



ENTREPRENEURSHIP AND LEAN STARTUP. HITTING THE WALL BUT STILL GOING.

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Idea and realization

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The economy of knowledge

The knowledge economy is the use of knowledge to generate tangible and intangible values. Technology and, in particular, knowledge technology help to incorporate part of human knowledge into machines. (c) Wikipedia

In last 30 years, society in a whole has undergone the transition from the post-industrial economy to the economy of knowledge.

The **ECONOMY OF KNOWLEDGE** as a definition highlights the importance of the knowledge that became the ultimate competitive advantage in the contemporary economy.

Within the scope of the economy of knowledge, the knowledge itself can be seen as a complex paradigm.

The knowledge can:

- Result in the competitive advantage.
- Increase the efficiency and effectiveness of the business
- In the way of IP (intellectual property) can be the main asset of the business

Thus, the importance of the knowledge in the Economy of knowledge cannot be stressed enough.



Fruitful debut idea

The economy of knowledge made it relatively easy start a new business. Internet and era of digital content brought numerous opportunities for the entrepreneurs. From the beginning of the dot coms era the entrepreneur didn't need a huge amount of money to invest into the fixed assets of the real economy new business.

Instead, internet startup could have been and still can be created in the matter of days with the very modest investment. It resulted in a boom of dot coms and other technology related startups. All these startups had some IDEA behind them.

Approaches to the generation of such an idea included:

- Transition of the ideas from the real world to the virtual world (notepad-> Evernote, Facebook, etc.)
- Digital world specific ideas (VR etc.)
- Digitalization of the existing and appearance of the new services

In the world where information and knowledge mean success the idea as part of the knowledge means a significant part of the success. Could you imagine that Facebook costs more than Gazprom? What are the COGS portion in the final iPhone price?



What is the best way to start your startup?

There are **several ways** the new startup ideas come into this world. **To name the most common: organic, observation and artificial ways.**

Organic

I would say the best are just ideas that make the personal life of the inventor more enjoyable or productive or accessible or meaningful. At some point, the author decides that other people may also benefit from this very idea, and she builds a business around it. If the move was right, the customers will follow.

Observation

Is when a future founder notes that there is a process or situation at their work or elsewhere that can be further improved, and this improvement becomes a business idea.

Artificial

"Blue ocean", brain-storming born and other ideas that normally generated because of the need to generate the idea.

No important how the idea was born it should address some real need or problem that exists in reality. Not always though. PetCube?



Idea generation as an exercise

As any ability of the human being, your ability to generate the ideas can be further improved if trained. There are several ways to train this ability.

Daily or depending on your schedule think about:

- How could you improve this or that process?
- Why is it not going to work?
- "Go from the contrary" approach.
- Brainstorming for fun
- Critical thinking
- Devil lawyer's approach
- Decompose something big on the components and build something new from these blocks
- Ping-pong the ideas with a friend

Whatever technics you can find to grow your creativeness do use them. One good beginning would be "Thinkertoys. A handbook of creative thinking techniques" by Michael Michalko.

Make your ideas SMART and precise. Remember "Business idea that cannot be expressed within a single tweet is rather a scientific concept." ©



Should your idea be innovative or can it be something marginally new?

As a matter of fact, you can find many examples when revolution ideas never resulted in sustainable business and when they did. As well as you can find many examples of marginal improvements that resulted in sustainable business, and that did fail.

Both approaches have its **benefits and drawbacks.**

Revolutionary idea. Think about “innovation diffusion” theory. You will have to develop a market for your idea. You will need to educate the customer. It is a long run. You will have an advantage of the first mover though. But you can lose it easily.

The improvement. The idea was validated already. Everything will depend on the execution excellence. You do not have a budget they have though. And head to head competition will require **3-5x of their marketing budgets.** Find your niche. Facebook wasn't the first social network. Nor was Twitter. And thousands that died already.

The truth is though, with the diligence, persistence and luck either approach can result in sustainable business. With the probability of **less than 10%.**

Isn't it too late? They invented everything.

No, they didn't. They didn't in 15th, 19th, 20th and 21st century. Nor they will in 22nd. **There are several theories of the progress:**

- Spiral
- Singularity

There are several types of progress:

- Technical
- Sociological
- Technological
- Economical

As a summary it is worth saying that there are still unknown number of unknowns for us to stop worrying about the availability of unknowns.

It can be a bit late because of the other reasons. The price of the entry ticket may go up and available industries have higher new entrants' barriers. That will be discussed later in the course though.



