The Dos and Don’ts: Startups

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2. “Must Dos”
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4. Aspects of Building a Startup
MY BACKGROUND

Adrian Lai

- CEO of Liquefy, a venture-backed FinTech platform that enables tokenization of illiquid assets using blockchain technology, with offices in Hong Kong, China and UAE
- Venture partner of EONXI (NBA star Spencer Dinwiddie’s VC) and Soul Capital, a Hong Kong-based family office with portfolios such as GOGOVAN and Tokopedia.
- Ex-BlackRock with diversified experience in sales, marketing, fintech and corporate governance
- Trainer for Hong Kong Securities and Investment Institute (HKSI) on blockchain, tokenization & digital assets
- Advisor for government; MIT Global Technology Panel
- Guest lecturer for Ivey School of Business MBA program
- Columnist at SCMP and Jumpstart media on blockchain technology; featured on Wall Street Journal, CNN, Forbes and Bloomberg Businessweek
- BBA from CUHK; certified in fintech by MIT
Wanted to be an entrepreneur during my college time

Constant idea generation for 4 years after graduation

6 months of research and validation with relevant stakeholders
WHY?

**Freedom**
You can be your own boss, don’t need to be micromanaged, do what you think is right

**Innovate**
You see a problem you can fix, go down a new path and come up with new exciting ideas and your own solutions

**Change**
You have a desire to change the world, provide a new solution to improve an industry
“Startups are like jumping off a cliff and building a plan on the way down”

Reid Hoffman, LinkedIn Co-founder
Only 40% of startups are profitable. **Startup statistics show that about 90% of startups fail.**

- The number one reason why startups fail is due to misreading market demand — this is found in 42% of cases
- The second largest reason why startups fail (29% of cases) is due to running out of funding and personal money
- Other notable cases of failure are a weak founding team (23%) and being beaten by competition (19%)

**About 1% of startups** evolve into a unicorn startup, like Uber, Airbnb, Slack, Stripe, and Docker.
WHAT ARE THE “MUST DOS”?  

- Research on competitors  
- Seek advice from industry experts  
- Think about the successful DNA  
- Figure out the legal front  
- Revisit company strategy regularly  
- Talk to Trusted friends or family that you trust
RESEARCH ON COMPETITORS

You want to have a clear idea of how much competition is in the market. If no one is doing this, why?

If there is too much competition, why should investors bother with your product/service? What are you doing that isn’t already? Is your target market to saturated?

Co-work spaces - 37% of investors* thought there was huge potential risk of investing in co-working spaces as the market is oversaturated

Investors may be worried about the lack of competition.

Why aren’t there others doing this? Have others already failed?

Google Search → Linkedin → Product matrix → Pricing Model

*In the Office Investor Sentiment Report by Real Capital Market June 2019
Advisors / mentors / strategic investors. Consider their network connections, entrepreneurship experience and relevant industry experience.

CASE STUDY: Liquefy’s Advisors

Matt Hong
Advisor at Liquefy

Leading figure in Turner’s league partnerships and rights deals with the NBA, NCAA, MLB, UEFA, the PGA of America, NASCAR, and the PGA TOUR

Led the acquisition of Bleacher Report, the #1 digital destination for millennial and Gen Z sports fans

Served on the board of directors of StreamPlanet, WarnerMedia’s industry-leading OTT streaming platform.
THINK ABOUT SUCCESSFUL DNA

From Day 1, think about what are the core factors that could contribute to your startup’s success.

What differentiates you? What is your competitive edge? Why should investors invest in you?

- Intellectual property
- Network
- People, etc.
- Adaptability
First time founders always neglect the legal front. Set the terms from the start - even with friends going into business together!

E.g. Founder’s disputes

- How will the equity be split among the founders?
- Is each founder’s percentage ownership in the company subject to vesting based on continued participation in the business?
- What time commitment to the business is expected of each founder? What constraints will be imposed on outside commitments?
- How will key decisions and day-to-day decisions of the business be made? (by majority vote, unanimous vote, or are certain decisions solely in the hands of the CEO?)
- Under what circumstances can a founder be removed as an employee of the business? (usually, this would be a Board of Directors' decision)
- How will a sale of the business be decided?

Mark Zuckerberg and Facebook co-founder Eduardo Saverin: Lawsuit
OTHER POTENTIAL LEGAL ISSUES

- Company structures
- Trademark, domain names
- IP protections
- Relevant licenses
- NDAs (also confidentiality for employees)
- Client contracts
- Corporate and HR documentation
- Share ownership & vesting schedule
- Termination policies
- Fiduciary duties to investors
Nokia had dismissed touch screens as a gimmick that used too much battery. After which they were playing catch up and they didn’t ever manage it. Their market share eroded and Nokia’s mobile phone business was bought by Microsoft in 2014. At its peak Nokia was valued at $300bn, but in 2016 Microsoft sold it in two parts for a paltry £350m.

You want to be constantly adapting to the changing market conditions and demand. You should revisit your company strategy regularly to keep it relevant and ensure that you don’t fall behind the industry and become obsolete.

Don’t become Nokia!

