# Funding the Dream: Building A Successful Enterprise – Analogous to Making a Movie?

Pravin R. Chaturvedi, Ph.D.
Chief Executive Officer
IndUS Pharmaceuticals, Inc.
Woburn, MA 01801

# Screenplay for “Funding the Dream”

- The Players – Cast & Crew
- The Producers & Misfits – Investors, Naysayers & Band Wagoneers
- The Plot – Significance & Impact
- The Mishaps – Murphy’s Law in Action
- The Navigations – Execution through Adversity
- The End[ing] – Happy or Tragic?
- The Value – Return on the Price of Admission

# THE PLAYERS – CAST & CREW

# The Entrepreneur(s) – Lead Role(s)

- What type of Entrepreneur are You?
  - One who wants to build value?
  - One who wants to extract profits from the system?
- What do You Know?
  - Do you have the Requisite Domain Expertise?
  - What gives You The Competitive Edge?
- Why are You Doing This?
  - For [Significant] Social & Economic Impact?
  - For Personal Glory & Gain?

# Entrepreneur(s) Supporting Cast

- Who are your Co-Founders?
  - Preferable to have at least 1-2 Co-Founders
- Who are your Management Team Members?
  - Founders are not necessarily best at execution
- Who will Join your Board and Advisory Board?
  - Need to have Independent Director(s)
- Who will be your Executive Management?
  - Preferable to have identified Key CXO Members

# THE PRODUCERS & MISFITS – INVESTORS, NAYSAYERS & BAND WAGONEERS

# Myths That Need to be Discarded to Ensure "Funding the Dream"

- ***Myth#1: Output of Any Venture is Equivalent to the Size of Input Funds***
  - Successful Businesses have Disproportionate Output Relative to Amount of Input Funds (Factor > 6-fold)[1,2]
  - Key driver of Disproportionality is INNOVATION
- ***Myth#2: Large corporations are better suited for Innovation compared to Small Entities[3,4]***
  - Large firms are focused on Optimizing the Routine
  - Small enterprises Break Routines and Disrupt to achieve Disproportionate Returns on their Limited Resources
  - Large firms have Misalignment of Incentives to Innovate

[1] *M. Abramowitz. Resource and output trends in the United States since 1870. Am Econ Rev 46: 5-23, 1956*
[2] *R. Solow. Technical change and the aggregate production function.Rev Econ Stat 39: 312-320, 1957*
[3] *J. Jewkes et al. The sources of invention. New York, St. Martin's Press. 1958*
[4] *Z. Acs and D. Audretsch. Innovation in large and small firms: An empirical analysis. Am Econ Rev 78: 678-690, 1988*

# Importance of Misfits in "Funding the Dream"

- Provide a Supportive or Contrarian View
  - Critical to be Able to "Tune into" all Frequencies
- Good entrepreneurs are Excellent Listeners
  - Able to defend or discard pre-conceived notions
- Understand the Kudos or Criticism with Poise
  - Neither Flattered nor Flattened by Feedback
- Incorporate raw feedback into New Venture
  - When appropriate, include feedback following caucus with Management Team & Board members

# The Producers i.e. Financiers/Investors

- Who are your Investors?
  - Have you identified Independent Funding Sources?
- Who are your (paying) Customers?
  - How many customers do you have in early stages?
  - How many potential customers will you have in the future?
- Are you funded by Government sources?
  - Are you supported by local, state or federal funds?
- Timing and Size of Funding?
  - How much capital is needed and when?
- Future Sources of Funding?
  - What Milestones will be met with Initial Funding?
  - How much more capital will be needed for next set of milestones?

