is because it's going it's like in a plane with a faulty altimeter. It is supposed to reach 3000 meters. But if it's reading 300 meters, you're going to crash into a hill.

You must eliminate guessing as much as possible.

The market report should not be screened. It should not be altered. It should be a third-party market report that should determine who and how this thing works. This is key. If you don't have that, then you know it's going to go around in circles.

Coming back to this particular company, they went and created a flavored spread. Now, Nutella is a billion-dollar enterprise. It will just take a fraction of a second for them to change their flavors. It will take a fraction of a second for them to go back and reduce the sugar content.

This company stood no chance. They managed to raise a capital of $1-$2 Million. It did not survive. This is because it was based on just a personal assumption without market research.

Without proper diligence, they went into the market and raised their capital from their friends and family. Friends and family will say that they are right. Nutella does not have this flavor, and you have the taste.

This will happen. Because friends and family listen to you. Because they are trusting you. They are your friends, they are family.

But suppose your third party is looking at it. In that case, they'll say, what if a billion-dollar enterprise like Nutella changes their flavors? Can't they change this thing?

What will happen to your market share? How will you penetrate?

Market research is one of the most significant drawbacks that we have seen by entrepreneurs. They go in because of their gut feel. They've gone because of their personal experience.

They went and skewed their responses from a few customers without doing proper third-party market research. That is another failure.

STARTUP FCUK'UP – 5:

FINANCIAL SUSTAINABILITY

Q (P-C) > FLTV > CAC

Let's imagine that you've got your customers done. Then you've got your entire documents done in market research. There is a market now.

Before you dive in and set up your company, go ahead and do everything you have to go through these two critical formulas.

Financial sustainability - because if you can't sustain the business financially, you have no choice. You have no future. There is no business. You will burn yourself. You will burn others' capital.

So how are you going to do that? What do you have to do for your financial sustainability?

The first part of the financial sustainability is Q (P - C). P is your selling price, and C is your cost price. So, your gross margin Q is your number of units. It should be greater than your fixed cost.

Your gross margin multiplied by the number of units must be greater than your fixed cost. That's the first thing that you have

to do. You have to get that organized

The second thing is that the lifetime value should be greater than the customer acquisition cost. So, suppose you're spending ten dollars for acquiring a customer. In that case, the lifetime value of the customer should be more excellent than ten dollars.

Otherwise, you'll be spending more capital, but the lifetime value goes down. Then that business is going to fail. You can spend one year, ten years, or a hundred years on that business. But it will not make enough money for you to grow and become a billion-dollar enterprise.

These are two critical formulas. These are the two things that you cannot let go of. The lifetime value should be greater than the customer acquisition cost. The number of units multiplied by the gross margin should be greater than your fixed cost

These are the two financial foundations of how you build your entire model.

STARTUP FCUK'UP – 6:

NOT INVESTING TIME, MONEY, SWEAT EQUITY FOR CAPITAL RAISE

Entrepreneurs are not driving your entire time and investment. We have just shown the amount of time and investment that has to go through from entrepreneurs.

Entrepreneurs are multitasking all the time. So, when you start something, whether small or big, you're looking at what you have to do. The question and the big challenge are that entrepreneurs cannot do fund-raising and delegate it to somebody else.

They cannot say, "John, you're the marketing head. Tom, you're the financial officer. Go ahead and do the fund-raising."

This is essential work

Fund-raising is your key. That is a part of your life as an entrepreneur. You have to fund-raise every year for the rest of your life to grow the company.

A growing company needs capital, and fund-raising is part of that whole process. You have to invest your time.

Some entrepreneurs say they will send their pitch decks by email to a thousand investors, and somebody's going to click it and call me. No, it's not going to happen that way.

You have to invest your money as well. You have to take the time to travel. Take time to meet. Take time to call your team. There's a lot of spends as well. How are you going to do that? That means if you've got a budget to do a project, 20% has to be kept towards fund-raising.

