Elements of a Successful Silicon Valley Startup

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Broad Startup Phases

- Initial Investment
  - Series A Financing
- Product Development & Execution
- Go-to-Market
  - Initial Product Deployment
- General Availability
  - Product & Revenue Ramp
Agenda

- Startup:
  - From an Entrepreneur's Perspective
  - From an Investor's Perspective
- Challenges & Opportunities
- Summary
- SwitchON Networks Snapshot
- Q & A
Startup: From an Entrepreneur’s Perspective

- **Technology Approach & Focus**
  - The Idea or Concept
  - Technology Innovation
- **Go-to-Market Strategy**
  - If I Build It, They Will Come
Startup: From an Investor’s Perspective

- Business Approach
  - Target Market
  - Team
  - Technology
  - Funding
- Will It Make Money?
Target Market (Investor’s Perspective)

- Market Size & Trend
  - Size > $1B+
  - Up, Flat or Sliding Downward
  - Eg, Server vs Semiconductor Market

- Number of Large Players
  - Cisco, EMC, HP, IBM, Network Appliance, Etc.

- Acquisition History of Players
  - Eg, Cisco vs Network Appliance vs Apple

- Currency of Potential Acquirers

- Market ROI Multiple Metrics
  - “Could I Get a 10-30x Return On My Investment?”
  - “When Could I Get This Return?”
  - “How Low Could The Return Be?”

- “A Rising Tide Lifts All Ships”
Team (Investor’s Perspective)

Collective Experience
- Domain Knowledge
- Management & Leadership
- "Does (The Team) Have Critical Mass?"
- "Can I Work With Them Over Next 5 Years?"
Technology/Product/Solution (Investor’s Perspective)

- **Must** Solve Major Customer Problem
  - Few Metrics:
    - Solution Leads To Significant Cost Savings
    - Solution Facilitates Entry Into New Market (Must Be Large)
    - Solution Reduces Customer’s Time-to-Money

- Competitive Barriers to Entry Must Be High From Both **Existing Players & New Startup** Perspectives As Measured By:
  - Time
  - Money
  - Technology Barrier: Patent(s)
Funding (Investor’s Perspective)

- **Feasibility**
  - Is It Possible To Make & Sell At Market Price?

- **Development**
  - Time (# Engineers, Tools, Etc.)
  - Cost (Engineering/Marketing/Sales/Operations Headcount, Fixed Costs, Etc.)

- **Go-To-Market**
  - Partner Dependencies
  - Insertion Strategy: Disruptive vs Seamless
  - Adoption Rate
    - Conservative
    - Aggressive

- **Total Investment Required**
  - Potential Financing Rounds (Series A/B/C/Etc.) Before Liquidity
  - “The Less The Better”
Funding Sources (Entrepreneur’s Perspective)

- Potential Sources
  - Venture Capital
    - Seek Tier 1 Firm
      - Tier 1 Can Facilitate Following Financing Rounds
      - Tier 1 Facilitates Recruitment of Top Talent
    - Match Firm’s Market/Technology Focus with Yours
  - Corporate Venture Financing
    - Usually Plays Follower to Investment Lead
    - Could Potentially Delay Financing
    - Could Impact Go-to-Market & Adoption Strategy
  - Government Grants
    - Big resource in Today’s Stimulus-induced Environment
    - Might Require Political Maneuvering

- Plan a Multi-stage Round of Financing
  - Tranched Investments Are the Norm Today
    - Money Tied to Key Milestones
    - Penalties for Missed Milestones
Seed Financing/Incubation

- Multiple Seed Funding Sources
  - Personal
  - Govt Grant
  - Angel
  - Corporate
  - Venture
Personal Seed Financing

- Source: Family & Friends

- Pros
  - Informal Process
  - Quick

- Cons
  - Little to No Due Diligence
  - Limited Funds
  - Seed Investors Could Be at Risk by Professional Investors
Angel Seed Financing

Source: Successful Entrepreneurs & Wealthy Individuals

Pros
- Formal Process
- Relatively Quick

Cons
- Limited Funds
- Seed Investment Terms Could Stymie Investment by Venture Firms
- Limited Due Diligence
  - Concept Not Adequately “Flushed Out”
  - Could Put Startup to Venture Funding Risk
    - Angels Could Lose Entire Investment if Venture Funding Not Secured
Corporate Financing

- Source: Market Players
- Pros
  - Formal Process
  - Adequate Funds
- Cons
  - Limited Due Diligence
    - Concept for Market Adoption Not “Flushed Out”
    - Could Put Concept to Venture Funding Risk
  - Investment Terms Could Stymie Investment by Venture Firms
  - Corporate Relationship Will Impact General Go-to-Market Strategy of Startup
    - Corporate Investor Could Limit Startup’s Appeal by Customization & Other Restrictions
  - Slow
Venture Seed Financing

- Find a Venture Firm Willing to Seed Your Idea

Pros:
- Prototype the Idea
  - Create a ‘Proof of Concept’
  - Demonstrate the Fundamental Value Proposition
- Identify & Secure a Referencable Customer

Cons:
- Comes at Cost of Dilution

Use Seed Venture Firm to Raise Formal Series A Round of Financing

Begin to Build Your Company
Challenges and Opportunities

- Venture Capital Raised Is At 6 year Low
  - $6.3B Raised So Far This Year vs High of $36B in 2007
- Venture Industry Still Holds ~ $200B in assets at the end of 2008
  - Funds Usually Have 10 Year Cycles
    - So Investments Have to Happen

Where Do You Start?

- Look Around You Now...
  - This Is Where Your Network Starts
  - Build a Strong Team
- Find a Growth Market
  - Startups Usually Don’t Succeed in Mature Markets
- Identify Partnerships
  - Understand the Food Chain
  - Find Your Place In It
- Build Value That Can Be Sustained
  - Believe in The Vision & Evangelize It

*Good Luck!*
SwitchON Networks Snapshot

- Spun Out From Sierra Atlantic
- Transitioned on Two Tracks Simultaneously
  - From Service Provider to Product Company
  - From Software to Semiconductor Company
- Series A Raise of $7M in October 1999
  - Sequoia Capital, NEA, Redwood Ventures
- Total Team of ~60 in August 2000
- Acquired by PMC-Sierra for $450M in September 2000
- Provided 28x Return to Investors With One Round of Financing