Should you patent your IP?

When talking to the VCs for the first time, we asked them to sign NDA, and they were laughing. The idea itself unless it is hardcore technological invention shouldn't be patented/protected. Or at least needn't be.

The IP though is a core capital of the startup and can help you gain a competitive advantage as well as protect you from the competition or bring interest of the acquirers and investors.

So, do you need to patent your IP?

- For revolutionary ideas If it has real value – yes,
- For marginal improvements – less so

And you will have your time and budget later. You still can do small things. Filing the patent is expensive? Register a trademark.



“They’ve stolen my idea.” ©

No, they didn't. Usually, they didn't. It is just so the same idea can come to the several heads at the same time or what you are doing is obvious and doesn't have any rocket science behind. Or by the time you invented that thing it was already public domain knowledge.

Best way to protect your idea is use advantage of any startup – move fast. The sooner you will be able start selling the product the less chances somebody will make that instead of you.

The world of interruptive ideas is being closely monitored by big corporations presently. But they are normally not stealing the ideas while these are only ideas. They usually hunt some MVP company or even \$10m revenue companies. This way it is still not too late for them to buy you out but not too early as they know that the market has confirmed the idea's viability.



Can you sell the idea?

Usually you cannot. All possible acquirers will want the idea to be confirmed by the market. “Yes, but they can buy me out right now while I am cheap” argument doesn’t work either. Most certainly they will prefer to pay more on the later stage when risks will be also reduced. **\$50m** profitable startup is a candy everybody wants as an acquisition target. \$5m cash burning company is still a question mark and they will be reluctant to move.

Only if it is patented and of real value obviously. And selling the ideas goes in direct contradiction to everything we are discussing here. Selling raw materials is always a fail. You should sell the products with a lot of added value.

The very reasonable comment from the potential buyer or investor on this stage would be “If your idea that great why do you selling it that early? It looks as if you don’t believe in it yourself. And if you don’t why should I?”

In the case of a startup, you shouldn’t sell the idea. You should build a sustainable business around this idea and sell a company and join

Forbes 100 list.

Invention and innovation

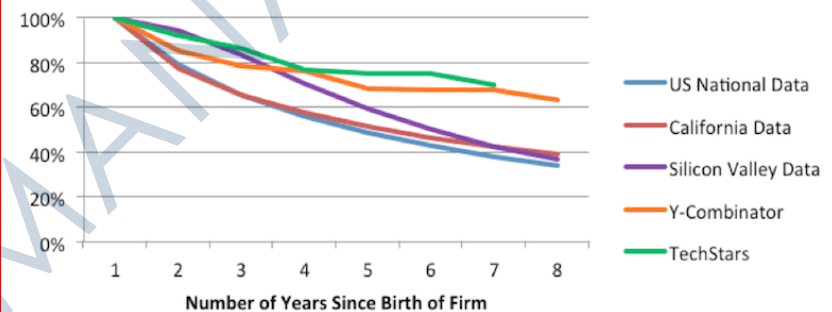
Is there a difference and what's the difference? It is easy: innovation is the invention with the sustainable business built around it. **Generate ideas is easy.** A little bit more difficult would be writing a program. But it is still easy. **A quick justification?**

- How many ideas and/or programmers are out there?
- How many dollar billionaires and millionaires who built and sold their startups are out there?

Idea or program is like **10-20% of the success**. How to take that idea and build a business around it? How to monetize that program and grow the company? It is a real challenge.

Nothing comes for free or without hard work and career of the entrepreneur wouldn't be an exception. Building and selling healthy company is a matter of 5-7 years if you are doing it first time. You will learn the whole universe of the new things and make any single mistake you can possibly make. With the chances to succeed less than 10% if you are in the Valley and way less if you are not in the US.

Average Survival Rate of Startups



Fortune reported the "top reason" that startups fail:

"They make products no one wants." A careful survey of failed startups determined that **42%** of them identified the "lack of a market need for their product" as the single biggest reason for their failure. © Forbes

Startup and family business

A startup company (startup or start-up) is an entrepreneurial venture which is typically a newly emerged, fast-growing business that aims to meet a marketplace need by developing a viable business model around innovative product, service, process or a platform. A startup is usually a company such as a small business, partnership or an organization designed to effectively develop and validate a scalable business model. © Wikipedia

It says it all. Can you consider any new business a startup? No. There are some criteria that distinguish the startup from a just new venture of your family. These criteria are mentioned in the definition.