# Types of Financiers Available

- Friends & Family
  - Guaranteed recipe for LOSING Friends & Family
  - Not adequate availability of funds (unless you are Rockefeller)
- Angels & [VC] Demons
  - Two sides of the Same Coin – detailed evaluation process
  - Independent due diligence provides key validation of business
- Government Programs
  - Grant funding from Competitive Programs (SBIR)
  - Local, state or federal incentives (Perilous)
- Strategic Partners
  - Present or Future Customers Invest in the Venture
  - Provides validation as well as independence from market cycles

# Role of Angels & [VC] Demons

- Conduct extraordinarily detailed due diligence
  - Review the business plan, financials & budgets
  - Evaluate the competitive advantages of venture
  - Conduct reference checks on founders & key personnel
  - Test the market conditions for need & sustainability
  - Do a thorough competitive landscape analysis
- Outreach to other potential investors
  - Provide syndication possibilities with other suitable investors
- Recruit management and Board members
  - Identify gaps in the skillsets and recruit talent
  - Serve on the Board of Directors to provide strategic guidance
- Ensure execution discipline
  - Maintain fiscal and execution discipline towards milestones

# Role of Government in "Funding the Dream"

- Ensure passage of the Right Laws
  - Allow use of legal and financial instruments to spur investment in new ventures (e.g. preferred stock)[5]
- Provide Access to Breakthrough Technologies
  - Legislation like Bayh-Dole Act (1980) allowing universities to commercialize their technologies[6]
- Develop Tax Incentives
  - Long-term realized capital gains for investors[7]
- Create infrastructure for Training Entrepreneurs[8]
  - Provide assistance with business plans, incubators, etc.

[5] *J. Lerner & A. Schoar. Does legal enforcement affect financial transactions? The contractual channel in private equity. Quart J Econ 120: 223-246, 2005*
[6] *Innovation's Golden Goose. Economist 365: 8303. December 12, 2002*
[7] *JM Poterba. Venture capital and capital gains taxation. In "Tax Policy and The Economy". Ed. LH Summers. 47-67, 1989*
[8] *DS Karlan & M Valdivia. Teaching entrepreneurship: Impact of business training on microfinance clients and institutions. Econ Growth Ctr, Yale Univ. No. 941, 2006*

# THE PLOT – SIGNIFICANCE & IMPACT

# Value of “Funding the Dream”

- Must have Clear & Significant Impact
  - New venture provides a Solution to a Key Problem
  - Incremental or Enabling Solutions Acceptable
- Differentiated Product or Service Value
  - Creates Social and Economic impact
  - Customers willing to Pay for the New Solution
- Self-evident Value Proposition
  - Venture answers the question: “What’s New”?
  - Product or Service provides a Cost-Efficient Improvement over Currently available products/services

# "Funding the Dream" is Necessary

- Venture is Not a "Me-too" Plot
  - Venture presents an original & differentiated solution
- Entrepreneur(s) "Do the Right Thing"
  - Aligned incentive structure wherein the entrepreneurs and management team do everything to ensure Venture Success
  - Not seeking personal gain or misaligned with investor interest
- Addresses a clearly identified market segment
  - There is a sustainable customer-base for the product/service
- Venture provides the Solution Cost-Effectively
  - Better solution addressing wider population demands
- Improves overall Quality of Life of Society
  - New venture Fulfills a Need that is Unmet/Under-served

# THE MISHAPS – MURPHY'S LAW IN ACTION

# Bumps in “Funding the Dream”

- What can go wrong, will go wrong
  - *A priori* Identification of Risks in New Ventures is Always an Underestimate
- Pioneering ventures are Risky (by default)
  - Going where “No One has Gone Before”
- No Blueprint or Handbook exists
  - One cannot Predict the Outcomes, Can Only Prepare
- Must Know When to “Course Correct”
  - Mishaps represent a Vital Sign for Venture Survival
  - Must have the [Collective] Wisdom to Know when to Stay the Course and when to Course Correct