Then that's not all. You also will have to shed sweat equity. Why? Because you will not get top-end advisors or a board of directors without shedding sweat equity. They are the ones who are going to add value and needs to your entire team.

This is because investors want to see whether you've got the best board and advisors. Because these are the people who are going to help you succeed. And they will not come in unless you're parting with some sweat equity.

We have seen this over and over. People are there with you to drive this forward as long as you can raise that capital. But to raise the capital, you need to invest time, money, and sweat equity. It's a three-way process.

STARTUP FCUK'UP – 7:

SUPERMAN VS TEAM EFFORT

Team wins. Every time.

Now, I want to explain entrepreneurial screw-up number seven. This is typical with all the entrepreneurs, including me. I have done this over and over again. That is being a Superman versus working as a team.

Why are we, Superman? Let me give you an example of Trader Joe.

So, those of you who are from the U.S. will know about Trader Joe. Today, Trader Joe is said to be a $ 13 billion enterprise. But when Doug Rauch was the CEO of Trader Joe, there were only a couple of employees.

Doug was a Superman. He was the front-end store teller, finance guy, purchase, marketing, and vendor manager. He was the cleaner in the morning. He used to come and close down the shutters in the evening.

He was a Superman because he was doing 10 different tasks at the same time.

Then he started hiring people because people started coming and buying the products. He became a complete wreck because

he began micromanaging. He wanted everybody to be like him, to do 10 different tasks and 10 other jobs.

How then did Trader Joe, with a micromanager as the CEO, become a $ 13 Billion enterprise?

One of Trader Joe's new hires came and told Doug: "Enough. You're driving us crazy. If you don't let go, we are getting out from here. Stop micromanaging. We are people. We can do it. We understand what you want."

He went back home feeling that this was really tough. But then he started to empower his employees. He trusted his people. They started flourishing. Today, they are a $ 13 billion enterprise.

This is screw up number seven. You need to let go now and let your team take effect.

You cannot be a control freak entrepreneur. You have to understand you will become control freaks. By default, you have to learn to let go.

STARTUP FCUK'UP – 8:

NOT VALIDATING THE ASSUMPTIONS

You have now built a business plan. You have got everything. You want to just go ahead and start the entire operation. But entrepreneurs, understand this one simple thing. Everything is built on assumptions.

Your financial model has got several assumptions. Your marketing plan has beliefs. Your H.R. plan has assumptions.

Your team referred to as assumptions. Your operations have assumptions. Your financial everything has assumptions.

So, if you're not able to plug in and validate those assumptions, you will fall somewhere.

Remove guessing as much as possible.

I'm going to give you another example.

Endover is a non-profit in the U.S. by Linda Ross. She is the CEO. They support entrepreneurs all over the world, especially in emerging markets. They've got about 3000 entrepreneurs they're helping full steam.

Linda has written several books. You could just check on Google, and you'll find all that out.

So, Linda's board told her in 2007: "Linda, why don't you set up an office in India? India is booming. Indian entrepreneurs are booming. Look at the number of companies that have come out from India that have become global."

Linda agreed. She said she had also seen some reports. So, without any double-checking or market research, she just jumped on the plane to Delhi. She landed in Delhi. Then she went to Bangalore and Mumbai.

I am an Indian myself. Indians treat the guests with great hospitality. They take them for lunches, dinners and treat them like royal kings. So, Linda loved the very warm welcome.

She went and set up offices in Bangalore, Mumbai, and Delhi. Then she started waiting for the entrepreneurs. They're typical entrepreneurs, like the ones in the U.S. Nothing happened.

After almost one and a half years of struggle, people advised her to go down to the smaller cities such as Coimbatore, Kanpur, Nagpur, etc., to find entrepreneurs. She realized that she could not get enough there also.

She finally had to pack a bag and come back home. What happened was there was a whole bunch of cultural differences. She didn't validate her assumptions.

