Startup 2.0

28 March 2007

David Brussin

First... why a startup?

- You dislike sleep

- Regular paychecks are a drag

- You want to change the world

- You aren't happy doing anything else

A few gross generalizations

- Startups are small, and want to be very big

- High concept

- Boil the ocean

- Market shrinker

- Clarke's law

High concept – credit Jeremy Liew of Lightspeed Venture Partners – "flickr for video" YouTube
Boil the ocean – S/MIME for email security & antispam
Market shrinker – credit Josh Kopelman of First Round Capital – Encarta – each $1 of gain took $6 from market
Clarke's law – Arthur C. Clark "any sufficiently advanced technology is indistinguishable from magic" – TiVo, LaserWriter

Emerging technologies and the startup

- Products that couldn't exist before

- Products built cheaper / faster / better

- Markets that couldn't be reached before

couldn't exist – flickr (digital camera adoption, consumer broadband penetration)
cheaper/faster/better – Gmail vs. Outlook
markets – eBay

Emerging technologies and the startup

- A few recent cycles

  - PC revolution

  - Dot com

  - Web 2.0

Each wave of emerging technologies brings a wave of 'High Concept' startups

paper ==> shrinkwrap software -- paper ledgers to spreadsheets

The world has changed

- Products built to first customer ship today:
  - Costs as low as 10% of a few years ago
  - Smaller teams
  - Faster development
- Bulk of investment has shifted to later

Emerging technologies directly applicable to company building

The culprits

- Open source

- Newer languages

- Web development frameworks

- Emerging infrastructure

- Emerging methods

OSS – linux, apache
lang – ruby, python
web – Rails
infra – S3, EC2, SQS
methods – DRY, test, convention over config, iteration, collaboration

The flat world is a culprit, too

- Rent-a-coder

- eLance

- oDesk

- Guru

- Mechanical Turk

The idea

- Go for the scary idea
  - "If we pulled that off, BigCorp's business would be at risk!"
- Go for the impossible idea
  - If there is a credible believer
- Avoid ideas that fit into existing roadmaps
  - 'feature, not a product'

Size the idea

- Attention is scarce among early adopters
- High concept ideas can have small audiences
  - Second derivatives
- Start really small, grow really big
- If it can't grow, it might be
  - 'product, not a company'

Second derivatives – credit Brad Feld of Mobius Venture Capital

Catch 22 – awareness of the 2nd, 3rd, etc derivative aspects is what enables a real ad model

VC's typically look for billion dollar markets

Identify your unfair advantage

- What makes this something you can do that others can't, and can't overtake you later?

  - They don't believe its possible

  - They don't know what we know

  - They don't know who we know

  - We'll get a dominant market share

TurnTide – no one believed it would work until they saw it

Unfair advantage is much more important than worrying about competitors or big companies 'stealing ideas'

Got the idea, now what?

- If you can, build it

- If you can't build it, prove it will work

- If you can't prove it will work, figure out exactly what you'll need to test

Sidebar: business models

- Software licenses & subscriptions

  - Smallest audience

- Freemium

  - Bigger audience, but hard to convert

- Advertising supported

  - Biggest audience, but hard to sell ads

Freemium – credit Fred Wilson of Union Square Ventures

Founding

- Get a lawyer with startup and VC experience

- Somebody has to be the boss

- Everybody vests

- Put everything in writing

when you mix your money with your friends, you often end up having to choose which one to keep.

sometimes you lose both.

Infrastructure is boring

- Google mail and apps

- Salesforce, etc

- Skype

- EC2 & S3 or other server hosting

- Hosted svn, trac, etc

Funding

- Do you need outside funding?

- Unless growth is part of unfair advantage...

  - Do you *really* need outside funding *now*?

- Early money is expensive

  - Cost of funds is proportional to risk

- Smart money is usually worth it

Funding

Angels

- Friends
- Family
- Robin Hood
- NY Angels

Venture Capital

- First Round Capital
- PA Early Stage
- NextStage Capital
- Innovation Philadelphia
- Ben Franklin

Execution

- Validate assumptions early and inexpensively

- Initial plans are always wrong

- Early and frequent iteration *with customers* gets them right

- Invest in whiteboard architecture

- Be very careful about investing in coded architecture

War Stories?

Questions?

Discussion?

Slides will be posted:

WhatComesNext.brussin.com

Thank you...

David Brussin