A comprehensive guide from idea to $1M

Entrepreneurial Experiences in the US and Germany

Who am I?

- Thorsten Lubinski
- studied computer science and business administration
- worked for Siemens and DASA first
- moved to startups in 2000
- founded several companies in Germany and in the US: iLove, Plinga, SixDoors, DiaMonTech to name a few
- responsible for 10s of millions of revenue
- served 10s of millions of users
- still a small fish compared to Google, Facebook, Uber and other „Unicorns“

Intro: what is a startup?

- fairly young (less than ~5 years old)
- has the potential to be huge (scalability)
- **not** a startup:
  - new pizza joint
  - consulting businesses
  - small businesses meant for steady income

Intro: money sources

FREE:
grants,
competitions

DEBT:
bank loans

EQUITY:
business angels,
venture capitalists (VCs),
accelerators

Pro-Tip: read the fine-print, never be personal liable!

Truth about investors

Investors provide money for risky businesses, and they hate two things:

- providing money
- taking risks

All of them are looking for „as risk-free as possible“ investments

From idea to money by reducing 11 risks

- 0. Vision Risk (Goal: prove that you have a clear idea what you want to do)*
- 1. Product/Market Fit Risk (Goal: prove that you're actually building something that people want.)
- 2. Product Quality Risk (Goal: prove that you can build a great, high-quality product.)
- 1 + 2.: Distribution Risk (Goal: prove that you can reach the audience.)*
- 3. Team Risk (Goal: prove that you've assembled a great team for achieving your vision.)
- 4. Recruiting Risk (Goal: prove that you will be able to grow your team effectively.)
- 5. Sales Risk (Goal: prove that your team can sell the product effectively.)
- 6. Market Risk (Goal: prove that if you execute well, you can make enough money to become a huge company).
- 7. Funding Risk (Goals: prove that you have enough capital to reach the milestones needed to raise more money)
- 8. Short-Term Competition Risk (Goal: prove that you're differentiated from existing players in the market)
- 9. Long-Term Competition Risk (Goal: prove that as you become successful and other companies try to copy you, you will be able to maintain your strong position.)
- 10. Bonus: Unfair competitive advantage*

*my own, rest stolen from https://codingvc.com/how-to-de-risk-a-startup

High-level principles

#1: showing is better than telling

#2: external validation is stronger than personal opinion

My cake is great!

This cake is great! (Mom)

This cake is great! (Stranger)

#3: more data is better

0 testers

10 testers

100 testers

stolen from https://codingvc.com/how-to-de-risk-a-startup

0. Vision Risk

can you communicate your idea well?

Leverage machine-learning and new communication habits
to maximise synergy-potential for Millennials

Dating platform on mobile phone
for people between 20-35

Play casual games with your friends in your browser (Plinga)

Device to measure your blood sugar without finger-pricking (DMT)

1. Product/Market Fit Risk

- do people want, what you build?
- #1 reason why startups fail (in my opinion)
- Principle 1+2+3: showing is better than telling, external validation better than personal opinion, more data is better

Even little revenue goes a long way (business model is super important in Europe, not so important in US)

- Examples: competitor for 1st round, then user numbers, then revenue (Plinga + iLove), Abbott and # of user interested in our first device (DiaMonTech)

2. Product Quality Risk

- can you build a high quality product and ship it?
- best: show your product
- also good: show successful products you made before
- ok-ish: show mockups, parts of the product
- no-go: only explain what you intent to do
- Examples: published apps and games (iLove + Plinga), 3d printed model of the device (DiaMonTech)

1+2. Distribution Risk

- „we'll build it and they'll come" / „we'll go viral" => never works
- „we'll need money to make marketing" => how?
- data-driven marketing: customer acquisition costs < customer lifetime value => master the funnel
- get an idea how that works, e.g. make a dry run with a landing page and newsletter signup
- „win an iPod" (iLove), cooperation with a gaming network (Plinga), newsletter (DiaMonTech)

3. Team Risk

- founding teams with 2-3 founders preferred
- prove that you have a complementary team to solve the problem
- at least one should have domain expertise
- core competency should be in the company (e.g. if you develop an app, don't outsource it)
- Examples: MBA + computer science (Plinga, iLove, SixDoors), Professor for biophysics + MBA + computer science + lawyer (DiaMonTech)

4. Recruiting Risk

- are you attractive to talent? Are you be able to hire the people you need?
- least important risk