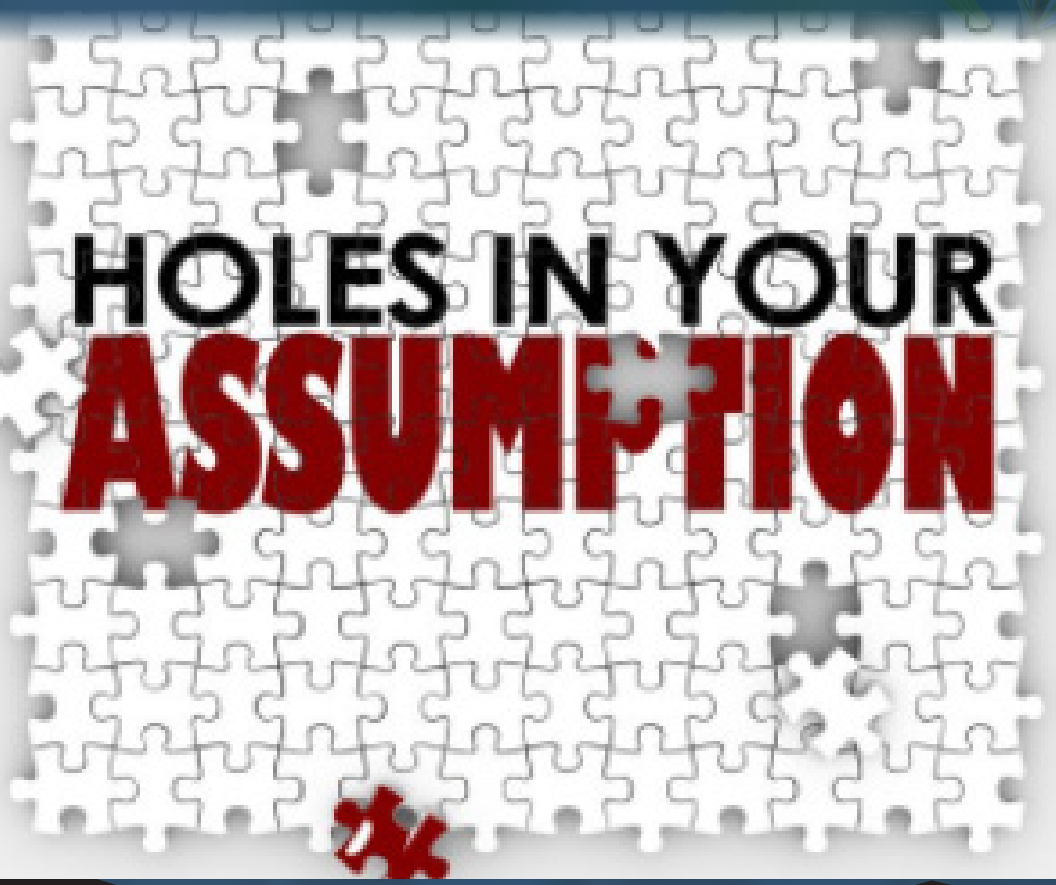
There's a whole bunch of entrepreneurial outflows in India versus the U.S. There's an entire understanding of the legal support systems and the complexities of being an entrepreneur in India.

One of the factors is the amount of interest for debt. In the U.S., you can get debt at 2%. In India, you pay 14% for that. The

availability of capital for setting up something in the U.S. is plenty. Whereas in India or most of the emerging markets, it's limited.

So, you just dive into the pool without making all your assumptions, and then you see that the pool has no water. You collapse, and you die. You have to validate your assumptions. Whatever business plan you have, whichever business plan you have, you have no choice but to validate your assumptions.

If you don't validate them, it's like you're diving into a pool, and you think there is water and there is no water. And if there's a higher dive, it can even be fatal. So, be careful.