# Recognizing Symptoms of Trouble for "Funding the Dream"

- Market problems
  - Non-compelling value proposition to acquire (paying) customers
  - Wrong market timing (too early or too late)
- Business model failure
  - (Non)-scalable method for customer acquisition
  - Monetization of customers less than cost of customer acquisition
- Poor management team
  - Weak on strategy and inadequate customer validation
  - Poor execution of product development
  - Hired weak team members to maintain (leader's) "clout"
- Inadequate funds
  - Poor budgeting and execution to achieve key milestone(s)
  - Lack of discipline in cash management
- Product problems
  - Product does not address market need
  - Improper product/market fit

# THE NAVIGATION – EXECUTION THROUGH ADVERSITY

# Continuing "Funding the Dream"

- Recognition of Adversity versus Flawed Strategy
  - Important to recognize Tactical challenges from Strategic failures
- Experienced Management Team is a Must
  - Domain Expertise and Experience of management team makes the Difference in Coping with such Challenges
- Navigating the Troubled Waters
  - Tactical adjustments to ensure continued progress
- Correcting the [Flawed] Strategy Early
  - If Wrong Strategy, then Correction at the Earliest Possible Time is a key Determinant of Organizational Survival
- Customer Acquisition Provides Validation of Strategy
  - Having Customers for the Product/Service is a Great Equalizer

# Key attributes for Success of "Funding the Dream"

- Well articulated vision that allows monetization (from customers)
- Knowledgeable team that executes with speed
- Disciplined budget management to meet milestone(s)
- Excellent social & networking skills with customers & investors
- Self discipline and positive work ethic of leadership team
- Strong determination with a positive "can do" attitude
- Willingness to adapt to changes through (multiple) iterations
- Excellent fund raising skills of the leadership team
- Quick decision making and "informed" risk-taking abilities
- Efficient time management and prioritization of business issues
- Execution, Execution, Execution = 98% of the Success Factor

# THE END[ING]– HAPPY OR TRAGIC?

# Typical End[ing] Strategies for "Funding the Dream"

- Business structured to allow entrepreneurs to pay themselves
  - Needs minimal (or preferably no) outside investors
  - "Pay yourself as you go" without expanding the business
- Simple liquidation  of business
  - Sale of assets at market price (or more likely under market value)
  - Without strategic value for all aspects of the business
- Sale to a Friend or Family Member
  - To preserve the business and execution of leader's vision
  - Maintain control of the business (by proxy)
- Strategic acquisition by a competitor/business partner
  - That maximizes returns for shareholders
- Initial public offering (IPO)
  - A very rare and arduous exit option
  - That requires compliance with all regulatory and financial legislation
  - Management spends time "selling the company" to potential buyers rather than "running the company"

# The Right End[ing] for “Funding the Dream”

- Realization of Value of Venture is defined by the End[ing]
  - All investors seek Return on Investment (ROI) – which represents the time-averaged value of money
- Exit options such as IPO or M&A represent “Happy Endings”
  - Initial public offering (IPO) or a merger or acquisition (M&A) allows liquidation events for investors that (usually) represents a positive multiple
- Liquidation events (such as a Firesale) or Shutdown are “Tragic Endings”
  - Firesale or auction of IP due to lack of sufficient funds, inability to execute the plan and strategy, mismanagement of funds, represent a negative ROI and are a “write off”

# THE VALUE – RETURN ON THE PRICE OF ADMISSION

# Key Attributes Defining the Value of "Funding the Dream"

- Market
  - Addressable market in terms of size, growth potential and customer availability
- Product Differentiation
  - Uniqueness, intellectual property (IP), technical edge and profitability
- Management Capabilities
  - Domain expertise and experience in business, finance, technology and marketing needs of the venture
- Sustainability
  - Technology life cycle, barrier-to-entry, insensitivity to business cycles, inclusion of risk-mitigation and/or pivot strategies
- Exit Value
  - Future cash-out potential, opportunities for realized capital gains through IPO, mergers and/or acquisitions

# Funding the Dream: Building A Successful Enterprise – Analogous to Making a Movie!!

Pravin R. Chaturvedi, Ph.D.
Chief Executive Officer
IndUS Pharmaceuticals, Inc.
Woburn, MA 01801