- bigger problem in the US (San Francisco) than in Europe (Berlin), because in SF you compete against the image and the salaries from Facebook, Google, Twitter, Uber, …

- Example: we „imported“ students / young professionals from France/Germany to San Francisco. Visa regulations are very employer-friendly. (SixDoors)

5. Sales Risk

- can your team sell the product effectively?
- next step after Product/Market fit risk: can you scale sales?
- understanding pricing, sales cycle, upselling, source of customers
- data-driven sales (user profiling, A/B testing, sales playbook)
- identify „whales“ (Plinga), understand users (SixDoors), understand what drives sales (iLove), improve sales flow (all)

6. Market Risk

- is your market big enough? (>$100M in revenue per year)
- it is okay to start in a smaller niche but have an idea how to grow out of this niche
- from whom will you steal business?
- „the total market is X million, if we only catch Y%…“ => that’s not enough!
- Examples: $20B market, we start small in Germany and only self-payers (DiaMonTech), Revenue per active user from external business report (Plinga)

7. Funding Risk

- prove that you have enough capital (remember: investors hate risk)
- don’t underestimate „social proof“, so first investor is extremely important
- have a plan to be break-even as soon as possible, then have a plan to grow as fast as possible
- closing a round can take up to 6 months and needs more than 100 pitches
- it’s easier to raise money, if you don’t need it
- Pro-Tip: give all investors the same terms

8 + 9: Competition risk

- who is your competition? („We don’t have competition“ is a really bad answer)
- what is your USP (=unique selling proposition)?
- how easy is it for someone else to enter your market?
- what do you know about your market, that someone else doesn’t know?
- Very good answers: trade secrets (algorithms) or patents or unfair advantages
- In general: use your competition to prove your case

10. Unfair competitive advantage

- some smart approach no one else has
- access to all Jamba/Jamster users (iLove)
- access to mobile payment (iLove)
- night-time ads in TV are profitable for us (iLove)
- catalog of games from independent Chinese Developers (Plinga)
- access to game developers in North Korea (Plinga)

Getting real

- okay, I have an idea, I de-risked it, where do I get the money?
- found a LLC company (in Germany UG or GmbH) with 1 or 2 co-founders, if possible put 5-25k Euro in it. Separate private and company expenses.
- create a pitch deck (8 pages, super-simple)! What about a business plan?
- go to meetups (only time you do that), start-up competitions, talk to people
- reach out to **everyone**, who can give money (start with people you don't care)
- listen to them, update your pitch deck, ask for intros
- meet more investors
- Goal: 1.5 years of runway for 25% max of the company, no veto right (your own salary should be 0 until first round and then something between 3k-5k until you have substantial revenue)

Valuation

- Valuation is a big problem, because there is no right way to determine it.
- How much money do you need for the next 1.5 years? Triple that and you have a ballpark number
- Compare yourself to companies that got funding (e.g. from y-combinator ($120k for 7%) or HighTechGründerfonds (max. €600k for 15%) or companisto)
- something between $1M and $4M should be possible

Term Sheet

- term sheet is a short document that outlines the important points of an investment
- you usually get one, when you work with VCs. It’s uncommon with business angels.
- it usually covers investment (share price), vesting, liquidation preference, drag-along, tag-along, and who controls what
- now is the time to contact other investors again
- you are not safe until the money is in your bank account

Hands-On Advice

- ask dumb questions, a lot
- learn the lingo (liquidation preference, drag-along, tag-along, "that's an interesting project, let's keep in touch“)
- find an experienced entrepreneur you trust, to get advice
- find a bank
- find a tax advisor, let them make your book keeping (100 Euro / month)
- find a lawyer / notary
- always know your KPIs!
- pick your battles
- network
- don't wait and hope ("no" is better than "maybe")

Traits, I like in an entrepreneur

- takes responsibility
- doesn't lie to themselves
- lived in a foreign country for > 6 months
- has played something competitive
- some unusual things in their life (that are usually not in their CV)
- has founded something in the past
- get things done
- BTW: I’m not impressed by good grades

What’s next?

- if you weren't abroad yet, find a place today

- if you didn't found anything yet, start with something small today (e.g. sell stuff from alibaba at a higher price here in Germany or build an app and publish it in an appstore)

- do it with someone together

- Digitisation is the next big thing after globalisation! Now is the best time to start a new company!

THANK YOU!

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