STARTUP FCUK'UP – 9:

NEGOTIATING TOO HARD

Flexibility – not rigid positions – brings deals.

Time and time again, I have been in the same position of negotiations for valuations and talks with entrepreneurs. I have seen entrepreneurs walkout from great deals because they over negotiate.

There was a time, a couple of years back. I had a gentleman, an entrepreneur, flying halfway across the world.

We got into a discussion meeting at Eight o'clock in the morning. We thought that the negotiation will take a couple of hours.

After three hours, we still couldn't agree. But we thought it's very close. So, let's push it. We had lunch. Then we pushed it till the evening. Another three hours went by. We said okay. Probably after dinner, we should close.

After dinner, we said, let's push it till Eleven o'clock. We sat there till seven o'clock in the morning the following day. And yet, we could not hammer out a thing.

Both of us really wanted the deal. We just could not do it because that entrepreneur wished to have the upper hand all the time. Finally, the deal did not happen.

In a rope tug, there is only one winner. You are going to collapse if you're pulling too hard. The other investors are going to let go. So, when you get investors, don't negotiate too hard. If you deal too hard, you will lose.

That particular gentleman who came in from halfway across the world never got the funding for his project. In fact, he did not get funding from anywhere. He had to shelve the entire project.

Years later, I met him. He said that he had no clue. He should have just pushed through with the deal. That's what we are saying. Don't over negotiate.

STARTUP FCUK'UP – 10:

CUSTOMER VS VALUATION

What is customer valuation? You are either value your customers or valuing your company.

We have seen companies collapse because they were not focusing on their customers. They were focusing on themselves

How many of you know about the company known as Pebble watches? From 2012 to 2016, it had the most extensive Kickstarter campaign in the United States. They raised $40 Million.

By the end of 2016, they had to close down. They had to sell off to Fitbit. Fitbit is valued at $ 1.4 Billion.

Do not confuse how you and your customers look for value.

What happened to Pebble? They were not able to focus on the customer. They were focusing on internal valuations.

Look at the companies that focus on the customer and do not worry about the valuation. Amazon, Uber, Airbnb. These companies concentrate on the customer.

Your services should always be your number one focus, your number two focus, and your number 10 focus. Don't lose focus of your customer.

Valuations will come. If you got customers, you got value.

DO YOU PLAN FOR FAILURE?

Failure is highly probable. Be ready for success and failure.

I am laying a challenge - you don't plan for failure. None of us plan for loss. But as entrepreneurs, we will fail. So, we should be mentally prepared for that eventuality.

When I speak to entrepreneurs, and I ask them whether they plan for failure? They respond in the negative. They say that they are not going to fail. They remain a hundred percent positive that they will succeed.

Look at Blackberry. The chairman of Blackberry never went and told the board of Blackberry in 2001: "Ladies and gentlemen, I have a brilliant strategy that in the next 10 years, by 2013, we will be bankrupt."

This was the company that was challenging Apple. Where's Apple now? Blackberry is nowhere. What did they do wrong? They had the best brains. They had guys from Harvard and Wharton. They had executives from Kellogg.

Yet, they messed up

What about Nokia? Everybody knew Nokia was a large company.

Did the CEO of Nokia in 2004 go and tell the board: “Ladies and gentlemen, we have the best strategy. In another 10 years, we will be bankrupt.”

No. This can go on and on. So, what went wrong with these companies?

They were always focused on the short-term. Nobody focused on the long-term.

Everybody was focused on today, tomorrow, and the next three months.

They were so blindsided that they could not lookup. They were looking down. And when you look down and walk, you hit a boulder, and you fall. You have to plan for the short term as well as the long term.

Failure in business is well-documented. Learn those stories too.

Professor Clay Christensen from Harvard has written several books. One of them is “Measure of Life.” It’s an essential read for entrepreneurs. He also wrote the books “Founders’ Dilemma” and “Founders’ Solution.”