So, the startup in the meaning we put into this world is a newly emerged business:

- With the potential to grow fast
- With the potential to scale (almost same thing)
- With the viable business model
- Coming with some innovation

Now is it bad to have a family restaurant? No, it is not. It is just not a startup. A mobile application that reports availability of the seats in any number of the family restaurant is a startup. Why? Let's review.

Why are you here? Formulating the goals of your company

In general, the business is about making money. Your goal is actually to make that money, Is it enough? No. Other people wouldn't help you do so because they are busy with making money for their own families.

There is probably some bigger idea you are having in your head. That will be the mission statement of your business.

Apple designs Macs, the best personal computers in the world, along with OS X, life, work and professional software. Apple leads the digital music revolution with its iPods and iTunes online store. Apple

We gather exceptional talent from all over the world with various backgrounds, beliefs, and perspectives, but we all share one common dream: change things for the better and leave a mark on the world. OnePlus

What is yours?

On a practical note though you want to make money by doing the exit through strategic acquisition or IPO.



What stress-test should the initial idea survive?

You should consider these questions when assessing the idea for your new venture:

- Does it address any real pain or need of the potential customers?
- How do you know the need is real?
- Is your potential market or niche big enough to allow for dynamic growth?
- Are you limited by geography?
- What initial investments the idea would require?
- Do you have a team to get this ball rolling?
- Who you compete with?
- What knowledge or technology you miss to start that business?
- Can you start it initially as a part-time project?
- Are people willing to give you their money for that product or service you are offering?

These are initial and broad questions. Based on the specifics of your product/service and your market/niche there can be others.



Wannabe... Entrepreneur. No more work for hire

Apart from the valid and crucial discussions on the idea, its viability, the business model, monetization, etc. you should also consider personal aspects of your move. The decision to leave your work and career and start your own business will have several implications for you and your family.

Consider them.

- Going away from fixed and sometimes good salary will bring a lot of uncertainty and increase the level of the stress.
- During the bootstrapping times, your family will also be bootstrapping. Are they ready?
- Your schedule will get the extra digit in the number of working hours.
- Your social life and social status may suffer in the short run
- You put at risk your self-esteem. What if you fail?
- Your life will lack a balance from now on.

When people talk about the entrepreneurship, one of the definite pluses they mention is this “freedom.” You work for yourself; you report to no one. And then goes this: “you can even skip the work day if you feel like that”. You can. Right. But... “Tell me, Mr. Anderson... what good is a phone call if you’re unable to speak?” What good is a right you never use? In the own business, you are as powerful as Genie. And yet you are a slave to this lamp.

But at this point, you would never exchange this slavery for the freedom of going home at 6 pm.



Your first steps... Your last steps.

90% of the startups will never make it. Much like in the animal world the younger startup is, the more probable its death. There are a hundred ways to lose your business and just one way that leads to success. I am still not sure which one road I am personally pursuing now. **The problems that may cost you business:**

- Cash shortage
- Weak product
- Conflicts between the founders
- Lack of attention to the details
- Changes in the competitive landscape
- Preliminary scale



I am about to start reading the new book. Kinda tired of reading old. Danger of ideas

Startup movement is a community. It has a busy life. It has a lot of events, drive, parties. You are here not because of that stuff. You need the networking but only to grow your business. Startup is more about hard work and less about parties and events.

You are full of ideas and formulating the ideas for that next big thing daily? Keep formulating but don't try to execute these right now. Yes, you need to monitor changes in the industry and be ready to adjust or even pivot. But the startup is mostly about persistency in the execution. Daily portion of the fresh ideas can be quite destructive.

From the dialogues of the startup CEO and experienced VP of Business Development of the big company.

CEO: Gosh I am generating new hot ideas daily!

VP: And my work is to filter those ideas to be able to concentrate on what's matter.

And yes, you cannot run two or more businesses simultaneously. If your function is more than pure ideas generation you just won't have enough time.

About lecturer

Art Berman, MBA

Art Berman is a successful serial entrepreneur who has founded a number of companies in the technology industry. Mr. Berman brings more than a decade of entrepreneurial experience building and advising successful software companies. Art has managed worldwide online sales and operations since 2003. Mr. Berman earned his Bachelor degree in Economics from Moscow International Business Institute in 1997 and Executive MBA in Edinburgh Business School - Heriott-Watt University in 2014.





Thank you!



Questions