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REVISIT COMPANY STRATEGY REGULARLY

Product development (naïve)  Product development (reality)

Source: Startup DNA: the formula behind successful startups in Silicon Valley (updated May 5, 2017)
TALK TO TRUSTED FRIENDS AND FAMILY

You need to have someone to talk to you that you can trust or who will understand in order to maintain your mental health, being an entrepreneur can be very stressful and while the highs can be very high, the lows can be really low.

1 in 3 entrepreneurs live with depression and 30% of all entrepreneurs experience depression, according to a study by the University of California, San Francisco.

“Do not tie your self-worth to the success of your company”
WHAT ARE THE “MUST NOT DOS”?  

- Over-emphasise research  
- Give out equity casually  
- Get used to overspending  
- Join too many accelerators  
- Choose your partners unwisely
OVER EMPHASIZE ON RESEARCH

Don’t over rely on research and let it restrict you. Don’t underestimate the importance of acting when the time is right.

Timing is when:

1. Good business model
2. Good team
3. Good funding
4. Consumers are ready for your solution
5. Consumers are interested

Case studies:

- Facebook + social internet
- Uber + mobile
- Airbnb + recession
- YouTube + internet

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GIVE OUT EQUITY CASUALLY

Cash is limited, but so is equity.

Hold shares for people who will make a future impact - be it investors, employees, strategic advisors, management.

Equity is valuable but also a pain to manage, especially if someone leaves

Questions to consider:

- Percentage
- Type (grants, options, warrants)
- Vesting schedule
- Option pools
- Dilution
GET USED TO OVERSPENDING

You need to have 12-18 months runway. Be aware of spending and make sure you have enough.

1. Figure out your net burn rate (NBR) - average monthly expense of running your business
2. Divide available cash by NBR to figure out number of months
3. Plan accordingly - hope for the best but be prepared for expected eventualities.

Research shows that startups with VC or angel-backed funding wait an average of 18 months before Series A funding comes through, with an additional 20 months before Series B.

Source: JPMorgan.com
Don’t join too many accelerators or incubators.

There are many benefits and much to be gained from them, but you don’t want too many conflicting messages, otherwise your own message gets messy. “Too many cooks spoil the broth”.

### Benefits of an accelerator/incubator:
- Validation
- Branding
- Learn how VCs pick investments
- Comprehensive support from mentors, corporations & experts
- Accelerate learning & growth
- Access angel investors, family offices & VCs
- Potential customers
- Develop skills of the team
- Boost motivation & morale
- Provides pressure for the founders
65% of startups fail because of conflicts among founders.

Pick the right partner(s).

- Skill sets and personalities do not have to be the same otherwise there is no diversity of thought
- Previous work experience, educational background, gender
- It’s very hard work, long hours and can be lonely, you need to get along with the person/people

If you can’t agree on a partnership contract, you shouldn’t be doing business together.

Source: Wasserman, Harvard Business School Professor
Aspects of Building a Startup
Mentorship is a personal relationship - someone you can go for advice.

A mentor is for your personally. Someone with experience who can guide you on your journey, as opposed to an official affiliation with your company.

It is not a contractual obligation; mentors will not be involved in the operations of your company.
SEED INVESTORS

Ask for more than you think you need and sooner than you think you need it when getting investment.

Investors should either bring major clients in, or they themselves are the first client.

(Do not agree to exclusivity if the investor is also the client, do not restrict yourself)
BUILD THE ECOSYSTEM

Advisors

Investors

Government Partners

Corporate Partners

Clients
Networking is crucial for any startup seeking funding.

- SAFE Note - fixed equity %, irrelevant to valuation
- Convertible Note - valuation cap for future financing event, fixed time period and it’s a loan!
BRANDING

It should tell people about your company.

“Work hard and go home” - Slack, productivity tool

“Make every second count” - TikTok, short video sharing platform

“Your digital banking alternative” - Revolut, digital challenger bank

“Make the switch” - Juul, e-cigarette alternative

“Beauty products inspired by real life” - Glossier, beauty brand

“Launch and land and relaunch” - SpaceX, space travel company
ELEVATOR PITCH

A pitch you can give in the space of an elevator ride.

Usually a concise line or two (30 secs) that summarises what the company does and what the vision may be.

1. Identify the goal of your pitch
2. Explain what you do
   a. Problem + Solution
3. What sets you apart
4. Give numbers
5. Engage/catch their attention
6. Put it all together
7. PRACTICE
ELEVATOR PITCH EXAMPLES

“Most tourists booking online care about price- and hotels are one of the highest costs for when traveling. On the other hand, platforms like Couchsurfing have proven that over half a million people are willing to lend their couches or spare bedrooms. We have created a platform that connects travelers with locals, letting them rent our rooms, or even entire places. Travelers save money, and locals can monetize their empty rooms- we just take a 10% commission. How does that sound?”

“Why does Tesla exist? We have record high CO2 levels in the atmosphere resulting in a steadily increasing temperature. And, it’s still climbing. Combustion cars emit toxic gases too, killing 53,000 people a year. What can we do to change this? How can we make a difference? What we’re trying to do with Tesla is accelerate the world’s transition to sustainable transport. At Tesla, we make great electric cars. This is really important for the future of the world.”
"sell me this pen"
"ok...write your name down on a napkin for me"
"i don't have a pen"
"here ya go. supply and demand"
Thank You

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