Entrepreneurs need to read these books. They give a lot of great insight into how to tackle problems, the strategy, and everything else.

When we plan to fail a decade ahead, we fail. We have to plan one or two decades ahead. So, the key to this is that you have to invest short term and long term.

As an entrepreneur, let me remind you of this simple logic.

I had a chance to speak with Muhammad Ali. One of the questions I asked him was, what did he do when he fell down? His simple answer was he had two choices. If he fell down and didn't get up, he was finished.

He said he had to get up because that's the only way he'll be able to fight and win back again.

As entrepreneurs, there will be failures. There will be risks that you have to take. Without risk, you can't be an entrepreneur.

But remember, you can always get up. Stand back up and fight again. That's how winners are made. That's how you become seasoned. That's how you get the corrections. That's how you're able to stand and say, "you know what doesn't matter. I'm able to do it."

That's the resilience Linda Ross used to refer to. She used to say that the biggest failure of an entrepreneur is not financial capital or marketing. The entrepreneur cannot overcome his own fears. Because he fears what will happen if he loses everything.

You have nothing to lose. You came with nothing. You can restart back again. It's the ability to say I want to get up.

Be bold, take risks, soar the skies!! Success is not final, and failure is not fatal.

Those who succeed never say I'm on top of the world. No, you have to keep on innovating, keep on being dynamic. Empower people by listening to them.

Success is not what people think it looks like. Success is going up gradually in spirals.

All of us have had failures. All of us have overcome failures. We will be facing difficulties and challenges in the future.

But we all know one thing. We will always give a fight and win.

These are 10 of the entrepreneurial blunders. There are almost 30 more blunders that we have identified.

SUMMARY

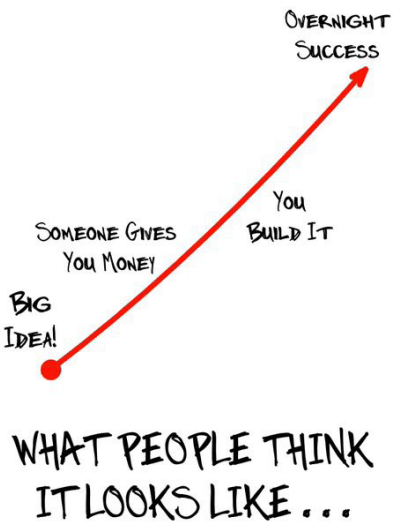
George Molakal

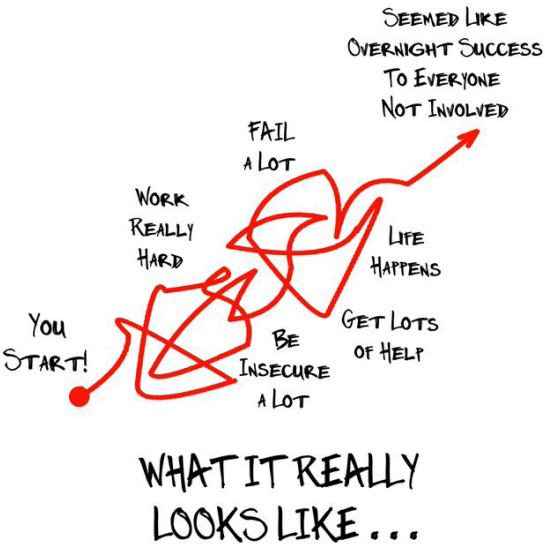
Summary

In summary, I'd like to talk about these few things:

- Identify the critical risk of your startup
- Understand the Gap Analysis and impact of these risks
- Work on the Gap Analysis to mitigate the risks.
- Improve the probability of success to 95%. Because if you improve the likelihood of success to 95%, you will be in business at least for the next five years.
- Attract global investors with low startup risk. Because if you've got a 95% probability of success, you will attract investors from all over the world.

Soar the skies and conquer the world. Risk mitigation is the key for startups to succeed.





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